ABSTRACT
The European Council has mandated the High Representative of the Union for Foreign Affairs and Security Policy, Federica Mogherini, to draft a Global Strategy by June 2016. Given Europe’s status as a global power, such a strategy must respond to Europe’s own challenges as well as to the new grand strategies of other major players in world politics, like China. To better understand the central tenets of the Chinese leadership’s strategic thinking, two keywords are most important – the “Four Comprehensives” and the “One Belt and One Road” (OBOR). As an initiative mainly focusing on promoting Eurasian integration and reshaping Chinese geo-economic advantages, the OBOR is highly consequential to China’s interactions with Europe and the rest of the world at large in the decades to come. How to take advantage of the OBOR, create new EU-China synergies, and tackle relevant challenges are questions the EU leaders should be attentive to.
China’s New Silk Road Initiative

by Zhao Minghao*

The European Council has mandated the High Representative of the Union for Foreign Affairs and Security Policy, Federica Mogherini, to draft a Global Strategy by June 2016.¹ Given Europe’s status as a global power, such a strategy must respond to Europe’s own challenges as well as to the new grand strategies of other major players in world politics, like China. To better understand the central tenets of the Chinese leadership’s strategic thinking, two keywords are most important – the “Four Comprehensives” and the “One Belt and One Road” (OBOR). As an initiative mainly focusing on promoting Eurasian integration and reshaping Chinese geo-economic advantages, the OBOR is highly consequential to China’s interactions with Europe and the rest of the world at large in the decades to come. How to take advantage of the OBOR, create new EU-China synergies, and tackle relevant challenges are questions the EU leaders should be attentive to.

1. Why the OBOR?

In September 2013, during his trip to Kazakhstan, Chinese President Xi Jinping proposed the concept of the “Silk Road Economic Belt” (SREB). When he visited Indonesia in October 2013, Xi called for building a “21st-century Maritime Silk Road” (MSR). These ambitious initiatives are linked and referred to as the OBOR in China’s policy discourse. Along with them, China also initiated the establishment of the Asian Infrastructure Development Bank (AIIB) and the Silk Road Fund. Moreover, when China hosted the 4th Conference on Interaction and Confidence-Building Measures in Asia Summit (CICA) in Shanghai in May 2014, President Xi elaborated on China’s views on how to build Asian security architecture, championing


* Zhao Minghao is a research fellow at the Charhar Institute in Beijing, an adjunct fellow at the Chongyang Institute for Financial Studies at Renmin University of China, and a member of the China National Committee of the Council for Security Cooperation in the Asia Pacific (CSCAP). Paper prepared for the Istituto Affari Internazionali (IAI), October 2015.
new concepts for Asian security and encouraging Asian nations to take the lead in solving Asian affairs.\(^2\) The CICA is an international organisation created by Kazakhstan in 1992, and most of its member countries are in West Asia, South Asia and the Middle East.

The above developments suggest that China is greatly broadening its strategic aperture and making substantial efforts in repositioning itself in the global geo-economic and geopolitical landscape. The development-oriented OBOR is initiated rather than built and is owned only by China. Its aims of engaging with multi-layered networks, expanding connectivity and maximising synergies with relevant participants are what make the OBOR different from China’s past international economic cooperation. In fact, the OBOR is the embodiment of China’s new thinking in its global strategy since President Xi took office. In today’s ever-independent world, it is nurturing connectivity of infrastructure, trade, currency and culture between China and other countries that really empowers a rising China. Connectivity means a web of partnerships, and it is why building up its “global partnership network” has guided China’s increasingly proactive diplomacy in recent years.\(^3\)

Indeed, the OBOR is driven by a variety of domestic and foreign policy challenges facing China in the coming years. First, the OBOR can help keep China’s economic boom alive. The GDP growth rate of this emerging economy has decreased to 7 percent, and China is also suffering from soaring labour costs, an aging population, growing energy demands and overcapacities in manufacturing sectors. Li Wei, the head of the Development Research Center of the State Council pointed out in February 2014 that if measures to crimp energy consumption are not taken, 75 percent of China’s petroleum will depend on imports by 2030.\(^4\) In the next two decades, around 300 million peasants will likely flow into urban areas.\(^5\) To feed its rising middle class and create jobs, China needs to secure access to energy and raw materials while developing new markets for exporting higher value-added goods and services.

