



21st Century Silk Road: China's Belt & Road Initiative, 2013-2020

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Belt and Road Initiative

- China has embarked on the most ambitious infrastructure project in modern world history.
- It's called the Belt and Road Initiative (BRI), and it spans three continents and covers almost 60 percent of the world's population. It's how China plans to become the world's next superpower.
- The BRI essentially has two parts.
- The first, the economic belt, is made up of six corridors that direct trade to and from China. These corridors include roads, railways, bridges, power plants — anything that makes it easier for Europe, Asia, and Africa to trade goods with China.
- The second part, the maritime silkroad, is a chain of seaports from the South China Sea to the Indian Ocean that direct maritime trade to and from China.

Old & New Silk Road

- During the Han Dynasty in China (207 BCE-229 CE), a historically unique trade route called Silk Road connecting the East with the West was built.
- The Silk Road soon became the center to the Economic, Cultural, Political and Religious interactions between Europe and Asia. .
- But the discovery of a sea route from Europe to Asia in the late 15th century dealt a damaging blow to the Old Silk Road.
- The speed of sea transportation, the possibility to carry more goods, relative cheapness of transportation eventually resulted in the decline of the Old Silk Road.
- More than five centuries have passed by since then. Chinese President Xi Jinping in 2013 took an ambitious project named “One Belt One Road”, with the initial aim to connect more than 60 countries spread across the continents of Asia, Africa and Europe.

Land and Sea Corridors of the Belt and Road Initiative

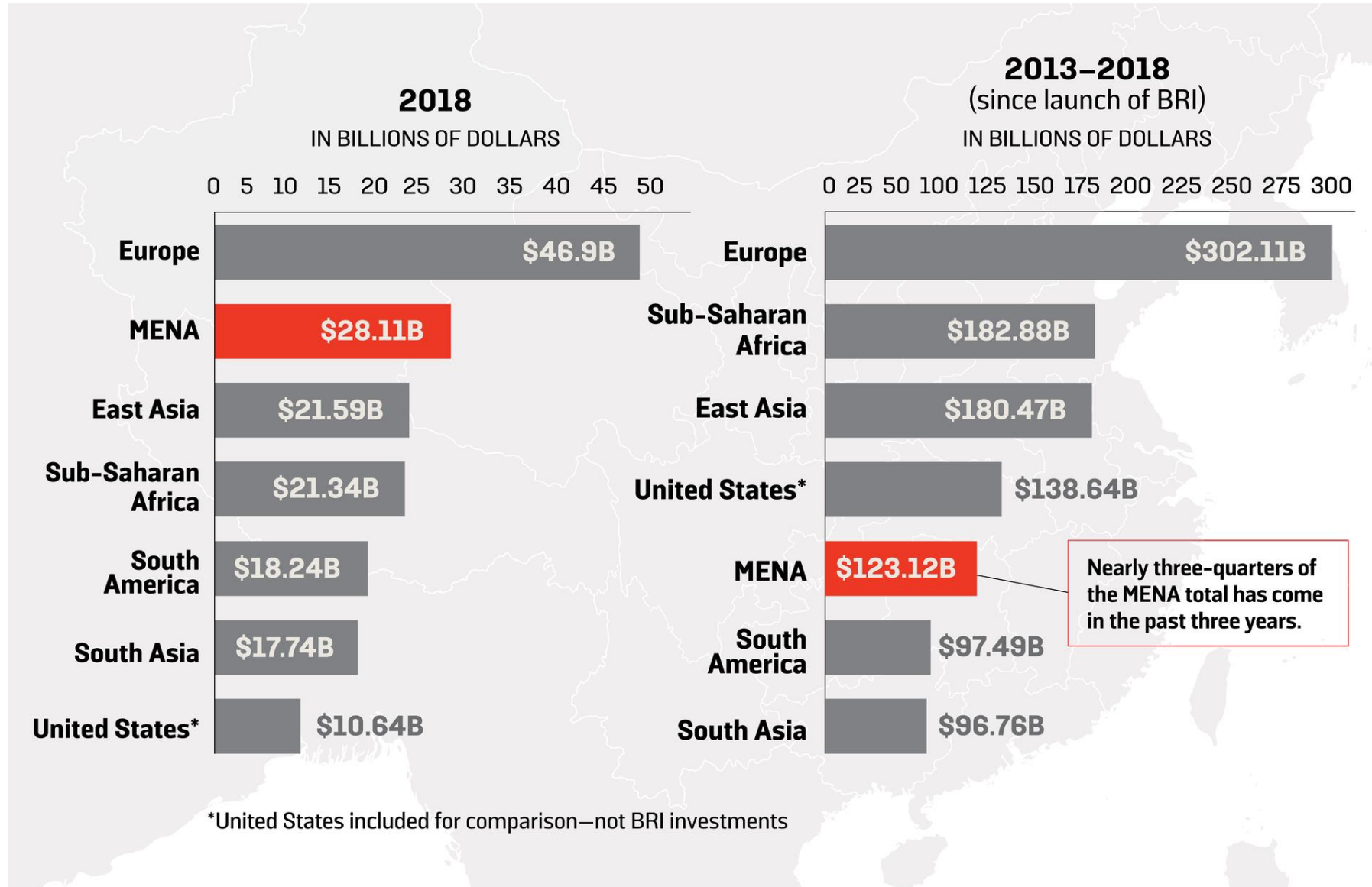
--- Silk Road Economic Belt --- 21st Century Maritime Silk Road



