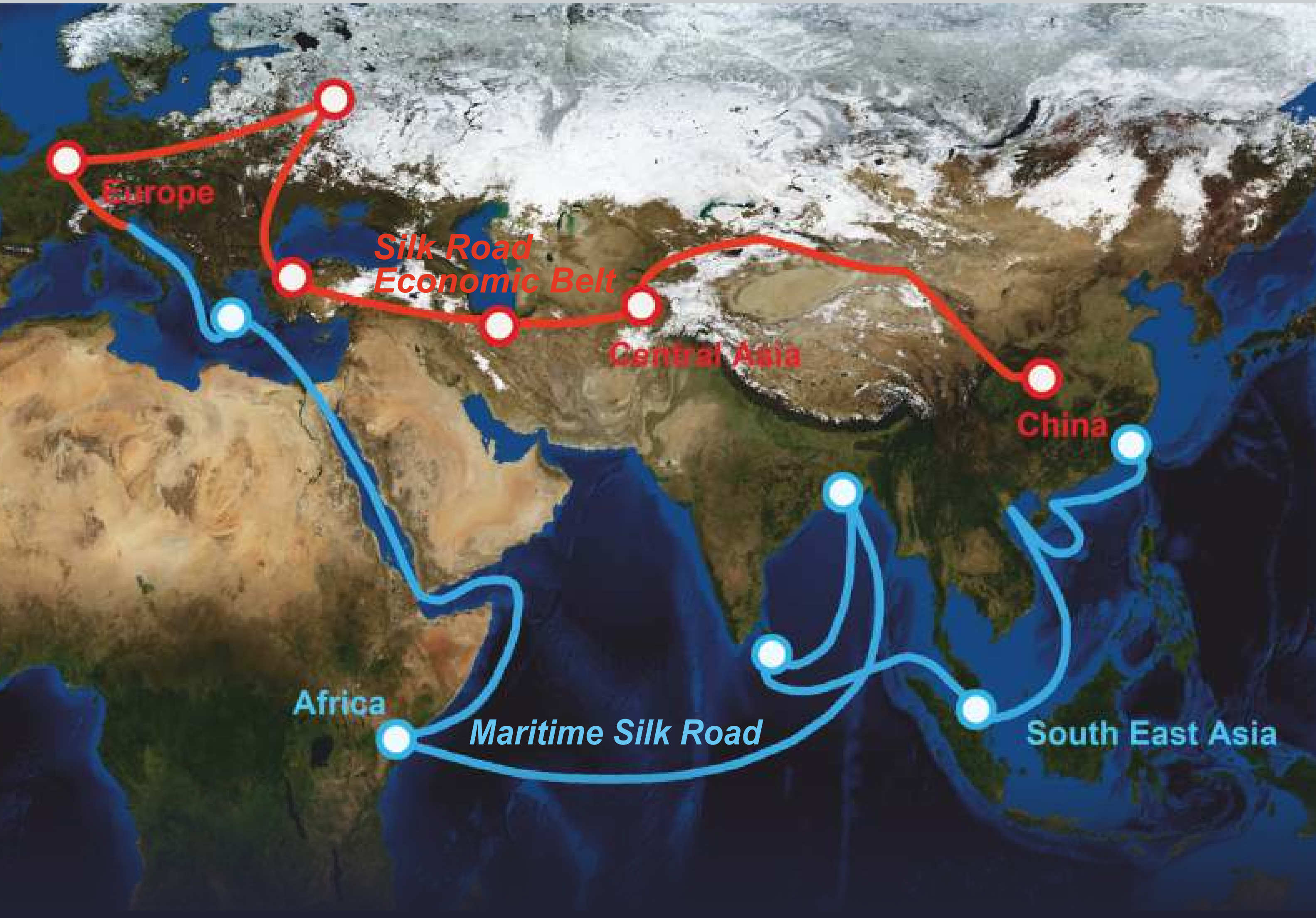
The Belt Road Initiative aka One Belt One Road scheme



The Belt and Road Initiative aka

One Belt One Road Scheme

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DISCLAIMER

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Abstract

China's Belt and Road Initiative (BRI) is a combination of planning for sustainable economic growth, market development and dominance, export of excess capacity and geopolitical assertion. It takes a range of already existing and ongoing Chinese governmental and state owned enterprise activities in the target regions of Central, South and South-east Asia, East Africa, Middle East and the Indian Ocean region and seeks to provide them with an overall coherence and direction.

