

VSA:



Uwe Hoering

# China's Long March 2.0

The Belt and Road Initiative  
as development model



In Cooperation with  
Stiftung  
Asienhaus

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**Uwe Hoering**

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# Foreword

When the first freight trains with computer parts from China arrived in Duisburg in 2012 and soon also in other European cities, it was hardly foreseeable which circles would be drawn by the stone thrown into the water. The rail links were one of the first "New Silk Roads" to become the sign of China's economic, domestic and foreign policy known as the Belt and Road Initiative<sup>1</sup> since President Xi Jinping took office. Packed in a historical-idealising gown, China is to once again take its claimed place with them as the central 'Middle Kingdom' and full-scale great power. The material basis for this is the systematic expansion of the state capitalist model of development and order, which explicitly sees and offers itself as an alternative to the model of a neoliberal, Western democratic and liberal social order and its global governance. Is the dominance of the Anglo-European-centred paradigm of improving the world now being replaced by a new perspective from Asia - and is the East Wind defeating the West Wind?

The circles have taken on enormous proportions in a very short time. The official government narrative, which is a mixture of sparse facts and a lot of PR, offers a broad and contradictory interpretation scenario, as do the countless debates and attempts at classification in the media, science, business and national and international politics. At the same time, new questions and topics are raised. B&R inspires discussions about a new phase of globalisation and geopolitical reorganisation in a multipolar world order and at the same time gives it a focus on which it can work off. There has long been a competition for the hegemony to interpret B&R. Since the motives, goals and contours of the strategy are so vague and a lot of information is unreliable, everyone can paint their own picture. They range from fascination in view of the audacity of the "Great Plan", hopes for growth, prosperity

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<sup>1</sup> Abbreviated BRI. Initially, an official name was also One Belt, One Road (OBOR). In the following, the abbreviation B&R is mostly used.

and stability, to worries about a further dismantling of human rights and democracy, and to fears about intensified, even military conflicts, nationalistically connotated Chinese dominance and loss of sovereignty.

Against the background of the description of the numerous facets of B&R, the book focuses on the possible impacts in the participating countries and regions. The promises and expectations of a boost to development through further integration into a China-oriented globalisation are countered by the foreseeable difficulties and contradictions. The Chinese initiators cannot decide alone where the Silk Roads will ultimately lead. Success and profit, by the way also for China itself, depend on many factors and is therefore by no means decided. In the meantime, the contours are becoming clearer. Concrete activities and effects become more visible. The analyses and valuations, which were initially often speculative, guided by vested interests or wait-and-see attitudes, can increasingly be based on information and tangible results. However, any attempt to capture scale and implications in more than a snapshot is futile<sup>2</sup>. In any case, Sino capitalism is in a fast forward mode. The initiative will have far-reaching implications for both Asia and Europe and is already giving a new impetus to globalisation and the world order.

An important part of the preparatory work for this book was a project within the framework of the *Stiftung Asienhaus* China Programme<sup>3</sup>. My thanks therefore go to Nora Sausmikat, head of the programme, for her sense of having taken up the subject at an early stage. Most of the information, suggestions and assessments come from a comprehensive analysis of newspaper, magazine and blog texts, websites and the increasing flood of publications. Numerous discussions with Christoph Görg, Dominik Hofzumahaus and Armeni Carstensen have helped to focus on these issues. Korinna Horta, Sukhgerel Dugersuren, Au Loong

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<sup>2</sup> The manuscript was completed at the end of April 2018 and updated in October 2018.

<sup>3</sup> See [www.eu-china.net/belt-and-road-initiative](http://www.eu-china.net/belt-and-road-initiative) and the brochures *China-Programme et al* (2017) and *Stiftung Asienhaus* (2017).

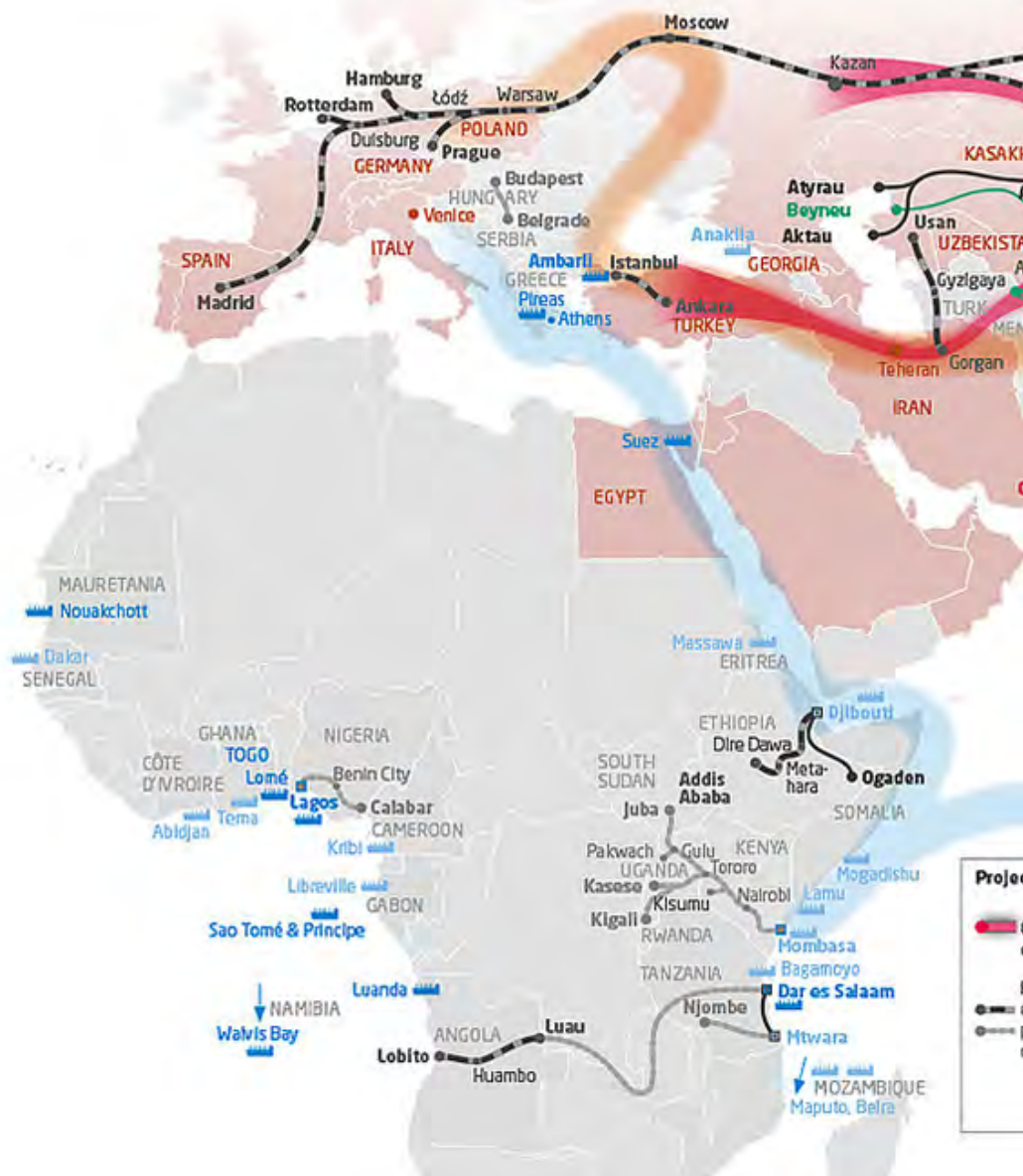
Yu, Frans-Paul van der Putten and Wolfram Schaffar thankfully took the time to answer the long list of my questions and thus contributed further important facets and assessments. By courtesy of *Mercator Institute for China Studies* I have been allowed to use an imprint of the Silk Road map. Special thanks go to Christa Wichterich, without whose support I would have been lost in the sea of contradictory information, assessments and sources. Darius Ibrahim translated this complex text thoroughly, speedily and competently for which I am very grateful to him.

Bonn, October 2018

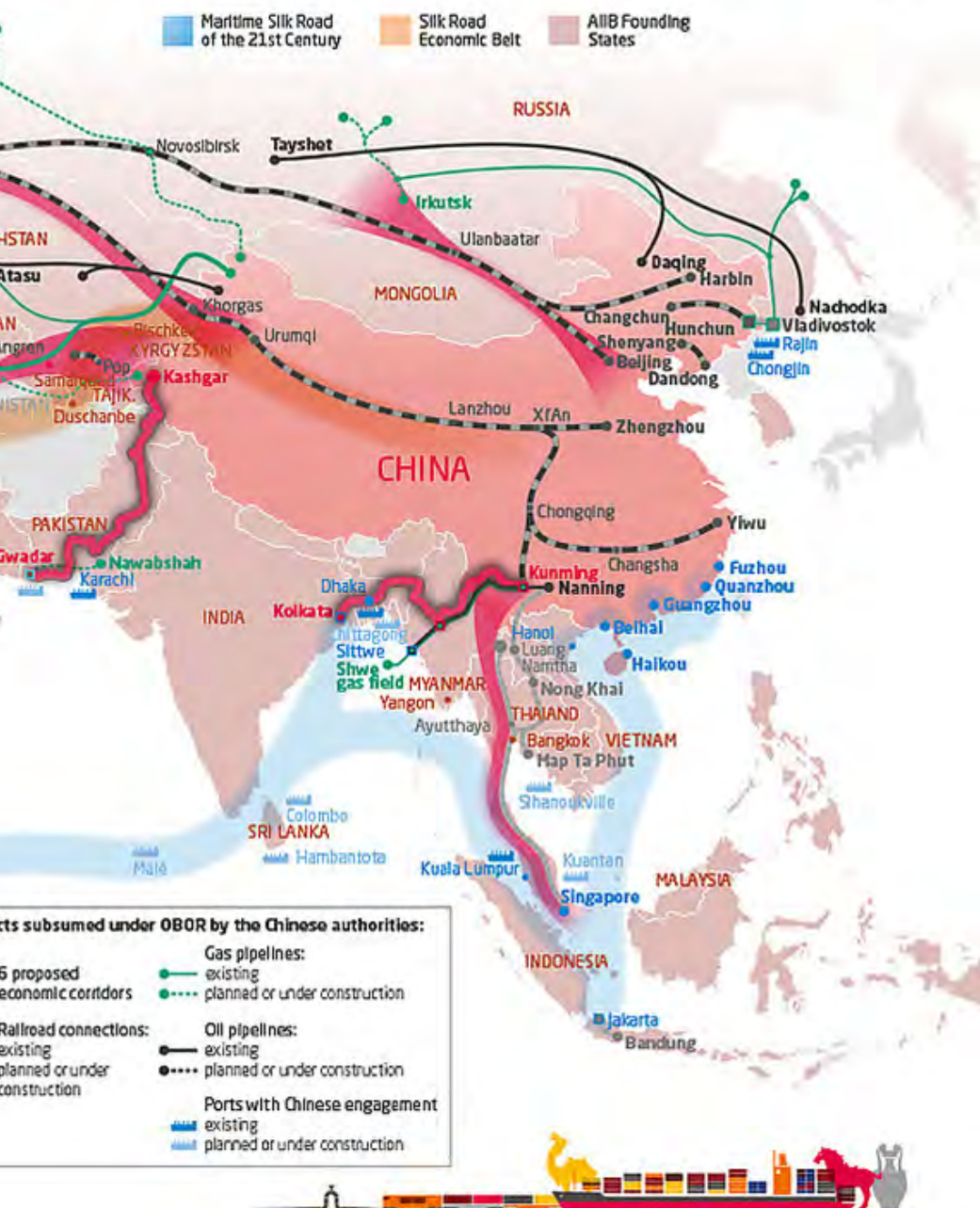
# MERICS China Mapping

## One Belt, One Road: With the Silk Road Initiative a Global Infrastructure Network

Projects completed and planned: December 2015



# ve, China Aims to Build





# 1. Introduction

*“The Belt connects the land  
The road moves on the sea  
The promise that they hold  
Is joint prosperity  
We’re breaking barriers  
We’re making history  
The world we’re dreaming of  
Starts with you and me.”*

*“When trade routes open up  
That’s when the sharing starts  
Resources changing hands  
And shipping auto parts  
Ideas start to flow  
And friendship starts to form  
Then things impossible  
All become the norm.”*

Singing children from different countries, mostly fair-skinned and blonde, "express their gratitude", it says theatrically in a YouTube video<sup>1</sup>, against the painted backdrop of high-speed trains and container ships, skylines and camels in colourful landscape. The refrain "The future is coming" sums up the advertising message of the new Silk Roads: the expansion of trade routes creates prosperity and friendship - or: Another world is possible, with Chinese characteristics.

What is staged here as a child's play is not a specifically Chinese strategy, but rather mainstream economic policy thinking, which regards large infrastructure projects as a major impetus for economic growth and prosperity. Under the keyword "Connectivity", transport links serve to expand transnational trade, the ef-

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<sup>1</sup> [https://www.youtube.com/watch?v=H6Adz\\_arAYE](https://www.youtube.com/watch?v=H6Adz_arAYE). Accessed on November 11, 2017. The production company *Fuxing Road Studios* in Beijing is considered to be very close to the government: [https://en.wikipedia.org/wiki/Studio\\_on\\_Fuxing\\_Road](https://en.wikipedia.org/wiki/Studio_on_Fuxing_Road)



efficiency of value chains and increased investment. The transport connections form the economic muscle strands along which special economic zones and development corridors are created. Pioneers of this strategy were the *World Bank* and the *Asian Development Bank* (ADB), the *World Economic Forum Davos* and the G20, the group of the most important industrialised and emerging countries. Since the end of 2013, however, the idea has been perfected by China's Belt&Road Initiative, more vividly and attractively referred to as "New Silk Roads". China's own upswing to become a global economic power seems to guarantee its success, in which the expansion of infrastructure played a key role, according to the motto "If you want to get rich, build a road first".

## Chongqing - Duisburg

According to the founding myth, however, it were initially other players who cleared the way. Ronald Kleijwegt, Global Logistics Director of the HP technology group, claims paternity: "The Trans-Eurasian Railway was more or less my baby".<sup>2</sup> The first test train already started in 2008 in Shenzhen, the Special Economic Zone near Hong Kong. The route initially ran through Mongolia, but later the logistics specialists latched directly into the Trans-Siberian Railway's route further east.

However, this route was unfavourable for production facilities in central China such as the up-and-coming Chongqing location, which benefited from the relocation of factories from the coastal regions to the interior of the country. Kleijwegt therefore looked for direct routes through Kazakhstan, the Ukraine, Slovakia and the Czech Republic or through Russia, Belarus and Poland. Numerous difficulties and obstacles had to be removed along the way. One breakthrough was the formation of the Customs Union between Kazakhstan, Russia and Belarus in 2010, which was expanded and upgraded five years later to become the *Eurasian*

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<sup>2</sup>

Cited by Wade Shephard, How Those China-Europe 'Silk Road' Trains First Began, June 29, 2016

*Economic Union* (EAEU). This reduced bureaucracy, controls and thus the time required. In 2012, HP sent the first regular train on the route between Chongqing and Duisburg.

Since then, numerous Chinese cities with their own connections to Europe have been building the "Eurasian Land Bridge" with partner cities such as Warsaw, Lyon, Hamburg, Madrid, London and Tilburg. On average, the journey takes two weeks and is twice as fast as the sea route, and substantial subsidies help to reduce costs. "Freight traffic on these routes is now almost as easy as sending a parcel with a local postal service," writes journalist Wade Shepard, who is keeping a close eye on developments. Initially, the trains often returned empty - a highly unsatisfactory economic and ecological load factor. By now, they bring, among other things, wine and champagne, cosmetics and jewellery to the newly rising Middle Kingdom.

## **„Belt“ and „Road“**

In addition to the "Eurasian Land Bridge", the backbone of which are the trains from central China to Europe, other planned transport links and economic corridors are emanating from China like the spokes of a wheel: through Pakistan to the Persian Gulf, through Myanmar and Bangladesh to India and to the Indian Ocean, through Southeast Asia to Singapore, through Mongolia to Siberia. Whereas China's own export-oriented economic development initially took place in the south-eastern coastal regions around Shanghai, Shenzhen and Guangzhou as well as around Beijing and the port city of Tianjin, the provinces in the interior are now also looking for ways to the sea. Twenty years ago, with the introduction of the "Go West" policy, the government started to develop, inter alia, Xinjiang in the west, Yunnan and Guangxi in the southwest, and Heilongjiang in the east through transport links, subsidies, and relocation of industries to reduce regional economic and social disparities. Now, with the new routes, they get access beyond the borders to sales markets and raw material suppliers in Central Asia, the Middle East, Europe or Southeast Asia.

With their own investment projects on both sides of the border, these provinces in the Northwest, Southwest and Northeast are thus acting as bridgeheads for China's new, offensive neighbourhood policy with the countries in the region (Godehardt 2014: 25), in order to once again become a fully accepted great power on a global level. The expansion follows the pattern: The day before yesterday it was Shenzhen, yesterday Xinjiang, today Central Asia, the Indian Ocean and Southeast Asia - and tomorrow?

At the same time and parallel to the land routes, the so called "Belt", virtually all countries in East Asia, Southeast Asia, the Indian Ocean and East Africa are in the process of modernizing, planning or building ports, mostly with the help of Chinese funds and companies. The international sea routes through the Chinese Sea, the Strait of Malacca and the Indian Ocean to Europe, which Beijing has declared the "Maritime Silk Road of the 21st Century", the "Road", are still those transport corridors that are used most intensively. The ports function as logistical hubs for maintaining ships, transporting goods to the hinterland and, conversely, threading products into global trade.

Attempts to revive the idea of the historic Silk Roads have been around for several decades. In 2011, the then US Secretary of State Hillary Clinton announced a new Silk Road to connect Afghanistan with its neighbours in order to advance the reconstruction of the country. But it remained an idea. Now it's China's turn.

### **The path is created while walking**

The response to the B&R initiative was tremendous. At the first summit meeting in May 2017, the *Belt&Road Forum on International Cooperation* in Beijing, nearly 30 heads of state participated, including Vladimir Putin, Recep Tayyip Erdogan, the Philippine President Rodrigo Duterte, Alexis Tsipras, Victor Orban and around five dozen other delegations. In addition to curiosity about the concrete contours and implications of the bold ideas proclaimed in Beijing and the fear of missing the train, China's announced contribution to financing also attracted attention: up

to a trillion US dollars are to be made available for implementation of B&R projects.<sup>3</sup> With the *Asian Infrastructure Investment Bank* (AIIB), the *Silk Road Fund* and the *New Development Bank* of the BRICS states, alternatives to Western-dominated international financial institutions such as the *World Bank* and the *International Monetary Fund* (IMF) were created.

Even five years after its launch by state and party leader Xi Jinping in autumn 2013, however, the venture still gives the impression of a gigantic construction site: a maze of railway lines, container ports, terminals, economic zones, new border stations, pipelines and trunk roads, much of which only exists on paper. Highly symbolic was the huge model of a bridge that was set up at the summit meeting: Gold-plated and illuminated, it proclaimed a bright connection into the future – but the driveways were still missing. B&R is a collective name for a conglomerate of already existing, planned or even just envisioned projects for which the Chinese government is still seeking partners. The various maps that circulate are therefore rather sketchy. So far, at best, only the Chinese architects know the whole blueprint. As in the Asian board game Go, they occupy strategic points that can be expanded into fortresses or that encircle or distract opponents so that they cannot develop their own strategies.

The official explanations and documents are often cloudy. They are limited to a few short „Vision papers“ and „Action plans“.<sup>4</sup> All the more intensive is the official advertising at conferences, government meetings and in the official state media. The debates in scientific circles, at conferences, in media, economic forums and political discussions are also almost unmanageable. Since the tangible contours, intentions and goals are so fuzzy and reliable numbers and information are missing, polished or contradictory,

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<sup>3</sup> Note: Costs and prices are expressed below in US dollar.

<sup>4</sup> It was only in March 2015 that the *National Development and Reform Commission* (NDRC) presented a 15-page "Action Plan" that remains very general and full of promises of mutual benefits and an equal, open partnership.

everyone can paint their own image. In the process, three major explanatory approaches have emerged.

## **Geo-economics and geopolitics in the New Age of Globalisation**

The official version of the Chinese government, which ties in with an ideal of the historic Silk Roads and is also adopted by numerous participating governments and observers, sets its own development paradigm different from the Western development discourse. Declared goals are prosperity, economic growth and stability through connectivity and proactive State support. Connectivity does not only encompass material infrastructure and trade, but also political cooperation, financial systems and "people-to-people contacts". In response to the "weak recovery of the global economy, and complex international and regional situation" following the crises of the past decade (Vision and Actions document, 2015), China will provide more public goods such as infrastructure to the international community, Xi Jinping announced in a mission-conscious manner. The "new Golden Age of Globalization" will differ from the previous neoliberal globalization of the past. This narrative is linked to an increasingly nationalist connotation, the compensation of China's humiliations by the colonial powers, and the restoration of its former significance, when the Chinese Empire considered itself the centre of the world.

This official narrative "conveys a romantic picture of China's changing position in the world," says Xin Zhang of *East China Normal University* in Shanghai (2016). It emphasizes the spirit and legacy of the historic Silk Roads - connectedness, multi-level collaboration, a community of common interests, responsibility and destiny, linked by the hope that modern connectivity and trade routes can replace traditional power competition. A common development would benefit all participants in an open and inclusive way. To counter this basket of goodies, Western observers in particular then like to point to a decisive void in the paradigm: Starting from the principle of non-interference in internal

affairs, there are no references to goals such as democracy, human and minority rights, institutional, legal and political reforms.

A second explanatory approach focuses on the economic self-interests of China. Accelerated by the financial crisis of 2007/2008, the Silk Road initiative represents an attempt to solve, above all, its own structural growth crisis, which is reflected in overcapacities and declining growth rates, by further economic expansion and modernization. For Xin Zhang (2017), B&R is even the unavoidable expansion of a "State capitalism", driven by the need for exploitation and accumulation and the striving for geo-economic hegemony, the expansion of China's position in the world.

The third narrative focuses on geopolitical intentions. These are obvious in response to a possible containment of China by the US and its allies („Pivot to Asia“) and the concern about the security of its international supply routes, but are always denied in the official narrative.<sup>5</sup> The feared spectrum of possible geopolitical effects ranges from the emergence of vassal states and a new colonialism to the impending erosion of the Western-dominated world order and China's rise to an all-dominant hegemonic power. These expectations of shifts in the multipolar power structure are linked to various conflict scenarios, including a growing danger of military confrontation.

## **Construction sites on the Silk Roads**

The stone, which Xi Jinping threw into the water five years ago, has been drawing ever larger circles since then. In the broad and multi-layered discussion, a multitude of topics and areas of concern have emerged that are opened up by the initiative. They go far beyond the usual notion that B&R is primarily concerned with infrastructure projects, sales markets and commerce.

