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One Belt, One Road

by Maciej Bochra

They will be a real chorus comprising all countries along the routes, not a solo for China itself.” Thus the Chinese government predicts that the initiative will benefit about 4.4 bln people (around 63% of the global population). The Xinhuanet news website has added that according to the plan, “Countries along the Belt and Road should improve the connectivity of their infrastructure construction plans and technical standard systems, jointly push forward the construction of international trunk passageways, and form an infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa step by step.”

China is going global. After a rocketing GDP transformation made in-house, the Chinese state and privately-owned enterprises are turning towards foreign direct investment. The so-called One Belt, One Road initiative will create a New Silk Road Economic Belt, which will not only rail & sea connect the main industrial cities in China with the biggest trading centres, but will also bring new development opportunities, including for countries of the Baltic Sea region.

At Europe's gate

Building of the New Silk Road Economic Belt has already begun in some undeveloped parts of Asia. China is now looking for new investments in Europe, especially in rail freight. Currently, just around 3.5% of China's export travels overland to Europe, but an enhanced rail connection is not a new idea (most probably the 2011 Chongqing-Duisburg being the first regular one). For instance, in September 2013, the 13-day in one direction (11.2 thou. km) Suzhou-Manzhouli-Warsaw rail service was established, bringing in container tablets and LCD panels on the way to Europe, taking on the backhaul leg vehicles and spare parts (securing laden boxes in both ways being a crucial economic issue for setting-up such a venture). Other services include Chengdu-Łódź, Zhengzhou-Hamburg, Beijing-Hamburg, Kunming-Rotterdam, Harbin-Hamburg (the latest one), not to mention the world's longest rail freight service Yiwu-Madrid, which covers over 13.0 thou. km.

The One Belt, One Road (OBOR) concept was announced at the end of 2013. The chief aim of this project is to link China's industrial and manufacturing hotspots with the main trading centres of Africa, Asia, Europe and the Middle East. It includes a rail route based on the historic Silk Road and a new maritime string (known as the Maritime Silk Road) stretching from South-East Asia, through the Indian Ocean, up to the Port of Venice in the Mediterranean Sea.

risen dramatically over the past decade. Close to nothing in 2003, it now amounts to over USD 100 bln. According to the Chinese Ministry of Commerce, the outflow of outward FDI has been ranked third in the world for the third consecutive year and is expected to grow 10% per annum over the next five years.

Unlimited resources

The OBOR initiative will have access to bottomless capital, such as the USD 40 bln Silk Road Fund, USD 100 bln from the Asian Infrastructure Investment Bank (AIIB) and another USD 50 bln from the New Development Bank (NDB). Moreover, the CITIC Group (former China International Trust and Investment Corporation) recently declared its support for the OBOR trade strategy with a further USD 113 bln. Those funds will be used to build roads, railways, ports, maritime facilities and gas pipelines across Eurasia.

In general, the Chinese aim is to build closer economic ties with regions that are up-to-date more of receivers of China-produced goods. On March 28th 2015, President Xi Jinping said, “The programs of development will be open and inclusive, not exclusive.

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The OBOR initiative is part of President Xi Jinping's 'Chinese Dream' also announced in 2013 to, as he stated, “Reclaim national pride and enhance personal well-being.” China doesn't want to play the role of a global manufacturer anymore and seeks to unleash its regional and domestic potential, focusing more on consumption.

This process has already started. China's outward foreign direct investment (FDI) has

However, it seems that the Chinese would like to have one junction point on the way to/from Europe in order to split up larger sets into particular destination-wise ones on the westbound leg, while uniting them on the way towards the East. In this context, the Polish rail freight haulier PKP CARGO signed a letter of intent in June 2015 with the Zhengzhou International Hub from China's Henan Province, foreseeing a set-up of a 50/50 joint rail venture. The Chinese partners



Photo: Wikimedia Commons

see PKP CARGO's dry port in Małaszewicze on the Polish-Belarusian border as a key for future investments since it's where the standard European 1,435 mm and the 1,520 mm wide track railways meet. The development of Małaszewicze will allow it to accept larger volumes and provide other logistics services. PKP CARGO estimates that the number of trains visiting its inland terminal will increase by 300% year-on-year as a result of the cooperation.

And through the Baltic States

Estonia, Latvia and Lithuania are also eyeing how to take advantage of the presented opportunity. Besides hosting an EU-Asia summit in April 2015, Latvia has started cooperating with China across other fields. In February 2015, a Chinese government delegation visited Riga and signed a deal between the Latvian milk producer Food Union and the Shanghai-based Bright Food, the country's third-largest food producer.