Second, through the OBOR, Beijing could add an international policy pillar for the “Go West” drive, which was previously regarded as a domestic endeavor. In the early 1990s, the Chinese government launched a Go West campaign aiming to address the development disparity between the coastal areas and the vast western


lands, including the provinces of Xinjiang, Ningxia and Qinghai. The wealthier provinces in the eastern part of the country were required to aid the poorer ones in the west by providing financial support, co-developing large-scale business projects and transferring advanced human resources. For now, China is waking up to the huge potential of its ties with its neighbouring countries to the west.\(^6\) A rapidly increasing number of Chinese corporations and sub-national governments are upbeat about the OBOR, keen on leveraging the golden opportunity it offers to enhance economic openness.

Third, the OBOR is crucial in consolidating China’s status as the largest developing country and promoting South-South cooperation. Though China has been quite energetic in upgrading its relations with the US and the EU as well as other Western countries, it has to adopt a subtle and forward-looking approach in strengthening its ties with the Global South moving forward. As the 2013 World Trade Report notes, “South-South” trade between developing economies accounted for 24 percent of world trade in 2011, up from 8 percent in 1990.\(^7\) In 2020, more than 80 percent of the world’s population will live in developing countries, many of which are located along the OBOR. China seeks to position itself as “the state in the middle,” acting as a bridge among the developed and developing countries and maximising the strategic space and resilience in response to the new changes in the international economic landscape.

Fourth, China and other emerging powers as well as Western countries are united in their concern about the instability of Eurasian inner land and maritime transportation routes, especially the surge of terrorism and extremism, transnational organised crime and other non-traditional security threats. As the Syrian crisis suggests, local realities in the greater Middle East have seemed to trump American ambitions of keeping a hegemonic status in the region. Both the endless domestic political turmoil and the attacks of terrorists and extremists are gathering threats to Chinese overseas investments. China needs to be more attentive in monitoring the dynamics in Central, South and West Asia, and make “creative involvements” to help mitigate the tensions, resolve the hotspot issues, stabilise weak countries and respond to those countries’ “Look East” policy demands. Beijing believes that economic cooperation within the OBOR framework may help address the deep-rooted causes of instability and radicalisation of poor countries that have been on the periphery of the global economic system.

\(^6\) 肖宪：《“向西开放”需外交全局统筹》，《环球时报》，2013年7月31日 [Xiao Xian, “March Westwards and the Coordination in the Diplomacy”, in Global Times, 31 July 2013]; 张继业：《“西进”须防范三大战略风险》，《环球时报》，2013年8月26日 [Zhang Jiye, “Three Strategic Risks Facing Marching Westwards”, in Global Times, 26 August 2013].

In sum, the OBOR indicates a nuanced interplay of China’s domestic and foreign policy. For now, China is the largest trading partner of more than 120 countries, with a GDP over 10.3 trillion dollars – more than the combined output of the other BRICS members. Its import of goods will hit a value of 10 trillion dollars over the next five years, and the capital outflows of China will be 1.25 trillion dollars in the decade to come. Additionally, China is seeking a global role for its own currency. If implemented successfully, the OBOR will make it possible to translate China’s vast economic power resources into real influence. China is determined to reshape its global posture in a bold and creative manner. The OBOR is also expected to impact approaches taken by the Chinese government, enterprises and oversea citizens in engaging with the global affairs. Positive mutual accommodation between China and the rest of the world can be facilitated by the OBOR.