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<sup>5</sup> At a press conference in March 2015 for example, Foreign Minister Wang Yi said, B&R „is a product of inclusive cooperation, not a tool of geopolitics, and must not be viewed with the outdated Cold War mentality.“

Chapter 2 addresses the crucial question of internal motivations and drivers shaping the initiative. Many contributions to the debate point to the need for the State to address the limitations of the Chinese development model and its structural problems. But domestic political calculations such as securing power and legitimizing the Party and the State, and efforts to make up for the humiliations by the colonial powers in the 19th century also play a central role. In contrast to the catastrophically failed "Great Leap Forward" more than half a century ago, when Mao Zedong in an enormous feat of strength attempted to force the transformation of a peasant society into an industrialized society, cutting short the transition to communism, the B&R initiative now rather resembles more of a first "Great Step" on a „Long March“<sup>6</sup>, a planned and integrated expansion of "Socialism with Chinese characteristics". Thus it differs from Mao Zedong in its strategy, but not in its goals: National sovereignty, territorial integrity and the construction of a strong and prosperous nation that occupies its rightful place as a great power on the international stage (Rolland 2017: 123).

A core element of the new Silk Roads is infrastructure development (Chapter 3). On the one hand, this is about providing other governments and countries with a lot of money to reduce the infrastructure deficit and improve connectivity as a prerequisite for investment, growth and prosperity. The construction of mega-corridors creates new areas of globalization and economic geography, which can lead to an "infrastructure imperialism" by controlling important supply routes (Bach 2017; Reeves 2018). But experience also shows that large infrastructure projects involve numerous social and ecological risks, which are also systemic in B&R. Illustrated by the maritime Silk Road (Chapter 7)

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<sup>6</sup> The Long March is a central heroic myth of the Chinese Communist Party (CCP). In the face of encirclement by Chiang Kai-shek's army, parts of the Red Army, later renamed the People's Liberation Army (PLA), and the party's leadership withdrew to the north-western Shaanxi Province. The retreat helped Chairman Mao Zedong consolidate and expand his power and prepared for the eventual victory over the Kuomintang and Japanese invaders (Source: Wikipedia, accessed June 4, 2018).

it also could increase the risks of political conflicts with China's military presence in areas such as the Indian Ocean widening.

Unlike in its own country, the Chinese government is dependent on benevolent cooperation with other countries and regional powers. The decisive factors will therefore be how Russia, which itself pursues hegemonic claims in Eastern Europe and Central Asia (Chapter 4), India, which sees itself as a dominant power in the Indian Ocean and South Asia (Chapter 8), and Europe (Chapter 10) react to the Chinese initiative. Are they competitors, even opponents or partners? A special situation arises in Southeast Asia (Chapter 6), where China already dominates economically, pursues territorial claims in the South China Sea and is therefore also on course for conflict with other riparian states.

In addition to efforts to open up new markets and investment locations for Chinese industry through the new Silk Roads, the supply of raw materials plays a key role (Chapter 5) - and thus the question whether B&R will act as a further engine for the fossil growth model, or whether they will initiate an energy revolution or even an "ecological civilization", as the initiators like to proclaim.

Rather on the edge of the Silk Roads lies Africa (Chapter 9), which as a supplier of oil and other commodities and as a customer for infrastructure projects and low-cost consumer goods has helped to promote China's rise. However, this was not a catalyst for a self-reliant development. With Xi Jinping taking office, a redefinition of China's strategy in Africa is now emerging, with initial effects especially in East Africa.

The expansion of China's economic power by B&R is associated with a growing political influence on governments and increased competition with other hegemonic powers. A more self-confident, more active foreign policy is accompanied by military armament. This has far-reaching implications on the constellations of a multipolar world order. Some warn that China is striving for global hegemony, even a new Empire, while Beijing itself offers a balanced "new type of great power relations" (Chapter 11).

After five years, the contours of B&R become clearer. Concrete effects become more visible. The analyses and positions, which at first were rather speculative and wait-and-see, are becoming



increasingly based on more reliable information and more pronounced. However, any attempt to grasp the scale and impact of the initiative still gives only a preliminary picture.

*Bonn, Germany, October 2018*

## 2. Ways out of the crisis

The initiative of the new Silk Roads marks a structural crisis in China's seemingly unstoppable rise to global economic power. At the same time, as an expansion of the Chinese version of state capitalism (Brink/Nölke 2013), it represents its consistent continuation. The successful PR campaign to complement the rather unwieldy official names OBOR or BRI with the reminiscence to the historic Silk Roads proves to be a clever move in many respects. The romantic image of Silk Road mercantilism (Xin Zhang 2016) suggests a pre-capitalist situation: equal exchange relations, cooperation on many levels, a community with similar interests, responsibilities and goals, an orientation towards useful goods, as well as cultural enrichment, and the exchange of ideas, science and technological progress. This image mystifies and obscures the asymmetry of China's economic power vis-à-vis its neighbouring countries, which B&R further increases.

### Go West, Go Out

Since the beginning of economic liberalization in the late 1970s, when Deng Xiaoping drew the consequences of the failed self-sufficiency of the "Great Leap Forward" and the deep political crisis of the Mao era, the government entered the path into "socialism with Chinese characteristics" by '*crossing the river by feeling the stones*' (Deng Xiaoping). This development took place in a continuous expansion movement, often according to the trial-and-error method of experimental arrangements: parallel to the beginnings of liberalization with privatization and a market economy in agriculture, an export-oriented industrialization was started, first in the Special Economic Zones (SEZ) of the coastal regions in the East such as Shenzhen. This export-oriented industrial growth strategy led to accession to the *World Trade Organization* (WTO) in 2001, which promoted and represented 'Western' globalization.

Already around the turn of the Millennium, the expansion of this development into the interior of the country and the western regions ("Go West") began in order to reduce the growing gap between industry and agriculture, city and country, east and west. At the same time, systematic government support was used to promote the positioning of Chinese corporations as investors and buyers on the global market ("Going global"). In 2010, the Ministry of Agriculture also called on the country's agricultural investors to adopt a "Going outward" strategy. According to Cheng Guoqiang, one of the most influential agricultural strategists, their double goal is "to maintain sovereignty and to occupy command levels of international competition" (cited in: Hoering 2016).

While the "Going global" strategy initially focused on the supply of important resources such as minerals, energy and agricultural raw materials, the corporations increasingly advanced into other economic sectors as well. In 2014, the country became the world's second largest foreign investor with \$116 billion. Now, more than 110 Chinese multinational companies are listed in the *Fortune Global 500* list of the top-selling companies, compared to 10 in 2000. Three-quarters of these are state-owned or state-controlled companies.

This phase of growth with massive state support, high foreign investment, export orientation, energy-intensive mass production of cheap commodities, low wages, early capitalist working conditions and an industrial reserve army of migrant workers without rights from rural regions is regarded as a successful model of self-reliant development. Economically, it brought about the rise to second largest economy and trading power. With poverty reduction, rising living standards and the emergence of a large consumption-oriented middle class, the strategy has achieved greater successes than the development models that the Western industrialized countries of the global South and the successor countries of the Soviet Union have come up with. And unlike Western economies, which increasingly relied on financialization strategies as growth and accumulation engines, China initially remained cautious about the financial market.

One point of reference for the Chinese development was the rise of the East Asian economies; Singapore's long-time authoritarian head of state Lee Kuan Yew is regarded as a role model for Xi Jinping. In "state-driven market economies" such as China (Brink/Nölke 2013: 21), the omnipresent role of the state differs from state intervention in Western capitalism, for example in crisis situations. The state has far-reaching macro-political control capacities in terms of economic liberalization, growth dynamics and crisis management, as well as selective integration into the world market. China's special features are the authority and socially deeply embedded power structures of the state and the Communist Party. This state capitalism 3.0 thus establishes "an alternative model to liberal Western capitalism with considerable development potential" (Brink/Nölke 2013: 29).

## Limits to growth

Tobias ten Brink (2013b) describes China's political economy since Deng Xiaoping era as an "armada of small ships" travelling at full speed in different directions. Many foreign investments apparently also followed the motto of „feeling the stones“, although there were also numerous failures. The companies operating abroad were initially mainly banks and insurance companies, infrastructure operators and commodity and energy companies, i.e. companies that were hardly engaged in high-tech industries. Further billions of dollars were invested in real estate, the entertainment industry and sports clubs, with which China's entrepreneurs implemented the "Going global" contract profitably in their interest.

The multiple crisis of 2007/2008 then revealed the structural weaknesses of China's development path. The expansion potential of the Chinese economy is shrinking. Important export markets are weakening, in key sectors such as steel, cement, coal, ship-building, solar and wind energy and petrochemicals, all of which are closely related to the energy sector, infrastructure and the real estate market, massive overcapacities have been created and profitability in heavy industry is falling. After years of labour disputes,

wages are rising in the growth locomotives of the coastal regions. The indebtedness of the State, state enterprises, provincial governments and municipalities is growing alarmingly, as is the dependence on imports of energy resources and other raw materials. Despite considerable efforts to upgrading technology, industrialization initially took place without major technological progress.

These indicators make it clear that capital accumulation and expansion can no longer be sustained with the old models (Zhang 2016). Above all, growth rates declined, a proud signal of catching up and a success story for state and party politics. If there had apparently been only one direction since the beginning of economic liberalization, namely forward, upward, the fall from double-digit rates to six percent after the 2008 financial crisis was an alarm signal. At the same time, it threatened the political legitimacy of the ruling Chinese Communist Party, which is essentially based on its promise to guarantee high growth rates, "moderate prosperity for all" and the reduction of regional disparities. The pressure to act is intensified by obvious distortions such as increasing social inequality, corruption, real estate speculation and serious environmental problems.

## **Made in China 2025**

An immediate response to the economic and financial crisis was a massive investment program, initially under the motto "business as usual", which brought further state-controlled investment in infrastructure and in the expansion of new industrial and urban centres in the provinces inland and was intended to boost domestic demand.<sup>1</sup> This helped to temporarily accelerate growth again, but "it only postponed the day of reckoning" (Rolland 2017: 95). In

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<sup>1</sup> We are talking about the equivalent of almost \$ 600 billion, the financing of which was helped by the considerable foreign exchange reserves accumulated in the course of the export orientation and parked in US government bonds, among other things. Their reallocation was also a response to the fact that the financial crisis had made China's dependence on the US money market clear.

2012, growth rates slumped again to only eight per cent. Xi Jinping used the term "New normal" in May 2014 to put the population in the mood for a lasting farewell to double-digit growth rates. In a separate variant of a sustainable development model, the relationships between economic growth, social development and environmental protection are now to be balanced. The well-known environmental researchers Fergus Green and Nicolas Stern see this as a "new model for China's economic growth" in an article for the journal *Climate Policy* due to the announced ecological measures, especially climate protection measures. Rolland (2017) sees the promises of further improving the standard of living and making China a "fully developed" country and a "powerful nation" by 2049, 100 years after the founding of the People's Republic, as a new "social contract" to secure the acceptance of the political monopoly of power of the Communist Party.

At the same time, the government initiated a far-reaching restructuring and modernization strategy. Supposedly inspired by the German concept of Industry 4.0, under the slogan "Made in China 2025", access to innovative technologies and business models is to create one of the most advanced and competitive economies in the world, strengthen the competitiveness of Chinese companies and promote their global expansion.<sup>2</sup>

A showcase project for the future of Chinese industry and its competitive potential are the high-speed trains, technology presentation and means of infrastructure diplomacy all in one. They illustrate the efficiency and the core message of the development concept of the new Silk Roads: Connectivity.

The focus of "Made in China 2025" is the targeted promotion of promising future technologies, especially the accelerated expansion of Internet-based business areas such as artificial intel-

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<sup>2</sup> Beijing is also hoping to avoid the so-called "middle income trap", in which many emerging countries get stuck after an initial industrialization push because they are no longer competitive in view of rising wage costs, but have failed to create the conditions for further technological modernization.

ligence and the "Internet of Things".<sup>3</sup> In addition to the production sector, this also involves areas of "critical" infrastructure such as energy supply, telecommunications and information technologies. Their importance for global communications, e-commerce and banking, processing industries and logistics, smart cities, electro mobility and government control is constantly growing. While China has been rather marginal in cyber and financial networks, which require an integration with worldwide information and capital flows, efforts to create parallel structures and its own international standards in these areas are becoming increasingly visible in order to counterbalance the overwhelming European especially US dominance (Mayer/Huotari 2015).

### Reorganisation of the armada

As a further response to the structural problems, central government institutions are strengthening their steering capacities. These include attempts to curb the now alarmingly growing outflow of capital through new capital controls and rules for granting loans, to prevent so-called "irrational" investment projects and to direct foreign investment project more strongly towards the core business of Chinese companies. Among the investments that will be specifically promoted by government loans from now on include high-quality equipment and technologies, mining and the energy sector, agriculture and the service sector, as well as international R&D collaboration, i.e. everything that can promote China's rise in value chains and support B&R. This attempt at control is flanked by appeals from the Party and the State Coun-

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<sup>3</sup> By mid-April 2018, 18 provinces and municipalities had submitted plans to promote and develop Artificial Intelligence (AI) industries, led by the industrial centers around Beijing, Shanghai, and Shenzhen. Shanghai has the most ambitious plans and is establishing several AI development zones. Other cities, such as Hefei in Anhui Province, are developing into centers for special applications such as speech recognition (See *Merics Economic Indicators* 1/2018).

cil for companies to act patriotically, professionally, innovatively and socially responsibly.

In addition, at the instigation of the government, several state-owned companies have been merged in recent years that, according to Xi Jinping “play a dominant role in sectors and areas that affect national security and the commanding heights of the economy” (cited by Rolland, 2017: 102). This further strengthens their systemic relevance and improves their international competitiveness. This has resulted in vertically and horizontally integrated in B&R’s core areas: the *COSCO Shipping Corporation*, the *China Merchants Group*, the mining giant *China Minmetals Corporation*, the *China State Power Investment Corporation*, which now also includes nuclear energy, the *China Railway Rolling Stock Corporation* and the world’s largest company in the cement industry.

In the agricultural sector, which is important for the secure supply of food and agro-industrial raw materials, the position is also being selectively expanded through acquisitions or investments in international companies. One of the most spectacular deals was the acquisition of agricultural giant *Syngenta* by *ChemChina* in spring 2017. The state-owned agricultural corporation COFCO is moving ever closer to the big players in agricultural trade such as the US companies *Cargill*, *ADM* and *Bunge*, by taking over smaller trading houses. The aim is to increase the productivity of China’s own agriculture through better inputs and technology and to reduce dependence on the global agricultural system, which some Western agricultural and trading groups control and which is subject to large price fluctuations through speculation. “Chinese agricultural companies should be pioneers in modernizing agriculture,” said Ning Gaoning, head of COFCO, China’s largest food manufacturer and agricultural trader (cited in Hoering 2016).

Meanwhile, Chinese state-owned enterprises and funds are the largest investors abroad. According to the *Financial Times* in the second half of 2016, the number of contracts signed by state-owned corporations rose by 86 percent, while private investment fell by 40 per cent. In the first half of 2017, they invested around \$ 28.7 billion abroad, leaving the private sector behind. The most



popular target region for China's worldwide foreign investments was the European Union, more than half of which was made in France, Germany and England (Hanemann/Huotari 2017). The main focus of interest is on technology and state-of-the-art production equipment, for example at robot manufacturer KUKA, the *KrausMaffei* Group or *Daimler*, where Chinese carmaker *Geely* recently became the largest shareholder. In "critical" infrastructure areas, *China State Grid Corporation* and world-leading IT companies such as *ZTE* and *Huawei* are active abroad as companies that are taking strategic steps to set up large regional power grids or a digital silk road.

The internationalization of state-owned enterprises and their transnational activities also improve the possibility of further expanding the position of the Chinese currency as a global trade and investment currency. With the inclusion of the *Renminbi* in the basket of special drawing rights of the International Monetary Fund (IMF) in October 2016, a milestone has already been reached.

### **Internationalization of the regulatory model**

B&R represents a central part of this internal crisis solution by combining the restructuring of production conditions with new spaces for action and accumulation for Chinese corporations. It "arose in connection with the joint efforts of the state and representatives of Chinese capital to promote capital accumulation and expansion into new geographical and spatial dimensions" (Zhang 2017: 323). In doing so, it links the necessary further expansion of the Chinese economy with the desire of the ruling elites to maintain power. Driven by political interests and economic contradictions and endowed with enormous power, based on financial strength and the weight of Chinese multinational corporations, it represents an internationalization of the Chinese model of order in the continuity of a gradual expansion of its own development strategy (Schmalz 2015). Its own crisis solution is thereby trans-

figured as a contribution to the development of the participating countries, but also to the crisis solution for the global system.

Initially in the neighbouring regions of Central Asia, South Asia and Southeast Asia, China is taking the lead in a program of economic integration through infrastructure, investment, trade and regional production chains, in which itself holds the position as the hub of modern production, innovation and standardization (Cai 2017 : 5). Following its successful integration into the world economy, the rules of which China cleverly and creatively exploited, the Silk Road Initiative now represents a new phase in which the rules of the game of globalization must be more strongly determined by China itself. The "armada of small ships" is now to be transformed into a naval unit, steered by a powerful captain, which will drive forward the dynamics of a transformation of the old world order.



### 3. Infrastructure as growth strategy

For years, economic researchers and international financial institutions have warned of the "infrastructure gap", especially in the white spots on the infrastructure world map such as Africa, Eurasia and South Asia. Although billions are being invested in the expansion of roads, railways, airports and pipelines, up to \$ 1 trillion a year would be lacking in the coming years to expand the veins of the world economy for further globalization and thus overcome the financial and economic crisis. Beijing, on the other hand, does not seem to have any financing problems with the Silk Road Initiative.

#### **Mega plans**

There are ambitious infrastructure programs in all major economic areas, notably fossil fuels, hydropower, transportation and telecommunications. The EU, for example, wants to expand its North-South and East-West links through a *Trans-European Transport Network*. The *Association of Southeast Asian Nations* (ASEAN) has been implementing its own connectivity program for years. Numerous countries in Central Asia, Pakistan, Mongolia and China are working together with multilateral development institutions to achieve regional integration through infrastructure and the promotion of trade (CAREC). There are also proposals for highly ambitious projects such as a bridge between Alaska and Siberia, a canal through Nicaragua as competition for the Panama canal and a canal through the Malaysian peninsula. During Xi Jinping's visit to Brazil in 2014, the plan was announced for a 5,000-kilometer railway line from the Brazilian Atlantic coast to the Pacific Ocean in Peru to export soy and iron ore to China. At the annual meeting of the *World Bank* and the *International Monetary Fund* (IMF) in October 2017, the "infrastructure

tural arms race," in which China has now taken over the initiative, was described as a "race for leadership in the global economy." These mega-projects are often coordinated by governments with international financial institutions such as the *Asian Development Bank* (ADB), the *World Bank*, and the IMF. But there are financing problems. Governments are heavily indebted, private investors are holding back in the face of economic and political risks and limited prospects for quick profits, and financial institutions such as the World Bank or the ADB cannot address the deficit on their own. The Silk Road initiative fills this gap: it is the largest economic stimulus program of all time, one of the superlatives, comparable to the US Marshall Plan after the Second World War. A key instrument for this is the *Asian Infrastructure Investment Bank* (AIIB) initiated by Beijing, which commenced operations in early 2016 with a starting capital of \$ 100 billion. It "was envisioned to be a new kind of multilateral development bank with twenty-first century governance," said Jin Liqun, President of AIIB. It does not want to be seen as a competitor to other multilateral banks such as the ADB, in which Japan has the leading role, but sees itself as complementary. The rush on membership and thus on new financial resources was great, much to the displeasure of the US government. Nearly all countries from East Asia to Europe have joined, including Britain and France, and Germany has even become the fourth largest shareholder.<sup>1</sup> Although it is organized similarly to the *World Bank* or the ADB as a multilateral institution, Beijing has secured the authority to issue guidelines. In addition, numerous billion-dollar investment funds such as the Silk Road Fund are under Beijing's direct control. Large financial institutions such as the *Exim Bank*, the *China Development Bank*, and the *Agricultural Bank of China* have been given additional financial leeway by the government to launch infrastructure and development projects. With infrastructure programs as a framework, mega-corridors or "tradespaces" are to be created at the same time, in which com-

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<sup>1</sup> Japan and the US decided not to participate; membership applications from Taiwan and North Korea were rejected.

panies can find attractive investment conditions in industrial zones and urban growth centers. The planners have covered the maps of Southeast Asia, Africa and Latin America with a dense network of such economic and growth corridors. A study by the NGO network *Counter Balance*, which analyzes the activities of multilateral banks, speaks of a "reconfiguration of economic geography": economic activities are merged and geographically concentrated in megacorridors in order to improve the competitive advantage for some industries. David Harvey speaks of a "spatial fix". The aim is to increase profits by combining investment, access to cheap labor, raw materials and markets (Hildyard/Sol 2017). In these new globalized regions, interconnected economic activities can move freely in geographic regions. They are subject to a common neoliberal matrix or culture of agreements and contracts, regulations, legal frameworks and practices that determine trade relations, institutions and structures. The euphemistic magic formula of these infrastructure and investment programs from Beijing via Brussels to Washington: to bring growth, an expansion of trade and economic integration, and the creation of millions of jobs through the restructuring of entire regions and economies. Political analyst Parag Khanna, on the other hand, emphasizes the geo-economic and political functionality: "We are moving into an era where cities will matter more than states and supply chains will be a more important source of power than militaries – whose main purpose will be to protect supply chains rather than borders. Competitive connectivity is the arms race of the 21st century" (2016: 6).

### **An economic corridor as a turning point**

The *China-Pakistan Economic Corridor* (CPEC) is one of the most important and expensive B&R projects. It runs between Kashgar in the western Chinese province of Xinjiang and the port town of Gwadar on the Pakistani coast of the Persian Arabian Gulf. In total, more than \$ 60 billion are to be invested, one third of which will be spend on expanding the port of Gwadar, on roads

and railway lines, pipelines, agricultural operations and industry, and two-thirds in power plants and other energy projects. So far, Gwadar is not much more than a sleepy port, with fishing boats and small shipyards. Ten years ago some huge loading cranes were erected. But only a few cargo ships dock here. That is about to change. A deep-sea port is planned as a transshipment point for the economic corridor. Almost 300 hectares of land have been leased to the state-owned *China Overseas Port Holding Company* (COPHC), which also operates the port, for a free trade zone with its own energy supply and hotels. Plans are even underway to set up a holiday industry for Chinese tourists from western China: Yachting harbours, moorings for cruise liners, parks, theatres, nightclubs, golf courses, wellness hotels and water sports facilities are to be built along a long stretch of coast. Proponents in the country, especially in the government, see the economic corridor as a "turning point" for the country's ailing economy. Politically, the government hopes that the investment projects will provide a dynamic for its re-election. For China, this Pakistani Silk Road axis would create an alternative route for the supply of energy to the sea route through the Strait of Malacca and to the pipelines through Myanmar to the south-western Chinese province of Yunnan. The economic corridor is also intended to accelerate development in Xinjiang Province. However, there are not only supporters of the initiative in Pakistan. Fishermen must fear being displaced and losing access to their fishing grounds. While the port and economic zone are to have their own electric power supply and a desalination plant, the inhabitants of Gwadar will continue to have to live with constant power cuts and water shortages. Instead of locals, hundreds of workers from China are employed. In October 2017, a grenade was thrown into the Chinese workers' housing complex, just one of many attacks on the project's construction sites. Neither the provincial governments nor the local population are informed of the intentions, let alone involved in the planning. The master plan, published by the Pakistani daily *Dawn* in November 2017, was drawn up by the *China Development Bank* and the Chinese *National Development and Reform Commission* (NDRC).

