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Full Length Research paper

China's 'One Belt, One Road' Initiative. Just economics?

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Abstract

China's OBOR has been presented as China's leading and very ambitious development project for the next four decades. Some see in it the Chinese Marshall Plan aiming to integrate China in its environment and accommodate the policies of the East Asian countries into Beijing's own ambitions and priorities. China has the financial resources, the institutional frameworks such as the AIIB, the will and the power to make it work. The megaproject comes at a time of America's retreat from East Asian initiatives like the TPP and downgrade of the security and defence alliances that the U.S. maintains with several Asian nations. The initiative was received initially with reservations from Russia, a major Eurasian power, and as a security challenge in Russia's backyard. But the very special "momentum" in Putin-Xi relationship seems to reunite Russia-China divergent interests. If this megaproject succeeds what will be the long-term consequences for the international order, as we know it?

Keywords: One Belt, China, Asia.

INTRODUCTION

The 'One Belt, One Road' initiative was first presented in September 2013 on a trip which Xi Jinping made to Kazakhstan (Astana). In November 2012, Xi Jinping was elected Secretary-General of the Communist Party and appointed Chairman of the CCP Central Military Commission. In Xi's official visit to several Central Asian countries - just less than one year after his appointment he gave clear signs that he aimed to change China's perception of the challenges of the international order, and to invert the balance of powers West-East. He retrieved the idea of a China that was the start, but also the exit, of a trading route that connects the country with the vast extensions of land in Central Asia, facilitating the commercial trade that brought goods from Europe and

collected goods from Asia, transporting them to the European markets.

This is the megaproject of a modernised Silk Road, with its terrestrial and maritime segments, which could shorten the time that transport of goods takes to reach the markets of destiny. To achieve this goal, China needs the cooperation of the countries that are located in the plateaus of Central Asia, of Russia, and of Eastern Europe. Xi Jinping is selling his megaproject as a win-win undertaken for those who accede to be part of it, an opportunity for strengthening the communication lines across their territories. The OBOR has been assessed in a dual perspective. First, the project has been assumed as a continuation of the policies of soft power implementing

implemented by the previous Chinese leaders Jiang Zemin and Hu Jintao, but reinforcing bonds of cooperation and mutual assistance already existing and elevating them to a new level. Second, OBOR has been assessed as a strategic opportunity for China to augment its sphere of influence into Central and Eastern Asia, and to challenge Russia's traditional ascendancy in a region affluent in minerals, oil, natural gas, and raw products.

Behind this double analysis are two doctrines of international relations that foresee the international order as a field for cooperation based on interdependence and common institutions (the liberal perspective), and a second that sees anarchy as the current status of international politics, with sovereign states competing with each other and pursuing their egoistic self-interests in order to enlarge their proportional power (the realistic perspective). According to the latter perspective, it is the country's location and geography that forms the basis of its national interests, requiring the national leadership to function according to it, and to relegate to second place any appeals of international assistance and solidarity. -In this article we will look at both perspectives and see how they match Xi Jinping's political discourse and China's attitudes.

The foundation of the OBOR policy

The elaboration and publicising of the 'One Belt, One Road' initiative originated in China's participation in the Conference on Interaction and Confidence-Building Measures in Asia (CICA) (Ministry of Foreign Affairs, Peoples' Republic of China, n.d.), an inter-governmental forum for improving cooperation between different Asian partners. That forum was designed to promote peace, security, and stability across Asia. The CICA Conference was proposed by the President of Kazakhstan, Nursultan Nazarbayev, in October 1992, during the 47th Session of the United Nations General Assembly. On that occasion, the proposal received a lukewarm welcome by many developing nations who see it as a way to break the ice of the tense relationship between Asia, China, Russia, and the United States.

The first meeting of CICA took place in September 1999, with 15 Member States, and the last on 28 April 2016, marking the enlargement of the organisation from 15 to 26 Member States with the admission of Bangladesh and Qatar. China took over the CICA Presidency at the Fourth CICA Summit, in Shanghai, in 2014. The meeting was presided over by Xi Jinping, and in it Xi announced China's interest in building economic corridors throughout the region which are able to connect China's land with Europe. Xi saw, in OBOR, an opportunity to elevate ASEAN's quality of integration, and

China looked "to work with other countries to speed up the development of an economic belt along the Silk Road and a 21st Century maritime silk road", as China wants to be more "deeply involved in the regional cooperation process", and to "play its part to ensure that development and security in Asia facilitate each other and are mutually reinforcing". Xi's statement received a warm interest from Central Asian nations, but provoked second thoughts from Russia and some Southeast Asian nations. The motives were not entirely coincidental.

Xi Jinping's 'dream' of a New Continental Silk Road and its Maritime counterpart goes deep into the history of trade relations between Central Asia, Russia, and Europe. The origins of the Silk Road date back to the Han dynasty, when the Chinese begin to export silk in 2BC. The demand for that product was so large that it propelled the development of a vast network of trade routes departing from China through India, Asia Minor, and Mesopotamia, to Egypt, Africa, Greece, Rome, and Britain (Sneader, 2016). Those routes stayed open for the next 17 centuries until the Ottoman Empire severed trade in 1453. That sort of long-distance trade played a major role in the cultural, religious, and artistic exchanges that took place between the major centres of civilisation in Europe and Asia during antiquity (Silk Road Trade & Travel Encyclopaedia). The trade routes served mainly to transport luxury goods, raw materials, and foodstuffs between the East and West.

China supplied West Asia and the Mediterranean world with silk, while spices were obtained principally from South Asia. Cities along these trade routes grew rich providing services to merchants who rested in oasis towns, and these centres served as international marketplaces and areas where knowledge was also exchanged. The trade routes were the communications highways of the ancient world. New inventions, artistic styles, religious faiths, cultures, languages, and social customs, as well as goods, were transported.

The OBOR is a revival of that celebrated network, and is composed of two paths or tracks: the Silk Road Economic Belt, and a 21st Century Maritime Silk Road. The Silk Belt includes the construction of a network of roads, train lines, energy pipelines, and telecommunications links, which are expected to connect China, Central Asia, the Middle East, Europe, and Asia (Sneader, 2016). The Maritime Silk Road is envisioned to connect China's coastal cities to the main ports in the Indian Ocean, the Red Sea, the Mediterranean Sea and Africa.