2. Current developments

The OBOR would run through Asia, Europe and Africa, connecting the dynamic East Asian economic circle at one end and the developed European economic circle at the other. On land, the initiatives would focus on developing a new Eurasian Land Bridge, in particular building China-Mongolia-Russia, China-Central Asia-West Asia, and China-Indochina Peninsula economic corridors. At sea, the focus is jointly building secure and efficient transport routes from China’s coast to Europe through the South China Sea and the Indian Ocean. Another important route would cover the South Pacific. The central contents of the OBOR include five aspects: enhancing development policy coordination, forging an infrastructure network, expanding investment and trade cooperation, improving financial integration, and deepening people-to-people bonds.

In March 2015, with China’s State Council authorisation, the white paper on the OBOR was issued by the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs, and the Ministry of Commerce. The paper outlines the vision of and future actions on the OBOR as well as cooperation priorities and mechanisms. To coordinate all related governmental agencies working on the OBOR, the Central Leading Group was established in early 2015, presided over by first-ranked Vice Premier Zhang Gaoli. Zhang also sits in the Politburo Standing Committee of the Communist Party of China, China’s highest-ruling council. The Central Leading Group’s office is affiliated with the NDRC.

In January 2015, the Silk Road Fund that China contributed 40 billion dollars to establish started its full operation, directly providing financial support for the OBOR. As China Central Bank Governor Zhou Xiaochuan says, the fund could become a model of public-private cooperation. In April, the Fund’s first investment went to developing the Karot hydropower project in northeastern Pakistan, which will be a mix of equity and loan investments involving Pakistan’s Private Power and Infrastructure Committee and the International Finance Corporation, a member of the World Bank Group. Compared to the Fund, the AIIB, as a multilateral development bank, should not be viewed as the single-purpose financial tool of the OBOR, but it is expected to support the initiative through more international concerted efforts.

At the sub-national level, almost all of the provinces and autonomous regions are working on integrating their own development plans with the OBOR. In May 2015, Guangdong, one of the richest coastal provinces, unveiled its 68 OBOR investment projects worth over 55.4 billion dollars, covering the energy, agriculture, fishery and manufacturing sectors. In particular, Guangdong seeks to implement these projects through deepening its collaboration with Hong Kong and Macau, which have impressive international commercial and financial advantages. By October 2015, other provincial-level governments need to get their own integration plans published. Indeed, in recent years sub-national actors, including governments and enterprises, have become increasingly proactive in expanding their international engagements. For example, Yunnan province plays a leading role in building the Bangladesh-China-India-Myanmar Economic Corridor, and Xinjiang seeks to be a window for opening up westwards, to the Central, South and West Asian countries. The autonomous region of Ningxia in western China, with a Muslim population of about 2.17 million, has great aspirations to become an Islamic banking and finance international center and to pioneer China’s cooperation with the Arab states. Within ten years, the volume of China-Arab trade is expected to reach 600 billion dollars.

In the meantime, China has been using diplomatic channels to incentivise relevant countries and international organisations to cooperate. It has achieved much progress in the OBOR’s integration with the Eurasian Economic Union and the “Trans-Eurasian Belt Development” proposed by Russia, the “Prairie Road” proposed by Mongolia and the “Bright Road” proposed by Kazakhstan. As Russian President Vladimir Putin claimed in May, “the Eurasian integration project and the

---

Silk Road Economic Belt project complement each other very harmoniously. [...] Russia and China] seek ultimately to reach a new level of partnership that will create a common economic space across the entire Eurasian continent.”\textsuperscript{15} In addition, the construction of the China-Pakistan Economic Corridor was accelerated by Chinese President Xi’s visit to Pakistan in April 2015. Recently, the Asian Development Bank announced that it would provide loans worth 327 million dollars with the UK’s Department for International Development to highway projects related to the Corridor. Iran also expressed its interest in joining the Corridor projects.\textsuperscript{16}