Among other things, the Chinese side secures far-reaching powers and privileges for its investors. Pakistani media then referred to Beijing as the "new East India Company" that wants to "colonise" Pakistan. Militant autonomy movements in the backward province of Baluchistan, where Gwadar is located, could continue to gain popularity.

### **Economic stimulus program as debt trap**

Large infrastructure projects are first and foremost an economic stimulus program for industry groups. Money from Beijing is often tied to the awarding of contracts to Chinese companies, so simply switch from one account to another in China.<sup>2</sup> "Lending to your neighbors to finance infrastructure projects that you build for them is a shrewd way to make friends while generating business for Chinese firms and earning better returns than U.S. Treasury bills," Joshua Eisenman and Devin T. Stewart ironically comment on this widespread practice in the *Foreign Policy* magazine. Even the *China Daily* state media paper admits in February 2018 "that it looks like it is a reserve for Chinese state-owned enterprises, financed by Chinese banks and run by Chinese workers." In addition, financing commitments from China are "readily available money" for recipient governments. Compared with international development banks, interest rates and other conditions are in some cases more favourable and the award criteria simpler. However, commercial loans account for a considerable and increasing proportion. If the promised economic upturn fails to materialise this could further increase the country's debt. Pakistan is one of the countries already heavily indebted. In addition, large infrastructure investments are notorious for

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<sup>2</sup> In projects financed by China, almost 90 percent of the contractors involved were Chinese firms, with the remainder being domestic and other foreign firms. By way of comparison, in multilateral development bank projects a good forty percent were domestic companies, the remainder shared between by Chinese and other foreign companies (Hillman 2018: 3).



corruption, cost overruns, and construction ruins, called "white elephants," because they are often not preceded by comprehensive, reliable profitability calculations. Some B&R investments are "little more than geopolitical bribery" (Miller 2017: 48<sup>3</sup>). The opportunities for public scrutiny of agreements negotiated behind closed doors by governments, financiers and transnational corporations are limited due to lack of transparency and accountability. In addition, success is not only measured in kilometres of roads, rails and pipelines or in power plants and large dams. So far, B&R's motto has been "First build, then the investors will come". Whether it is really possible to push industrialization, comprehensive economic development and an increase in government revenues with infrastructure investments is a hope for the future, the fulfillment of which depends on many other factors. At best, they form economic enclaves in which a lot of money can be earned and corruption often flourishes. In Pakistan, there was a fierce dispute between the provinces over the course of the economic corridor. Other areas, such as rural agriculture and local industries, and thus the creation of jobs or the supply of water and electricity for large sections of the population, not to mention health care and education are beyond the horizon of interests and planning. But infrastructure development that is limited to expanding trade between industrialized countries and with their raw material suppliers and developing individual strategically located hubs as transshipment points and concentrated production locations cannot bring lasting economic growth or even sustainable economic development for the participating countries.

### **Mega risks**

Moreover, experience to date shows that the significant social and environmental risks associated with large infrastructure projects are often underestimated or ignored. These include forced re-

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<sup>3</sup> Allegedly, major Chinese banks expect to have to write off most of their loans in countries like Pakistan.

location, lack of compensation, environmental damage, human rights violations and poor working conditions. They could multiply through the Silk Road Initiative and other megaprogrammes. But by integrating large infrastructure and economic corridors into individual countries and regions in the global production and marketing chains, they also intensify competition: in order to attract potent investors to their sprawling special economic zones and industrial parks, most governments rely on the same means: tax breaks and profit transfers for companies, deregulation, free trade agreements and investor protection. Laws, institutions and jurisdiction are tailored to the needs of corporations. As this has become the norm, there is a "race to the bottom" in the social and environmental fields. Wages and social standards are kept low, labour and trade union rights are restricted or denied, environmental standards are relaxed and risks are ignored. In many cases, this leads to repression against local populations who defend themselves, as well as against environmentalists, human rights groups and media who point to grievances. At the same time, infrastructure development leads to increased extractivism, as natural resources and agricultural regions become accessible, larger quantities can be transported and costs fall (Hildyard/Sol 2018). The infrastructure makes it easier to satisfy the hunger for resources and to quickly realize profits. Poorer, over-indebted countries in particular are becoming even more deeply involved in the plundering of their natural resources. But the "Gold rush" with extractivism as the basis for economic development leads to a missed opportunity for an alternative, more independent development path, regrets Sukhgerel Dugersuren of the Mongolian organization *OT Watch*. This increases the environmental risks in the mining regions and the contribution to climate change through the expansion of fossil fuels.

## Loose guidelines

Given the economic, social and environmental risks inherent in large-scale infrastructure and the fierce protests, campaigns and resistance that have repeatedly led to project failures, multilateral development banks such as the *World Bank* and the ADB felt compelled to introduce social and environmental standards for their lending in addition to a review of economic viability. Important cornerstones are transparency, an assessment of possible impacts on people and the environment, information dissemination and participation opportunities, the consent of affected groups of people (*Free Prior Informed Consent*) and regulations and compensation for unavoidable resettlement. In the past, Chinese companies abroad have contributed to China's poor reputation in many developing and emerging economies by overexploiting forests and natural resources, violating environmental laws and regulations, corruption and arrogant management. Protests and resistance to land grabbing, poor working conditions or ruthless business practices that ignored the interests of local communities led to the abandonment of many projects. The *Asian Infrastructure Investment Bank* AIIB is one of the attempts to improve this image. It advertises not only to act "lean", i.e. without time-consuming and costly procurement procedures, and "clean", i.e. free of corruption. It also sees itself as a "green" bank. Like the World Bank and ADB, it has formulated lending standards in order to take into account the social and ecological concerns of its lending activities. However, Korinna Horta of *urjewald* criticises that they leave too much scope and loopholes for recipient governments and investors compared with the previous standards. The review, monitoring and participation of civil society forces in the approval of projects is not sufficient to reduce the risks of adverse effects. So far, however, the AIIB has carried out most of the projects it approved by the end of 2017 together with the other multilateral development banks, leaving them to do the work and take responsibility. Further attempts to get rid of the bad image are guidelines that the government has issued for Chinese companies for foreign in-

volvement. They are based on Western industrialized countries' guidelines for "Corporate Responsibility" - also to the effect that compliance with them is voluntary. The recently tightened guidelines for loans from state-owned banks, which are intended to promote the modernization of the Chinese economy, restrict the allocation of funds to projects that do not meet the target country's requirements for local environmental protection, energy consumption and safety standards. Only: The proof of the pudding is in the eating.

## Korinna Horta "Germany lends credibility to the AIIB"

*Uwe Hoering: The Federal Government was in a hurry to join the Asian Infrastructure Investment Bank AIIB. Germany is the fourth largest shareholder, occupies one of the executive director posts and is currently the representative and coordinator of the AIIB member countries of the euro zone. This gives it a key position. Why did the Federal Government push for it?*

Korinna Horta: The Federal Ministry of Finance justified Germany's role as a founding member of the AIIB by being able to ensure compliance with the highest possible standards and best practices in the AIIB. This decision fell however without a public discussion, the Bundestag did not take note of it at all.

*What is the significance of Germany's accession to the AIIB?*

Important is not the financial participation of Germany, but the international credibility, which the AIIB receives by the membership of Germany and other countries, which are not from Asia. And that is priceless: In the summer of 2017, important credit rating agencies such as *Moody's* and S&P awarded the AIIB a Triple A rating for creditworthiness. As a result, it has a higher rating than its largest shareholders, China, India, and Russia. This puts the bank in a better position to raise money on the international capital markets and expand its business beyond its own \$ 100 billion capital base.

*Germany is now jointly responsible for the projects financed by the AIIB. What is necessary so that it can really assume this responsibility?*

After *urgewald* and others drew the attention of parliament and the public to the importance of the AIIB and the German role, CDU, SPD, Bündnis 90/Die Grünen and Die Linke called on the federal government to support environmental, social and human rights standards in the AIIB that are at least comparable to the standards of the World Bank. Investments in coal-fired power plants and nuclear power plants should be excluded. It is also necessary to create procedures for the publication of information and account-

ability and to establish an independent complaints mechanism.

*Why are such standards and procedures so important for large infrastructure projects?*

The dark side of infrastructure investment, and especially of large mining projects, hydroelectric power stations, coal-fired power stations and export corridors, is massive displacement and forced resettlement, fraud and corruption. Many projects are uneconomical or nonsensical, so called "white elephants", and cause a huge debt burden. It is also important that the way in which political decisions are made in the infrastructure sector is closely linked to the subsequent quality of the projects, much more closely than financial issues. For example, transparency and public participation are central in the preparatory phase, because decisions such as the location of infrastructure measures can have a serious impact on the environmental and social situations.

*Where is the AIIB currently facing these challenges? Does it meet these requirements?*

In January 2016, environmental and social guidelines were issued, including regulations on environmental impact assessment, forced resettlement and impacts on indigenous peoples who are particularly vulnerable and internationally protected. But the loopholes are huge: how and within what time frame the bank's customers meet these standards must be "acceptable" to the bank, they say. But who decides what is acceptable? Customers can also adhere to their own standards instead of the AIIB standards. So far there are in any case no procedures to ensure comparability. One example of these gaps is the AIIB energy strategy, which was adopted in June 2017. It contains many positive references, such as support for the Paris Climate Agreement and the United Nations Sustainable Energy for All program. How concrete AIIB investments will contribute to climate protection and access to sustainable energy remains to be seen. It should be noted that the AIIB energy strategy does not exclude the financing of coal projects. Basic policy guidelines such as the publication of informa-

tion, in particular the comprehensive documentation of individual projects, and an independent accountability mechanism that deals with complaints from affected population groups and checks compliance with environmental and social standards do not yet exist. Initial drafts submitted in early 2018 were considered too weak by non-governmental organizations as well as by some member States and are now being revised.

*To date, the AIIB has carried out most of its projects jointly with other multilateral banks such as the World Bank and the Asian Development Bank (ADB). Thus their environmental and social standards apply, which are at least slightly better. Does this cooperation therefore help to prevent that the AIIB projects violate minimum standards?*

The real test for the AIIB comes when it starts to develop its own project programme. However, a very important impact is already being felt: in response to the establishment of the AIIB, pressure grows on the other banks to lower their standards because they compete with the AIIB on projects and lending in the future.

*It is still quite early, but how does a first summary of the work of Germany in the AIIB look like?*

With regard to the energy strategy already mentioned, Germany, which represents all the AIIB member countries of the Euro zone, had little influence on the final version as regards the financing of coal projects. Now Germany must advocate AIIB policy guidelines on public access to information on specific projects and an effective complaints mechanism. It will be a constant struggle for Germany and the other member states to ensure that the AIIB does not become an instrument for exporting a new world order in which fundamental human rights, freedom of expression and assembly and other democratic values are set aside.

*Dr. Korinna Horta has been dealing with the environmental and human rights standards of international financial institutions for more than 20 years and is a senior researcher at urgewald.*

## 4. Opportunities and risks in Central Asia

An official starting signal for the new Silk Road Initiative is the speech held by State and Party leader Xi Jinping in September 2013 in Astana at Nazarbayev Nazarbayev University, named after Kazakhstan's permanent president. The place was wisely chosen for several reasons.

### A bridging of 2000 years

First there is the historical symbolism. A branch of the old Silk Roads ran through the southern part of present-day Kazakhstan. With his speech Xi Jinping practically followed in the footsteps of Zhang Qian, who more than 2000 years ago was the first Chinese envoy to travel to the territory of today's Iran, "sent to open the door to friendly contacts between China and Central Asian countries as well as the transcontinental Silk Road linking East and West, Asia and Europe". The descriptions with which Xi Jinping, following on from this founding myth, announced the "Eurasian Land Bridge" between Western China and Europe, have since been the basic features of the official narrative. With the assurance that economic development should no longer be driven forward at the expense of the ecological environment, he added a green accent to the initiative. It would also combat the "three evils" of terrorism, separatism and religious extremism in the region by creating stability through economic development. The announcement that China will neither intervene in the internal affairs of Central Asian countries nor seek a leadership role in regional affairs has also met with broad approval from political elites. With Nursultan Nazarbayev, Kazakhstan's permanent president, Xi Jinping courted an important ally in many respects. The former Soviet republic of Kazakhstan in the centre between Europe and Asia likes to call itself the "centre of the world" and is



today the economically strongest country in Central Asia. With its ambitious economic modernisation and diversification programme "Kazakhstan 2050", which includes investments in steel mills, hydropower and automotive engineering, and the infrastructure program *Nurly Zhol*, the "Path to the future" authoritarian ruler Nazarbayev is a promising economic partner for China. The government wants to reduce economic dependency on Russia and, in view of low prices and dwindling reserves, build economic alternatives to the oil sector, whose revenues have so far helped to finance state control and legitimacy. That's why it sought closer cooperation with China at an early stage, whose billions in loans and investments strengthen their friendship. Meanwhile, the two countries are "as close as teeth and lips," Xi Jinping flattered, leaving open who teeth, and who lips are.<sup>1</sup> Another reason choosing Astana for the speech is Kazakhstan's key role in the rail links between China and Europe. It is also an important Go-stone in the "New Great Game"<sup>2</sup> between the EU, Russia and China in the successor countries to the Soviet Union on the redistribution of resources, especially oil and gas. It is also the direct western neighbour of the Xinjiang-Uiygur province, with which it has close historical, cultural and religious ties.

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<sup>1</sup> The article "Marching Westwards: The Rebalancing of China's Geostrategy" by Wang Jisi (2012) shows that geostrategic considerations played a role too: In the context of an encirclement and direct confrontation with the US in East Asia, which under Barack Obama increased its engagement in the region ("Pivot to Asia") and tried to isolate China while negotiating the Trans-Pacific Partnership (TPP) agreement, he pleaded for a strategic reorientation of China towards its Western neighbours'.

<sup>2</sup> The Great Game is the 19th century political and diplomatic confrontation between the British and Russian empires for control of Afghanistan and neighboring regions of Central and South Asia, including India, the "crown jewel" of the British Empire.

## Energy hub Xinjiang

Xinjiang Province is the westernmost outpost of the “Go West” policy and one of its largest construction projects. A “new territory” that has been a Chinese area of expansion and influence for centuries, and somewhat like the gradually developed “Wild West” of the Chinese Empire and the young People's Republic of China, which was brought under control step by step, between 1934 and 1949 there was a Soviet Republic of East Turkestan, which still inspires autonomy aspirations and separatist movements today.

The province, bordering other important countries of the Silk Road Initiative such as Kyrgyzstan, Tajikistan, Pakistan and Mongolia is home to China's largest coal, gas and oil reserves. Thanks to central government policies, the capital Urumqi has become an economic centre of Central Asia. Until a few years ago, just a faint echo of its former central role on the Northern Silk Road, it was expanded as a western hub and energy centre for China's new “Neighbourhood policy”, with a new airport and access to the inner-Chinese high-speed train network, with road connections to Kyrgyzstan and Tajikistan, with a China-Eurasia trade fair and as a centre for communication technology. Urumqi has also been given an international boost by the establishment of regional headquarters of the multilateral Central Asian Economic Cooperation organisation (CAREC), which promises synergy effects with the Silk Road Initiative. With the CPEC economic corridor between Kashgar in the southwest of Xinjiang, where the only Special Economic Zone in western China is located, and the Pakistani port of Gwadar, the province is also the bridgehead for this B&R flagship project. The development led to a strong influx of Chinese from other regions. The Muslim Uighurs are marginalized, and many are unable to take advantage of the opportunities offered by the economic boom. Culture, language and religion are infiltrated, some of them deliberately restricted by the state. There have been fierce protests against this in recent years, to which the government in Beijing responded with state repression and the massive expan-

sion of the security apparatus.<sup>3</sup> This explosive situation is one reason why Xi Jinping called on Astana to fight the "three evils". It is feared that discontent in Xinjiang could be bolstered by militant groups in Pakistan or Afghanistan, where there are said to be numerous fighters from Xinjiang. The Silk Road should now dry up the ground for this in the region through economic development, bring prosperity and stability and involve opposition groups - a strategy that has not been very successful in Xinjiang itself so far.

As a showcase for the great opportunities for neighbourly cooperation between Xinjiang and Kazakhstan, and beyond that between China and Central Asia, infrastructure projects in the steppe at Khorgos Eastern Gate have been under construction for several years now. In the new border terminal, the containers are reloaded with giant loading cranes on their way to Europe and back, because Chinese and Central Asian railway lines have different track gauges. Far from the nearest sea, an inland port with logistics companies, trading companies and financial service providers is planned here. For investors, an industrial zone has been established on both sides of the border. Economic and political support comes from the highest authority: Khorgos reports directly to the government in Beijing. The importance of the location was underlined by the fact that the state-owned shipping company COSCO acquired shares in the "East Gate" of Khorgos. At the Silk Road Summit in Beijing in May 2017, videos were shown in an endless loop in the press centre, painting the future in bright colours. On the Chinese side of the border, the first skyscrapers, apartment blocks and shopping centres have been built with government funds. Duty-free shops are waiting for tourists to travel to the remote region, and merchants from Kazakhstan come to shop. Some businesses have been established, but on the Kazakh side there are hardly any signs yet that a trade and industrial metropolis will grow here in the near future. The port of Shanghai can handle a year's container turnover in one or two days. More im-

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<sup>3</sup> Recently there have been reports by human rights organisations and in the media about large internment or „re-education“ camps in Xinjiang, denied vehemently by Beijing.

portant than Khorgos for B&R is the Dostyk transshipment centre a few hundred kilometres north of Khorgos, which owes its name "friendship" to the long past times of Russian-Chinese brotherhood, and the highway further south, which leads via the Kazakh economic metropolis of Almaty to Russia. Managers of the planned industrial zone are bravely spreading optimism: the first companies have already announced that they will relocate production facilities here from the east of the country, while HP, *Toyota*, DHL and *Alibaba* are planning to open logistics centres.

### **Winner in the new distribution roulette**

While Khorgos is still waiting for the blossoming future, the real landmark for the close relations between China and Kazakhstan is the 24-story *Beijing Palace Soluxe Hotel* in the centre of Astana, with curved Chinese rooftops and within sight of the presidential palace. It is said that the hotel, where Chinese guests like to stay, belongs to the state-owned *China National Petroleum Company* (CNPC), which controls a quarter of Kazakhstan's oil production. China's real interest lies in the mineral resources of Central Asia. Kazakhstan has large oil deposits and considerable offshore reserves. A crown jewel is the Kashagan oil field in the Caspian Sea, in which China secured a share and outperformed its competitor India (Smith Stegen 2015). The neighbouring countries of Azerbaijan and Turkmenistan also have large oil and gas reserves and potential for hydropower. In recent years, the former Soviet republics have gained more independence from Russia and greater national control over resources, and have become "autonomous actors" in the new distribution poker, especially Kazakhstan (Smith Stegen/Kusznir 2015: 103). As in other countries of the former Soviet Union, oligarchs and local elites often benefited most. In order to modernize the extractive industries, which were geared to supplying the Soviet Union, to increase exports and to diversify the economy, they are looking for new solvent buyers and investments. China helped them as a financier and counterweight against Russia. New oil pipelines between Kazakhstan and China in the past

ten years have broken the export monopoly of Russian companies. Many companies in Kazakhstan's oil sector are largely controlled by Chinese investors. Turkmenistan supplies almost half of China's gas imports through a 2,000-kilometre pipeline. Over the past decade CNPC has outperformed Russian corporations, and Western corporations and India's national oil and gas company ONGC have been forced out of business. In the meantime, China has replaced Russia as its largest trading partner and is the most important investor, lender and buyer of energy resources. The new Silk Road Initiative is now "the culmination of several years of careful and strategic positioning by China to be able to secure both the cooperation and the resources of several Central Asian states" (Smith Stegen 2015: 100).

### **Russia, the naked gun**

Russia's enthusiasm for B&R was therefore limited in the beginning, not only because of China's successful competition for natural resources. Moscow pursues its own ideas of regional greatness; like Xi Jinping, President Vladimir Putin is a nationalist who also sees Russia humiliated after the collapse of the Soviet Union and wants to restore the country's historical sphere of influence. He sees himself as the central architect of the political and security order in Eurasia. Shortly after the financial crisis in 2008 he had shown with his surprising proposal of a free trade area from Lisbon to Vladivostok with a common industrial policy and a common energy market that the *Zeitgeist* of functional connectivity had also gripped him. But the Ukrainian crisis at the latest brought Putin out of this dream of Eurasian integration under Moscow's leadership and back into geopolitical realities. Russia thus lost its economically strongest partner, and the sanctions of the West brought further problems. Integration efforts were increasingly directed towards the east. The *Eurasian Economic Union* (EAEU), which was formed in 2015 by Russia, Kazakhstan, Kyrgyzstan, Belarus and Armenia, aims to reduce trade barriers between the partic-

ipating countries and to promote economic integration. For the train connections between China and Europe, it has the advantage of reducing internal trade barriers and border formalities. But for the member countries, economic problems such as barriers to access to global markets through higher tariffs and Russia's dominance reduce their attractiveness. Moreover, the Moscow government has been unable to meet bilateral commitments such as the implementation of infrastructure projects. Countries like Turkmenistan and Tajikistan are reluctant to give in to Russia's bid to join - especially as China offers an alternative. The difficulties of the Economic Union show that Moscow lacks the economic means to assert its claim to hegemony. The justified concern that China's Eurasian initiatives might pass Russia by is therefore driving Moscow into cooperation with Beijing. In May 2015, Vladimir Putin and Xi Jinping signed a declaration of intent to coordinate the development of EAEU and B&R - less a love marriage than a "functional alliance," according to author and political advisor Robert D. Kaplan. While Russia wants to be able to benefit from the Eurasian land bridge and influence China's plans, Beijing is interested in political and social stability for its energy supply. The region is far from being a secure investment environment. The individual countries have very different interests and domestic and foreign policy development ideas, which repeatedly lead to tensions and conflicts. Reservations against too strong a dominance by China and fears of a Chinese wave of migration exist not only among governments, but also among broad sections of the population. Land disputes, labour policies and environmental practices by Chinese companies are a constant source of discontent and occasional protests<sup>4</sup>, as are corruption, a lack of transparency in the awarding of contracts and a lack of employment opportunities. If China's economic incentives are not sufficient to ensure the desired success of the initiative, Moscow can bring to the partnership its long historical, cultural and political ties and continued

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<sup>4</sup> In Kazakhstan, a land reform bill that favored major Chinese investors led to nationwide protests and state repression.

close contacts with many governments in the region. On the basis of its military bases and arms supplies, Russia can also act as a security power if instability in Central Asia or neighbouring regions continue to grow (Stronski/Ng 2018). Alexander Gabuev of the *Carnegie Research Network* summed up the essence of this division of labour in a bon mot,, "China would be the bank and Russia would be the big gun"<sup>5</sup>.