How Big is BRI ?

- With more than 130 countries reported to have signed up to the initiative, estimates for China's current BRI investments vary wildly -- from hundreds of billions of dollars to as much as \$8 trillion.
- China's current spending totals around \$575 billion (the World Bank). But predicting future investments by Xi's notoriously opaque government over a decade is difficult.
- Developing countries in Asia need around \$26 trillion worth of infrastructure investments between 2016 and 2030 (Asian Development Bank).
- The best available data suggest that China's \$1 trillion promise has not been met, and at current trends, will not be met for several years.
- The American Enterprise Institute (AEI) and Heritage Chinese Global Investment Tracker, which tracks Chinese construction and investment across all sectors, puts the total at roughly **\$340 billion** during 2014–2017.

BRI Investment, 2013-2018



Is BRI Unravelling? Warning Signs

- In 2018—as the Belt and Road Initiative marked its 5th anniversary—the chorus around the threat of China’s “debt traps” grew louder.
- There are some warning signs that are inherent to these massive investments. According to Moody’s, 60 percent of BRI member countries have sovereign debt ratings.
- China was one of the first countries to make big infrastructure investments in post-civil war Sri Lanka, earmarking \$50 billion for development projects in war-torn and occasionally hostile Pakistan.
- At least seven countries have run into trouble with Belt & Road projects or had a rethink, often after a popular backlash, change of government or both. Complaints include corruption, padded contracts, heavy debt loads, environmental damage and a reliance on imported Chinese labor over local hires.

Rebranding BRI: China's Response to Backlash

- As leaders around the world gathered in Beijing in April 2019 to attend the second Belt and Road Forum, the BRI received a much-needed boost in the face of lingering concerns about the project's intentions and long-term impact.
- 36 heads of state participated in the 2nd forum, compared with 28 in 2017. In total, over 6,000 participants from 150 countries and 92 international organizations, including the heads of the IMF and UN, took part.
- President Xi Jinping chose to respond to the critics of BRI by vowing to increase imports from developing countries, reducing trade barriers, implementing foreign investment friendly initiatives in China, and shifting focus to a high quality and sustainable framework for BRI projects.
- Italy in 2019 became the first Group of Seven country to sign a memorandum to join the BRI, despite pressure from many of its European Union partners and the U.S., providing a public relations coup for Beijing.