Moreover, China has not ignored investing more in deepening ties with countries that are still weak and unstable, such as Afghanistan. Afghanistan serves as a hub connecting Central Asia, South Asia and West Asia. It is well known as the “graveyard of empires” in history and will experience turbulent transition largely due to the withdrawal of American and NATO military forces in the post-2014 period. The failure to ensure Afghanistan’s security and development would have a resounding strategic impact on China and the region at large. In October 2014, China vowed to provide aid worth 327 million dollars to Afghanistan by 2017. By the request of Afghanistan, road and railway construction, water supplies, energy and agriculture are top priorities for bilateral cooperation. The Chinese government has sent expert working groups to work with Afghan counterparts in jointly planning infrastructure-building and enhancing aid effectiveness. In next five years, China will provide training assistance to 3,000 Afghan professionals working in the fields of counter-terrorism, counter-narcotics, agriculture and diplomacy.\textsuperscript{17}

In the long run, it is likely that the OBOR will take advantage of Kabul’s position as the hub of regional developments. Afghanistan President Ashraf Ghani has proposed developing a new route (the “Azure Route”) that would pass through Central Asian countries and Turkey and facilitate 80 percent of Afghanistan’s trade with Europe. In 2016, Afghanistan is expected to use the Chabahar port of Iran to increase the trade volume between itself and India. The route design of the railway connecting Tajikistan, Afghanistan and Turkmenistan would be finished in late 2015. In addition, an Afghanistan-Turkmenistan-Azerbaijan-Georgia transport and transit corridor is also under discussion. By supporting Afghanistan’s own aspirations to give full play to its geo-economic potentials, the OBOR could benefit very much. This strategic thinking also applies to China’s relations with other countries along the Silk Road.


3. Impact on China-EU relations

2015 marks the 40th anniversary of the establishment of China-EU diplomatic relations. As major powers in global affairs, in recent years the two sides keep trying to inject momentum into their “comprehensive strategic partnership.” In 2013, the EU-China Strategic Agenda for Cooperation was issued, outlining the blueprint for furthering their ties among China, the EU and its member states. In 2014, Xi Jinping made his trip to Brussels – the first time a Chinese president has visited the EU headquarters for 40 years. Xi proposed to jointly forge four major China-EU partnerships for peace, growth, reform and civilisation, and called for carrying out cooperation at the China-EU level, the Asia-EU level and the global level. Indeed, China spares no efforts to deepen its ties with the EU, which is crucial in boosting China’s own global influence and building up an interpolar world that serves the mutual interests of Beijing and Brussels.

In large part, the materialisation of the China-EU “comprehensive strategic partnership” hinges upon the integration of respective policy agendas between Beijing and Brussels. Due to frictions on trade and disagreements on geopolitical issues like the Ukraine crisis, there are currently some difficulties in China-EU relations. The EU is not happy with closer China-Russia relations, although it is the geopolitical pressures from the US that drive Beijing and Moscow together. Brussels is always suspicious that China may take the “divide and rule” approach in dealing with the EU and its member states, especially given Beijing’s ties with the Central and East European countries (CEECs) under the 16+1 institution. In the midst of the Greece debt crisis, China is making efforts to strengthen its economic and political support of Athens, which is a disturbing development for some European leaders. The EU also has concerns about China’s policy vis-à-vis maritime issues as well as doubts as to whether international norms and standards could be respected by the AIIB and other new China-led institutions.

Given the above context, for China-EU relations, the OBOR may present both challenges and opportunities. In principle, the EU welcomes China shouldering more responsibility in engaging with international development through the OBOR. The stability and long-time prosperity of the Eurasian region and the greater Middle East is in Brussels’ interest. The OBOR will potentially impact areas including the EU’s eastern neighbourhood, the Mediterranean, the Horn of Africa, and the Middle East/the Gulf, which are crucial to the EU. In addition, the OBOR is helpful in facilitating EU-China trade routes, safeguarding sea lines of communication, financing infrastructure in the EU and opening up long-neglected markets along

19 鞠维伟：《运用丝绸之路经济带发展中国与中东欧国家关系的意义、措施和条件》,《当代世界》2014年第4期 [Ju Weiwei, “Developing China’s Relations with CEE Countries with the Silk Road Economic Belt”, in Contemporary World, No. 4, 2014].
the routes. These are in line with the EU’s interests as a global commercial power.