### **Bridges across the Amur**

The relations between China and Russia in Siberia seem to be more manageable and simpler than in the tense and complicated region of Central Asia, and attract far less attention than the Silk Road activities in Eurasia or South and Southeast Asia. Putin has made the development of natural resources, including oil and gas, iron ore and copper, rare earths and gold, the national priority for the 21st century. This could be the beginning of a wonderful friendship, albeit not without obstacles. One lighthouse project for this is the so-called Arctic energy pearl, the *Yamal* project on Russia's Siberian north coast. One of the world's largest natural gas liquefaction plants (LNG) is being built here, the cost of which is estimated at \$ 27 billion. After the sanctions against Russia in 2014, the Silk Road Fund and CNPC took over 30 per cent of the shares, making it B&R's largest energy project. The joint project with the Russian majority shareholder *Novatek*<sup>6</sup> envisages that Chinese companies will supply 80 per cent of the equipment, demonstrating the progress of their own LNG technology. China's CNPC will purchase three million tons of natural gas annually for 20 years. The port of Sabetta in the fjord-like estuary of the river Ob, whose

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<sup>5</sup> Quoted in Foreign Policy, July 10, 2015

<sup>6</sup> The main shareholder of *Novatek*, Gennady Timchenko, is considered a member of the Inner Circle around President Putin and his liaison with China. See Alexander Gabuev of the *Carnegie Research Network* in Moscow, in: Downs et al: 2017, 13.

first expansion phase Putin opened in late 2017, will also be the first deep-sea port in this part of the Siberian north coast of Russia. A connection to the Eurasian rail network is under construction. This is an important building block for an alternative secondary route of the maritime Silk Road through the Arctic to Europe, which would be shorter than the path through the Indian Ocean and therefore has aroused China's interest, even though it is not a riparian state (Stronski/Ng 2018: 25ff).<sup>7</sup> Because of climate change, the window of opportunity, the time window in which the Northeast Passage, which connects the Atlantic with the Pacific along Russia's northern coast, is ice-free and thus navigable for commercial shipping is becoming ever larger. Until a few years ago, Chinese companies were excluded from Russian projects in important mining, construction and infrastructure sectors. This has changed with Western sanctions and B&R. In eastern Siberia, the bridge between Blagoveshchensk and Heihe across the border river Amur, in Chinese Heilong Jiang, is due to be completed in October 2019, and construction of the bridge has been under negotiation for years. It is an important link in the economic corridor between China, Russia and Mongolia, which is embedded between the two powerful neighbours. A railway bridge is to follow, as well as another bridge downstream. In May 2015, Chinese investors acquired shares for the first time in a Russian mining project, the *Norilsk Nickel* copper, iron ore and gold mine, whose entire production will probably be exported to China. Beijing expects this to boost the economy of its north-eastern provinces of Heilongjiang, Jilin and Liaoning, which have become a 'Rust belt' due to the deconstruction of the out-dated coal and steel industries and are in a deep recession. The bridges over the Amur river give them access to the rich natural resources of eastern Siberia, extensive forests and farmland, and the pros-

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<sup>7</sup> In the document 'China's Arctic Policy', presented by the State Department in early 2018, Beijing calls for China to be actively involved in the "construction" and "development" of the Arctic region, including the use of shipping routes, exploration and exploitation of resources. A contribution to the protection of the ecosystem and measures against climate change is promised.



pect of transferring obsolete factories. In August 2018, *South China Morning Post* reported, that Russia has made 1 million hectares of arable land in the Far East available to foreign investors, soybean production could substitute imports from the US. A railway line is also planned between Harbin, the capital of Heilongjiang, and Russia's port city Vladivostok, providing a short, direct link to the Pacific Ocean and a future Arctic route. In textbook terms, all elements of the Silk Road Initiative can be found here: the expansion of infrastructure and economic corridors, promising access to mineral resources, the relocation of industrial overcapacities, labelled as a development push, the linking of land and sea routes and the goal of developing China's peripheral provinces. Geopolitically, this cooperation with Russia offers a further alternative to the US's enclosure of China. However, there are still "serious doubts surrounding the

realization of pledged investments" (Stronski/Ng 2018: 20). One reason for this is Russia's financing problems. In addition, Chinese investors are complaining about bureaucratic obstacles, reluctant provincial governments and different business cultures, as well as protests by population groups who fear environmental damage or mobilised in the Baikal region against a lease agreement for 100,000 hectares of land for a Chinese investor. There is also fear in Eastern Siberia of a dominance of China or an invasion of millions of Chinese in search of land and resources. In contrast to Xinjiang, however, the "three evils" are hardly to be feared here.

### **Unequal partners**

The balance of power has unmistakably shifted in favour of China not only in Central Asia. " In northeast Asia Russia bandwagoned to China and almost ceased to be an independent actor," writes an article in the magazine *The Diplomat*. The inequality is not only reflected in who has the initiative to act: China is now Russia's largest creditor. Despite mutual mistrust and hegemonic competition, Russia and China are dependent on each other.

Above all, Moscow needs Beijing's money, technologies and experience. Conversely, Russia plays a key role in the regions between China and Europe, because of its geographical size and its geopolitical weight. Even though Russia's influence in Central Asia has declined, it is still an important Svengali. As an adversary, it can strongly thwart the plans, as an ally it can contribute to success. China continues to need Russia for its energy security. This is shown by the supply contract for natural gas from eastern Siberia for \$ 400 billion and the planned "Power of Siberia" pipeline as well as a framework agreement on further supplies routes from the natural gas fields in western Siberia to Xinjiang. In 2016 Russia overtook Saudi Arabia as the main supplier of crude oil, thereby contributing to the independence from other oil supplier countries. Although relations between Moscow and Beijing are "tactical and opportunist", they are „marked by increasingly compatible economic, political, and security interests“ (Stronski/Ng 2018: 1). In addition, observers such as the *International Crisis Group* (2017) also point to other similarities: both want to prevent a greater influence of the West, especially the US, in their neighbourhood and are striving to strengthen a multipolar world order. Both are afraid of so-called "Colour revolutions" as in Ukraine, Georgia or Egypt. Both are convinced that authoritarian governments are best suited to control potential social and political conflicts through a strong security apparatus. Forgiven and forgotten, therefore, that in the 19<sup>th</sup> century Russia was also involved in the humiliation of unequal treaties and China had to cede large areas such as Outer Manchuria, thereby losing access to the Japanese Sea. Too, the military conflict in 1969 with the Soviet Union over the border at Amur and its tributary Ussuri now belongs to history.<sup>8</sup> Instead, Russia is now being courted fiercely. At the Silk Road Summit in Beijing, Vladimir Putin was usually prominently placed besides Xi Jinping. He kindly thanked the initiative and its "creative approach toward fostering integration in energy, infrastructure, transport, industry and hu-

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<sup>8</sup> The disputes were settled after the end of the Soviet Union, with Russia recognizing some claims.

manitarian collaboration" after "we have exhausted many former models and indicators of economic development."

## 5. Limits of Ecological Civilisation

A lot of coal was the most important source of energy for China's economic rise. Their mining has turned entire regions into hell sites, the mines are among the most dangerous in the world. Combustion of coal in households, power plants and industries shape the everyday life of the population and the dirty image of the country equally. The country has the highest coal consumption worldwide. China's oil consumption, the second major fossil fuel, is now second only to the US, with which it competes for first place as the leading emitter of greenhouse gases.

Like all developing and emerging economies, Beijing refused to accept responsibility for the sins of industrialized countries in international climate policy. But since the Paris Climate Conference in 2015 and the announced withdrawal of the US from the Climate Agreement, China's announcement of a U-turn in its energy policy has made it a promising country in the fight against the greenhouse effect. By 2030 at the latest, the peak of CO<sub>2</sub> emissions should be reached, and till 2020 the share of non-fossil energy sources should increase to 20 per cent. At the B&R Forum in May 2017, Xi Jinping announced " the new vision of green development and a way of life and work that is green, low-carbon, circular and sustainable." At the 19th Congress of the Communist Party in October 2017, he reaffirmed the role of the energy sector as the central touchstone for China's goal of becoming an „important participant, contributor, and torchbearer in the global endeavour for ecological civilization". The Chinese leadership is thus countering the concept of sustainable development, which was coined at the 1992 UN Conference on Environment and Development in Rio de Janeiro, and the "Green Economy", with its own narrative, also claiming global validity. But is this more than just a green facade for the new expansive growth phase of the Chinese development model?

## Homework

In addition to coal, numerous large dams were built to meet the leap in energy demand, which grew with double-digit economic growth rates, such as the notorious Three Gorges Dam on the Yangtze River. Like coal, they were also associated with severe environmental damages, forced resettlement and negative impacts on countries along the lower reaches of cross-border rivers in South Asia and the Mekong region. The third and increasingly important pillar was rising oil imports from the Middle East, Africa and Latin America. Since the turn of the millennium, however, the state and the economy have also relied on the expansion of solar and wind energy. In the meantime, not least thanks to massive state support for development, production and installation, many leading manufacturers of wind power plants and photovoltaic that compete successfully on the world market have come from China.

One of the renewable energy sources being promoted for Beijing, however, is nuclear energy: in addition to the almost 40 nuclear power plants already in existence, further reactors are planned by 2030. After 2040, fast breeders are to take over an increasing share of the supply. Large uranium reserves will be built up for the expansion. They will be sourced primarily from the strategic partner Kazakhstan, the world's largest producer and supplier.

Compared with the measures to expand the energy mix in order to satisfy demand and reduce dependence on individual energy suppliers, the announcement of a decarbonisation of the energy sector represents a qualitative change, albeit with big question marks.<sup>1</sup> In December 2017, the government announced that it would create the world's largest emissions trading market, with rules allegedly more stringent than those of the EU. Another partial step is an increased use of natural gas, which is less harmful to the climate. Estimates suggest that the use of natural gas

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<sup>1</sup> For example there are doubts that all wind and solar capacity is really on the grid, especially in the remote regions of the north and west.

could increase by eight per cent annually by 2030. The supply is to take place partly through the development of shale gas and coal gasification, but above all through rising imports, making China the world's leading importer of natural gas. All three of them are ecologically risky.

The clearest signal for an entry into the phase-out is the decommissioning of coal-fired power plants and the curtailment of plans for further expansion. The magazine *Foreign Affairs* reports that in 2017 alone the construction of more than 100 new coal-fired power plants was cancelled, coal consumption fell slightly for three consecutive years. However, there are doubts that these closures were carried out alone or primarily for environmental reasons. *Greenpeace* estimates that on average only half of the capacity of coal-fired power plants is used (chinadialogue 2016: 16). They could therefore be ramped up again at any time in the event of an increase in electricity demand.<sup>2</sup>

If the energy turnaround is still more of a vision than a reality, many observers believe that China is entering "green development", at least in terms of environmental policy and legislation. The Chinese government is also well aware of the social and ecological costs of becoming an economic power. The fatal effects on soil, water and air and thus on agriculture, health and quality of life are too obvious to ignore. Reforms and the transition to a "green" economy should now lead to an "ecological civilisation".

In addition to the long-standing measures to save energy and increase efficiency of use, programmes against air and water pollution, reforestation and nature conservation have been introduced. Comprehensive environmental protection was enacted in 2015, rigid government controls supplemented by market and incentive systems (Tracy et al 2017). According to the study, China

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<sup>2</sup> Coal consumption for power generation appears to have increased slightly in 2017, see Mathews et al. 2018. Feng Hao reports in *chinadialogue* (03.08.2018) that satellite imagery reveals that coal-fired power projects that were halted have quietly restarted because demand for power is rebounding.

has initiated central elements of ecological modernisation in its environmental regime in recent years.

However, this finding is subject to the restriction that the lack of participation of civil society in decision-making "is the weakest spot in the green shift a la China" (ibid: 63). While numerous civil society organisations were able to emerge in the environmental and social spheres, protests and resistance against rampant urbanisation and ruthless industrial projects had only limited room to act and were usually ended quickly with severity or a few concessions. The path to ecological civilisation is thus more controlled and authoritarian than the concept of sustainable development, which places great emphasis on political and social aspects and gives broad scope to the participation of the population and civil society.

### **Coal for "Front-line states"**

While many industrialised countries around the world have - often hesitantly - begun to abandon coal and other fossil fuels in recent years, China has continued to invest in fossil fuels abroad. Until three years ago, financing for power plant projects by Chinese development banks rose sharply. Two-thirds of the money went to coal-fired power plants, above all in India, Indonesia, Mongolia, Vietnam and Turkey, while a good quarter went to the construction of large dams. They were mostly implemented by state-owned construction and mining companies and power plant operators (Gallegher 2017). China thus compensated for the gradual withdrawal of international financial institutions such as the World Bank and Western governments. The financially strong pension funds of Western industrialised countries are also increasingly avoiding investments in the coal sector ("divestment").

In the Silk Road Initiative, the love of fossil fuels continues. For the flagship project CPEC, the economic corridor with Pakistan, \$ 33 billion have been earmarked for energy projects. This is because constant power cuts not only affect everyday life, but also economic development. Most of the money is to be invested

into coal-fired power plants. Since Pakistan itself has significant coal deposits, but hardly any coal mining, a large part of the fuel would come from the neighbouring Chinese province of Xinjiang, where there is considerable overcapacity. The repayment of the billion-Euro loans could then take the form of power supplies to China. And if the already highly indebted country gets into financial difficulties, Chinese companies could take over shares in the power plants – as in the debt equity swap for Hambantota port in Sri Lanka.

To compensate, a green credit window will also be opened. Officially, a quarter of the new power generation capacity in Pakistan capacity is to come from renewable energy sources. These include the 1,100 MW *Kolala* hydroelectric power plant, whose future operator, *China International Water and Electric Corp* (CWE), has contractually secured acceptance tariffs that guarantee a high rate of return (Desarnaud/Seaman 2017: 38). But this also includes the proposal for one of the largest solar plants in the world. One reason for this is likely to be the overcapacities in China's solar and wind industries, for which new markets are being opened up. But apparently it has the weaker lobby in Beijing against the state-owned coal-fired power plant operators such as the *State Power Investment Corporation* (SPIC), half a dozen of whom want to benefit from the construction of the plants. Even more blatant than in Pakistan is the imbalance in Bangladesh, whose government wants Chinese loans for the construction of coal-fired power plants with a capacity of 40,000 MW – promising that later small wind and solar plants will be installed too.

Pakistan is probably the most important customer, but not an isolated case. With government support, operators of coal-fired power plants are targeting "front-line states" such as Pakistan, Tanzania, Zimbabwe, Mongolia and Egypt, which have so far used very little coal for their energy supply (urgewald 2017). Environmental protection is often ignored, corruption is widespread. The investments will tie up their energy supply to coal in the long term. B&R will thus create sales markets for coal and equipment



for years to come, for which China is now the largest exporter.<sup>3</sup> At the same time, China is striving to significantly increase its supply of crude oil and natural gas from neighbouring countries through new agreements and infrastructure.

With this externalization, China is increasingly shifting the fulfilment of its announced climate targets and its ecological footprint beyond its borders. "By pursuing a proactive energy investment strategy under the guise of OBOR, China is in effect servicing three levels of interest. On one level, it seeks to meet the needs of its own domestic interests – energy security, overcapacities, development of inland provinces, etc." while „on a second level, it seeks to promote its own image as a positive force for economic development" (Desarnaud/Seaman 2017: 39). In this way, the global presence of Chinese companies is expanding, and at home, the population may once again be given a blue sky over China's cities.

### Resource Curse 4.0

A second pillar of the announced construction of ecological civilisation alongside the energy transition is the use of new technologies in business and society, "Made in China 2025". With wind and solar energy, the expansion of information technology and e-mobility, smart cities and smart industries, the demand for the required raw materials such as lithium, rare earths, tantalum, palladium or cobalt is increasing. The consumption of aluminium, the production of which is particularly energy-intensive and environmentally harmful, and copper is also growing as a result of seemingly environmentally friendly projects such as the expansion of e-mobility. Industry 4.0 thus threatens to become the "Resource Curse 4.0" in the resource-rich countries of Africa, Asia

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<sup>3</sup> The mismatch between fossil and renewable energy projects could possibly shift in the future: *China 2017 Review* has analysed 18 major overseas renewable energy projects worth \$ 44 billion. Five of these are wind and solar projects, but eight are dam projects, which could have problematic environmental consequences (Buckley/Nicholas/Brown 2018).

and Latin America, warns the non-governmental organization *PowerShift*, which is dealing intensively and critically with energy issues (2017). In many countries, the wealth of resources is perceived as a curse because the enormous profits do not benefit the population, but mostly the global corporations and local elites, allowing them to maintain authoritarian and repressive regimes.

With some of these raw materials, China itself has a strong, if not market-dominating, position, which makes life difficult for competitors: its monopoly on mining and processing of rare earths is only slowly reduced by the development of new mining sites in other countries. China currently serves 75 per cent of the worldwide demand for graphite. The fact that Beijing is prepared to use resources as weapons in the competitive battle was shown by the surprising export ban for rare earths a few years ago.

For other commodities, access to deposits and production facilities in other countries becomes necessary if Beijing wants to achieve realise its ambitious plans, such as international market leadership for electric cars, for example. This includes cooperation with the Russian group *Norilsk Nickel* in neighbouring Siberia, one of the world's largest producers of nickel and palladium. Chinese carmakers have interests in companies in Chile and Australia, the main supplier countries of lithium. *China Molybdenum's* acquisition of a stake in *Tenke Fungurume* in the DR Congo, one of the world's largest copper and cobalt deposits, is another example of how "China is outmanoeuvring other economies in securing supplies of new commodities" (Buckley/Nicholas/Brown 2018: 3).

## **With B&R onwards to ecological civilization?**

Long before Xi Jinping included the term in his speeches, there was a broad discussion in China about ecological civilisation, or more precisely about ecological socialism. The eco-Marxist Qingzhi Huan, professor of politics at Beijing University, even locates the origin of this concept in China (Huan 2016). The goal is currently at least as important for China's politics as the aspired so-

cialist modernisation of the economy, politics, social development and cultural reconstruction. Since the 18th Congress of the Communist Party in 2012, ecological civilisation has been "the biggest buzzword among green thinking and policy discussions in China". But without „a much more radical green-left thinking and solution to the multi-crises of the contemporary world“, he sees the danger that it "risks being an ideologically and semantically ambiguous term" (Huan 2018: 26)

However, with expanded access to a broad spectrum of commodities and resources, B&R is driving forward and expanding the fossil, extractive economic and growth model, which by its nature is expansive and on which China's own economic rise is also based. By giving Chinese corporations access to fossil energy sources outside the country and to other raw materials, which are still necessary, and by opening up a kind of new colonies of commodities, China is promoting its own economic structural change and strengthening its international competitiveness.

Investors are also penetrating ever deeper into ecologically extremely sensitive regions such as the Arctic, where 30 per cent of the world's gas reserves, oil and other mineral resources are believed to be located. In eastern Siberia, environmentally damaging large dams are helping to replace electricity from fossil fuels in China. Economic corridors are opening up forest areas for legal and illegal logging for the processing industry in China, while at home the government initiated intensive reforestation and forest protection. Raw material extraction and large dams are particularly often accompanied with serious human rights violations. The more remote the region, the more authoritarian the government, the more difficult it is for civil society organisations or environmentalists to exercise control and for local populations to defend themselves against projects and their consequences.

For Chinese companies engaged in extractive industries such as forestry and mining abroad, which are not considered exemplary in terms of respect for environmental and living conditions or political and social rights, there are now ecological and social guidelines for lending by banks. However, their implementation is largely left to the companies themselves. The only reference to

the environment issue in such a central document like „Vision and Actions“ says, „we should promote ecological progress (...) and join hands to make the Silk Road an environment-friendly one“. The „Belt and Road Ecological and Environmental Cooperation Plan“, issued by the Ministry of Environmental Protection (MEP) in May 2017, promises that B&R „will inject an effective impetus to accomplishment of environmental targets in the 2030 *Agenda for Sustainable Development* in the countries along the routes.“ The instruments to identify and minimize environmental risks from major projects remain rather vague, and the Ministry itself has a weak standing when it comes to controlling Chinese companies abroad.

A comparison between the policies in China itself and the environmental standards currently applied to projects abroad therefore "indicates a growing schism" (Tracy, et al 2017: 58). At home, China has introduced elements of ecological modernisation, especially in industries that are exposed to market competition from Western countries or in expanding economic sectors such as renewable energies. „Yet it is ‚racing to the bottom‘ in terms of trans-boundary and overseas development projects involving non-Western countries from which China derives a large share of its natural resources". While structural change and the legitimacy of the State and the Party require greater consideration of environmental issues and green growth, such barriers are largely lacking abroad. Instruments such as the *Green Silk Road Fund*, which is intended to promote ecological projects such as afforestation and solar and wind energy in economic corridors, are of little help against these fundamental contradictions.

## **Sukhgerel Dugersuren** **"Mongolia has missed the opportunity for an alternative development path"**

*Uwe Hoering: What role does B&R play for development in Mongolia, especially with regard to the exploitation of natural resources?*

Sukhgerel Dugersuren: Coal is one of the most important export goods to China. But since China wants to reduce its CO<sub>2</sub> emissions, coal is now being burned in Mongolia and the electricity is being exported to China. One example is the *Baganuur* power plant of a joint venture registered in Mongolia. The contracts signed in 2015 show that the electricity is not intended for Mongolia: high-voltage lines lead to China, and the price of electricity is too high for people in Mongolia. But civil society organisations did not receive this information from official sources until months after the contract was signed. Air pollution in Ulaanbaatar is a real health hazard, said the representative of the UNICEF children's aid in Mongolia. But China has no problem building a coal-fired power plant here.

*What experiences has Mongolia had in the past with Chinese extractive investments, also in comparison with Western investors?*

A common problem with Chinese investment in Mongolia is that companies do not adhere to international standards for publishing information or public participation in decision-making. Even the most basic information about Chinese companies such as the name of the parent company, address, contact person or information about their business is not available. It is clear that Mongolia is primarily a source of raw materials for China. Western companies have a slightly better information policy, but apart from that they hardly differ from Chinese companies in terms of environmental damage, adverse social impact or compensation. Only projects such as *Oyu Tolgoi*, which have received high public and international attention not least through civil society organisations, try to comply with international standards.