It is important to keep in mind that China has not given a clear picture of its real motivations and the definitive drawing of the map. On the Boao Forum for Asia, in March 2015, China's National Development and Reform

Commission presented a blueprint of the OBOR initiative, accompanied with a declaration of its guiding principles (Gabuev, 2015, August 6). China announced the creation of a US\$40 billion Silk Road Fund to fund projects that contribute to the goals of the OBOR.

The Boao Forum is a non-governmental international organisation founded on February 27, 2001, in Boao, in the Hainan province of China. China serves as the permanent site of the BFA headquarters, and the organisation meets annually at Boao. Its objectives are to congregate Asian countries to achieve a common development through further integration of the regional economy, and it aims to offer a high-end dialogue platform for governments, enterprises, experts, and scholars to jointly discuss the economy, society, the environment, and other relevant issues (Boao Forum, Overview).

Being a core element of China's international strategy, the OBOR's initiative has been reaffirmed by the Chinese authorities in every speech or diplomatic statement. For most of the observers, the OBOR is considered an important change in the three-decades-old directive of 'keeping a low profile', a directive defined by Deng Xiaopeng in the early 1980's (Pantucci & Petersen, 2013; Gabuev, 2015, June 5; Xie, 2015; Lo, 2016; Ferchen, 2016; Cabestan, 2013). That directive is usually unfolded in the following maxims: "observe calmly; secure our position; cope with affairs calmly; hide our capacities and bide our time; be good at maintaining a low profile; and never claim leadership". Since his appointment as Secretary-General of the Chinese Communist Party (and also Chairman of the Central Military Commission and President of the People's Republic of China), Xi seems to prefer a more nuanced and assertive posture for China's diplomacy, namely towards Russia and the United States. This rift of strategy is evident when comparing Xi's political leadership and discourse to the more laid-back position of his predecessor, Hu Jintao (Goncalves, 2013).

CHINA: BETWEEN ECONOMICS AND THE PROJECTION OF FORCE

In the post-Second World War era and during subsequent decades, security and economy prevailed in the course of events in Asia. The two dimensions were absolutely interlinked, as the public goods required satisfying security and economic urgencies were provided by a sole country, the United States. In the last two decades, the situation has changed, and two separate dynamics have become evident: on one hand, Asia bases its sustainability on security concerns and state

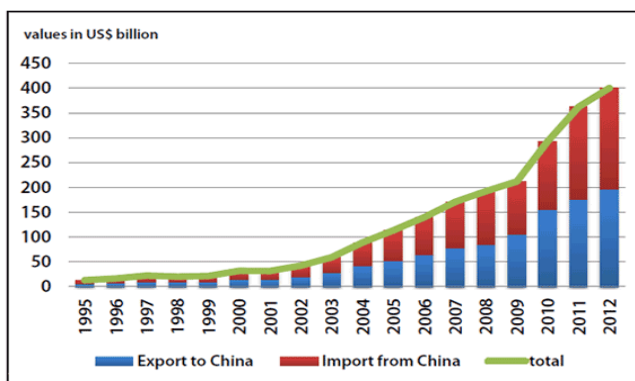
alliances; on the other, Asia is fed by economic facilities to promote a Zone of Free-Trade in Asia and the Pacific. In Xi's own words, and interactions (Service Canadien du Renseignement de Sécurité, 2015).

The first dimension has become more 'transpacific' and has the United States (as a Pacific nation) in its core; the second dimension is tentatively 'pan-Asian', diversified, multidimensional, and comprehensive, as Asian nations are convinced that China has an unquestionable role to perform on it. In terms of security, the United States contributes significantly to the collective security, assuring the stability and balancing of powers in Asia. The strategic and defense alliances that bond numerous Asian countries with the U.S., and the deployment of American troops and the Pacific Fleet in strategic locations, are a source of comfort and security for the majority of the Asian nations. Any sort of substitutive scenario for these Cold War alliances has been feared by the majority of the Asian leaderships.

In the plan of economic relations, the weight of American-Asian trade has been decreasing, and the commercial, economic, and financial exchanges of China with Asian nations has become a natural surrogate. Washington has preferred a more soft-power approach to the traditional spiraling of security alliances and the expansion of military displacements. The U.S. started to sign free trade agreements with several East Asian nations in order to form what has been called an "EFTA sphere geo-economically surrounding China", containing Beijing's influence and ensuring that it continues as 'East Asia's economic center' (Friedberg, 2013, p138).

Naturally, China realized that the trade policy is a continuation of geopolitics by other means, and since the beginning of the 2000s has been making an effort to raise the standard of its relationship with its neighbors. At the moment, engagement and cooperation are the two dominant features in U.S.-China policy, and China is taking advantage of this more relaxed atmosphere.

If we look at some statistics, from 2000 to 2009 the number of commercial exchanges attributed to China, within the ASEAN space, has tripled and surpassed the fraction attributed to the United States (Graph I). This pattern is expected to be repeated in the future, in spite of the slight setback on China's economic growth in the last two years. *The Economist* commented that at the start of 2016, capital appeared to be fleeing China at a rapid rate, and the *yuan* seemed to lose its dock against the dollar (*The Economist*, 2016). China's policy of loose credit adds to its alarming debt pile. Despite this, China is expected to continue to supply the economic public goods that are vital to Asian nations, and this trend will somehow influence the strategic reality of Asia (see Graph I). Some statistics show that China will keep this



Graph I (ASEAN Exports-Imports from/to China)
 Source: ASEAN Statistical Yearbook 2003 and 2011,
<http://www.asean.org/resources/2012-02-10-08-47-55/statistical-publications>

China Is a Key Trading Partner in Asia

% of total exports

From:	Share of exports to:		
	U.S.	Euro zone	China
Australia	4	4	27
China	17	14	na
Hong Kong	10	8	52
India	11	14	6
Indonesia	8	9	11
Japan	15	9	20
Malaysia	8	8	13
New Zealand	8	7	12
Philippines	15	10	13
Singapore	5	7	10
South Korea	10	7	24
Taiwan	12	1	27
Thailand	10	7	12