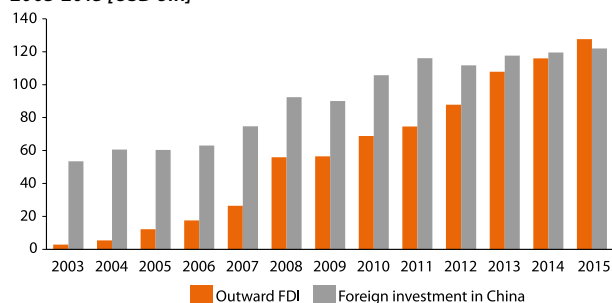
Furthermore, last autumn the China Harbour Engineering Company and the Riga Coal Terminal signed an expansion capacity contract. China has already enlarged the amount of staff in its embassy in Latvia's capital in Riga.

Estonia's road to cooperation with China seems to be a little bit rockier. In 2011, China froze its economic relations with Estonians, when the Dalai Lama was welcomed to the country. Tallinn officially apologized in 2014, which led to signing a cooperation agreement between agriculture ministers of both countries. Estonia will send its farm products to China and the Port of Tallinn, thanks to Chinese funds, will be expanded and modernised (incl. e.g. a deal on industrial parks facilitation for Chinese exporting companies signed between the port authority and the China National Corporation for Overseas Economic Cooperation in November 2012).

Lithuanians faced the same problem when they endorsed the Dalai Lama and Tibetan separatists. However, in February 2015, relations between Lithuania and China warmed a bit. Both countries are interested in exporting Lithuanian agricultural products to China. In May this year, Li Jianhong, the Chairman of the Board of China Merchants Group (one of the biggest state-owned corporations) visited Lithuania. With Lithuania's Ministry of Transport and Communications and the

Lithuanian Government, they talked about investment opportunities in the country, specifically in the Klaipėda Container Terminal and in the Kaunas Free Economic Zone, as well as about potential development of the rail corridor Klaipėda-Minsk. The Kaunas Intermodal Terminal and the aforementioned rail line are clearly the key to success of the project, as Lithuania is focusing on freight transportation. Lithuanian Prime Minister Algirdas Butkevičius summed up the efforts, "The Silk Road is an opportunity to cover the main Central and

Fig. 1. China's outward FDI and foreign investment in China during 2003-2015 [USD bln]

