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China and South Asia - V

A Connectivity Stimulus for Mutual Benefit

While Beijing has conceptualised its 'One Belt One Road' Silk Route of the 21st Century in the scenario of a possible American attempt to blockade Chinese trade at the Strait of Malacca, some of these projects could have spin-off value for South Asia as well.

Shahid Javed Burki[1]

Unobstructed passage of trade through some of the world's busiest lanes has emerged as an important issue as China's relations with the United States became contentious. The US repeatedly expressed concerns about Chinese reclamation work in the South China Sea. China responded that America was not a claimant-nation in its disputes with the Philippines and Vietnam. Beijing claimed most of the South China Sea through which US$ 5-trillion worth of ship-borne trade passes every year. That notwithstanding, and also recognising the fact that for many years, perhaps even decades, Beijing will not be able to match the United States' sea-power, China undertook to create alternatives for its dependence on sea routes. In

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2013, the new leadership in Beijing announced that it would invest massive amounts of resources to develop land-based routes to China from several supply points in Asia, Africa and Europe. The proposed work acquired some urgency as the Chinese economy came face to face with a number of serious problems.

In May 2015, China's planning agency, the National Development and Reform Commission, announced 1,043 projects for implementation at a cost of US$ 318 billion. While many of these were focused on building infrastructure across the country's provinces engaged in international trade, there was a palpable shift in focus to develop inland cities and communication infrastructure. These investments were part of China's "go out" strategy – to build the Silk Road Economic Belt, also known as One Belt, One Road programme. The purpose behind this massive investment was to create an economic zone that runs through Asia, Europe, and Africa, linking China with the Persian Gulf and the Mediterranean through Central Asia and West Asia. Once completed in about ten to 15 years, this network of roads, railways and pipelines would be able to provide most of the materials, including energy, China needs to import to grow its economy. A land connection with the energy-rich countries in the Middle East and Central Asia was of considerable strategic importance for Beijing.

China also had a particular interest in exploiting Afghanistan's large mineral deposits estimated, at one point, by the Pentagon at one trillion US dollars. Afghanistan was being described as Saudi Arabia of lithium, a metal essential for the manufacture of electronic equipment.[2]

Soon after the announcement that China would undertake this massive investment, Beijing reached agreements with two countries – Kazakhstan and Pakistan – to build roads, railways, gas and oil pipelines. In March, Beijing announced support for 33 projects in Kazakhstan at a cost of US$ 23.6 billion. A month later, during a brief visit by Chinese President Xi Jinping to Islamabad, China announced that it would invest US$ 46 billion in Pakistan.

During the Chinese leader's visit, 51 agreements were signed with a dozen public and private sector entities in Pakistan. This is the first donor-financed project in which finance will flow not from government to government but between Chinese and Pakistani enterprises.

[2] James Risen, "U.S. identifies vast mineral deposits in Afghanistan", *The New York Times, 13* June 2010, pp. A1 and A6.

“Significantly, Xi’s delegation in Islamabad included high officials of the Industrial and Commercial Bank of China, China Development Bank Corporation and EXIM Bank of China – in line with the Chinese Politburo’s aim to have an increased footprint in the Indian Ocean region”, noted Dilip Hiro, an Indian journalist.[3]

The main components of the programme in Pakistan are the development of rail and road links between Pakistan’s deep-water port at Gwadar and Kashgar, an ancient city in China’s Xinjiang Autonomous Region. Pakistan also awarded a state company in China the contract to manage the port. Previously the management was with a Singapore enterprise, but it was said that the contractor had not carried out the needed works to make the port functional.

Gwadar is 386 kilometres from the Strait of Hormuz through which 30 per cent of the world oil shipment passes daily. It is Beijing’s aim to import the Middle Eastern oil through the Pakistani port, thus reducing reliance on the long, expensive and exposed sea route through the Malacca Straits. In 2013, Rory Medcalf, a defence analyst, noted that “a recognition of China’s massive seaborne oil-supply vulnerabilities has influenced Beijing’s defense, energy and foreign policies for decades. Whether or not the U.S. Navy has serious plans for the possibilities of blockading China, through the Malacca Strait and other chokepoints, there are presumably those in the Chinese security establishment who assume it does”.[4]

As Chris Devonshire-Ellis points out in his timely book published in late-August 2015, China’s proposed Silk Road Economic Belt will impact on three billion people and will unite the biggest market in the world with unparalleled potential.[5] Reconnecting China with Eurasia and Southeast Asia has become a cornerstone of China’s foreign policy, with new banks being set up, billions of dollars of loans being made and diplomatic moves all being made to ensure its success. Beijing has done detailed planning before making public the full scale of the project. The Shanghai Cooperation Organization (SCO) has admitted India and Pakistan as full members at the meeting at Ufa in Russia. Pakistan, as noted above, is to be a critical player in the implementation of this complex project. The Asian Infrastructure Investment Bank (AIIB), formally launched in August 2015, will be one of the major

3 Dilip Hiro, “China muscles way into the Indian Ocean through its Silk Road link with Pakistan”, *The World Post*, 31 July 2015, retrieved on 1 September 2015.

4 Rory Medcalf, “A U.S. Naval Blockade of China?” *The Diplomat*, 13 March 2013, retrieved on 1 September 2015.

5 Chris Devonshire-Ellis, *China’s New Economic Silk Road: The Great Eurasian Game & The String of Pearls”*, Hong Kong, Asia Briefing, 2015.

conduits of funds for the projects included in this massive construction programme. A multilateral Silk Road Gold Fund will be another source of the needed finance.

The origin of this project goes back to 2009 when Chinese economist Xu Shanda proposed a large plan to create future demand for his country's exports by providing loans for infrastructure projects that would be handled by Chinese companies using mostly Chinese labour and Chinese construction material. It appears that Beijing had anticipated some of the problems with its economy that surfaced in August 2015 and took the world by surprise. It hopes that by focusing on investments in the Silk Road it will be able to provide a new kind of stimulus to its troubled economy.

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