Sources: Moody's Analytics, IMF, Taiwan Ministry of Finance, U.S. Census Bureau

Graph II (China's Trade Relations)
 Source: Asia Pacific Outlook 2013: Heading Towards Trend,
<https://www.economy.com/dismal/analysis/free/236109>

steady growth trajectory: GDP is expected to grow by 1.4% in 2017 and 1.2% in 2020; unemployment will be constant (4.3% in 2016 and 2017, and 5% in 2020); the balance of trade will decrease and then recover (US\$437 hundred million in the fourth quarter of 2016; 300 in 2017, and 415 in 2020); and the government debt to GDP will rise (+50.14% last quarter of 2016, +50.2% 2017, +65.49% 2020) (Trading Economics, China 2016-2020). Although historically associated with the policy of 'harmonious society', bolstered by Hu Jintao (Ferchen, 2016), the success of the 'One Belt, One Road' initiative depends on three basic conditions: a) the recognition of the importance of the project by the countries covered by the 'Silk Belt'; b) Beijing's capacity to avoid the risks involved in building and propping up the OBOR; and c) China's ability to counterbalance America's embrace to Asian nations. As regards the bilateral relationship with

Asian nations, China is equipped with the instruments necessary for the role of leader, as its economy continues to be the driving force of Asia's and Oceania's economies (see Graph II). In terms of security, Chinese leaders and diplomats assert that China advocates a policy of non-alignment to solve the maritime disputes that Beijing has with some of its neighbors; at the same time, Beijing is projecting a security clout, if not intimidation, into its surrounding maritime waters (Cheng, 2016; Glaser, 2015; Goldstein, 2015; Holmes, 2015; Kun-Chin & Gertner, 2015; Koh & Collin, 2015; Paglia, 2015; Prasad, 2016; Switzer, 2016).

The maritime area occupies a significant part of the surface in South Asia's geography. Along the Sea of Java, and within the interior waters of the Philippines, these large extensions of water are interlinked by passages that are interpenetrated.



Picture I: Straits of Malacca, Sunda and Taiwan

Some of them have a strategic importance, such as the straits of Malacca, Ormuz, Sunda (between the islands of Java and Sumatra), of Lombok (to the east of Java), or Bab-el-Mandeb. Given the amount of the flux of goods between Europe, the Middle East, and Northeast Asia, the straits of Malacca assume the role of one of the most important maritime routes in the world accounting, according to some estimates, for 30 to 40% of the overall shipment of goods, 40% of which is oil (Courmont & Mottet, 2014). The saturation of international maritime routes triggers an enormous rivalry between the ports that are located along these routes (25 ports concentrate 50% of the world's transit of vessels), as the center of gravity of the world trade has been transferred from the Atlantic to the Asia-Pacific (Courmont & Mottet, 2014). The expansion of the canals of Panama and Suez can absorb an increment of the maritime traffic and alleviate the pressure on these nodal passages; new trade routes are nevertheless mandatory.

The constraint on the access and freight movements along the straits of Malacca, Taiwan, or Sunda could have catastrophic worldwide consequences, as the fleet of goods would need to extend their courses for additional days; this would make the costs of transportation jump. It is important to keep in mind that the oceans contain one third of the world's reserves of hydrocarbon (natural gas and oil), that the basins of oil reserves represent one third of the world production of hydrocarbons, and that the modernization of the technique for petroleum oil exploitation will increase that figure even more in coming years (Steiner, 2015). The sea bottom also represents 84% of the world's mineral reserves, and vast zones of the Pacific enclose important quantities of rare earth and silica base minerals which are used by the industries of High Tech (Steiner, 2015). The increase in the price of raw materials that followed the

development of the new industrialized economies made these enormous deposits of gas and oil petroleum even more appealing.

Their exploitation provoked security tensions along the East and South China Seas. Both China and Vietnam claim the sovereignty of the archipelagos situated in the South China Sea, because their location would allow the exploitation of the submerged energy resources (Prasad, 2016; Vuving, 2016). One of the central archipelagos in the dispute is the Archipelago of Spratly that has been the theatre of numerous incidents between vessels of China, Vietnam, the Philippines, Malaysia, Brunei, and Taiwan. The conflict between China and Japan about the Senkaku Diaoyu is of the same nature. Recent incidents in the South China Sea can be invoked to substantiate Beijing's new posture on extraterritorial rights, which derailed rapidly into nationalistic fervour among the population, intelligently explored by the Chinese media and government.

The dispute over these tiny islands, reefs, and atolls has become more and more overstated as China claims loudly to enforce solely its 'legitimate rights' to them. Other countries oppose that claim, saying that China is throwing its clout over smaller nations to bully them into supporting its views (Glaser, 2015; Goldstein, 2015; Holmes, 2015; Kun-Chin & Gertner, 2015). On October 27, 2002, China and the ASEAN signed a joint declaration to reach a consensus and a code of conduct in the China Sea (ASEAN Declaration on the Conduct of Parties in the South China Sea). In the Joint Declaration, they reaffirmed the 5 Principles of Peaceful Coexistence, expressed commitment to exploring ways of building trust and confidence, reaffirmed a pledge to freedom of navigation and over flights above the South China Sea, and promised to resolve the territorial and jurisdictional disputes by peaceful means, and prevent themselves

from resorting to the threat or use of force. Unfortunately the enforcement of that bilateral agreement is yet to be seen.

REVIEWING THE LITERATURE ON TERRITORIAL DISPUTES

How to assess China's position in these extensive disputes?

Shambaugh (2013, p289) says that the dispute should be understood within the context of the changes that are taking place in the People's Liberation Army Navy (PLAN), from a coastal defense force (green navy water) to one that operates out of the second island chain. An area that encompasses all of the South China Sea down to Indonesia and East Timor (limited blue water). A third future stage will put China as a Pacific 'blue water' navy, allowing it to operate throughout the Pacific and to establish a presence in sea lanes of communication (SLOCs) that have been dominated by the U.S. Navy for the past half-century (Shambaugh, 2013, p289). China's growing maritime range and necessities (more than 90 percent of China's merchandise trade and 95 percent of its oil and gas imports travel by sea) are modifying the balance of power in the Western Pacific and making China more ambitious (Shambaugh). Christensen (2015, p22) reminds us that Mao's active subversive stance on Asian nations during the 1950s and 1960s is a probable origin of China's obsessive stance on sovereignty. Christensen also remarks that China's roughness across the South China Sea contradicts Beijing's proactive and constructive attitude in world or regional multilateral organizations.

Navarro (2015, p37) argues that China is evolving from a status quo power interested in prosperous engagement, peaceful rise, and the chance to become a 'responsible stakeholder' in the world order, to a 'revisionist' power that aims to use its growing economic and military might to expand its territory and hegemonic influence in Asia. Switzer (2016) alleges that China is effectively searching for hegemony in East Asia, and trying to push the U.S. out of the Region, an attitude that has amplified China's neighbors' qualms over what may lead, for instance, the Philippines and Vietnam to strength their bilateral security relations. Holmes (2015, September 23) remarks that Xi's project aims to transform China from a traditional continental power into an effective maritime power, and realize 'China's Dream'. China wants to block access to the South China Sea to foreign surveillance flights, underwater surveys, and aircraft carrier flight operations, Holmes adds.