Italy and Iran as BRI Partners

- Italy and Iran have been two of the countries hardest hit by the Wuhan coronavirus, outside of China. Why?
- *The reason these two countries are suffering the most outside China is mainly due to their close ties with Beijing, primarily through BRI.*
- Italy opened an array of sectors to Chinese investment, from infrastructure to transportation, including letting Chinese state-owned companies hold a stake in four major Italian ports.
- Italy is the largest European nation yet to embrace Belt and Road and crucially, one with some of Europe's most strategically located coastlines in respect of international trade.
- Lombardy and Tuscany are the two regions that saw the most Chinese investment. The first Wuhan coronavirus infection case in Italy was reported in the Lombardy region on Feb. 21, 2020. Lombardy is the hardest-hit region in the country.
- 2019 was the year Iran officially signed up to OBOR. China sees Iran as a crucial player because Iran is not only rich in oil but also lies in a direct path of an ambitious 2,000-mile railroad China wants to build, which will run from western China through Tehran and Turkey into Europe.

China Europe Rail Express

- The train line from China to Europe had become (and arguably still is) the most symbolic image of China's sprawling global infrastructure ambitions under BRI in the pursuit of that magic word, "connectivity."
- The route will be used to link Europe to South China's manufacturing hub and Southwest China's industrial belt.
- In 2014, the first freight train arrived in Madrid from the Chinese trading city of Yiwu.
- The railway cuts transport time between the two cities in half. To send a container of goods from Yiwu to Madrid, you previously had to first send them to Ningbo for shipping. The goods would then arrive in the port of Valencia, to be taken either by train or road to Madrid. This would cost roughly 35 to 40 days, whereas the new freight train only takes 21 days.
- The Yiwu-Madrid freight route is the seventh rail road connecting China to Europe. The first one is the Chongqing – Duisberg, which opened in 2011 and connects Chongqing, one of the major cities in Central China, to Duisberg in Germany. This was followed by routes connecting Wuhan to the Czech Republic (Pardubice), Chengde to Poland (Lodz), Zhengzhou – Germany (Hamburg), Suzhou – Poland (Warsaw) and

Railroad Cities

- According to data from the Chinese Railways, in the period from 2011 to 2016, the annual number of trains from China to Europe amounted to 17, 42, 80, 308 and 1702 sets respectively. A sharp increase was recorded in 2017 when 3,673 trains were sent to Europe. **In 2018, this figure rose by 73% to 6,363 sets.**
- A train carrying local tomato sauce products left Urumqi in China's Xinjiang Uygur autonomous region on February 28, embarking on a 6,500-mile journey to Naples, Italy. The products were expected to arrive at the destination in 25 days via train and ferries, cutting the travel time by half from that via ocean shipping.
- The rapid increase in demand for container shipments of Chinese goods is caused, among other things, by the **reduction of transport rates**. The cost of one FEU (40 feet container equivalent) fell on average from €8,100 in 2011 to €4,300 in 2012, before stabilizing at around €5,000 per FEU.
- **Yiwu the first third-tier city to have rail link to Europe** (the Silicon Valley of China)
- With just over a million inhabitants, Yiwu is by far the smallest city with a direct rail link to Europe. It is however not hard to see why policy makers decided on Yiwu as the next city in the 'New Silk Road' of railways linking China to Europe. Located in central Zhejiang, Yiwu has the largest wholesale market of small