However, China has noticed that the EU and its member states are not united in their attitudes toward the OBOR. The European Commission President Jean-Claude Juncker has expressed the possibility of creating synergies between the “Juncker Plan” and the OBOR. In November 2014, Juncker unveiled the EU’s 315 billion euros investment blueprint aiming to kick-start the EU economy, upgrade infrastructure and ease Europe’s unemployment crisis. Still, Brussels is looking for more detailed information about the OBOR, and it is challenging to identify appropriate cooperation mechanisms between the OBOR and the Juncker Plan. In addition, the EU worries that the OBOR lacks transparency rules and that opaque financing deals may threaten the competitiveness of European enterprises.

In order to mitigate the EU’s concerns, China is adopting many flexible and differentiating measures, seeking to show the deliverables while exploring new models of cooperation. During his European trips, Chinese Premier Li Keqiang said China is willing to get involved in the European Fund for Strategic Investments (EFSI). A China-EU joint investment fund may be established to support project shareholding, joint contracting and co-financing. Li emphasised that the OBOR projects in the CEECs and other developing countries will procure advanced equipments and services from European countries like Germany. In June 2015 China and France signed a landmark agreement prioritising their cooperation in third-party markets. It is an innovative pattern so far of enhancing China-EU economic ties with opportunities provided by the OBOR.

In addition, Hungary has become the first EU country to sign an MOU with China on integrating the OBOR with Hungary’s “Opening to the East” and “Opening to the South” initiatives. The flagship project is a high-speed railway between Belgrade and Budapest, as part of routes connecting the Greek port of Piraeus to Central Europe. Poland is another pivotal partner, and a railway connecting China’s inner land province Si Chuan and the Polish city Lodz, as well as the development of several Polish harbours like Gdansk, would be benefited by the OBOR. Poland is the only CEEC country to have become a founding member of AIIB. China attaches much importance to its ties with the CEECs as a bridge connecting Asia, Europe, the Mediterranean and the Baltics. The trade volume between China and the CEECs amounted to 60.2 billion dollars in 2014, with Chinese FDI in those countries totaling 5 billion dollars.

---


Actually, China-EU cooperation pertaining to the OBOR could go beyond the above areas. First, the OBOR may inject incentives into the China-EU collaboration in the security fields. Working together with their European counterparts, Chinese naval task forces have escorted more than 5,500 commercial vessels through the pirate-plagued waters of the Gulf of Aden. Beijing and Brussels should engage further with each other in safeguarding their enlarging economic presence and protecting citizens along the OBOR, including conducting institutional information exchanges and joint-crisis-management exercises involving civilians. There is a need for better coordination among Chinese and European actors in using security-related assets for rescue and evacuation, the stemming of the drug trade and other illicit activities, and the strengthening of capacity-building in disaster relief and emergency management in third countries. In particular, Chinese enterprises are eager to learn from and work with their European counterparts in tackling the security risks of overseas business.

Second, since Britain, France, Germany and Italy, among other EU countries, have joined the Chinese-launched AIIB, Beijing expects them to help improve this new development financing institution. The AIIB embodies China’s desire to practice multilateralism in international finance, and Jin Liqun, who was elected to head the AIIB in August 2015, has vowed to run the bank in accordance with the commitment to be “lean, clean and green.” As a “normative power,” the EU may take a leading role in working with emerging powers like China to advance rules and norms for 21st century international development as well as regional integration. For example, in light of the new EU-Central Asia strategy and Europe’s special ties with that region, China and the EU could further compare notes on their development aid policies regarding Central Asian countries.

Third, from a Chinese perspective, the EU is encountering big challenges in geopolitical and geo-economic terms; the OBOR may be helpful in addressing them. A stable and positive EU-Russia relationship is in the EU’s long-term interests. Isolating Moscow will not help the EU, and the US-Russia rivalry must not be at the expense of the EU’s security and prosperity. Moreover, the TTIP is far from a magic formula for revitalising the EU’s leading position in the international economic landscape. By engaging with the OBOR, the EU could have many alternative ways of stabilising its relations with Russia and other Eurasian countries, and gain more leverage to reshape international rules regarding trade and investments.