Godement (2016) notes the personal intervention of the Chinese leader Xi Jinping in all of these events "as he

assumes absolute and direct pre-eminence over military operations in the same month that the PLA has advanced its pawns in very significant ways in the South China Sea". Cabestan (2016, June 15) argues that China seeks to change the current international order, and to achieve that goal "it uses many resources at its disposal: its economic and financial power, then its diplomatic influence and finally its military and naval power in the broad sense, including navy, coastal guard and fishing boats".

Ching (2016) says that China has emerged as the dominant power and its neighbors "have kept their mouths shut". There was a time when China tried to convince the world that its rise is peaceful, but that presumption has come to an end as "China thought its time had come to claim its place as controlling 'all under heaven', or *tianxia*, in Asia". Like all great powers in history, China's emergence is accompanied not just by military expansion but also by assertion of its own law, Ching adds. There might be an element of truth in all these remarks. China is shifting its standard of peaceful rise and preparing for eventual military confrontations which may take place in the near future. More than a competition for hegemonic regional power, what we are starting to witness is a race for leadership that has its roots in the imperial era, when China's leader was the Son of Heaven, reigning over a vast territory ruled through a system of tributary states.

If the notion of 'tributary states' is outdated in a worldly system of equal states, under international law, China promotes a double-standard discourse. Rhetorically, China affirms to be loyal to that principle of equal states; at the same time, China gives preference to nations that align to its national interests and ambitions. Whatever name China gives to this ambiguous situation, it is by definition a form of imperialism and hegemony. China expects its neighbors to perform a reverent *kowtow* to its ambitions as a superpower.

The OBOR Project in full-length

The success of the OBOR Initiative, namely the cross-continental route, depends on China's relationship with two blocks: the Russian Federation and the countries located along that route, which for decades were constitutive parts of the Soviet Union. Countries like Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Azerbaijan. These countries are now member states of the Commonwealth of Independent States headed by the Russian Federation, and possess different characteristics that make them unfit for a sole unitary approach.

The OBOR aims to put together 18 Chinese provinces and 80 countries from Asia, Europe, and Africa (China-Britain Business Council). It aspires to build networks of



Map I (One Belt. One Road)
 Source: www.chinainvestmentresearch.org

Silk Road Economic Belt and Maritime Silk Road in the making

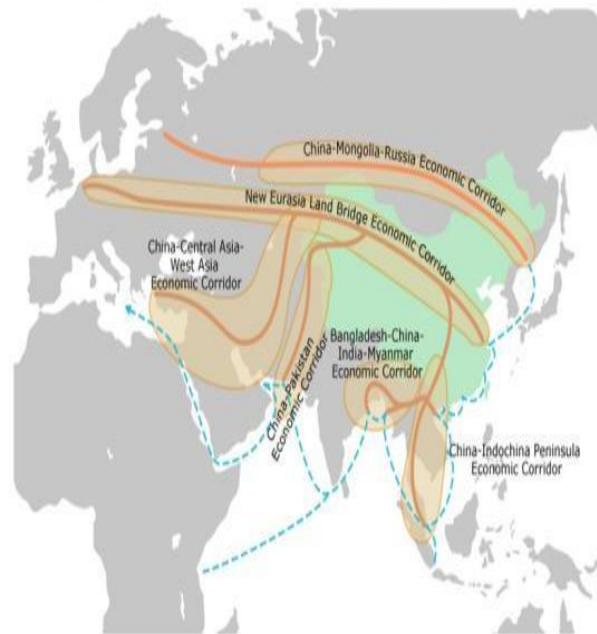


Map II (OBOR - Countries connected)

communication which may further the rapidity of exchanges. This is the reason why the first investments are directed to maritime, road, rail, and communications networks, oil and gas systems of pipelines, and also ports, airports, and multimodal platforms (Comité National des Conseillers, 2015). Xi's objective in creating such a kind of multimode complex is to allow, in

the end, the intertwining of China, Central Asia, the Middle East, and Western Europe, circumventing China's difficulties in the East and South China Seas. OBOR aims to speed up the movement of goods and the carriage of freight between Chinese cities and terminal ports in Western Europe and Russia (see Maps I and II).

The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa



Map III - The Six Economic Corridors
Source: china-trade-research.hktdc.com

In a second timeframe, the OBOR initiative is directed to the financing of industrial platforms and city infrastructures across the nodal points. What about the effects? All this will lead to the expansion of China's influence throughout the surrounding region, securing the outfitting of energy resources from the fields of Central Asia to mainland China and by the sea through the Strait of Malacca (see Picture I, above). It is no accident that in September 2013 Xi travelled to Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan, and signed fresh investment deals, worth billions of dollars, taking shares in Kazakhs' oil fields and expanding gas imports piped from Turkmenistan (Karr, 2016).

How divergent is the OBOR Initiative from the partnership bilateral diplomacy developed by China in the early 2000s? Ferchen (*China keeps the peace*, 2016) says that the OBOR Initiative is a continuation of "the long-standing peaceful development framework from the mid-1990s but Xi has given a prominence to the Initiative and such an extended package of financial means that puts China in charge of the neighbouring regions' development". Xi is giving priority to the relations with neighbouring countries, as in the past the centre of China's foreign relations were Sino-American relations, Ferchen complements. Yan Xuetong (2014), Secretary General of the World Peace Forum, remarks that the

OBOR will boost a more perfect integration of China with its neighbouring countries, resulting in some sort of sub-regional areas: the Silk Economic Zone, the Maritime Silk Zone, and China-India-Myanmar Zone.

The first corridor of OBOR will connect Chongqing, via Xian, to Duisburg and Rotterdam, throughout Central Asia and Chengdu to Lodz, via Kazakhstan, Russia, and Byelorussia, extending to the Euro port of Thionville (Comité National des Conseillers, 2015). The Khorgos Gateway, on the China-Kazakhstan border, will be supplied with logistic, banking, and industrial facilities aiming to facilitate the exchanges. It will count upon the participation of Dubai adapting the model of Djebel Ali port in the United Arab Emirates. A gas-powered station connected to the gas pipeline will allow connectivity to the European industries.