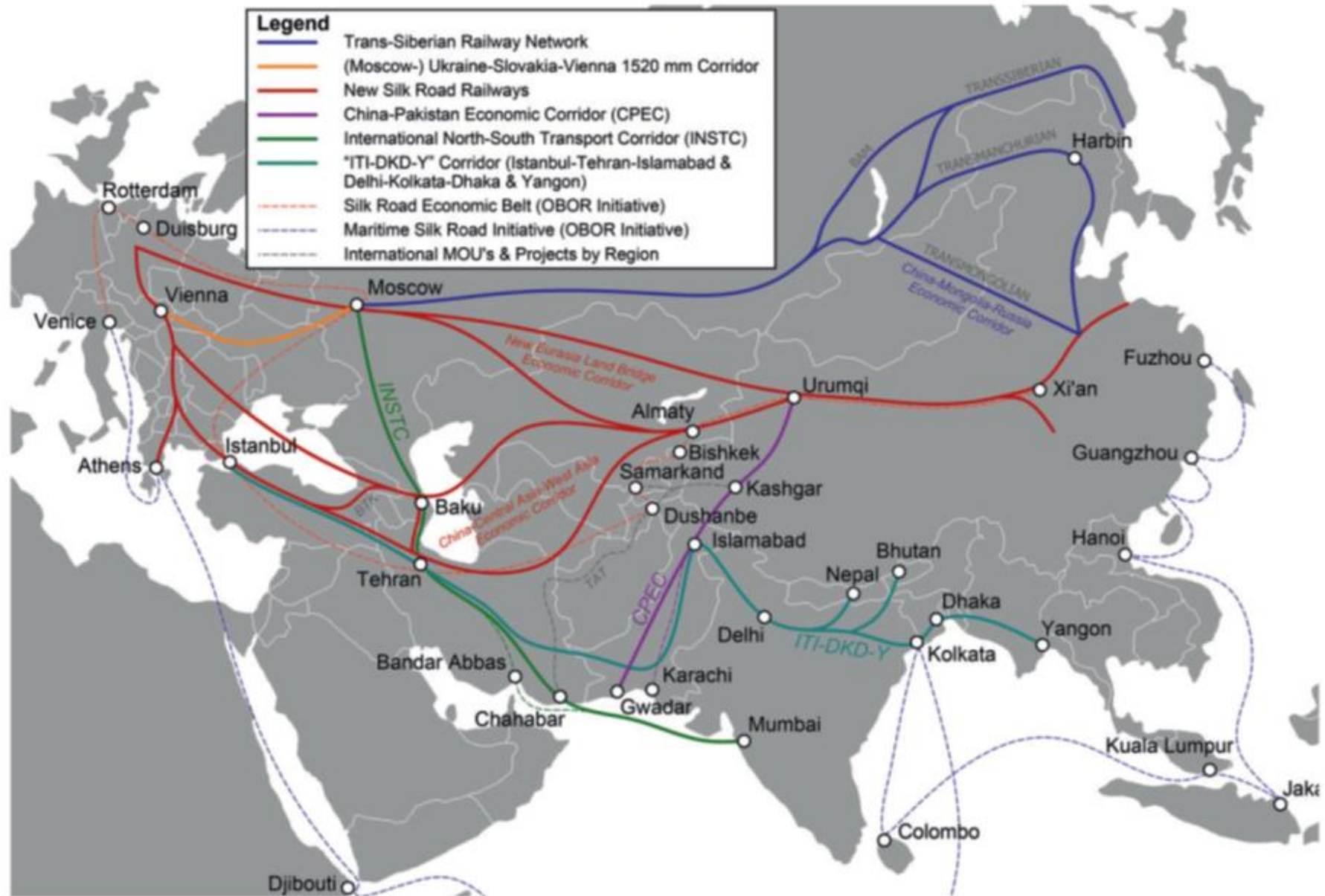
Kazakhstan: A Buckle on the BRI

- The key nation facilitating Eurasian rail trade is Kazakhstan, which has undertaken a US\$ 2.7 billion railway upgrade program, including upgrading track as well as locomotives and freight wagons.
- Kazakhstan has long made it a national priority to be involved with restoring the Silk Road, given its strategic position between China and Russia.
- Emblematic of this government commitment is the Khorgos Gateway project. Situated on the border between Kazakhstan and China, the future logistics and industrial hub is promoted as the new Dubai, covering an impressive 21 square miles. This includes the Khorgos Gateway Inland Container Dock, a gauge-changing station for the trans-Eurasian trains shuttling between China and Europe, which can now transfer containerized cargo between six trains simultaneously and process 580,000 Twenty-Foot Equivalent Units (intermodal shipping container – TEUs) annually.
- <https://multimedia.scmp.com/news/china/article/One-Belt-One-Road/europe.html>

Khorgos Gate Way



China Europe Rail Express



Iran's Rail Ambitions

- The first freight train from China to Tehran arrived in 2016. When President Xi visited Iran that year he talked about his ambition to help Iran facilitate long-term peace and stability in the Middle East.
- While shipping remains the lowest cost option for long distance trading, the speed of rail matters for many goods. Fresh foods such as apples, onions, citrus fruit and melons can survive a 20-day train trip from Mumbai to Moscow, for example, but would rot if they spent 40 days in a container at sea.
- With the lifting of international sanctions in 2015, Western investors began to explore Iran, planning to add nearly 2,000km of railroad every year for the next 5 years.
- No country has been more eager to help Iran than China. China signed an agreement to develop Iran's first high-speed railway and pledged to increase bilateral trade with Iran to \$600 billion annually by 2020.