*The Chinese government promises to commit companies to strict environmental and social standards and to cooperate with civil society organizations (CSOs). Are there any sign of this in Mongolia?*

There is no indication of any improvement in this area, as there is strong resistance from Chinese companies. They are known for using the most polluting technologies, not repairing damage and simply disappearing when authorities want to hold them accountable. Attempts by civil society organisations such as *Oyu Tolgoi Watch* to speak with representatives of *Baganuur Power LLC* or the Chinese embassy in Mongolia have also been unsuccessful. We do not see any willingness beyond general declarations of intent to comply with international standards or to cooperate with civil society organisations.

The same applies to the experiences of CSOs in other countries in the region: There are no signs that Chinese companies are adhering to stricter environmental and social standards. On the contrary, our partners observing Chinese companies in Central Asia find that they are not implementing the voluntary guidelines of the Beijing government and the *Asian Investment Bank AIIB*, which promise "green and responsible financing". This may be due to lack of capacity and experience. But it is also known from other parts of the world that Chinese foreign investment has so far been indifferent to the environmental and social impacts of its activities. It would therefore be interesting to hear what lies behind the announcement that Chinese companies will work with CSOs in the future to review the implementation of commitments. So far this is just a rumour, not a fact. And even then, a limited review by grassroots organisations in Mongolia is possible. But the consequences depend on the regulatory framework. And I do not see how improvements can be achieved given the mix of weak regulation and corrupt practices.

*Does China's strong economic influence have an impact on Mongolian politics and democratic procedures?*

China was and is the largest investor in Mongolia. Official information about B&R investment is scarce, and that only about

older projects such as *Baganuur*, which are now receiving a capital injection. In April 2018, the new Prime Minister Khurelsukh Ukhnaa signed a cooperation agreement with China on 36 projects worth \$ 4.6 billion. I fear that Mongolia will become so indebted that it will lose its economic sovereignty and thus its political sovereignty. The kowtowing to Beijing after the Dalai Lama's visit to Mongolia is proof of this. And I think the opportunity for an alternative, more independent development path was missed in the mid-1990s, when the "Gold rush" began with extractivism as the basis for economic development. If we look at our neighbours in Central Asia or South Asia, who have been in debt to *China Eximbank* for decades: what happens if they can not pay them off? In the worst-case scenario, over-indebtedness can render a sovereign government incapable of action. And the mix of dubious deals with Chinese companies and corruption could reinforce the rejection of liberal democracies that we still have.

*Sukhgerel Dugersuren is the director of the OT Watch and Rivers without Boundaries Coalition-Mongolia, two organizations that promote effective environmental and social standards in mining projects.*

## 6. Top dog in Southeast Asia

For decades, the conflict in the South China Sea over territorial claims has burdened relations between China and other riparian states. The USA is also involved as an ally of the Philippines and other countries. Direct confrontations repeatedly arise in the dispute over "freedom of the seas" and control over resources. The region plays a key role both geopolitically and for the maritime Silk Road. The sea route through the territorial sea of Southeast Asia and the bottleneck of the Strait of Malacca between the Malay Peninsula and Sumatra is the main route for goods exports and raw material imports such as oil from the Gulf States and Africa. For the south-western Chinese provinces of Yunnan and Guangxi, ports such as Haiphong in Vietnam and Singapore, new ferry connections and modernisation of ports in Indonesia open up the prospect of extending their connections into the Pacific region. With a whole range of development promises, diplomacy and military threats, Beijing seeks to reconcile political and economic interests and use B&R as a peace project. It can build on the fact that China is already economically more dominant in Southeast Asia than in any other region of the world. For many countries, from Myanmar to the Philippines, Laos to Indonesia, it is the most important trading partner. Chinese companies invest in plantations and factories, infrastructure projects are financed with Chinese development funds and loans.

### Connect and integrate

With the Silk Road Initiative, China offers the ten member countries of ASEAN, the *Association of Southeast Asian Nations*, synergy effects with their own development plans. Long before B&R, they started systematically expanding the infrastructure. Together with the *Asian Development Bank* (ADB), the economic cooperation programme for the *Greater Mekong Subregion* (GMS)



has driven the expansion of roads, railway lines, waterways and airports, energy supply and telecommunications.<sup>1</sup> Milestones included several "friendship bridges" across the Mekong river, which crosses the region from northwest to southeast as a lifeline and natural barrier: one of these was completed in December 2013 in the Thailand-Laos-Myanmar country triangle and closed the gap for a continuous road connection from Kunming, the capital of Yunnan province, to Bangkok. In 2013, the member states and the ADB, which houses the GMS Secretariat, decided on a financing framework of \$ 50 billion for a period of ten years for the further expansion and settlement of industry and agricultural enterprises. The *Master Plan for ASEAN connectivity* of 2010 formulates similar goals. As with the GMS programme, money for this comes from the ADB and Japan. In addition to the other ASEAN members Indonesia, Philippines, Malaysia, Brunei and Singapore, the Chinese provinces Yunnan and Guangxi are also involved. The accelerated expansion of infrastructure and economic corridors is intended to promote the ASEAN *Economic Community* founded in 2015 into an independent, integrated common economic area and growth market along European lines and make it more attractive for foreign investors. Despite these billion-dollar programmes, many governments welcome B&R because there are still major infrastructure gaps and considerable investment needs for economic development. The funds from the *Asian Infrastructure Investment Bank* (AIIB), the *Silk Road Fund* and Chinese state banks promise an additional boost in financing. A showcase for the cooperation is the continuous high-speed train connection between Kunming via Vientiane in Laos and Bangkok in Thailand to Singapore, the trade and finance metropolis at the southern tip of the Malaysian peninsula, for which the table was set in late 2017 after sev-

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<sup>1</sup> Loans and grants for these came mainly from the ADB and bilateral donors such as Japan, which in turn were intended to bring private companies and investors on board. "The GMS has, in a sense, "pioneered" region-wide PPPs whereby private sector revenues have been enabled through public financing", says a *Focus on the Global South* study on investment in the Mekong region (Guttal/Chrek 2016: 13).

eral delays due to domestic power struggles in Thailand (Schaffar 2015). At the Silk Road Summit in May 2017, many heads of state and government from Southeast Asia were present. But the assessments of Chinese influence vary widely in the region (Chan 2016). In the hope of development progress, particularly poorer countries such as Cambodia and Laos are showing themselves to be enthusiastic supporters, as is Thailand, which wants to further expand its position as the hub of the Mekong region. Cambodia is an example of how connectivity has many dimensions beyond infrastructure and business relations. Especially the young generation is courted and familiarized with Chinese culture and way of thinking. With scholarships, training opportunities and language courses in China, the impression is created that China offers benevolent support in many ways, while Chinese influences simultaneously conquer consumption, work and way of life. Countries such as Malaysia and Singapore, which are not dependent on Chinese development funds hope above all for a further economic boost, for example for the port of Singapore. They tend to adopt a wait-and-see, cautiously optimistic attitude. Indonesia, the world's largest island nation, expects China to support its own plans to become a global maritime hub at the interface between the Pacific Ocean and the Indian Ocean through the expansion of shipping routes, the modernisation of ports and the shipyard industry. Reservations come mainly from Myanmar and Vietnam, where the rejection of Chinese influence is particularly strong, and until recently from the Philippines, which have massive conflicts with Beijing over fishing rights and territorial claims.

### **Securing claims**

In addition to the Philippines, Indonesia, Vietnam and other riparian countries of the South China Sea, which has a similar significance for them as the Mediterranean Sea for Europe, are also at odds with China over ownership claims. For it is not just a question of trade routes, but also of resources. The fishing grounds provide an estimated 10 per cent of the world's an-

nual catch, but are overfished and therefore aggressively contested. The Philippine and Indonesian coastguards regularly bring in Chinese trawlers, while Indonesia, the second largest fish producer in the world, declared the fight against "illegal" fishing a political priority. Furthermore, significant deposits of oil, natural gas, ore and other mineral resources are suspected under the seabed. There are differing legal views on who controls these sea routes and can claim access to resources. China claims most of the South China Sea as its territorial waters. On the one hand, it refers to customary rights, such as in fishing, but also to historical ownership claims. They are marked by the so-called *Nine-Dash Line*, a rather sketchy demarcation that reaches far into the Exclusive Economic Zones of the other riparian states. But the 1982 *United Nations International Convention on the Law of the Sea* gives riparian states the right to use all sub-surface resources in an area of up to 200 nautical miles off their coasts. Irrespective of this, the seas are regarded as international waters that can be navigated by ships from all countries. The more emphatically China asserted its claims in recent years, the more frequently the opposing legal approaches led to threatening gestures, mutual provocations, but also to armed confrontations. Vietnam, the Philippines and China set up military bases on disputed islands, reefs, atolls and sandbanks were piled up in order to justify territorial claims with the artificial new land. Again, the tactic of the Go game is used to move the status quo stone by stone. Especially with Vietnam, there were repeated military conflicts. Already in 1974 the Chinese *People's Liberation Army* occupied the Paracel Islands claimed by Vietnam. In mid-2014, accompanied by nationalist campaigns and demonstrations on both sides, a confrontation escalated over an oilrig in Vietnam's economic zone. The widespread mistrust of China in Vietnam is further ascribed to painful experiences with Chinese investments in the past (China programs et al. 2017: 29-32), which also apply similarly to other countries: Chinese companies use their position to win contracts, deliver poor quality and cause environmental damage. Vietnam's trade deficit and high levels of debt could continue to grow, the exploitation of natural resources could increase and

its own economic position in the region could be weakened, because the spoke structure of Chinese planning would make trade more focused on China.

In view of the Chinese salami tactics and the complicated legal situation, the government of the Philippines sought help from the International Court of Arbitration in The Hague. It decided in July 2016 that most of China's claims were not covered by the International Convention and violated the sovereignty of the Philippines. Beijing promptly declared that it would not accept the verdict and thus withdrew from international law and jurisdiction.

### **Build dependency**

China is also subtly using its power in the Mekong region. Numerous megaprojects in the water and energy sector have been built on the upper reaches of the river, which has its source in the Tibetan highlands and is called Lancang in China. Many others in Laos, Cambodia and Thailand have been co-financed and co-built. In Laos, which wants to become the "battery" of Southeast Asia and earn money with electricity exports, almost half of all Chinese foreign direct investments flow into energy-related projects. "Water diplomacy based on asymmetric geographical power and hydropower FDI have become new foreign policy instruments for Beijing" (Brauer/Kliem 2017: 55). By creating facts on the upper reaches of the river, the countries on the lower reaches of the river can be turned off the proverbial tap. In Laos, Thailand, Cambodia and Vietnam, where the Mekong finally flows into the South China Sea in a huge delta, the river provides the livelihood for 60 million people. It supplies fish and water for agriculture, especially in Cambodia and Vietnam, which is one of the largest rice producers and exporters. It is the transport route and lifeline for one of the biologically richest and most fertile regions in the world. Pianporn Deetes, campaign coordinator of the environmental lobby group *International Rivers*, complains that the dams in the upper reaches of the river dramatically interfere with the natural

alternation of flooding and dry season, block the transport of sediments and drastically change the ecosystem for the lower reaches of the river. International standards for the assessment, prevention or reduction of social and environmental impacts were not met in the construction of these dams. Fluctuating water levels and water shortages are particularly felt in Cambodia and Vietnam. During a severe drought in Vietnam in 2016, Chinese authorities demonstrated their power and hesitated long before opening a dam. The dispute over the use of the Mekong River thus becomes another source of conflict next to the South China Sea. And the dam disaster in Laos in August 2018, inundating many remote villages in Cambodia too, has cast a long, dark shadow of doubt about the safety standards and viability of these projects and the pressure by the Lao government arguing hydropower could lift the country out of poverty.

Regional organizations such as the *Mekong River Commission* can do little about the dam construction hype because they have hardly any enforcement powers and are chronically underfunded. Above all, China is not involved in the joint commissions of the other countries, or merely as a dialogue partner, and is therefore not bound by their decisions. "If Beijing succeeds in taking control of the development of the Mekong it would quickly become a crucial artery for China's further rise and influence in ASEAN," says political scientist Elliot Brennan.

### **Promise development prospects**

Inspired by the B&R money from China and the partnership narrative, however, the willingness to be a good neighbour and to cooperate has apparently gained the upper hand. Diplomatic negotiations and the establishment of new institutions are now being used as instruments of peace and friendship from the strategic repertoire and linked to development promises. With the *Lancang-Mekong Cooperation* agreement on closer cooperation on the extension of dams and water management, which was agreed in 2015, Beijing created an institutional alternative

to existing Mekong organisations. At the end of 2017, a draft five-year plan was presented to promote better transport links, industrial development and economic cooperation, agricultural and poverty reduction projects. As an incentive for the region, the Chinese government promised around \$ 11.5 billion. The co-operation announcements can be seen as a contribution to transforming the region from a field of conflict to a trial ground for the Chinese government's ideas of peaceful development in mutual interest. Dam projects as renewable energy sources also fit in with the environmental image of the Silk Road Initiative, even if this threatens to lead to large-scale resettlement. As on the Mekong, Beijing also plays out the temptations of B&R in the conflict in the South China Sea. Following a visit by Philippine President Duterte to China in October 2016, agreements worth \$ 24 billion were concluded - for infrastructure measures, investments and weapons. Despite his success in The Hague, Duterte was now satisfied with vague promises of talks and became the "mouthpiece of Beijing" with regard to the conflicts around the South China Sea, as *Forbes* magazine noted. His face vault over an important issue of national sovereignty led to widespread discontent in the Philippines itself. Even Vietnam, which supplies coal and oil to China in exchange for steel and machinery for its industrialisation, can hardly afford to escalate the conflicts due to its close economic ties and is seeking cooperation. In November 2017, governments agreed not to do anything to aggravate the conflict and to work together with the other ASEAN countries on an agreement for a Code of Conduct in the South China Sea. Xi Jinping has been courting the region since 2013. Shortly after his opening speech for the "Trans European land bridge" in Kazakhstan's capital Astana, he presented the idea of the maritime Silk Road in Indonesia's capital Jakarta. While in Astana Zhang Qian, the special ambassador of the imperial court, was invoked as the historical forerunner of the Silk Road, it was the navigator icon Admiral Zheng He who had made several stops in Indonesia

during his expeditions in the 15th century.<sup>2</sup> If there the "Belt" was inaugurated, here it was the "Road". And as in Astana, Jakarta was about friendship and mutual benefit, now between China and ASEAN. Since then, it has apparently been possible to integrate even determined opponents, at least temporarily, by creating a win-win narrative and skilfully interweaving economic interests and regional geopolitics. Diplomatic victory on points: The paralysis of ASEAN when it comes to criticizing Beijing's policies. Nevertheless, the population and governments still have reservations about China's growing dominance. In June 2018, widespread protests in Vietnam against new Special Economic Zones highlighted anti-Chinese sentiments and dissatisfaction with corruption and the government's weak response to China's violations of Vietnam's sovereignty in the resource-rich sea. Later that summer, the new Malaysian government under Prime Minister Mahathir Mohamad suspended China-backed railways and pipeline projects worth more than \$ 20 billion, which had been agreed upon by the former government of Najib Razak, complaining that costs were inflated. It is feared that the Silk Road Initiative will not only strengthen political and economic dependencies at the national level, but also displace regional development concepts such as the expansion of the Economic Community. Most ASEAN countries therefore do not want China to be their exclusive partner, said former Singapore Foreign Minister George Yeo at a meeting of the Davos *World Economic Forum* in Cambodia in May 2017, but prefer to remain "promiscuous". This opens up opportunities for them to play off the various powerful neighbours, such as China, Japan, India and the US, which compete for supremacy, against each other and to preserve their own leeway.

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<sup>2</sup> For a more differentiated view of B&R's two alleged ancestors, see Tansen Sen (2014): *Silk Road Diplomacy - Twists, Turns and Distorted History*.

## Showing the flag

However, a potentially much more explosive conflict continues to smoulder. In 2010, US Secretary of State Hilary Clinton reaffirmed that free navigation and the application of international law are in the "national interest" of the United States. US warships regularly patrol the region in the name of "open sea routes" and conduct military manoeuvres with allies. In contrast, Beijing insists on its territorial claims and tries to control shipping in the Chinese Sea. Chinese government representatives are said to have made it clear to US interlocutors that the position was non-negotiable, comparable to China's claim to sovereignty over Taiwan and Tibet. And it's about more than control over trade routes and resources: Hainan, the southern Chinese island in the Gulf of Tonkin not far from the Vietnamese Northern coast, is the headquarters of the Chinese Southern Fleet, which is being upgraded with submarines and aircraft carriers. And their access to the Pacific leads through the South China Sea. While the political statements on both sides tend to show restraint, the US military-industrial complex apparently relies on an intensification of the conflict. *Forbes* magazine reports in August 2017 that *General Dynamics*, *Northrop Grumman*, *Raytheon* and others are opening new offices in the region: "These defence giants are positioning themselves for a piece of the greatest arms races since World War II, one that's just getting started".



## **Wolfram Schaffar**

### **"The idea of democracy has been discredited"**

*Uwe Hoering: B&R co-operates remarkably often with authoritarian regimes, in Southeast Asia, including Thailand, Laos and the Philippines. Is there a connection, a special affinity to authoritarianism?*

Wolfram Schaffar: The findings are even more dramatic: Not only does the Chinese government cooperate with authoritarian regimes at B&R. The examples of Thailand and the Philippines suggest that B&R is even bringing about authoritarian regimes. One of the reasons for the coup d'état in Thailand in 2014 was that royalist conservative elites wanted to secure access to and control over the planning of the new high-speed railway lines. Since then, a military government has ruled there with an iron fist. In the Philippines, President Duterte is another example for this new authoritarianism. Since his election in 2016, he became infamously known for approving more than ten thousand extrajudicial killings of alleged drug dealers. Both countries were formerly close economic and military cooperation partners of the USA - the establishment of authoritarian regimes coincided with a distancing from the USA and a turn towards China. However, the example of Thailand also shows that Beijing does not necessarily exert direct political influence, since the coup d'état in Thailand was determined by internal Thai factors. Yet, China does not seem to have any ideological concerns and cooperates with the military government just as closely as with its democratically elected predecessor.

*If B&R at least does not directly promote authoritarian regimes - where does its attractiveness come from?*

The democratic systems that have been implemented in numerous transition countries in the post-Soviet region and, since the 1990s, in Southeast Asian countries, usually follow a liberal-democratic blueprint of checks-and-balances along US lines. For years, the governments of these countries have pushed through neo-liberal reforms and a strict austerity policy against all odds. The resulting social upheavals have not only caused democratisation pro-

cesses to fail, but have also discredited the idea of democracy itself. The attractiveness of the Chinese development model lies in the fact that its investments represent an alternative to this neo-liberal austerity policy. It is a new utopia that promises an improvement in living conditions on the basis of economic growth. Against the background of decades of neoliberal neglect of infrastructure and social systems, this sounds like a promise of salvation. However, the fact that a new round of global growth within planetary boundaries is not possible is all but ignored.

*So China offers an alternative to the hitherto very pronounced orientation towards Western-liberal role models, at least in some countries?*

China is actually propagating a new model of order. However, it remains to be seen whether it has a different quality. That seems questionable. China has always insisted that the Silk Road is just an initiative, not an integrated project, not a Marshall plan, not a geostrategic project. However, this argument is becoming increasingly fragile: with increasing military activity presence, a geostrategy is increasingly shimmering through that comes very close to a new Marshall Plan. And with the investment bank AIIB (*Asian Infrastructure Investment Bank*), similar financial structures have been created to those already in place with the World Bank and other development banks.

*What social forces are supporting this shift towards China and its model of order?*

That is a central question, because this global reorientation by China needs a hegemonic embedding and safeguarding. Just as the Marshall Plan after World War II in Europe not only militarily secured the ties to the West, but also through the cultural anchoring of an American way of life - pop music, cinema, etc. - became the *Leitkultur* and shaped our consumption patterns. In the same way, we experience that China also assumes a cultural leadership function and secures it with projects: China supports the spread of Chinese culture and language worldwide through cultural institutions like the Confucius Institutes. Foreigners who

speak Chinese well and who praise China's achievements, culture, etc., appear again and again in the Chinese media. In many neighbouring countries, which we have mentioned, a real China boom can be observed. However, there is another phenomenon to mention here: In Thailand and the Philippines the politically influential middle classes and the economically strong upper class consist of overseas Chinese. They immigrated to Southeast Asia in different waves, partly supported by colonial powers. They were often the target of persecution, pogroms, and xenophobia, but have also acculturated as in Thailand and the Philippines. More recently, however, these classes have turned to China and their Chinese roots. It is not simply a matter of rediscovering old connections - it is a new phenomenon that successfully ties in with these historical family roots.

*So, do we see a general spread of new authoritarianism in Asia, where the Silk Roads are one of the factors?*

There are also countries that show the opposite tendency: Nepal, Bhutan, South Korea, Mongolia, and Taiwan. All these countries have in common that democratic forms of government have been deepened in recent years - not necessarily according to a Western model, but fought for through difficult conflict-laden processes. In Taiwan, a free trade agreement with China led to the occupation of parliament, and the question of Taiwan's autonomy and independence was openly discussed. In Korea, social movements have succeeded in removing an authoritarian head of government from office. And in Bhutan, the government is consistently pursuing a development path that is not one-sidedly oriented towards economic growth. Parts of these processes are debates about alternatives to the Chinese authoritarian path - without, however, copying a Western neoliberal paradigm. We in Europe should study these processes, in which new paths are taken in a critical confrontation with both Western and Chinese development visions, very carefully - because we are facing the same challenges.

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## 7. China rule the waves

The Humen Bridge over the Pearl River Delta, completed in 1997, is one of the early monuments to China's rise to economic power. Over four and a half kilometres long, with a main span of almost 900 meters and headroom of 60 meters, it was the first large suspension bridge independently built by Chinese engineers and workers. Its design and dimensions are somewhat reminiscent of those of the Golden Gate Bridge. The transport link shortens the distance between Hong Kong, the Shenzhen Economic Zone and the metropolis of Guangzhou by 120 kilometres and contributed significantly to the development of the Pearl River Delta into the first Chinese powerhouse. The Pearl River Delta was also an important site for the so-called Opium Wars in the mid-19th century. British gunboats destroyed the Chinese fleet and brutally forced the empire to abandon its isolation and, among other things, to allow British trade in opium. The defeat and the "unequal treaties" mark the beginning of the "century of humiliation" of China by the seafaring colonial powers. Not far from the bridge, a museum with large murals and groups of figures glorifying the heroic but futile resistance keeps alive the memory of shame. But a large photograph also shows China's bold leap in time when it joined the World Trade Organization (WTO) in 2001. The message: We are back and taking up the competition in global trade and industrial development, i.e., in the field in which the Western powers have so far reshaped the world according to their rules. One instrument in this competition is the "Maritime Silk Road of the 21st Century", which President Xi Jinping announced during his speech in the Indonesian capital Jakarta in October 2013. As a counterpart to the transport links and economic corridors on the land route, the important, busy shipping routes and ports between China, Africa and Europe are to be further expanded and the presence of Chinese companies strengthened.