A second corridor will connect China-Mongolia-Russia. These three countries have signed an agreement aimed at the construction of a TGV line of 7,000km connecting Beijing to Moscow, via Kazakhstan. At the south, Kunming and Nanning will be the departure points of the corridor Bangladesh-China-India-Myanmar allowing access to the Bay of Bengal. A railway network of 7,000km will connect Kunming to Singapore, through Laos and Thailand (Comité National des Conseillers, 2015). Since Xi announced the OBOR Initiative in 2013,

financial consultants estimate that the PRC has directed more than \$250 billion dollars to OBOR projects (Escobar, 2015, November 26). Two banking institutions - the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Infrastructure Fund (SRIF) – were created to finance the project. The AIIB was undertaken by the end of 2015, and its headquarters are located in Beijing. It acts as a multilateral development bank, including 57 current member states and possessing an initial capital of \$100 billion dollars. That capital was subscribed by some Asian countries and China.

According to the bank's declaration of principles, its *modus operandi* "will be lean, clean and green". The Bank has already approved four OBOR projects: the National Slum Upgrade Project (from Indonesia), the Distribution System Upgrade and Expansion Project (presented from Bangladesh), the Dushanbe-Uzbekistan Border Road Improvement Project (from Uzbekistan), and the National Motorway M-4 (Shorkot-Khanewal Section) Project from Pakistan.

The yuan is on the way to being integrated in the basket of currencies that incorporate the International Monetary Fund's Special Drawing Rights, and this will give Chinese companies great leverage to forward their way to a sort of Pan-Eurasian building of roads, high-speed rail lines, fibre optic networks, ports, pipelines, and power grids (Escobar 2015). According to the Asian Development Bank, an enormous shortage of \$800 billion subsists in funding Asian infrastructure development until the year 2020, and China's Initiative can be an answer to it. Beijing planners expect China's annual trade volume with the OBOR Initiative and partners to surpass \$2.5 trillion by 2025 (Sui-Lee, 2015).

The Silk Road Fund (SRF) is based in Shanghai, and was created in December 2014 for the purpose of financing the OBOR project (Wendy, 2017). Its initial capital is \$40 billion, and the State Administration Exchange, the China Investment Corporation, the Export-Import Bank of China, and the China Development Bank is behind it. The SRF targets specific infrastructure projects such as railway lines and pipelines, primarily in Central Asia. It has already approved one energy project presented by Pakistan (the Karot Hydropower project) (Comité National des Conseillers, 2015).

Complementary to this, three other financial institutions participate in assessing and financing OBOR projects: the New Development Bank (the so-called BRICS Bank) with an initial capital of \$100 billion and which is directed to projects of new energies; the Silk Road Gold Fund located in Xian (China) with \$16 billion in initial capital and which is targeted to projects in Afghanistan and Kazakhstan; and the China-ASEAN Fund for Internet and Telecoms, located in Nanning (Guanxi).

The OBOR is projected to operate in an open-ended approach and covers, but is not limited to, the area of the Ancient Silk Road. According to promoters, "it is open to all countries and international and regional organizations for engagement" and is not confined to the sixty-five countries usually mentioned (Chan, 2016; Lo, 2016, May 17). The OBOR is presented as a systematic project relying on 'all-dimensional, multi-tiered and composite connectivity networks for diversified, independent, balanced and sustained development' of the countries involved.

The project obeys four cooperation principles – policy co-ordination, facilities connectivity, unimpeded trade, and financial integration (Hong Kong TDC-Research, 2016). The project in its present state previews six economic corridors: a China-Mongolia-Russia Economic Corridor, a New Eurasia Land Bridge Economic Corridor, a China-Central Asia-West Asia Economic Corridor, a China-Pakistan Economic Corridor, and a Bangladesh-China-India-Myanmar Economic Corridor, and a China-Indochina Peninsula Economic Corridor (Hong Kong TDC-Research, 2016).

China, Mongolia, and Russia have long established a variety of economic ties and co-operation by way of frontier trade and cross-border co-operation. In September 2014, when the three countries' heads of state met for the first time at the Shanghai Co-operation Organisation (SCO) Summit, an agreement was reached on forging tripartite co-operation on the basis of China-Russia, China-Mongolia, and Russia-Mongolia bilateral ties (Hong Kong TDC-Research, 2016). The heads of state agreed to implement together the building of China's Silk Road Economic Belt, the renovation of Russia's Eurasia Land Bridge, and the development of Mongolia's Steppe Road. This commitment is expected to strengthen rail and highway connectivity and construction, advance customs clearance and transport facilitation, and promote cross-national co-operation in transportation.

The China-Central Asia-West Asia Economic Corridor runs from Xinjiang in China and exits the country via Alashankou to join the railway networks of Central Asia and West Asia before reaching the Mediterranean coast and the Arabian Peninsula.

The corridor mainly covers five countries in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan) as well as Iran and Turkey in West Asia (Hong Kong TDC-Research, 2016). During the fifth summit of the Greater Mekong Sub-Regional Economic Co-operation Program, held in Bangkok on 19-20th December 2014, the Chinese Premier Li Keqiang proposed to deepen the relations between China and the Indochina peninsula by jointly planning and building an

extensive transportation network, and developing in concert a number of industrial co-operation projects (Ministry of the Foreign Affairs of the People's Republic of China, 2014). Guanxi has opened an international rail line, running from Nanning to Hanoi (Vietnam), and opened air routes to major Southeast Asian cities. This is the China-Indochina Peninsula Economic Corridor.

In terms of the Bangladesh-China-India-Myanmar Economic Corridor, China and Pakistan have mapped out a provisional long-term plan for building highways, railways, oil and natural gas pipelines, and fibre optic networks stretching from Kashgar to Gwadar Port. They will cooperate in the upgrade and renovation of the Karakoram Highway, and build an expressway at the east bay of Gwadar Port, a new international airport, an expressway from Karachi to Lahore (the Multan-Sukkur section), the Lahore rail transport orange line, the Haier-Ruba economic zone, and the China-Pakistan cross-national fibre optic network (Hong Kong TDC-Research, 2016).

China recognises that its relations with Southeast Asia are moving fast, and the continental route turned out to be urgent. A good example is Myanmar, which was a key player in the Beijing cooperation process. After Myanmar concentrated increased efforts on the process of democratisation and on economic and diplomatic engagement with the U.S. (and other Asian allies like Japan), some crucial projects (like the Myitsone Dam project, headed by China) have been suspended (Ferchen, 2016). The same happened with the preferential relationship of China with Sri Lanka, which led to the revaluation of the multi-million-dollar loan and the infrastructure deal approved by a previous government of Colombo, a deal which increased the country's unsustainable debts loans.

