China’s global net of silk roads - globalisation version 2.0

Europe, watch out!

In February this year, then German Foreign Minister and Vice Chancellor, Sigmar Gabriel, warned that the Chinese Belt and Road Initiative (BRI), also called the “Silk Road” initiative, should not be seen as a
sentimental reminder of Marco Polo. In contrast to the liberal world order, argued Gabriel, the BRI “stands for the attempt to establish a comprehensive system for shaping the world in Chinese interest” and to establish a new world system that is not based on freedom, democracy, and individual human rights. Gabriel suggested that the European Union should develop its own similar initiative, especially in relation to Africa. Like the Chinese, he argued, the EU countries should see Africa as an opportunity.

The other EU countries seem to follow suit. In April, Handelsblatt Global reported that 27 out of 28 EU ambassadors in Beijing (Hungary opted out) had signed a confidential report arguing that the “Silk Road” initiative runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies. A German official commented that China “must take account of the interests of all participants” in the Silk Road initiative.

In February 2018, Australian Prime Minister Malcolm Turnbull attempted to mobilize support from the U.S., Japan, and India to establish an alternative to the BRI. He was supposed to discuss the idea with President Trump during an upcoming visit to Washington. An US official cautioned, however, that this initiative should be seen as a complement to the BRI, not as a rival. Since then, no further news has transpired about this idea.

**China as a model**

Xi launched the Silk Road initiative in 2013, and a strategy and action plan was presented by the National Development and Reform Commission in March 2015. From a development policy perspective, the initiative focuses on demonstrating the wider applicability of the Chinese development experience under market socialism since 1978. Silk Road projects were to be implemented along economic development corridors identified by China. The approach reflects what has worked in China: Networks of slow and fast speed trains, roads and highways; airports and harbors; energy infrastructure such as oil and gas pipelines and associated installations, hydropower and renewable energy infrastructure; high-tech communication networks, such as fibernet and mobile networks; business development through special industrial parks, and entrepreneurship programs. China also
tests new approaches to cultural diplomacy and investments. The BRI receives substantial financing from the Chinese government and state-owned financial institutions, but local and international co-financing is considered essential for many large-scale, loan financed projects.

Whereas the Silk Road initiative originally focused on connectivities across the Eurasian continent, it now covers most of the world – on land, by sea, and in the air, and it seems that only the sky is the limit for China’s global web of Silk Roads these years. A Maritime Silk Road initiative has been added, and Africa became involved early on. In January 2018, Foreign Minister Wang Yi attended a meeting between China and 33 members of the Community of Latin American and Caribbean States (CELAC) where he invited them to join the BRI, since they were a “natural fit”. In January 2018, China announced an Arctic policy and expressed the wish to develop a ”Polar Silk Road” with three Arctic sea lanes.

Complex goals

The BRI reflects Xi Jinping’s new geopolitical doctrine. China is shifting from being a responsive to becoming an active major power. Xi argues that China has entered a new development stage. At the same time, China is moving ahead from the original “Going Out” policy from 1999 which primarily focused on acquisition of resources. It is now evident that China is pursuing a new version of its “Going Out” policy that focuses on exporting Chinese equipment, solutions, and higher value goods and services backed by Chinese investments and export financing.

While China’s intentions are being questioned in the West, the Chinese leadership maintains its ‘innocence’. At the National People’s Congress session in March 2018, Foreign Minister Wang Yi reiterated what Xi has said before: ”The building of [BRI] is based on being open and transparent and on seeking mutual benefit and win-win [solutions]”.

Within the overall framework, the motives behind the global web of Silk Roads are complex. Originally, China’s leadership wanted to bring development and economic integration to China’s Western regions and to neighbouring countries through economic corridors. But on top of this, agreements like the China-Pakistan Economic Corridor also opened new strategic opportunities for China by offering access,
China’s new global ambitions have led to the establishment or incorporation of a comprehensive set of financial and political institutions connected to the BRI umbrella. The major financial institutions are shown in the Box.

**The Asian Infrastructure and Investment Bank (AIIB)** is meant to be lean, green and clean. The governance structure and the banking procedures are modeled on the principles of the other IFIs, but with China and Asian member countries holding the majority vote. Other countries are invited to participate, and projects are open to international co-financing and bidding. So far, the Silk Road Fund is China’s own business although it does invite co-financing from outside. These institutions are backed massively by China’s own commercial and policy banks, including China ExIm Bank.

On the political side, China has established a Belt and Road Forum and is about to launch a Global Blue Economy Partnership Forum for the Maritime Silk Road. The political connectivities of the BRI will be further consolidated through existing platforms, dialogues, fora, and organizations that China has been instrumental in creating in recent years, such as the Belt and Road Forum and the Global Blue Economy Partnership Forum.

**A Chinese push to gain global clout**

In this case, to the Indian Ocean and the Arabian Sea. China can also use the BRI to export its well-documented excess capacity in the heavy industries, thus reducing the risk of closures of loss-making state-owned enterprises (SOEs).

On the institutional side, China has often criticized the existing international financial institutions (IFI) for lack of focus on infrastructure development. Their investments in infrastructure have been declining and only ADB has responded to the Chinese criticism in recent years. Furthermore, China is dissatisfied with IMF and the World Bank for their skewed voting rights that favor the OECD founding partners. China also finds that the IFI procedures are bureaucratic, slow, inefficient, and costly, and that project approvals are too slow.