## Admiral Zheng He is needed again

Xi Jinping thus directly linked up with the glorious past of the empire long before the humiliation. Four hundred years before the Opium Wars, China had the largest and most modern fleet in the world. Compared to the junks with a length of more than 120 meters, the ships of Columbus look like nutshells. The nautical knowledge was highly developed. With 60 ships and 30,000 men, the imperial fleet led by Admiral Zheng He carried out several expeditions in Southeast Asia and the Indian Ocean and sailed as far as Arabia, the Persian Gulf and the east coast of Africa. Partly they were reconnaissance trips, partly they served to secure trade routes against pirates, and partly they were also power demonstrations, by which afflicted regions became tributary or as in Vietnam and Ceylon, today's Sri Lanka, empire-friendly governors were established. But in the second third of the 15th century there was a major turnaround with far-reaching consequences. The Middle Kingdom withdrew into extensive isolation and left the oceans to the emerging and expanding Western colonial powers. Admiral Zheng He fell from grace, the ocean-going ships were destroyed, the construction plans destroyed, the expeditions deleted from the history books. For some years now, Zheng He has again been proudly presented in state propaganda as the personification of China's maritime greatness. Not as campaigns of conquest, but as cultivation of friendly relations with other countries, his journeys are praised - a nimbus that the new Silk Roads now also claim. The Western dominance of the past centuries was essentially based on the control of navigation (Bhardwaj 2015: 10). Economically, China has long since broken this dominance and made up for the disgrace of forced trade liberalisation. With the maritime Silk Road, it is now also returning to its former greatness as a naval power and builds on the great past of the Empire. It thus disputes the Christian seafaring nations and strives for the signum and the basis of power of the British Empire - "Britannia rule the waves". As early as 2015, three of the twelve largest container-shipping companies were Chinese, including the *China Ocean Shipping Company* (COSCO). China's merchant navy is the largest in the world

and it continues to grow: China now has the world's most modern shipyard industry, with COSCO's subsidiaries among the most important shipyard operators. In 2013, almost every second container ship in the world was launched in China. In addition, there is the largest deep-sea fishing fleet, which is active on all seas, including in the rich fishing grounds off the coast of West Africa, and which repeatedly makes negative headlines for illegal fishing practices. The deep crisis in merchant shipping due to the financial crisis, stagnating world trade and overcapacity, of which the Korean shipping company *Hanjin* was the most prominent victim in 2016, is driving forward a concentration process and the construction of ever-larger container ships. As a result, Chinese shipping companies became even more important. A consortium of four shipping companies, including COSCO, accounts for 40 per cent of transpacific trade and 35 per cent of trade between Europe and Asia. Under the headline "Container Attack from China", the *Handelsblatt* reported in July 2017 that COSCO had become the third-largest shipping company after the Danish industry leader *AP Moller-Maersk* and the *Mediterranean Shipping Company* (MSC) from Switzerland by taking over *Orient Overseas Container Line* based in Hong Kong.

## **A bride in every harbour**

Global foreign trade of the world's largest trading nation is mainly conducted by sea. It is therefore hardly surprising that seven of the top ten ports, led by Shanghai, are located in China. In the global infrastructure competition, modern ports are becoming increasingly important as transshipment hubs between container ships, smaller ships operating on regional or upstream routes, roads, rail pipelines, and as fuel depots and locations for shipping services. This is why Chinese port operators and shipping companies are also increasingly active abroad, setting their Go stones around the China Sea, the Indian Ocean, the Horn of Africa and the Red Sea on the Suez Canal all the way to Piraeus and other ports in the Mediterranean. But they also anchor around Africa



along the Atlantic coast to Zeebrugge (Breuer 2017). They also invest in inland ports such as Khorgos on the Sino-Kazakh border. This means that groups such as *China Merchant's Port Holdings* (CMPort), China's largest global port operator, and COSCO, are also hot on the heels of European competitor *Moller-Maersk*, which has shares in over 70 ports in around 40 countries, and MSC. However, while the other large shipping companies usually only own or operate only terminals and ports, China is also investing in adjacent free trade and special economic zones, in which Chinese companies in turn produce, and offer access to modernised transport routes to the hinterland. The countries are thus offered a whole development package. In addition, COSCO and CMPort not only act according to economic logic, but also coordinate their activities with government policies. Wade Shepard quotes CMPort director Bai Jintao, "Our development plan mirrors One Belt One Road, and this is the primary driver of our expansion strategy." As a war chest, COSCO has been granted a financing framework of \$ 26 billion by the *China Development Bank*. This gives Chinese companies significant competitive advantages over companies from other countries, which are far more reluctant to invest in view of possible risks and uncertain return prospects.

### **Taking hold of the "Shining pearl"**

According to the Chinese Foreign Minister Wang Yi, Sri Lanka is a "shining pearl on the maritime Silk Road". The admiration is probably less due to the beauty of the island as for its central location in the Indian Ocean, halfway between China, the Middle East and Africa. Colombo is one of the most important ports and transshipment points in South Asia. The historic Admiral Zheng He made several stops here on his expeditions, and in Galle, in the south of the island, there is a stone tablet commemorating this in Chinese, Tamil and Persian. Already under the former president Mahinda Rajapaksa, who due to his authoritarian-dictatorial politics found otherwise little foreign support for the reconstruction of the country after

the long civil war, China generously provided funds. These funds were mainly used for prestige projects such as the expansion of Colombo Port City near the capital, which was started in 2011, pushed by a \$ 1.4 billion loan and carried out by the construction company *China Communications Construction Company*, which was blacklisted by the World Bank for corruption. On a large land reclamation an international financial centre with malls, hotels, blocks of flats, schools and hospitals will be build. It is touted as the upcoming hub for trade and financial services between Singapore, Dubai and Africa. Further billion euro loans went to Mattala International Airport including a conference centre and cricket ground and another deep-sea port in Hambantota , completed in 2011, on the southeast coast.

The port of Hambantota, in which hardly any ships dock, with its adjacent 2000-hectare investment zone remained a "white elephant". At Mattala Airport too, hardly any planes land or take off. The dredging work for Colombo Port City led to fierce protests by environmentalists and fishermen who saw their fishing grounds and livelihoods threatened. Along with allegations of mismanagement and corruption, they contributed to the removal of President Rajapaksa in 2015. The winner Ranil Wickremesinghe fulfilled his campaign promise and, after taking office, put the construction of the port city on hold.

But the new, democratic government had done the math without the Chinese. The construction stop had to be lifted after a few months because the Chinese construction company threatened to demand compensation. The country's high debts to Chinese donors do not leave much room for manoeuvre. When the *International Monetary Fund* (IMF) called for privatisation as a precondition for a new financial aid package, Chinese investors were ready. In July 2017, CMPort, which already operates the port in Colombo, took over 80 per cent of the shares in the port of Hambantota for \$ 1.12 billion ("debt-to-equity swap") and thus went from service provider to owner. "We need to have a global player directing ships, services and investments," says Sri Lanka Port Authority Chairman Parakrama Dissanayake, justifying the privatisation. To this end, CMPort promised further investments. The invest-

ment zone is to be expanded by thousands of hectares, which will inevitably lead to displacement of the local population. Energy companies such as *Sinopec* and *China Petroleum* have announced plans to build large fuel depots. Hang Tian, manager of the port operator CMPort, already envisions Hambantota as the future hub for trade between China and East Africa, which, according to him, is on its way to becoming another global workbench.

### **Does the flag follow the trade?**

Sri Lanka is only one of the pearls collected by the descendants of Admiral Zheng He around the Indian Ocean. In Myanmar, the port of Kyaukpyu is already a transshipment point for oil and gas pipelines to the south-western Chinese province of Yunnan and is to be developed into a huge special economic zone. Gwadar in Pakistan is the hub for the economic corridor with Western China, ports in Bangladesh and the Maldives are being considered or already under construction. This string of pearls is arousing fears among the neighbouring states that it could be used to strangle them. With growing control by Chinese port operators, shipping companies and logistics companies, China is not only securing its own supply and distribution channels. As an "infrastructure empire" it can also control the supply chains of other countries, at least using its strong economic position to its own benefit and to the detriment of the riparian states. India, which regards the Indian Ocean as its extended territorial waters and zone of influence, is particularly alarmed by the activities at its doorsteps. In order not to leave the field entirely to the Chinese, Indian investors want to take over the loss-making Mattala airport and negotiate a presence in the port of Trincomalee on Sri Lanka's east coast. The possibility of military dual use of ports, merchant ships and logistics is also a cause of concern for a pearl necklace offen-

sive.<sup>1</sup> Although New Delhi's border conflicts with Beijing are fought far north in the Himalayas, China and India's arch-enemy Pakistan have been working closely together militarily for decades. Other countries, such as Saudi Arabia, Turkey and Iran are also intensifying their presence in the region. India has become the largest importer of military equipment, according to the latest report by the peace research institute SIPRI. Australian security analyst David Brewster warned in the journal *The Diplomat* that the Indian Ocean, which had hitherto been less affected by geopolitical rivalries, was heading "towards a much more multipolar and complex strategic environment." This development was given a new dynamic by the Silk Road Initiative and the competition between India and China: "It seems as if we are in the middle of a base race in the Indian Ocean". The Chinese Navy, which is increasingly being expanded and upgraded, recently got its first base in the region, alongside the bases of the United States, France and the United Kingdom. Warships have been stationed in Djibouti at the Horn of Africa for several years now, based on their involvement in the fight against piracy. In July 2017, the base was upgraded to a military base in order to serve as a logistics centre for the support of UN peace-keeping mission in Africa, according to the Ministry of Defence. Pakistan could become the next host for a Chinese base, according to a forecast by the *South China Morning Post* in early 2018. In colonial times, military and political subjugation often followed in the footsteps of the commercial companies. At least so far, China's economic power does not need cannon boats to drive its expansion and open doors to trade and investment. But according to some observers, this could change in the future if China sees its supply routes and investment endangered.

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<sup>1</sup> COSCO acts as the main logistics partner for the Chinese Navy in commercial ports in the Indian Ocean; shipyards in China are allegedly instructed to build container ships so that they can serve as supply vessels as well (Putten/Meijnders 2015).



## 8. Tensions in South Asia

As in Central Asia, China is using the new Silk Roads to penetrate a region that is regarded as its sphere of influence by another hegemonic power that is militarily highly developed and equipped with nuclear weapons as well. But unlike Vladimir Putin, India's Prime Minister Narendra Modi demonstratively remained absent from the Silk Summit in May 2017 in Beijing despite an invitation. Even before the summit, he had complained that Beijing's initiative would "undermine the sovereignty of other nations," suggesting that the principle of non-interference is only a façade. He thus stylized India as a representative of the rights of developing and emerging countries. The former Indian Ambassador to Pakistan, G. Parthasarathy, warned of geopolitical and military implications by referring to India's "strategic containment". Behind this clear and widespread rejection are historically based mistrust, cultural and political antagonisms, and feelings of economic inferiority. This complex situation makes cooperation under B&R's umbrella almost impossible and makes India a dangerous stumbling block for the megaproject.

### **Brothers become opponents**

Until the early 1960s, India and China as leading members of the Non-Aligned Movement were close allies in the postcolonial world order. But the slogan "Hindi Chini Bhai Bhai", which invokes "brotherhood", has long been a thing of the past. The friendship came to an abrupt end in the autumn of 1962, when the Chinese People's Army advanced into disputed areas in the Himalayas and India's military suffered a disgraceful defeat that is still unforgotten today. Since then, troops from both sides in the eastern and western Himalayas in the difficult to access mountain regions have faced each other within sight. Again and again there are skirmishes like in the summer of 2017 in Doklam in the tri-border region with Bhutan.

According to the motto, "The enemy of my enemy is my friend", China has been supporting Pakistan ever since. Since the division of the sub-continent at the end of the British colonial era, which was accompanied by mass expulsions and massacres on both sides, India has waged war with its neighbour several times, ignited by mutual claims to the northwestern Kashmir region. Pakistan received Chinese assistance in establishing its defense industry, missile technology and army, as well as its nuclear programme (Hussain 2017). The Karakorum Highway, completed in 1960, was a first milestone in the transport links between the two countries. Pakistan is valuable to China not only because of its geostrategic position at the entrance to the Persian Arabian Gulf, but also as a potential ally in the Islamic world. During his first state visit to Islamabad in April 2015, Xi Jinping declared, "I feel as if I am visiting my own brother." Instead of the brotherhood with India it is now called "Long live the Pakistani-Chinese friendship". At the same time, the economic power ratio also changed: When India became independent in 1947, it was far ahead of China, which had been devastated by the Second World War and civil war, but today it is far behind in most economic and social indicators. After four decades of an internally oriented development and industrialization strategy, closely linked to the Soviet Union both economically and militarily, a rapid economic liberalization began in the early 1990s. India imitated elements of the Chinese development model such as special economic zones, large infrastructure projects and attracting foreign investors, most recently with ambitious announcements such as Prime Minister Modi's "Make in India" project. However, it lacks the steering capabilities of Chinese state capitalism. At the same time, the "Look East Policy", which was updated under Modi to the "Act-East" call gave rise to a stronger economic and foreign policy orientation towards Southeast Asia. Access to the booming markets in the ASEAN region was just as important as the desire not to leave the field to rival China.

## Regional infrastructure arms race

One of the reasons for the vehement rejection of B&R in India is that Pakistan is now one of its most important partners. The fact that the economic corridor between Xinjiang and the port city of Gwadar runs through the Gilgit-Baltistan region in the Pakistani-controlled part of Kashmir additionally rubs salt into the wounds. But even in the other three cardinal points, China's approach seems less geared to cooperation with India than on wooing away neighbours and partners who are members of the India-dominated *Southeast Asian Economic Community* SAARC. In the North, China has now extended the railway line via Tibet's capital Lhasa to Xigaze, close to the Nepalese border. Nepal sees its membership in the B&R project as an opportunity to ease its previous dependence on India. The small, poor inland country would become the link between its two powerful neighbours and would then be directly connected to Southeast Asia, Central Asia and even Europe. With the new communist government, which was elected end of 2017, Beijing has a strong ally to drive infrastructure development.

In the South Chinese investors have firmly established themselves in Sri Lanka, with which India has had close economic and political ties for decades. With investments in housing and plantations, Chinese companies are further expanding their position and competing with Indian projects. In the East, the Bangladeshi government hopes that closer cooperation with China will boost the implementation of its ambitious programme to rise to the ranks of middle-income countries by 2021. So far depending on its big neighbour India, the government wants to create new leeway through intensive contacts to the East. This look at the map of the Silk Roads in South Asia makes it understandable to speak of encirclement and strategic containment in India.

New Delhi tries to counter this with its own infrastructure plans. The project "Mausam" (monsoon), which Narendra Modi presented in September 2014, is intended to revive historical trade relations in the Indian Ocean and was quickly praised by the magazine *The Diplomat* as the "most significant foreign policy initia-



tive designed to counter China". Indian investors' applications for the expansion of the ports of Trincomalee in Sri Lanka and Sittwe in Myanmar could lead to the creation of India's own "Necklace of pearls" of ports. The Andaman and Nicobar archipelago, which has been an important nature reserve and retreat for indigenous peoples, would become an investment and trade zone. The port of Chabahar in Iran, less than 100 kilometers west of Gwadar, is intended to serve as a hub for a long-planned *North-South Transport Corridor*, which would give India access to raw materials and markets in Iran, Russia and the Caucasus region, bypassing Pakistan. A special economic zone is to attract Indian investors. However, India can not keep up with the Chinese billion-Dollar loans, construction companies with experience in large-scale projects and globally operating port operators and shipping companies, especially as it itself has a considerable backlog in infrastructure development. In this unequal struggle "India might appear to be the biggest loser" (Wagner 2017: 4). That is why it is looking for allies. With a "strategic and global partnership," India and Japan want to unleash the "untapped potential of Asia's two largest democracies" and offer countries in the region alternatives to cooperation with China. A growth corridor between Asia and Africa should counter China's Silk Road involvement in East Africa. And - symbolically highly significant - not Chinese but Japanese companies were awarded the contract for India's first high-speed railway line between Mumbai and Ahmedabad.

### **Gaps in the economic corridor**

The only major B&R project to date in which Indian participation was offered and which is roughly oriented to the course of the historic Southern Silk Road is the BCIM economic corridor<sup>1</sup> from Kunming, the capital of the Chinese province of Yunnan, through Myanmar and Bangladesh to the Indian metropolis of Kolkata in

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<sup>1</sup> Named after the participating countries Bangladesh, China, India and Myanmar.

West Bengal. The first section between Kunming and Ruili on the border with Myanmar has already been expanded to four lanes. But behind the border post the problems begin. More challenging than the inaccessible terrain of the rugged mountain regions are the economic and political reservations against the corridor that limit China's diplomatic strategies and financial incentive policy. Geo-strategically, Myanmar is important for China's direct access to the Indian Ocean. Until its economic and political opening 2011, Beijing was the most important pillar of the former military government. The *Shwe* natural gas project in the Bay of Bengal and the oil and gas pipelines between Kyaukpyu and Yunnan, with which China reduces its dependency on transports through the Strait of Malacca, have been constructed during this time. The plans for the expansion of the port at Kyaukpyu plus industrial park and huge urban development project, the implementation and operation of which were transferred to a consortium led by the Chinese state-owned financial and investment company CITIC for a period of 50 years, also date from this period.<sup>2</sup> But the new civil government prefers to seek investors and support from Western countries and institutions and Japan. Trade with China is declining, as are Chinese investments. Large projects such as the Myitsone Dam are on hold after local protests and conflicts with the government. The *Kyaukpyu Special Economic Zone* is hardly progressing. Concerns are widespread that the project is too large and too expensive, that it will drive up debt, bring hardly any employment and industrial growth, and ignores the need for agricultural development, on which the majority of the population depends. As if in a burning glass, widespread popular resentments about China's influence and development visions are gathering here. It is said that the government wants to reconsider the contract for the construction of the deep-sea port of Kyaukpyu. The Indian section of the corridor is also being slowed down.

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<sup>2</sup> It is also being suspected that there are links between these large projects and the persecution and expulsion of the Muslim Rohingya, which take place in Rakhine State, where Kyaukpyu is located. (see f.ex Ashrafuzzaman Khan, The strategic importance of Rakhine State. *Straits Time*, 3 September 2018)

The planned connection would actually have advantages for the north-eastern Indian states like Arunachal Pradesh, Nagaland, Mizoram or Tripura. So far, they have only been connected to the rest of the country by a narrow strip of land in the north of Bangladesh ("chicken neck"). The isolated location and long-standing armed conflicts have so far hampered development. New transport links would turn the region from a dead end into a bridge between India, China and Southeast Asia. But instead of cooperating with B&R, the Indian central government prefers to design its own infrastructure projects, as in the West. A "Trilateral expressway" through Myanmar is planned as a connection between the north-eastern states and Thailand, another one to the port of Sittwe in Myanmar and thus to the sea, both without Chinese aid. The only tangible result of numerous rounds of negotiations about a common economic corridor is the car rally K2K on the approximately 3,000-kilometer route between Kunming and Kolkata, initiated in 2013 by Indian industrialists under the Silk Road slogan "Establish ties, promote friendships".

### **Hopes for a new friendship**

With K2K rally, Indian companies demonstrated that they have a positive attitude towards the offers of the Silk Road Initiative. They expect closer cooperation with China in infrastructure development in the difficult, remote area to facilitate trade, the extraction of gas, coal, bauxite, copper and wood in the resource-rich region and the expansion of hydropower. India also needs closer economic cooperation in order to achieve a similar rise to that of China. Economic liberalization had led to higher growth rates and foreign investment, but not to broad economic diversification or international competitiveness, apart from areas such as information technology, pharmaceuticals and steel. In 2016, China's gross domestic product was five times higher than that of India, with nearly the same population. On the Indian side, there is a trade balance deficit of almost \$ 52 billion. And Chinese investors have so far ranked at best in the midfield.

The considerable need to expand infrastructure both in India itself and in the region also suggest cooperation instead of an unequal arms race. There are proposals to coordinate Modi's lighthouse project "Mausam" with the Maritime Silk Road; Gwadar in Pakistan and Chabahar in Iran could become sister ports. China and India are already working together in the South-South cooperation of the BRICS countries. Like Pakistan, India is a founding member of the new Asian Investment bank AIIB and even the second largest shareholder. Both were admitted to the *Shanghai Cooperation Organisation* in 2017 at the recommendation of Russia, which China and some Central Asian member countries would like to develop into an economic alliance. Optimists on both sides of the Indian-Pakistani border therefore consider it conceivable that China and the Silk Road Initiative could defuse regional conflicts.<sup>3</sup> In contrast to Russia, Beijing has not yet succeeded in combining the recognition of hegemonic self-interest of India with a fragile integration into B&R. For the time being, the mistrust that China is pursuing not goals other than just noble and partnership-based ones overshadows the potential advantages of cooperation. Furthermore, there is widespread fear that India will lose its sovereignty, its autonomy to act and its economic and political independence, not to mention the threat of a new military conflict zone emerging in the Indian Ocean.

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<sup>3</sup> Scientists at the *Centre for International Peace and Stability* in Pakistan's Islamabad see "China in an influential position to change economic relations between Pakistan and India." In the Indian *Hindustan Times* (31 March, 2017), Sushil Aaron warns the Hindu fundamentalist government in New Delhi that "a tough stance towards Pakistan may be good domestic policy for the BJP, but it is not the geopolitics India needs". Similarly, Christian Wagner of the *Stiftung Wissenschaft und Politik* (SWP) sees the numerous infrastructure projects in which the countries of the region work together in changing constellations and partly in new alliances as "probably most important factor that could in the long term create a new political geography in South Asia" and thus a scenario "in which even a settlement of the Kashmir conflict appears possible in the long term" (SWP aktuell 4/2016).



# 9. A bridge to Africa

## China in Africa

Since the end of the colonial era, China has always played the role of an alternative and complement to the dominance of Western donors for Africa's governments, especially for the former colonial powers, which regard the continent as a European development and economic area. A lighthouse project of recent history and a lingering symbol of Communist China's support for the independence of African countries was the 2000 kilometre long Tanzania Zambia Railway line (*Tazara*), which began operating in 1976. It connects the Tanzanian port of Dar es Salaam with the copper mines of Zambia in Southern Africa, and helped to reduce dependence on the apartheid regimes in Rhodesia (now Zimbabwe) and South Africa.

In the following decades, generous loans and development funds continued to flow into the expansion of the infrastructure. Predominantly Chinese construction companies, often state-owned enterprises, built roads and railway lines, ports and airports - often with Chinese workers - but also hospitals and schools, government buildings and stadiums. "China is filling a gap that arises because the private market does a poor job of financing long-term infrastructure investments and the existing developing banks lack the financing and flexibility to meet the growing infrastructure needs," says former World Bank Director David Dollar.<sup>1</sup>

In the course of the "Going global" strategy, and attracted by Africa's resource wealth, corporations from China rivalled the western hegemony in the plunder. With financing concepts such as the "Angola Model", in which the loan is paid off with crude oil, Western donors were outdone and Chinese companies brought into business. With countries such as Angola and Sudan, Africa

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<sup>1</sup> Beijing thus simultaneously mobilised political support for its "One China" policy and the international isolation of Taiwan.

became the second largest supplier of crude oil after the Middle East. South African economist Greg Mills comments: "Chinese contractors and businesses are willing to go to places and work in conditions that few in the West would contemplate".