In spite of the optimism offered in public declarations, there are risks associated with China's fast-tracking strategy. Any Great Power looks to increase its political, economic, cultural, and security clout; this was done, historically, in exclusivity, as no other country is allowed to share it. This constituted the 'sphere of influence'. Chinese leaders argue that China wants to do it in a different way, choosing to cooperate and coordinate its efforts with all the parties involved.

Although China has repeatedly declared that it wants to share its economic growth with the countries located along the Silk Road Economic Belt, many of them don't hide many fears associated with it. One of them is that the influx of Chinese immigrants in the footsteps of the OBOR may grab all the well-paid jobs and the bureaucratic positions. Another is that the influx of fresh money will aggravate the chaos of corruption already experienced in some of these countries (Green, 2016;

Schwartz & Khamidov, 2016). A third one may be the impact of the construction projects on the environment and on the traditional (nomadic) way of life of Central Asian local populations. Some of these consequences are already happening in neighbouring regions of Xinjiang and Tibet.

China puts money on these two strategies: the channeling of its enormous foreign reserves to projects of development that would generate great geopolitical gains (more than financial, as the funding of some projects would hardly have any monetary return); and the transfer of its industrial and steel overcapacity and overproduction to these continental 'sub-belts'. The possible outcome is that the infrastructure projects previewed in the OBOR Silk Road Belt will, in ten years' time, scarcely alleviate the strain of the domestic situation in terms of overproduction, and a fused industrial scene. An additional and very serious risk is the uncertain and contentious China-Russia relationship, and its enlargement to the Central Asia autocracies.

China-Russia Historic Relations

Xi Jinping's first state visit after being appointed secretary-general of the Chinese Communist Party, was to Russia. This surprised many observers who had been following Russian-Chinese relations since the Cold War. In the official conversations between Xi and Putin, Xi declared that his visit was the continuation of an historical tradition in Beijing-Moscow relations (Trade Bridge Consultants, 2015; March 2013).

In Xi's words "the visit demonstrates the high level and particular nature of all-around partnership and strategic cooperation in Chinese-Russian relations". Xi had also words of praise for Russia's efforts to defend its national sovereignty, security, and development interests. Putin responded to these remarks saying that "Russian-Chinese relations were of strategic nature and the multi-faceted cooperation is in our peoples' fundamental interest and is a conscious historic choice" (President of Russia, 2013, March 22).

For a time, the two former heavyweights and rivals of the communist world seem to bury their tumultuous past, and gave signs that they wanted to move ahead on the path of cooperation being forged since the 1990s. They also promised to co-ordinate common positions in the chief international organisations and when international crises emerge. Putin and Xi have met often between 2013 and 2015. On May 9th 2015, Xi Jinping joined Vladimir Putin by assisting in the parade and celebrations taking place in Moscow in commemoration of the seventieth anniversary of the end of the Second World War in Europe.

The regularity of their official dialogues demonstrates how close Russia and China are becoming. Their navies are engaging in joint exercises, and Chinese companies are investing significant sums in Russia. China and Russia have conceptualised their economic and political relations based on a series of strategic partnerships. Following two partnership agreements in 1994 and 1996, a Treaty of Friendship and Cooperation was signed on 16th July 2001. The Treaty reaffirmed the Five Principles of mutual respect of state sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and mutual benefit, and peaceful co-existence (Article 1). It also emphasises that both parties should develop the strategic cooperative partnership of good-neighbourliness, friendship and cooperation, and equality and trust in a comprehensive manner.

The Treaty made explicit reference to the non-use of force: "the contracting parties will neither resort to the use of force, or the threat of force; nor take economic and other means to bring pressure to bear against the other". But the document included one interesting compromise that may explain the Chinese neutrality on the Crimea case: "the Chinese side supports the Russian side in its policies on the issue of defending the national unity and territorial integrity of the Russian Federation".

Applying the same realistic approach, to the Chinese side any proof of force by Russian authorities that is addressed to guarantee national unity and the integrity of the territory is therefore legitimised and justified (Article 4). The treaty does not clarify what it intends by "the territory of the Russian Federation". Is it the territory considered by the Russian Federation as his, at the time of the signature of the treaty? Or is it the one resulting from occupation or annexation in application of natural rights? No answer is given. This seems a compensation for the equivalent norm: the Russian side supports the Chinese side in its policies on the issue of defending the national unity and territorial integrity of the People's Republic of China (second paragraph of Article 4).

The 2012 Comprehensive Strategic Partnership of Cooperation underlined the principles of mutual benefit, mutual trust, and equality, in addition to setting specific economic targets in China-Russia bilateral relations (Feng & Huang, 2014, p9). Although the 2012 Strategic Partnership, signed by President Hu Jintao, China's President at the time, and Russian President Vladimir Putin, was intended to provide the basis for implementation of relations over a ten-year period, it was superseded by the 2014 agreement.

The signing of documents in Shanghai in May 2014, joint statements and negotiations on the side-lines of some summits (BRICS in Fortaleza in July 2014, the

Shanghai Cooperation Organization in Dushanbe in September 2014, and the Asia-Pacific Economic Cooperation in Beijing in November 2014), and Xi's presence at the Sochi Olympics in February 2014 indicate that the bilateral Russian-Chinese relationship has taken a first order of priority in the foreign policies of both Beijing and Moscow.

This is particularly accurate of geopolitical and military-political interaction on the global and regional levels. Putin accentuated that "relations between Russia and China as a result of joint, purposeful efforts have reached a new stage of comprehensive partnership and strategic interaction" (Joint Statement, 2014). He remarked also that both sides "intend to maintain and deepen the strategic confidential dialogue at the highest and highest level, improve the effectiveness of existing and, if necessary, create new mechanisms for bilateral intergovernmental, inter-parliamentary, interdepartmental, interregional cooperation".

How effective is this pledge to take the bilateral relationship to a new level?

Friedberg writes (2013, p170), that Beijing is working hard to lock in the strategic opportunities coming from the dissolution of the Soviet empire, and is looking at the geostrategic republics of Central Asia. The solving of boundary disputes with Russia and the formation of strategic partnerships with neighbouring states were important steps by China to ease the continental tensions and allow Beijing to devote more resources to address the emerging maritime threats. China is pursuing what Ross Munro calls a "soft-border policy aiming at expanding its influence and reducing the emergence of possible future threats" (also Friedberg 2013, quoting Ross Munro's internal report to the U.S. Secretary of Defence).