This paper seeks to provide a descriptive account of the BRI by outlining Chinese economic and political activities in the broad region outlined above and seeking to connect the threads to create a narrative of what the BRI is all about and what it means for the region and the world.

The basic argument is that the BRI seeks to compact a large region comprising of the Indian Ocean littoral and Eurasia through highways, high-speed rail lines, pipelines and maritime linkages. Eurasia covers 70 per cent of the world's population, 75 per cent of its energy resources and 70 per cent of its GDP. Through enhanced diplomatic coordination, standardised trade facilitation, customs procedures, free trade zones, it seeks to take China's economy to a new plane, even while integrating those of the participant countries with its own economy. While this appears to be a mercantilist project, it is inevitably accompanied and synchronised with an expanding Chinese military footprint.

As of now, the BRI is a fairly loose combination of old projects, new schemes and future infrastructure development plans layered over by bilateral trade agreements that seek to promote Chinese trade to Europe and the Indian Ocean Region. But it has now taken shape as a massive, centrally directed core plan under Xi Jinping's leadership, to take China into a New Era of prosperity and power.

China will become the dominant regional power in East and Central Asia in the short term, and a major Indian Ocean power by the 2030s. By 2049, China hopes to emerge as the principal pole of the economically and diplomatically integrated Eurasia-- a geopolitical rival of the United States.

Many target countries view this as a chance to get onto the economic growth bandwagon. They are heartened at the prospect of getting investment to enhance their infrastructure and industry, but the way this is structured, also means a growing economic inter-dependence on China.

However, simply put, BRI is aimed at promoting Chinese national interests and notwithstanding claims that they pursue a "win-win" model, there will be losers and winners in the process.

The disruption created by BRI can have a negative fallout for countries like India and Russia which view certain regions as part of their own sphere of influence. Many Indians see the BRI through the tinted glasses of the China Pakistan Economic Corridor (CPEC). Likewise, the Russians will see it through the prism of Chinese activities in Central Asia. But the reality is that Central and South Asia or Africa is not what BRI is all about; its principal economic goals relate to tying rich Europe close to a China that is becoming richer.

For India, blocking the BRI is not feasible, ignoring it would be self-defeating; New Delhi needs to work with like-minded states on a strategy that can persuade China to make it a participatory exercise or, minimise its downsides to its own economic and geopolitical standing by devising ways and means to use BRI to its own ends.

While railroads and pipelines may be hard-wired to destinations, the same is not necessarily true of ports. Indian corporates may find business and investment opportunities in the infrastructure being created in the name of BRI is Southeast Asia, Middle East and the Indian Ocean Region.

Introduction

During a visit to Kazakhstan in late 2013, China's President Xi Jingping first raised the idea of the new Silk Road Economic Belt (SREB) leading from China to Europe, via Central Asia, to reconstitute one that existed 2,000 years ago.[1] In the short space of a year, the idea morphed into a major foreign policy and economic strategy initiative, first called the One Belt One Road (OBOR) and later simply, the Belt and Road Initiative (BRI), by incorporating a maritime component called the 21st Century Maritime Silk Road (MSR).

The idea of Europe-Asia land connectivity is not new, as the name suggests, the caravans plying on the Silk Road began in antiquity, and even the Trans-Siberian Railway has been around for a while. In more recent times, the idea got its fillip from the concepts of ESCAP's Asian highway, the Asian Railway, the Asian economic corridor, ideas which have been around since the 1980s when Japan sought to be its eastern anchor. Maritime linkages between Europe and Asia, of course, have been around since antiquity, barring some periods of disruption.