Finally, China’s ambition to be at the forefront of new cutting-edge industries within health, AI, energy, green energy vehicles, mass transit transport, the internet of things, etc. also prompts China to promote Chinese designs, solutions, and standards globally.

China will also put BRI on the agenda of existing regional organizations where it has a strong voice such as Shanghai Cooperation Organization (SCO), The East Asia Leaders' Meetings, Asia Cooperation Dialogue (ACD), Greater Mekong Sub-region (GMS), and the Partnership in Environment Management of Seas of East Asia (PEMSEA).

Further, China will promote and collaborate on the BRI in relation to well-established platforms such as ASEAN Plus China (10+1), Asia-Europe Meeting (ASEM), Asia-Pacific Economic Cooperation (APEC), Conference on Interaction and Confidence-Building Measures in Asia (CICA), Central Asia Regional Economic Cooperation (CAREC). Finally, China will engage organizations where it is a dialogue partner such as: The Arctic Council and The Indian Ocean Rim Association. Existing international organizations are also targeted for BRI-related collaboration.

On the business side, China is active in a host of business associations, industrial parks, and entrepreneurship programs in relation to the BRI. China will establish two international commercial arbitration courts on Chinese soil that will deal specifically with commercial disputes in relation to BRI initiatives.

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<thead>
<tr>
<th>Name</th>
<th>Date established</th>
<th>Financing (Bill. USD)</th>
<th>Governance</th>
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<tbody>
<tr>
<td>Silk Road Fund</td>
<td>December 29, 2014</td>
<td>40 billion USD</td>
<td>Original investment capital China Administration of Foreign Exchange; China Investment Corporation; China Development Bank; Exim Bank of China</td>
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<tr>
<td>AIIB</td>
<td>Operational from January 16, 2016</td>
<td>Regional: 71.729 bill. USD or 77.6% of subscription capital; China stands for 29.7% bill. USD or 31.35% of subscription capital. Total capital of 95 bill. USD.</td>
<td>Regional members count for 75.85% of votes, of these 26.93% belong to China. All members are represented on Board of Governors.</td>
</tr>
<tr>
<td>BRICS New Development Bank</td>
<td>Fortaleza, 2014. Fully operational on February 14, 2016</td>
<td>100 billion USD authorized capital, 50 billion USD subscribed capital, divided equally between the members.</td>
<td>All UN countries can become members, however BRICS voting power is less than 50%. Currently each country has 20% of votes.</td>
</tr>
<tr>
<td>Africa Fund</td>
<td>Beijing, June 26, 2017</td>
<td>Initial funding of USD 1 Billion by China Development Bank</td>
<td>Chinese owned, stockholder controls both supervisory board and Directors. Strong staff links with China Development Bank.</td>
</tr>
<tr>
<td>Assistance Fund for South South Cooperation</td>
<td>Announced September 26, 2017</td>
<td>500 million USD</td>
<td>Initial funding pledged by China. Investor structure not yet announced.</td>
</tr>
<tr>
<td>UN South-South Cooperation Fund</td>
<td>Announced at UN Climate Summit 2014</td>
<td>3.5 billion USD pledged by China</td>
<td>China, India have shown interest in joining, if fund gets a broader base.</td>
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China changes the physical and political world map

China’s engagement in critical infrastructure under the BRI umbrella across the world is changing the global physical, economic, political, and security landscape. The Silk Road projects are multi-scalar, multi-dimensional, and multi-sited. They include massive infrastructure on land, along sea routes and even on sea. Much of this is under the control or management of Chinese SOEs. In 2017, official Chinese sources disclosed that about 50 Chinese state-owned corporate giants have invested or participated in nearly 1,700 projects in countries along the new Silk Road routes since 2014. In April 2017, the Chinese Ministry of Commerce announced that China was involved in building 56 industrial parks or economic zones, with more than 1,000 companies already doing business there.

Effectively the BRI is setting the framework and conditions for much of tomorrow’s logistics infrastructure. China is promoting new standards for connecting the world, for making it smaller, and for promoting local development where nobody wanted to put their money before. Chinese companies, primarily SOEs, are using this to explore new roles as global ‘Dragon Heads’, a Chinese metaphor for national champions that are instrumental in building strong, transformative, and often quasi-monopolistic conglomerates spanning entire value chains.

The Silk Road initiative has no confines. In April 2017, Foreign Minister Wang Yi said that China “has no intention of designating clear geographic boundaries for the Belt and Road...it is an initiative for international cooperation in its essence, and should be open to all like-minded countries and regions.” Wang added. “The initiative is not a member’s club, but a circle of friends with extensive participation.”

Where will this take the world? “President Xi believes this is a long-term plan that will involve the current and future generations to propel Chinese and global economic growth,” said Cao Wenlian, a leading official working on the BRI initiative. He added: “The plan is to lead the new globalization 2.0.” The BRI thus presents new opportunities for governments and business around the world, but evidently they must learn to play by Chinese norms and standards.
In sum, the BRI may well have significant development effects across the world. But China is also using it to build a new global governance architecture that will exist in parallel, complement and interact with the existing structures and systems. This architecture embraces new types of political and economic connectivities and organizations that will have China in a dominant role and help China project its influence as a new major power. Since the US is not participating and seems hesitant to respond, Sigmar Gabriel’s call for the EU to watch out is important. Europe has to find new ways to engage with China’s globalization v 2.0 model. Otherwise, it will not be a win-win solution for Europe.

Inger Helen Sørreime has been research assistant on this paper.

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