In the top group of African recipients of loans from China, which the *China Africa Research Initiative* (CARI) research project estimates at \$ 86 billion between 2000 to 2014, are the resource-rich countries Angola, Democratic Republic Congo and Sudan, followed by Ethiopia and Kenya. Already in 2009 China overtook the US as Africa's largest trading partner, and by 2014 the trade volume had risen to \$ 210 billion. In return for raw materials such as oil, iron ore and minerals, Africa became a market for cheap consumer goods. Chinese traders can be found in the smallest market towns, many Chinese contract workers remained and set up businesses, from services to construction companies, trade to agriculture with their savings.<sup>2</sup>

## Image problems

But extractivism, infrastructure and trade, as well as Western approaches to development, did not provide the impetus for an economic structural change away from the role of a supplier of raw materials and agricultural products. On the contrary: Cheap consumer goods imports competed with the existing branches of the processing industry, such as the domestic textile industry, and jobs were lost. Approaches to diversify the economy and develop new export markets were blocked. At best, a few economically stronger countries benefited from China's grants.

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<sup>2</sup> Following the dramatic, in part speculative price increases for staple foods in 2007/2008, Chinese companies briefly tried their hand as agricultural investors in Africa. However, many declarations of intent were not honored, preliminary contracts were not implemented and some major projects failed, so China ranks far behind the United States and Great Britain in land grabbing in Africa. Instead, it tends to cover its demand for agricultural products in its immediate vicinity in South-east Asia, Australia and New Zealand, or in the US and Latin America.

The social, economic and environmental problems caused by Chinese companies also damaged China's image. Many investors had difficulties implementing their projects under African conditions. It is especially the numerous small and medium-sized private companies that are often looking for quick profits and care little about government regulations and rules or the living conditions of the local populations. When Chinese executives in Zambia shot protesting workers in a coal mine, it triggered massive anti-Chinese resentments and demonstrations. In addition, there were concerns about the threat of dependence on the overpowering partner, complaints about too few jobs for the local population and accusations of racism. In several countries, governments shut down construction sites of Chinese companies and terminated contracts. This even affected flagship projects on the Maritime Silk Road such as the modernisation of the port of Bagamoyo in Tanzania, which was stopped in 2016 following corruption allegations and financing problems by the Tanzanian government.

These problems are reflected in the fact that economic relations between Africa and China have deteriorated in recent years. According to official figures from the Chinese Ministry of Economy, MOFCOM, Chinese investment fell from \$ 3.4 billion in 2013 to \$ 2.4 billion in 2016. With the diversification of its supply sources in Central Asia and Russia, Africa's importance as a raw material supplier to China is declining. Imports and exports collapsed in 2016, the trade volume fell from \$ 150 billion to \$ 88 billion according to the CARI research institute. Only the seemingly indestructible infrastructure sector continued to boom: According to estimates by Africa expert Thierry Pairault, the turnover of Chinese construction companies in 2016 was 25 times higher than Chinese investment in Africa.<sup>3</sup>

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<sup>3</sup> In a February 2018 blog post „China in Africa: Much Ado about Investment“ for CARI, the research director of the French *Center National de la Recherche Scientifique* (CNRS) analyses the current assumptions about Chinese investment in Africa, with the result that their significance is far less than many observers would assume.



## Restart with Xi Jinping

Xi Jinping's assumption of office marks the beginning of a reorientation of China's Africa policy: the new key terms for China's economic plans in Africa are "industrial capacity cooperation" and "strategic complementarity" (Sun Yun 2014). A cornerstone for turning away from a strategy, that had earned China the accusation of exploiting the continent for mining, land grabbing and the sale of cheap consumer goods<sup>4</sup>, was laid more than fifteen years ago with the founding of the *Forum on China-Africa Cooperation* (FOCAC), which covers almost all African countries. With infrastructure development, cooperation in trade, technology, media, agriculture and culture, it already resembles B&R. To African governments, it offers a comprehensive development alternative to their previous close relations with Western countries and to the *Economic Partnership Agreements*, which are unpopular in many countries, with which the European Union wants to achieve a further opening for investors from Europe.

After the *Forum for Sino-African cooperation* had been bogged down for a long time, Xi Jinping sent a signal of departure at the 6th FOCAC Summit in Johannesburg, South Africa, in December 2015: He announced a tripling of financial resources to \$ 60 billion for the implementation of an Action Plan, which is intended to intensify cooperation at all levels.<sup>5</sup> A common denominator for a convergence of interests between China's further development into a modern global industrial nation ("Made in China 2015") and Africa's desire for industrialisation and modernisation is the

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<sup>4</sup> From a Western perspective, this contradictory role offered ample scope for attack, motivated by an interest in upgrading one's own concepts, which in many respects differed little from Chinese politics, securing privileged access to governments and resources, and devaluing Chinese competition. The media and development experts complained that "positive European development approaches with a focus on human rights and democratisation would be undermined" (Dethlefsen 2017).

<sup>5</sup> In the euphoria over the initiative, the wishes also grew: the former chairwoman of the African Union, Nkosazana Dlamini Zuma, dreamt of high-speed trains between all African countries (Breuer 2017).

relocation of labour-intensive industries to Africa and the export of overcapacities.

While Chinese companies are involved in numerous port projects around Africa and the expansion of railway lines and economic corridors into the interior of the continent (Breuer 2017)<sup>6</sup>, the focus of Chinese interest is now on East Africa, which offers a direct connection to the maritime Silk Road. It "thus acts as a bridge linking railways in Asia to those in Africa" (Putten/Meijnders 2015: 28). Here, too, prestigious infrastructure projects play a role as door opener: the link between the Kenyan port city of Mombasa and the capital Nairobi, which was completed in record time, is to be extended to Uganda, Rwanda, the DR Congo and Ethiopia. The line opened in October 2016 between Djibouti and the Ethiopian capital Addis Ababa improves access to the Red Sea for the landlocked country. In the Ethiopian capital, Chinese money was used to finance the new light rail system, a system of ring roads, and the monumental new headquarters of the *African Union* (AU), the coalition of African governments towering over the city. Reports, that this symbol of African unity was hacked and information transferred to China were met with silence from African governments and denied by Beijing.

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<sup>6</sup> Economic corridors are part of the efforts of numerous industrialised countries and international financial institutions to integrate entire regions around the world into global production and value chains. In Africa, over 30 mega-corridors have been initiated by various actors, many with the aim of extracting mineral resources and cultivating agricultural products, such as for example in Zambia's copper belt, in the Katanga province of the Democratic Republic of the Congo, in Mozambique, Botswana, Ghana, Liberia and Sierra Leone (Hildyard / Sol 2017). An example of this are agricultural growth corridors such as SAGCOT in Tanzania, with which the *New Alliance for Food Security and Nutrition* of the seven most important Western industrialised countries (G7), launched in 2012 aims to win global agricultural groups through infrastructure expansion and institutional and legal reforms in order to make Africa a global agricultural exporter - an initiative that poses an existential threat to farming in Africa.

## African Renaissance

This reorientation met with a particularly positive response from the Ethiopian government. Prime Minister Hailemariam Desalegn, alongside Kenya's President Uhuru Kenyatta the second high-ranking state guest from Africa at the B&R Forum in Beijing in May 2017, said, "We continue to view China as a successful economic model and reliable ally in the fight against poverty and in the quest for prosperity." With B&R, China would offer a mutually beneficial approach to economic cooperation and Ethiopia would be ready to become part of this vision.

Ethiopia's government has been pursuing an ambitious development programme for years and sees itself as a pioneer of an "African renaissance". Large dams for power generation and irrigated agriculture are being built on the upper reaches of the Nile, and large and generous land concessions have been awarded to foreign agricultural investors. Due to its geostrategic location, the populous country has been given generous consideration by international development institutions and Western donors in recent years. But it is also increasingly taking advantage of offers from Beijing and attracting Chinese investors. Thanks to its investor-friendly attitude, low labour costs and a large domestic market, the country has experienced an economic upswing.

One of the pillars, apart from the expansion of the energy sector and the attempt to establish an export-oriented agriculture, is the promotion of a processing industry. MOFCOM, which is responsible for foreign trade, economic cooperation and foreign investment, selected Ethiopia as a prime example of the transfer of the Chinese model of market economy, liberalisation and development state (Nicolas 2017). According to official figures, the country is now one of the largest recipients of Chinese direct investment in Africa, behind Nigeria and on a par with South Africa and Zambia. Ethiopia is also an attractive location because of its largely free market access to Europe and the USA. The increasing number of Chinese companies relocating their production here already makes it the "next China" for some observers.

In addition, special economic zones (SEZs) based on the Chinese model play a key role (Brautigam/Tang 2011).<sup>7</sup> At the *Huajian* shoe factory, which produces brands like Tommy Hilfiger and *Guess*, the 3500 workers learn capitalist work routines and Chinese drill: "We give all our strength for production," the chief foreman conjures at the morning roll call. The factory is the flagship of the Eastern Industrial Zone in Dukem, 40 kilometres east of Addis Ababa. In 2011, it was recognised by the Chinese Ministry of Commerce MOFCOM as one of China's flagship SEZs abroad, entitling it to generous subsidies from Beijing. They are complemented by extensive tax exemptions by the Ethiopian government. More than 30 companies with 15,000 employees now operate here.

Numerous other industrial parks are planned. The *Huajian* business group was awarded the contract to establish its own special economic zone, the *Huajian International Light Industry City* on the outskirts of Addis Ababa. With an investment volume of \$ 2 billion, a yield of \$ 4 billion is to be generated here in ten years and 100,000 jobs created as well as apartments, hospitals and schools are to be built. The aim is to turn Ethiopia into an international manufacturing centre for footwear and light industry manufacturing and to earn foreign currency with exports in order to repay the billion-dollar loans.

### **Just a branch line?**

Much of it, however, is a flowering dream. Although companies from other countries, such as Turkey, are now also producing in Ethiopia, manufactured products account for only a small share of exports. The expansion of industrial parks and special economic zones also contributed to land disputes, which were violently suppressed and led to domestic political crises and the

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<sup>7</sup> Further SEZs based on the Chinese model are to be built in Zambia, Mauritius, Egypt, Algeria and Nigeria. But most of the planned SEZs had considerable start-up difficulties (Brautigam/Tang 2011: 50).

imposition of a state of emergency. In neighbouring Kenya, too, there was fierce civil society resistance to the modernization of the railway line between Mombasa and Nairobi, some of which runs through a national park.

Apart from East Africa, where a start was made in Ethiopia, the reorientation of China's Africa policy is in its infancy. It remains unclear how important the African branch of the maritime Silk Road really is. In the FOCAC Action Plan it is only mentioned in a subordinate clause. Information about which countries, which projects, which ports, which transport links really belong to them are vague and contradictory. Compared to the neighbourhood policy in Central Asia and Southeast Asia, B&R's activities in Africa are low. According to the *Xinhua News Agency*, by autumn 2018 only just under ten countries had signed cooperation agreements, including Kenya, Ethiopia, Egypt and South Africa. This creates the impression that "Africa remains marginalized in the initiative" (Nallet 2017). A touchstone will be the FOCAC summit in Beijing in September 2018.<sup>8</sup> With this in mind, China's Ambassador to Nigeria hoped that "the joint construction of the Belt and Road between China and Africa will provide a fresh and strong impetus for mutually beneficial cooperation, taking it to a new level".

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<sup>8</sup> At the summit, President Xi Jinping announced another \$ 60 billion in loans, development aid and investments for three years to the development plan, and renewed his commitment that China will not interfere in internal affair.

# 10. Investors on the Balkan route

For most people in Europe, the Silk Road Initiative seems to be a distant event, through which China in the worst case will shake up its neighbouring regions economically and politically. The fact that Europe itself lies at the crossroads of these is only slowly becoming apparent. It is well known that Duisburg is one of the important inland ports on the trans-Eurasian land route. Perhaps Piraeus is even better known as a lesson for the expansion of the maritime Silk Road. The spectacular takeovers of European companies in key industries by Chinese investors are also a cause for concern. But China is also using the cracks in European politics to gain an economic and political foothold and to influence the course set in Europe.

## Gateway to Europe

Not far from where the ancient Greeks once stopped the advance of the Persians in the naval battle of Salamis, Piraeus is now "China's gateway to Europe". With an increasing number of container ships, Piraeus is becoming the most important European port for China. "Our goal is to help Piraeus Port become the largest container hub in Europe," said Xu Lirong, chairman of the state-owned *China Ocean Shipping Company* (COSCO).<sup>1</sup> Operating modern harbors is now more profitable than cargo shipping, where competition and overcapacity, as with airlines, are depressing prices. Although COSCO came to Piraeus ten years ago, the EU's requirements to sell public companies to private investors acted like a turbo that in 2015 was only briefly slowed down by the

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<sup>1</sup> COSCO is owned by the *State Assets Supervision and Administration Commission* of the State Council (SASAC), which is part of the central government and thus under the control of the Communist Party, which also directly controls COSCO directly by appointing senior management. See van der Putten 2016: 16.

temporary opposition of the Syriza government and trade unions to privatisation. The expansion of the Suez Canal in August 2015, involving Chinese companies, accelerated the rise to become the fastest growing container port in the world. The cranes came from China, as did the building materials. Wages at COSCO are lower than those for organised dockworkers. The close business relations between Greek shipowners and China were probably also helpful for the negotiations between the Greek government and COSCO. They have a large part of their ships, financed with loans from Chinese banks, built at shipyards there and charter them out to Chinese shipping companies. Their majority shareholding in the *Piraeus Port Authority*, a billion-dollar budget and a long-term management agreement give COSCO scope for further expansion. In addition to the container terminal, the Group also controls the ferry port, the moorings for the cruise ships, car loading, shipyards and estates adjacent to the port. Further berths for yachts and cruise ships, hotels and shopping centres are planned. Additional flights connections shall increase the number of Chinese tourists. At the same time, COSCO is expanding its presence in numerous other ports around the Mediterranean. "What the COSCO investments drives illustrate, is the systematic, strategically driven construction of sector-specific portfolios and linking up their assets across a larger region, i.e. Mediterranean" (Bastian 2017: 14).<sup>2</sup> Meanwhile, numerous large corporations such as the technology groups HP, *Samsung*, *Sony*, *ZTE* and *Huawei*, and the logistics company DHL are using the hub and logistics base, as are COSCO's strongest global competitors, the major shipping companies *Moller Maersk* and *Mediterranean Shipping Company* MSC. Piraeus thus carries the message for other aspiring harbours like

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<sup>2</sup> The participation of *China State Grid* in the Greek power grid operator ADMIE shows a similar approach. As in the maritime sector, companies with shareholdings in the Balkans, Portugal, Italy and Spain secure access to another critical infrastructure in Europe, the electricity grid. According to the EBRD report, this strategic approach "contrasts with the low level of cross-border grid investments across the EU by European companies" (Bastian 2017: 11).

Gwadar in Pakistan or Colombo in Sri Lanka: Economic upturn follows port expansion.

## Eastern Europe flirts with China

China is also making friends in the Balkans and Eastern Europe. Bridges, highways and a planned line for high-speed trains between the Serbian capital Belgrade and the Hungarian capital Budapest promise the extension of the maritime Silk Road by land. Poland and the Baltic countries are striving to become thriving inland ports and industrial sites along the Eurasian land bridge. With the prospect of billions in investment<sup>3</sup>, high-ranking visits from China and the opening of *Confucius Institutes*, banking and corporate branches, the region's politicians will be courted. The heads of government of Hungary, Poland and Serbia and the Czech President attended the B&R Forum in Beijing. From an Eastern European perspective, the prospect of reducing the still existing infrastructure gap and accelerating industrialisation makes China an attractive competitor to the EU.

Vice versa, Eastern Europe is a testing ground for B&R's various elements (Bastian 2017: 4). One way of doing this is to use the division between EU member states and accession candidates, between Eastern and Western European countries, to generate political loyalty and economic integration. The Brexit is also a potential gateway for initiating new alliances with the British government and high-ranking politicians.<sup>4</sup>

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<sup>3</sup> In October 2016, the *Industrial and Commercial Bank of China* (ICBC) set up an investment fund of \$ 11.5 billion to finance infrastructure, processing industries and consumer goods in the countries of Central and Eastern Europe, which could be increased to \$ 56 billion.

<sup>4</sup> Former Prime Minister David Cameron has been appointed head of the *Anglo-China Belt and Road Fund*, and the British government wants to provide up to £ 25 billion in loans for British companies involved in B&R projects in Asia. However, during a visit to China in January 2018, Theresa May did not fulfill Beijing's wish to be the first G7 government to officially recognise B&R.



Authoritarian, national-populist politicians in Eastern Europe welcome the fact that, unlike the EU, economic promises are being offered without regulations and political conditions. Czech President Milos Zeman praised cooperation with China as "an act of national independence". Viktor Orban proved that he had learned the Silk Road rhetoric well: "We look upon the President of China's One Belt One Road Initiative as one of globalisation's new configurations: one which will no longer divide the world into teachers and students, but which will provide the basis for mutual respect and mutual advantage." According to Kong Tianping, an expert for Europe at the *Chinese Academy of Social Sciences*, the network of eleven Eastern European EU member states extending to the Baltic States plus five Balkan states and China (CEEC 16 + 1)<sup>5</sup> established in 2012 is one of the government's most important diplomatic achievements in Beijing. Its political windfall profit became immediately apparent when Hungary, Greece and some other governments blocked joint EU declarations on torture and human rights in China and on the conflict in the South China Sea or rejected stricter controls on Chinese investment in Europe.<sup>6</sup> But compared to the massive investments of Chinese companies in Western European core countries such as Germany, France and the UK, expectations in Eastern Europe have so far been disappointed. Apart from Piraeus and a few projects such as the takeover of the *Zelezara Smederevo* steelworks in Serbia, a bridge over the Danube and the extension of a highway in Montenegro by Chinese companies, words and deeds fall far apart, agreements are "signifying more rhetoric than substance" (Bastian 2017): 31). Investment and trade are limited to a few economically promising countries. Their trade balance with China is often already negative, which is likely to increase due to the influx of goods via the

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<sup>5</sup> Greece only has observer status.

<sup>6</sup> At the same time, warnings are becoming louder that, in parallel with China's economic penetration across Europe, attempts are increasing to create a pro-Chinese mood by influencing political and economic elites, the media and public opinion, and civil society and academia. See, for example, the study "Authoritarian Advance. Responding to China's Growing Political Influence in Europe". Merics 2018, Berlin.

Silk Roads, as is their debt. The partnership with China is therefore not a real alternative to the EU (ebda: 45).

## Europe is looking for answers

Until recently, there was the impression that "no European country, nor the EU, has so far developed a comprehensive strategic approach in responding to the impact of OBOR on regional dynamics and the way in which European engagement should be developed" (Putten/Seamen 2016: 10). While China is in the process of controlling important trade routes and not only taking over European companies like Kuka<sup>7</sup> and *Syngenta*, but also extending its influence over governments, the EU Commission seems strangely indecisive and ambivalent. This applies not only to China's policy of "divide and rule" in Eastern Europe, but also to the potential consequences that B&R has for Europe's own economic development: Do the risks of being out-booted by Chinese competition outweigh the chances of profiting from cooperation in Eurasia and closer ties to the Chinese domestic market? Some of the answers that have since emerged are to counter the temptations of Beijing with their own attractive offers. With the *Trans European Transport Network*, connections in Europe will be expanded, the long-planned transport corridor between Europe, the Caucasus and Asia (TRACECA) will be accelerated, and a *European Strategic Investment Fund* will stand up to the Chinese promises of billions. The *EU-China Connectivity Platform*, which was agreed between the EU Commission and the high-ranking Chinese planning authority NDRC, is one approach for cooperation in the expansion of infrastructure. On the European side, this promises to influence further developments and help the coun-

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<sup>7</sup> Chinese acquisitions like *Kuka* intensified the discussion about tighter controls of investments in critical branches and high technology. In July 2018 for example, the German government blocked the entry of the *State Grid Corporation of China* (SGCC) into the German power market, which intended to buy a 20 per cent share of the grid provider *50Hertz*.

tries between China and Europe to seize economic opportunities. While China is acting, Europe has set up a working group to develop a new strategy on Central Asia by the end of 2019, and a position paper on B&R is expected to be published in October 2018. At the Silk Road Summit in Beijing, where Western European governments from Germany, England and France were demonstratively represented only by second- and third-tier politicians, Europe showed cohesion. To Beijing's great disappointment, the EU members unanimously refused to sign the final declaration. Justification for this was the lack of commitments on key EU issues such as transparency, regulations for public tendering<sup>8</sup>, mutual market access and social and environmental standards. During the visit of French President Emmanuel Macron to China in early 2018, he stated in plain language: "These roads cannot be those of a new hegemony, which would transform those that they cross into vassals." Such clear statements are part of a growing international backlash. In the United States, Australia, Japan and India, too, growing mistrust is forging alliances against China's new globalisation. Nonetheless, researcher Frans-Paul van der Putten said that China's approach to strengthening its global positions is still much more comprehensive and effective than Europe's approach.

## Uneasiness in the Mediterranean

Despite its outspoken commitment to Piraeus, COSCO is also interested in the Turkish container terminal Kumport on the north coast of the Marmara Sea near Istanbul, which is strategically located at the entrance to the Black Sea. Ankara's retreat from Europe and the US, and the goal of restoring the former influence of the Ottoman Empire fit well with China's drive towards the West. In 2015, the two governments signed

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<sup>8</sup> The railway line between Belgrade and Budapest has been the subject of an investigation procedure as to whether it infringes the public procurement rules.

an agreement on the extension of the rail link from Kars in Eastern Turkey to Edirne shortly before the border to Greece and Bulgaria. Together with the recently completed Baku-Tbilisi-Kars (BTK) connection from Azerbaijan on the Caspian Sea and the Georgian capital Tbilisi to Kars, an alternative Silk Road route is being created that bypasses both Russia and Iran. As in the Indian Ocean, Chinese activities contributed that the "Mediterranean has changed from a sea of tranquillity to a major and central security concern of most (if not all) great powers" (Peter van Ham in: Putten 2016: 6) will become a new geopolitical hotspot. Russia, too, is trying to expand its position in the eastern Mediterranean region. But most of these geopolitical scenarios are still dreams of the future. The partnership between Turkey and China has also been adversely affected by the fact that Turkey sees itself as an advocate of the Turkmen Uighurs in the western Chinese province of Xinjiang. In 2009, Prime Minister Erdogan described the repression there as "a form of genocide", a remark he later withdrew.