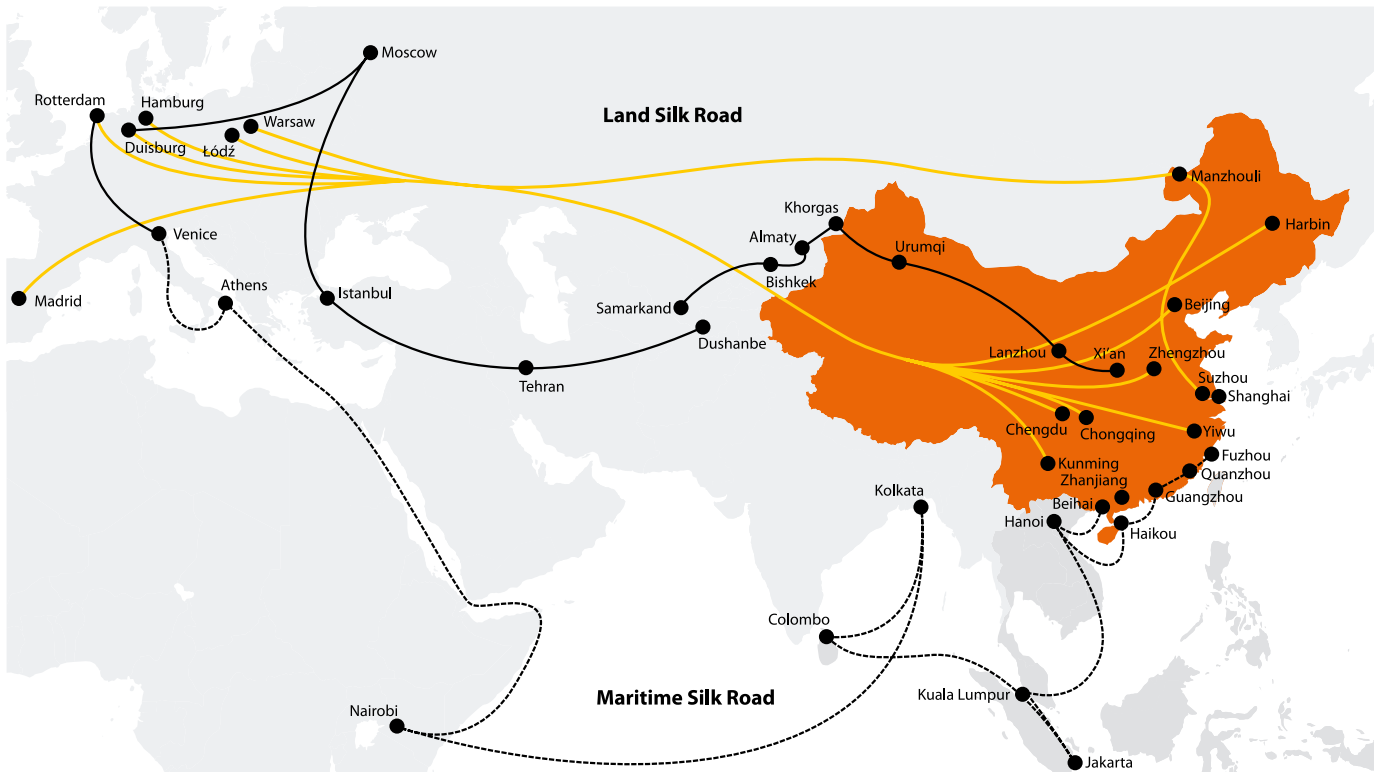


Remark: Financial investment is not included in the data for 2006 or before; the data for 2015 are predicted by EY Knowledge
 Source: National Bureau of Statistics of China, Ministry of Commerce



Photos: Deutsche Bahn

Fig. 2. The land and maritime Silk Road



Source: Xinhua news agency

Remark: The rail routes mentioned in the text have been schematically shown and highlighted in yellow

Western European markets that contain over 750 million users. Therefore, one of the main strategic aims of Lithuanian transport is to further develop the cooperation with China and thus join the largest economy in the world with the EU states.” Interestingly, but until better and direct railway networks are built, the Baltic States and China will use the Northern Distribution Network, which was originally established by Russia and NATO to transfer supplies to the forces fighting in Afghanistan.

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Having mentioned Russia, the Federation’s interest in the New Silk Road project seems dubious as it has its own transit projects to balance regional development strategies. On the one hand, President Vladimir Putin says that the plans of the Eurasian Economic Union (comprising Armenia, Belarus, Kazakhstan and Russia) are “compatible” with the Chinese project for a Silk Road Economic Belt, but on the other – it could

neglect the Far East. According to the President of Russian Railways, Vladimir Yakunin, the Trans-Eurasian Belt RAZVITIE’s and the New Silk Road project’s goals coincide. Certainly, they believe that these projects, “Do not compete, but instead complement one another” and can be, “An engine of the Russian economy.” Beyond doubt, the Russians and Chinese will cooperate if they perceive a given project as valuable to both of them (expanding the North Korean Port of Rajin is one example of such collaboration, as well as China’s interests in the nearby Russian Zarubino port in case Chinese-North Korean relations get somewhat colder).

Offshoring GDP growth

It all sounds like a sky-high ambitious project, something only the Chinese can pull off in the modern world. But is it really only about improving worldwide logistics and strengthening international economic ties?

The 7% GDP increase threshold is believed to be a minimum for the Chinese economy to stay in good shape. The miraculous boost China experienced for many years has been propelled among others by enormous infrastructural and housing ventures, which has left the country with thousands of high-speed railways and ghost cities (not to mention severely in-debt local authorities and non-financial companies).

If infrastructure is to further function as China’s powerhouse, then it must be offshored, naturally for the sake of the ruling party, which in turn wants to cover inner problems with a comfortably high GDP blanket, just as it has been doing for years. This is particularly true in light of China’s not-yet-so-successful transition towards the internal consumption model since the country’s citizens are still more prone to saving rather than spending their money, whereas increasing salaries are pushing down the competitiveness of Chinese manufacturers alike.

Furthermore, it’s also hard to imagine the Chinese not pursuing their other objectives through economic influence once they’ve entered a country – a practice well-known in China ever since the British started doing exactly the same after seizing Hong Kong.

Rumour also has it that rail services over the Eurasian Land Bridge are simply being subsidized, of course more or less in secret, to attract companies willing to make use of them. Therefore, the long-term economic sustainability of such ventures lacks transparency, too.

All things considered, the answer to the new Silk Road is money. And this goes for all sides of the deal – both for those who have enough money to carry out anything they wish to, as well as for those who take the cash more or less knowing the whole thing may burst at some point. ■