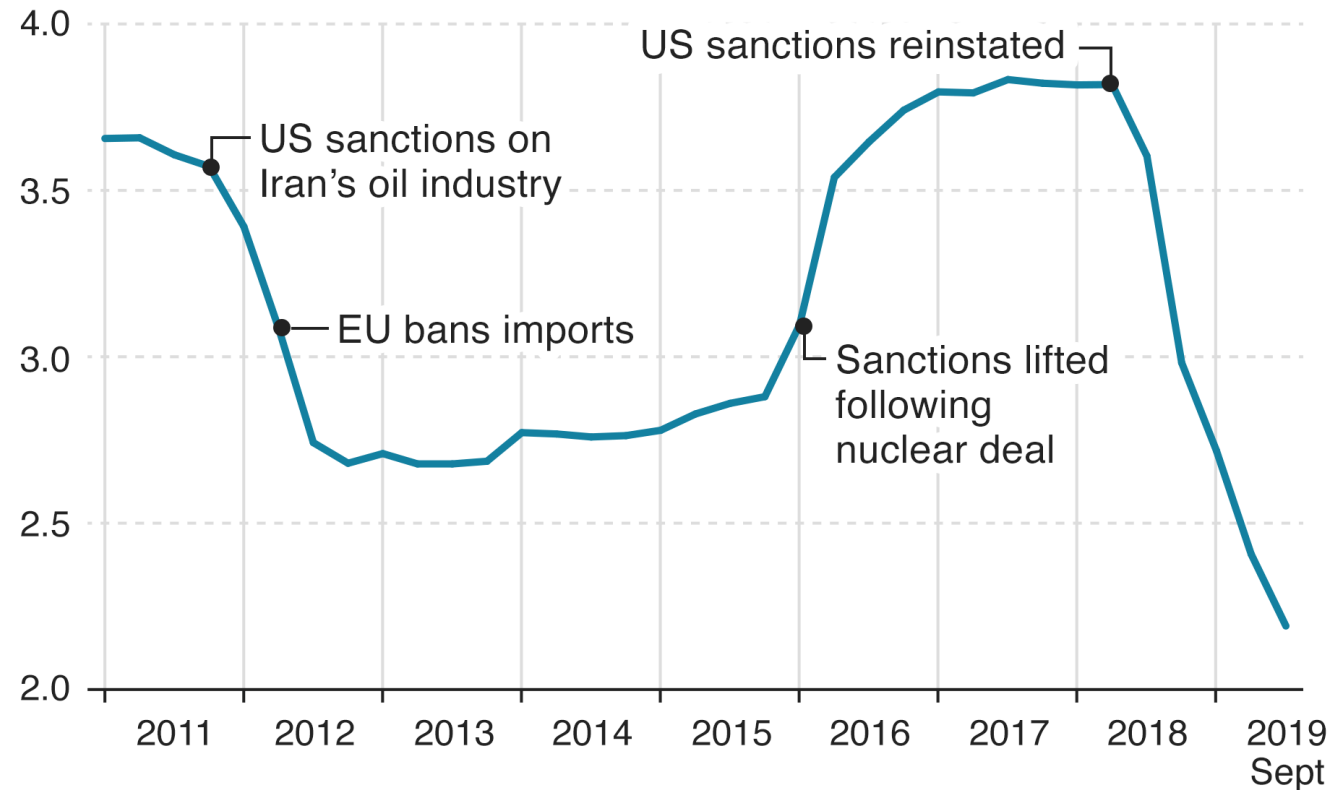
Iran's Rail Ambitions



Iran's Oil Production under Sanctions

Iran's oil output

Production in millions of barrels per day



Data to September 2019

Source: OPEC

THANK YOU !