Bulgarian Eastern Europe expert Yanko Yordanov (2015) interprets China's involvement in the Eastern Mediterranean as a long-term political investment to prepare for future strategic challenges. This complements measures such as the B&R alliances in Central Asia or Southeast Asia, with which Beijing is responding to the US's attempts to contain the region. Their geopolitical relevance will also depend on how China's relations with the EU, Russia and the US and Japan in the Far East continue to develop. Applied to the global Go game: China is building a geopolitical "sleeper" at the explosive interface between Western and Eastern Europe, the Near and Middle East and Asia, which can be used if necessary.

**Frans-Paul van der Putten**  
**"The Silk Roads should be a joint project"**

*Uwe Hoering: Does Europe have reason to fear the new Silk Roads? Or are they less threatening than some observers claim?*

Frans-Paul van der Putten: BRI is helping Europe to get a clearer idea of what China's rise means and to be more focused in its response.

*More specifically, will the position of Europe or European companies be weakened by the growing control over resources and trade routes and the alternative access to credit, investment and development funding that B&R offers to participating governments?*

BRI is a coordinated effort from China to position Chinese actors in key positions on international transport routes and thus in the supply chains of Europe and European companies. Most Chinese companies are either state-owned or the Chinese State and the CCP have the potential to influence their strategies and operations. It seems likely that the Chinese government will use this influence over supply chains to further strengthen China's economic competitiveness and political influence to the detriment of foreign counterparts, including Europe.

*That sounds like a state-led "attack on Europe". How well is there awareness of these possible effects on Europe and its own global role?*

Awareness overall is still limited in Europe. Some companies have very clear ideas about what changes BRI could bring, but they focus on their own sector. Governments have a broader view, but so far they are far less able to understand, let alone respond to, the implications of BRI when compared to companies.

*Especially in Southern and Southeastern Europe, there are some countries that are much more positive about B&R than governments in Western Europe. Could Europe be further divided by this?*

The impact of BRI-specific projects within the EU is still limited. Piraeus is the main instance of an activity that can clearly be attributed to BRI and where China is delivering, as Greece can become a major transshipment port and potentially a significant entry/exit point for trade between the EU and China. The Piraeus case also shows what China has to offer that European investors would not do. These include the diversion of container ships from other Mediterranean ports to Piraeus and the development of Chinese cruise tourism. Other examples include the railway services between China and European destinations, most notably in Poland, the Czech Republic, Germany, Belgium and the Netherlands. They need to see for themselves whether they can benefit from these new trade routes with China.

*Does B&R's infrastructure development in Eastern Europe and Eurasia offer any opportunities for European countries or companies?*

There are certainly new opportunities for European companies that are active in the logistics industry or exporting to China. For companies that offer services or products related to the construction of new infrastructure, it is difficult to enter China-led projects. In order to gain a stronger foothold in these markets, they need support from the EU and European financial institutions.

*So cooperation instead of fears?*

The *EU-China Connectivity Platform* and EU infrastructure programs should be used as far as possible together with the BRI project to promote new transport between the EU and China that benefit the Europe's neighbours in Eastern Europe, the Balkans, the Black Sea region, and Central Asia. This would support BRI, but the EU would also have a greater influence on how the new Silk Roads develop and could show the countries that are located between the EU and China that it is willing to promote opportunities for their economic development. The EU should engage with China and other countries to jointly build the new Silk Road, while making the point that this is a common good that should not be owned or controlled by a single actor. BRI is a Chinese in-

initiative, but the new Silk Road can only succeed if it is a multi-lateral project. In this way, the EU will strengthen the legitimacy of BRI and China's role as a great power. In return, China should accept some form of multilateral institutionalisation of the new Silk Road in which it plays a significant but not an exclusive role.

*It is said that China, unlike Europe, has a global strategy ....*

This is difficult to answer because the definition of a strategy is not very clear. But I would say that China's approach to strengthening its global position is more advanced, comprehensive, forward-looking and effective than Europe's approach.

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# 11. Contours of a new hegemony

The new Silk Roads are arterial roads for China's aspirations to become a great power again. Opinions are divided as to whether this major step forward goes hand in hand with a claim to global leadership. For some analysts, China, with its state capitalism and growing military presence, is exploring ways to imperial power. Other observers, however, believe that the Beijing government "is far more interested in securing alternative routes for its energy imports and in protecting commercial sea lanes than it is in building a new empire" (Miller 2017: 171). According to its own statements, it does not strive for hegemonic dominance or global leadership, but offers a "new type of Great Power relations" with the other major powers based on mutual respect and equality.

## **To find them....**

China transports a new globalisation and development model of infrastructural connectivity via the Silk Roads. B&R is about its positioning in the global competition coagulated in highways and harbours, in cement and asphalt. As a multipurpose project, B&R is also an attempt at comprehensive crisis management and securing political legitimacy internally. At least for the time after the crisis of 2007/2008, China has succeeded in gaining hegemony over the discourse about the immediate future of globalisation: its own strategy presents itself as a better alternative to previous globalisation processes with their crises and social and ecological contradictions and problems. China's own expansion is intended to serve the well being of other countries, above all to develop economically weaker ones, while the economic powerhouse China becomes a partner in a global "community of fate". This development mission is a counter-model to failed post-colonial Western development concepts for Africa and Asia and at the same time builds up economic and politi-



cal countervailing structures and power to the Western liberal model of bourgeois democracy and international governance. Geo-strategically, B&R is reminiscent of the Asian Go game. Key positions, rooms and corridors are occupied by infrastructure projects and investments, flanked and secured by loans. In this way, various strategies are linked and tied together like building blocks and exaggerated by political and ideological narratives. Above all, the great narrative of the "rebirth", the overcoming of the historical "humiliation" and the restoration of China's greatness floats as nationalist legitimisation and mission over the whole Grand Plan, personified and iconized in figures like Admiral Zheng He of the historic Silk Roads. Especially for economically weak states in Africa and Asia and Eastern Europe, this offer is highly attractive. They hope for an expansion of trade and employment and a comprehensive growth spurt through deeper integration into the world economy. The pragmatically applied principle of political non-interference in the internal affairs of a state is, in their view, a clear advantage over Western concepts; indeed, it appears to be a liberating blow with which they can advance decolonization and strengthen sovereignty. The proclaimed recognition of national sovereignty is attractive not only to authoritarian governments and despotic political elites who care little about human rights, but especially for them. Freely based on the motto from "The Lord of the Rings", the initiative has the potential to find them, to bind them all, "built on money and held together by hard infrastructure" (Miller 2017: 17). Integration also takes place through the establishment of new political institutions and networks. This creates asymmetric economic dependencies and power relations, as well as political loyalties and vassal-like relationships. It is becoming increasingly difficult for governments to free themselves from this political-economic embrace. This has already paid off in support of Chinese positions in international disputes by ASEAN member countries, such as the conflict in the South China Sea or in the blockade of EU decisions by Eastern European countries in the European Union. The close cooperation of the Chinese government with corrupt, reactionary and authoritative regimes can be used by them as a

stabilising and legitimising factor. This pushes back the predominance of the Western liberal political model in national and international regimes. In this way, B&R supports the current tendencies towards de-democratisation, restriction of civil society leeway and authoritarianism in many countries and corresponds with the authoritarian development in China itself and the power of Xi Jinping. Matthias Stepan even warns in August 2017 in a study for the *Mercator Institute for China Studies (meric)*, "China's political system will become a global model for aligning the transformative potential of big data technologies with a hard authoritarian, perhaps even newly totalitarian, approach to governance".

## Potential conflicts

However, the expectations that economic development and the co-operation with authoritarian regimes will bring stability to China's foreign interests and that B&R will become a virtual perpetuum motion machine for cooperation, peace and prosperity are deceptive. In many countries, B&R activities are met with criticism and political opposition, as well as fears of loss of sovereignty. A fundamental distrust of China's intentions, interests and interventions is widespread. Protests against low employment effects and lack of development progress, criticism of the business practices of Chinese companies and concerns that the Silk Roads might pass by many sections of the population are part of everyday life at B&R. However, the criticism of over-indebtedness is central. All of this quickly fuels political or economic conflicts such as those in Pakistan and Kazakhstan. In Zambia and Sri Lanka, resentments against China were used by the opposition parties and were decisive for the elections. The protests against B&R often include criticism of domestic elites, corruption and cronyism with Chinese corporations. In addition, regional conflicts and militant movements can impair B&R's success. Despite its commitment to peaceful cooperation and partnership, China's new alliance contains moments of competition with existing alliances or even division potential. Allies of the US in East

Asia, of Russia in Eurasia and India in South Asia are intensively courted. B&R also allows for greater control over sea and land routes, energy supply and critical infrastructure. By doing so, China is expanding its presence in regions that have hitherto been influenced by other hegemonic powers and is aggressively competing with them. On the one hand, the new “marriage of convenience” with Russia shows that the integration also works with hegemonic powers and that competition can be balanced at least temporarily in a division of labour and mutual recognition of the respective spheres of influence. On the other hand, countries like India, which itself has hegemonic claims in the region, oppose these attempts. B&R is thus forging new partnerships on the one hand, and strengthening or creating manifold domestic and regional lines of conflict on the other. The shifts in power relations and new alliances such as those between the authoritarian states of China and Russia or between the more democratic governments of India, the US, Japan and Australia have resulted in new constellations of forces in a multipolar world order. This is not only due to the government in Beijing. Through Trump's policy, the US is currently "making China big again," William Pesek comments in the *Nikkei Asian Review* of March 19, 2018.

## **Security architecture**

It is not only in Pakistan that Chinese projects have been attacked several times. Railway lines can be interrupted, pipelines blown up and supply chains affected. To protect Chinese projects and their staff in the CPEC economic corridor, Pakistan even set up a 12,000-strong special unit. Important shipping routes are also at the centre of attention of security policy strategists, as they are particularly vulnerable at bottlenecks such as the Strait of Malacca or the Horn of Africa. Ironically, China's desire to strengthen its economy and security of supply with the Silk Roads also makes it more vulnerable. The close link between B&R and the leadership position of Xi Jinping and with the stability, security and legitimacy of the state and party in China itself makes it even more

necessary for success to strengthen strategic security elements and possibly to come to an inclined level of increasing involvement in conflicts.

In his book "China's Private Army" Alessandro Ardino describes the emergence of Chinese paramilitary security services. The US company *Frontier Services Group* of the founder of the infamous private security service *Blackwater*, has set up training camps in Yunnan and Xinjiang to train ex-soldiers to "protect Chinese corporate and government strategic interests around the world, without having to involve the Chinese People's Liberation Army" (cited by Rolland 2017: 169).<sup>1</sup> As a consequence, this could become a gradual intervention in the internal affairs of other countries. Counter-terrorism measures and active mediation in regional conflicts are further signs that Beijing is softening its stand on the principle of non-interference in favour of a common security architecture. Wang Yizhou, professor of international politics at Beijing University, has already coined the term "creative participation". It is in this context that the People's Liberation Army's rearmament, modernization and, for decades, most fundamental reform, the gradual expansion of its presence in other regions and its cooperation with other countries such as Kazakhstan and Pakistan have been carried out. Since April 2013, the military has an explicit mandate to protect China's rights and interests abroad, including energy sources and natural resources, in addition to Chinese citizens. So far, China's rise to a global player has focused on economic development, leaving military predominance to the US and its allies. For the time being, the government continues to rely more on economic and political persuasion and diplomacy ("soft power") to promote transnational expansion and the "rebirth of China." So far, it has been able to achieve its foreign policy goals by non-military means. However, according to Rolland, the influence of B&R on the development of the Chinese military should not be underestimated

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<sup>1</sup> CITIC, one of China's largest state-owned conglomerates, which has announced \$ 100 billion for BRI projects, holds a 20 percent share in the Hong Kong based organisation.

(Rolland 2017: 171). Therefore, fears of dual use are obvious, namely ports and container ships, railways and roads, communication systems and high technologies could be used not only commercially but also militarily. "In the long term it is possible that this will change: China's diplomatic–commercial approach might turn out to be only a stage in a trajectory that eventually involves also the expansion of strategic–military influence," say the China experts Frans-Paul van der Putten and Minke Meijnders (2015: 33). The new Silk Roads could create the conditions for this.

### In imperial footsteps?

The question is whether these economic and political power structures that emerge with B&R, the accelerating militarization and the erosion of other global superpowers add up to a "new empire" with the power not only to find and bind them all, but to rule them. The answers are largely speculative. Refuge is therefore also sought in historical retrospectives. Some observers see a resemblance between B&R and the Marshall Plan for the reconstruction of Europe after the Second World War through which the US secured its leading role vis-à-vis the Soviet Union and the expansion of the Western economic model.<sup>2</sup>

Stefan Schmalz (2015) goes back even further and sees a number of parallel elements in comparison with the historical ascent of Great Britain in the 18th century and the United States after the Second World War. Similar to the rise of Great Britain and the United States, the internationalisation of Chinese state capitalism supports its own position of power through a structure of the world market that is oriented towards its self-interest and particularly targets (semi)peripheral states. By internationalising its national currency, the *Renminbi*, China is attacking the dominance of the US dollar as the global reserve currency. In

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<sup>2</sup> For a comparison between B&R and Marshall Plan, see for example Simon Shen, 'How China's Belt and Road' Compares to the Marshall Plan, in: *The Diplomat* February 6, 2016.

addition, China's development into the largest market for consumer goods has "world-historical significance", because the role of a "global end consumer" contributed to the United States' position as a world power. The "imperial mode of living" (Brand/Wissen 2018), the consumption and the "moderate prosperity" of the Chinese middle classes, has far-reaching global consequences for supply chains and investments, but also on power relations to secure them. The financial news service Bloomberg flip-pantly formulated this idea: "Chinese consumers rule the world". Another building block is the establishment of new multilateral institutions that weaken the previous Western-dominated regime (Zhang 2017: 325). These include, for example, the *Shanghai Cooperation Organization*, the *Asian Investment Bank* AIIB and the *New Development Bank* of the BRICS countries, or the free trade agreement RCEP as an Asia-Pacific counterpart to TPP excluding the USA. Existing dispute resolution mechanisms between investors and governments such as the ICSID of the World Bank, which are based on the legal systems of the US and European countries, are countered by the establishment of its own arbitration boards in China for the Silk Road Initiative. More than twenty years ago, the influential US political scientist Zbigniew Brzezinski outlined the vision of a "Trans Eurasian security architecture" along a new Silk Road made up of pipeline and trade routes, economic concessions, military bases, and pro-Western governed countries (Ritz 2012). It was intended to connect large parts of Asia with an enlarged European Union and an expanding NATO - to the exclusion of Russia. Brzezinski's vision culminated in a geopolitical coronation imagination: the world system based on progressive globalisation would accept the "insignia of the current ruler of the world," i.e. the political system and the culture of the United States of America. China, too, could be integrated into this structure at some point in the future. It is an irony of globalisation that it is now the other way round: The economic power of China is implementing this idea and rolling up Eurasia from the East. Now speculation is rife how China will shape the future of globalisation.

## Audacity or hubris

The further rise of China to an equal great power will depend, among other things, on the close interaction between the fate of B&R and the developments in China itself. Although much better prepared and organised than the "Great Leap Forward" in the late 1950s, the ambitious initiatives and campaigns could also be Xi Jinping's Achilles heel, according to *merics* director Sebastian Heilmann. Failures and a growing contradiction between announcements and implementation successes on the ground could taint the standing of state and party." What looks like boldness today might look like hubris in two decades" (Heilmann 2018: 8). The clearer the contours become, the more widespread are the sceptical voices pointing to the numerous resistances and imponderables for success, not only abroad. Risks are also being discussed in China itself, albeit in view of the initiative's high political importance more cautiously (Rolland 2017: 151ff). "Our enterprise and Belt and Road Initiative countries will face financial difficulties", said Hu Xiaolian, the chairwomen of the *Export-Import Bank of China* in June 2018 to *The New York Times*. Shi Yin-hong, an internationally renowned scientist and advisor to the State Council, publicly warned against "the possibility of *overstretching strategies* and the danger of being drawn into military conflicts" in view of the economic commitments entered into. It also remains to be seen to what extent the internal structural problems that B&R's modernisation and expansion are to overcome can actually be resolved quickly. The increase in central government control capacities does not mean an all-encompassing control power (Brink/Nölke 2013: 27). Representatives of banks and investors, especially from the private sector, cautiously express concerns about the feasibility and profitability of B&R projects and the incalculable risks of the huge loans to participating countries. In times of globalisation, there are always ways to circumvent, ignore or even sabotage government requirements. Despite its high financial reserves, the over-indebtedness of B&R member countries can also become a problem for China. But if the economic crisis becomes uncontrollable, the debt situation gets

out of hand or serious conflicts arise abroad, Xi Jinping's position could be seriously threatened, says Au Loong Yu: "In times of crisis Xi's personal power will also become a target held responsible for all possible failures."



## **Au Loong Yu** **„Xi cannot eliminate all opposition“**

*Uwe Hoering: Where do you see the main drivers for B&R: the economic crisis, a crisis of legitimacy, or geopolitical ambitions?*

Au Loong Yu: I think the answer is “all of the above”, although the weighting of each of the three factors is very different from each other. The economic crisis and geopolitical objectives are much more direct factors. Right now there is no pending economic crisis as the state came to the rescue of the stock market sharp fall in 2015, just like what it once did in the 2008 crisis. Yet one must take note of the fact that the basic problems of these crisis have not been fixed at all. Economic crisis refers to the long-term economic imbalance brought about by the growth strategy, in which an incredibly large part of national income is spent on capital investment while consumption has been restricted. If we look at the share of final consumption in China’s GDP, although it is now a bit higher than previous years after the government’s attempt to stimulate domestic demand for many years, it still stood at only 39 per cent in 2016, not only much lower than the world average (and also much lower than low income countries), but also significantly lower than its own previous record of 48 per cent back in 1960. China therefore suffers from a typical economic imbalance of over-accumulation and over-production. Ten years ago, the government openly declared that this imbalance should be resolved through overseas investment and B&R is another major project for this.

Since China became the second largest source of outbound FDI in the world in 2016, it has had significant foreign interests to defend, particularly when its investment emphasis was on infrastructure and therefore takes a long time to generate profit. Therefore, the government ignores the official stated policy of non-interference in other countries’ internal affairs and does the exact opposite to increase its share in the world market while at the same time moving up its status in the global value chain. The growing tensions with the US over China’s rise to become an important global force are also forcing China to strengthen its re-

lations with other countries, especially in the neighbourhood - hence B&R.

As for legitimacy, the CCP is well aware that since the fall of the Berlin Wall, its only ideological weapon in its possession is Great Han nationalism. BRI as a project to “Make China great again” will undoubtedly help in the CCP’s attempt to create a new legitimacy.

*Why is the Silk Road narrative so important to the Chinese government?*

It helps the Chinese government in two ways, domestically and internationally. Historically, China experienced its most glorious periods under the Han dynasty and the Tang dynasty, when China’s empire was very prosperous and its territory stretched deep into Central Asia, hence cultural and economic exchanges between China and countries west of it reached new heights. China’s silk and other products made their way deep into Europe. The Silk Road thus promotes pride in the “Chineseness”. This works in favour of the government’s grand project of Chinese nationalism and a “harmonious society”. This is the domestic dimension. Secondly, the ancient Silk Road contributed to bringing two of the world religions into China: Buddhism and Islam. One of the streams evolved into a kind of Buddhism with “Chinese characteristics” – the Zen school. The Silk Road is thus associated with a peaceful and friendly cultural exchange between China and other nations, which now benefits BRI.

*Will B&R strengthen authoritarian regimes?*

In its foreign policy, the Chinese government sometimes prefers authoritarian or conservative governments to left-wing or progressive partners because they are less subject to democratic control and therefore more likely to allow for secret agreements. They are the more convenient companions in trade agreements and other forms of cooperation as well. This may be the case for China’s friendship with Russia and many Central Asian countries. Even in Western countries, the CCP occasionally favours conservative parties, for example in the UK, if they are less critical of human rights issues. Previously the Chinese government

feared that the British Labour Party might favour more political reform in Hong Kong before the return of sovereignty than the Conservative Party was willing to carry out. It probably carries the same logic in relation to BRI. Those authoritarian countries in Central Asia are easy targets for the Chinese government when it comes to trade talks etc. In essence B&R is intended to be an economic second front in the contest between the US and China for global leadership.

*But isn't this fraternisation a long-term risk to success?*

At its core, B&R intends to open a second economic front in competition with the USA for global leadership. Of course, everything has its price. B&R and the need to bribe foreign despots are very expensive, and it is quite possible that China will overstretch its reach and therefore suffer a setback. The strong connection to despots can also have the opposite effect if it leads to protests and reinforces anti-Chinese sentiment and possibly even brings an opposition against China to power. Of course, Chinese money is currently working in favour of both the Chinese government and authoritarian governments. But the situation is constantly changing.

*Is there a new, more aggressive nationalism in China today than it used to be?*

Yes it is, because it is much more strongly promoted by the state. In the Mao era, the official line rejected nationalism, even if it was only verbal. It claimed that it was only promoting "patriotism", not nationalism. In Deng's era, when ideological debates were silenced, it was the official policy of the Communist Party to "lay low and wait for its chance". The state was therefore very cautious about nationalism. This has changed in the last ten years and especially since Xi Jinping took power. Nationalism has become a state led project and is propagated with a lot of money in print media, television and films.

*Xi Jinping has closely linked his position and politics with B&R. Could it become his Achilles heel if it fails?*

If there is a “Chinese characteristic” in relation to China’s supreme leaders, then it is the fact that they all want to have their own signature projects, showcase projects linked to their names. For Mao, it was the “Great Leap Forward” and the Cultural Revolution. For Xi, who wants to imitate Mao, it is the re-creation of the Chinese empire with BRI as his signature project.

By removing the term limit of Chinese head of state staying in power plus installing measures to concentrate all power in his hands, allows Xi to rule despotically. But that does not mean there are no more countervailing forces. Factions within the party still exist and it cannot be ruled out that opposing factions will speak out more strongly in the future, especially when the debt mountain becomes unbearable or the economic crisis uncontrollable or there is a confrontation with a foreign power. Even Mao could not eliminate all factions and stop internal fighting, and after his death his work was buried. It is therefore difficult to imagine that now Xi, who did nothing great before coming to power, can permanently eliminate any opposition in the Party.

One already hears cautious criticism of B&R that the project could prove too ambitious and exceed China's capacities. In foreign policy, there are apparently two schools of thought: One argues that the US should be approached confrontatively, the other that China should adapt to US hegemony. These differences of opinion will not disappear just because Xi has concentrated power on himself. Rather, in times of crisis, his personal power will itself become the target and be held responsible for possible failure.

*Au Loong Yu was a founding member of Globalization Monitor in Hong Kong. A few years ago he left the organization and works as a publicist. His book "China Rise: Strength and Fragility" (2012) has been translated into French and Japanese, among other languages.*



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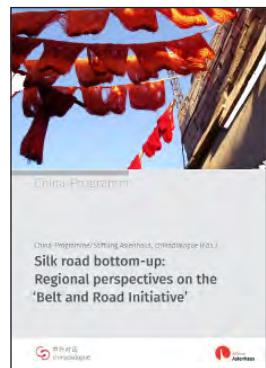
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