Clarke and Ricketts (2016) predict a more confrontational stance: "the willingness of Russia and China to deploy, or threaten the use of, military force to further their national interest, and challenge existing regional security orders, appears to confirm the more pessimistic assessments. Whether it is Russia in Ukraine, or China in the South China Sea, both have demonstrated a militaristic disposition to resolving their historical territorial grievances".

If we apply a realistic perspective (Nau, 2009, pp28-32) to assess the nature of China-Russia relations, we may be surprised to find a number of common indicators. Both countries look to the international atmosphere as anarchic, they agree that states, and especially Great Powers, are the chief actors of international relations, and they believe that what moves the states are two basic ideas: competition and conflict. Both are utterly harsh in terms of national unity and sovereignty over every piece

of national territory. Both countries have the notion that although economic cooperation and partnership for peace is important, national security and national interests are above everything. Both have a special concern of acquiring military capabilities and Russia (more than China) considers the use of armed force as a legitimate tool for coercive diplomacy, as the cases of Georgia and Ukraine may exemplify.

By August 2008, Russia was involved in a limited war with Georgia, concerning the legal status of the areas of South Ossetia and Abkhazia that will eventually become self-proclaimed republics. The former South Ossetian Autonomous Oblast was under control of Russian-backed separatists, and after some clashes with Russian forces, and the provisional occupation of several Georgian cities, they fell into the hands of separatists. Russia, Nicaragua, and Venezuela recognised those two republics, but the rest of the international community considers the de facto independence of South Ossetia and Abkhazia as a fraud.

Following a prolonged political crisis in Ukraine, between November 2013 and March 2014, Russia occupied the Ukrainian autonomous region of Crimea, and annexed it on 18th March 2014. In response to the illegal annexation of Crimea and the destabilisation of Ukraine, the EU imposed economic sanctions in July 2014, and reinforced them in September 2014. They include a ban on import of goods from Crimea, and a prohibition to invest in that territory. European sanctions cost Russia 25 billion Euros during 2014-2015, according to Russia's Deputy Minister of Economy Aleksei Likhachev (EUObserver, 2016, June 21).

What was China's position concerning the annexation of Crimea by Russia? When asked at a press conference if China would recognise Crimea as part of Russia, Foreign Ministry Spokesperson Hong Lei replied: "China always respects all countries' sovereignty, independence and territorial integrity. The Crimean issue should be resolved politically under a framework of law and order. All parties should exercise restraint and refrain from raising the tension." (Ministry of Foreign Affairs of the People's Republic of China, 2014)

Both China and Russia believe that it is important to preserve the actual balances of power and avoid any coalition of states becoming predominant, by negotiating bilateral agreements with competitors to keep a favorable security balance. When we look at China and Russia's relationship, we are not looking at allies but at competitors that for tactical reasons have decided to put their differences aside and work together.

Russia's reaction to Xi Jinping's OBOR initiative

Russia has been one of the world's largest oil producers,

and a leading supplier of natural gas to Europe. It accounts for 12 percent of global output in oil production, and for about 20 percent of the world's total natural gas production, but its industry faces a structural crisis. In order to keep the current level of production, Russia needs to make huge investments in exploring and recovering oil from virgin deposits in the east Siberian region and the Arctic shelf (Aron, 2013).

In this situation, China emerges as a lifebelt that can provide assistance to Russia to counterbalance the (European) sanctions and stimulate the fragile economy, advancing the necessary funds to the restructuring of Russia's state oil exploitation industry. But the question remaining is at what price China is willing to invest strongly in an industry that it cannot control? Russia was China's largest oil supplier in March 2017, representing an increase of 9.9 percent of China in 2016, boosted by a significant demand from Chinese independent refineries.

Russian shipments increased by almost a quarter over 2015 to about 1.05 million barrels per day (Chen & Meng, 2017). According to estimates, Russia may be able to maintain its top position in 2017 as China's supplier of crude, as it expands exports of its East Siberian-Pacific Ocean pipeline blend crude.

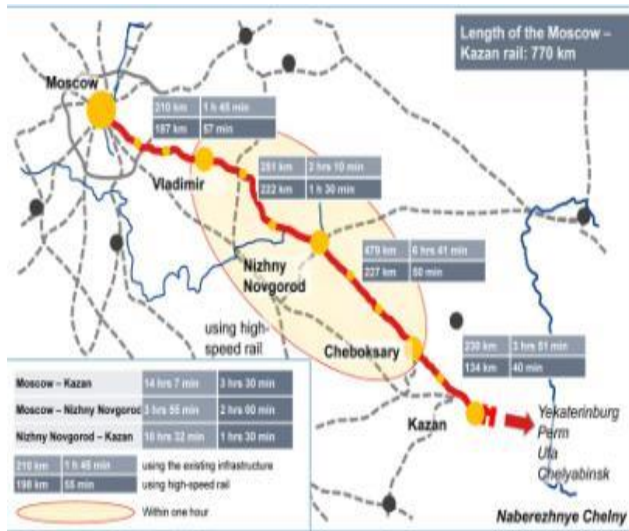
Russia's first reaction to Xi Jinping's plans for the OBOR initiative was mixed (Gabuev, 2015, August 6). Moscow was reluctant to initiate any meaningful negotiation as it could cause tension with the EEU - Vladimir Putin's project for Central Asia. The Eurasian Economic Union (EEU) was founded on 29th May 2014, and includes Russia, Byelorussia, Kazakhstan, and Armenia. The Union started to work in January 2015, and covers a common market of 130 million people generating a GDP of over \$4 trillion. The EEU functions similarly to the European Union, based on the freedom of movement of goods, people, capital, and services within the Union. Moscow's elite looks at the OBOR as an intrusion on Russia's zone of influence in that region, and generated pressure for the states in Central Asia not participating in the project (Gabuev, 2016, June 29).

In March 2015, Igor Shuvalov, Russia's Deputy Prime Minister, stated in the BOAO meeting that Russia and the Economic Eurasian Union were ready to participate in the project. In May 2015, during an official visit by Xi to Moscow, both leaders signed a joint statement formally linking OBOR and the EEU. The joint coordination declaration formally outlines the common interests of Beijing and Moscow in jointly building a "common economic space in Eurasia, including a possible Free Trade Agreement between the EEU and China in the future" (President of Russia, 2015).