Conclusion

The OBOR is a strategic necessity for China’s involvement in major power dynamics unfolding in the Eurasian land, the improvement of its international environment, and the strengthening of China’s development resilience. The OBOR embodies the
China’s New Silk Road Initiative

Chinese leadership’s goal to make use of the interplay between internal bold reforms and external rebalancing acts. China is located at the Eastern end of the Eurasian land geographically, and it was traditionally viewed as a continental power. The OBOR indicates that China is quite energetic about enlarging its footprint in its western bordering areas and its maritime domain.24 Given the dominant role of developing economies in China’s growth, and the huge potential of the global south, Beijing is conducting a quiet pivot towards the developing world with the OBOR.

However, China also faces a number of daunting challenges in implementing this ambitious initiative, including seeking support from regional giants who are suspicious of China’s strategic intentions and addressing China’s own knowledge and capacity deficits in dealing with the governmental and non-governmental actors in Central Asia, South Asia and the Middle East. It is by no means easy to translate its remarkable economic clout into extensive and enduring influence by synergising China’s governmental and civilian power.25

As Europe’s ongoing refugee crisis suggests, the instability of the EU’s immediate neighbours and “the neighbours of the neighbours” threatens the EU’s own security and cohesion.26 In light of Europe’s deep-rooted interests in Eurasian security and prosperity as well as its burgeoning ‘pivot’ to Asia, the EU should have innovative strategic thinking and overcome its inward-looking tendency. If the right cooperation mechanisms are in place, the OBOR can be an opportunity for serving the EU’s vital interests, empowering the EU-China comprehensive strategic partnership and fulfilling the EU’s commitment to world development.

*Updated 10 October 2015*


Istituto Affari Internazionali (IAI)
Founded by Altiero Spinelli in 1965, does research in the fields of foreign policy, political economy and international security. A non-profit organisation, the IAI aims to further and disseminate knowledge through research studies, conferences and publications. To that end, it cooperates with other research institutes, universities and foundations in Italy and abroad and is a member of various international networks. More specifically, the main research sectors are: European institutions and policies; Italian foreign policy; trends in the global economy and internationalisation processes in Italy; the Mediterranean and the Middle East; defence economy and policy; and transatlantic relations. The IAI publishes an English-language quarterly (The International Spectator), an online webzine (AffarInternazionali), two series of research papers (Quaderni IAI and IAI Research Papers) and other papers’ series related to IAI research projects.

Via Angelo Brunetti, 9 - I-00186 Rome, Italy
T +39 06 3224360
F + 39 06 3224363
iai@iai.it
www.iai.it

Latest IAI WORKING PAPERS

15 | 37 Zhao Minghao, China’s New Silk Road Initiative
15 | 36 Mohammad Haddad, The Metamorphosis of Religion: North Africa in the Modern Era
15 | 35 Daniela Huber and Maria Cristina Paciello, Overhauling EU Policy in the Mediterranean. Towards More Inclusive, Responsive and Flexible Policies
15 | 34 Ferruccio Pastore, The Migration and Asylum Crisis as a Transformative Shock for Europe. Brief Thoughts on the Eve of the Next Summit
15 | 33 Lisanne Groen, On the Road to Paris: How Can the EU Avoid Failure at the UN Climate Change Conference (COP 21)?
15 | 32 Stefano Volpicelli, Who’s Afraid of ... Migration? A New European Narrative of Migration
15 | 31 Ahmet İçduygu, Turkey’s Evolving Migration Policies: A Mediterranean Transit Stop at the Doors of the EU
15 | 30 Mehdi Lahlou, Morocco’s Experience of Migration as a Sending, Transit and Receiving Country
15 | 29 Maria Giulia Amadio Viceré, From 9/11 to Da’esh: What Role for the High Representative and the External Dimension of EU Counter-Terrorism Policies?
15 | 28 Claudia Squeglia and Raffaello Matarazzo, The US-EU Energy Trade Dilemma