The document was a political declaration, a demonstration of the political will of both leaders to



Map IV- East Siberian-Pacific Ocean Pipeline
 Source: Thomson Reuters



Map V: Kazan High-Speed Rail
 Source: www.railwaypro.com

achieve their goals, and to clear any political barriers for cooperation between these two major regional integration projects. It is important to remind ourselves that Chinese financial institutions were reluctant to ignore Western sanctions against Russia, but welcomed financial infrastructures that would be out of the reach of

sanctions. New deals in the railway and telecommunications sectors can open new bridges for bilateral relations, and reduce Russia's technological connections with the West - promoting, in alternative, Beijing's supply of technology to Moscow. Trade between Russia and China has grown rapidly, the two countries are

reducing the use of the US dollar in bilateral trade in favour of their own currencies, adding emphasis to their economic relationship. Bilateral trade volume between Russia and China, which amounted to \$15.8 billion in 2003, has increased more than 6 times over the last 10 years, reaching \$95.3 billion in 2014. In 2016, trade between Russia and China grew by 2.2 percent to \$69.5 billion, as Chinese exports to Russia rose by 7.3 percent to \$37.3 billion, while imports from Russia fell by 3.1 percent to \$32.3 billion (Russia TV, 2017). In the first three months of 2017, bilateral trade amounted to \$18.1 billion. Chinese exports to Russia increased by 22.4 percent compared with the same period last year, to \$8.43 billion. Russian exports to China grew by 36.1 percent to \$9.66 billion.

Russia needs China's market and capital, especially after Western sanctions over Ukraine; Beijing sees Moscow as a source of vital energy resources and diplomatic support for their emasculated exercise of sovereignty in their region. Beijing and Moscow are becoming closer and closer as they simultaneously challenge the U.S.-led regional security architecture. Doubts still subsist whether that proximity is not the output of an opportunistic trade-off. (Wang & Yampolsky, 2015, September 21).

The first project to be integrated in the cooperation of EEU-OBOR is the construction of a high-speed rail line connecting Moscow to Kazan. Russian Railways started the project in 2012, expecting money from the government and a German contractor, but following the Ukrainian crisis, the project was moved to a loan-for-contract scheme with the Chinese. The First Vice President of Russian Railways, Alexander Misharin, has stated that the high-speed Moscow-Kazan route is expected to cost 1.3 trillion rubles (US\$22.4 billion), and may be operational in 2020 (Russia Briefing, 2017).

Kazan is regarded as the country's "third" capital, after Moscow and St. Petersburg, and is Russia's eighth largest city. The city is important as an engineering and banking centre, serving as a de facto gateway to the East for Western Russia. The new 770 kilometres of track between Moscow and Russia's Tatarstan capital Kazan will stretch through seven regions of Russia and reduce the journey time from 12 hours to 3.5 hours. (See Map V).

The prospects of economic recovery and infrastructure modernisation of Russia are also endangered by other qualms. Russia is afraid that the land-routes planned by China through Central Asia and the European part of Russia will undermine the opportunity of the Trans-Siberian Railway becoming the major land connection between the European and Asian markets (Gabuev, 2015, August 6). But at the same time, Russia is

interested that the project and the northern Baikal-Amur Railway are included in the OBOR initiative and looking to improve the infrastructure and regulatory issues regarding the ports of the Russian Far East. Vladivostok, for instance, was declared a free port in 2015 by President Putin. Moscow hopes that Chinese investment, coupled with efforts to facilitate the required transit procedures, will strengthen Russia's position as a bridge between the East and West (HKTDC, 2015, August 6).

But there are risks associated with this closeness of 'convenience'. Moscow seems not to have a long-term strategy towards Asia, beyond adapting to Beijing a more proactive and imaginative strategy of small steps (Rumer & Stronski, 2015, December 14). Russia's position in the world rests on its nuclear arsenal, its seat at the Security Council of the U.N., and in other international fora.

The inability of the U.N. to confront serious international crises (by the veto of China and Russia) may contribute to an even greater erosion of the organisation's weight and Russia's capacity of leverage. Russia's location between two gravitational forces (Europe and Asia), with greater economic dynamism, military capabilities, and clout, will make life difficult for Russia to project economic and political power (also Rumer & Stronski).

Putin's authoritarianism, the obsessive concentration of personal power in his hands, the hostile atmosphere that Moscow keeps with Kiev, and the protection of the Syrian regime are factors that could contribute to a sudden setback in the current stabilisation of Russia's economy. The China-Russia relationship is condemned to remain, therefore, an 'axis of convenience' (Clarke & Ricketts, 2016). As in any relationship of that sort, friendship and cohesiveness persists until there are common interests and no better opportunities.

Sharing the same realistic interpretation of global politics, Xi and Putin know they need to rely exclusively on their own national strengths and fragilities. The prevailing concept is self-help, which says that whatever the size or nature of the state actor, it has to provide for its own protection or risk succumbing to another emerging state actor (Nau, 2009, p29).

CONCLUSION

China is pursuing, under the OBOR "umbrella", a well-thought-out strategy of reinforcing its bilateral relations with South-East and Central Asian nations, using the model of 'strategic' and 'comprehensive' partnerships signed with different partners during the Jiang Zemin and Hu Jintao eras. Under Xi Jinping, China is giving an even more ambitious step forward as it look to integrate, economically, the countries that are located in its

territorial and maritime vicinity. Xi Jinping is convinced that economic integration will lead, inexorably, to political integration, and this is the card that he is betting on.

The OBOR mega-project of hyper-connectivity of systems of communication, high-tech technologies, industrial facilities, and port conveniences, is the alternative imagined by China to the overproduction of steel and to bankrupted Chinese industries, marketed as a way to share the benefits of growth and development with neighbouring countries. Those nations are located along the Ancient Silk Road that connected Imperial China to the faraway markets and ports of Europe. By building a futuristic network of communications, China aims to construct an alternative 'road' to the congested maritime routes of the East and South China Seas, routes which carry more than 80% of China's total trade.

Russia has been a cooperative partner of this project, looking to integrate it in the goals of its Eurasian Union, established in May 2014 with former Soviet republics. Passing through financial difficulties and budget imbalances, aggravated by the European sanctions after the annexation of Crimea, Moscow looks to modernise its oil and gas infrastructure by finalising the pipelines that will connect it to the Chinese port cities. The very close relationship between Vladimir Putin and Xi Jinping, and the resemblance in the way they view the international crisis and the role of the United States, is transforming their special affiliation. The future will show if this is long-lasting or ephemeral.

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