The political, economic and military roots of the BRI go back decades before its formal announcement.[2] In 1996, Russia, China and all Central Asian Republics, minus Uzbekistan , created the Shanghai Five grouping to promote military trust. In 2001, with Uzbekistan's accession, the outfit took a new name, the Shanghai Cooperation Organisation (SCO), which was also seen as a riposte to American move in Afghanistan, the western military presence in Dushanbe, Temez and Karshi Khanabad, the promotion of liberal democracy and activities in Central Asia and the Former Soviet Union. Subsequently, the SCO took up projects related to transportation, energy, telecom, even while discussing foreign affairs, defence and other issues.

Through 2013 and 2014, despite numerous conferences and statements, it was unclear as to what the OBOR or BRI were all about. Then in March 2015, an action plan was released by the Ministry of Foreign Affairs, the National Development and Reform Commission and the Ministry of Commerce. It laid out a vision of the BRI, speaking of the plan for China-led

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[1] *"Xi suggests China, C. Asia build Silk road economic belt," Xinhuanet September 7, 2013 http://news.xinhuanet.com/english/china/2013-09/07/c_132700695.htm*

[2] *Raffaello Pantucci has argued that the BRI policies date back to the 1990s, "How new is the 'Belt and Road," China Policy Institute: Analysis October 7 2016 https://cpianalysis.org/2016/10/07/how-new-is-the-belt-and-road/*

infrastructure construction, tariff reductions, simplification of customs regulations to permit seamless movement of goods over land and sea between China and Europe. It promised to enhance the infrastructure and economies of the states through which the BRI operated.[3]

The officially stated mission of the BRI is to develop links on the basis of "mutual trust, equality and mutual benefits, inclusiveness and mutual learning, and win win cooperation." A Chinese scholar Wang Jisi has noted that, it is aimed at organically linking the Chinese dream to the Global Dream.[4] However, others have seen it as a Chinese Marshall Plan, to promote the growth in its poorer, but vulnerable, western regions, as well as adjacent and strategic Central Asia, or as a pivot towards Eurasia, in response to the American rebalance to Asia.[5]

Chart 1: Chinese map marking out the important routes and cities involved in the Belt-Road Initiative

For the Chinese, the BRI is an enormous task, a hugely layered strategy aimed at making China a true world power by its second centenary--the founding of the PRC in 2049. For this it requires sustained econmic growth, albeit not at the sizzling pace of the past, but sufficient to become a knowledge-based economy, enable the country to escape the middle-income trap and defeat external competition.

[3] *"Vision and actions on jointly building Silk Road Economic Belt and 21st century Maritime Silk Road" Issued by the National Development Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce, People's Republic of China with State Council authorization, March 2015. http://news.xinhuanet.com/english/china/2015-03/28/c_134105858.htm*

[4] *Wang's comments were made in the course of a presentation conference on China's Eurasian Pivot in Shanghai between June 25-26, 2015 organised by the Shanghai Academy of Social Sciences and the Royal United Services Institution.*

[5] *Enda Curran, "China's Marshall Plan," Bloomberg News, August 8, 2016 http://www.bloomberg.com/news/articles/2016-08-07/china-s-marshall-plan; Michael Clarke, "Understanding China's Eurasian Pivot," The Diplomat September 10, 2015, http://thediplomat.com/2015/09/understanding-chinas-eurasian-pivot/*

As plans go, it is claimed that the BRI will link 65 countries and 4.4 billion people. It has two components, the Silk Road Economic Belt (SERB) beginning from its ancient starting point Xi'an in western China, across central Asia to the Middle East, Russia and Europe. The Maritime Silk Route (MSR) would go through the South China Sea to the ASEAN, Indian Ocean Region, East Africa, the Red Sea and then the Mediterranean. It will benefit 63 per cent of the global population with a collective annual GDP of $ 2.1 trillion, accounting for 29 per cent of the world's wealth. The BRI is seen as the vehicle through which the Chinese economy will rebalance to achieve its goal of becoming a "comprehensively well off society" by 2049, the centenary of the founding of the People's Republic.

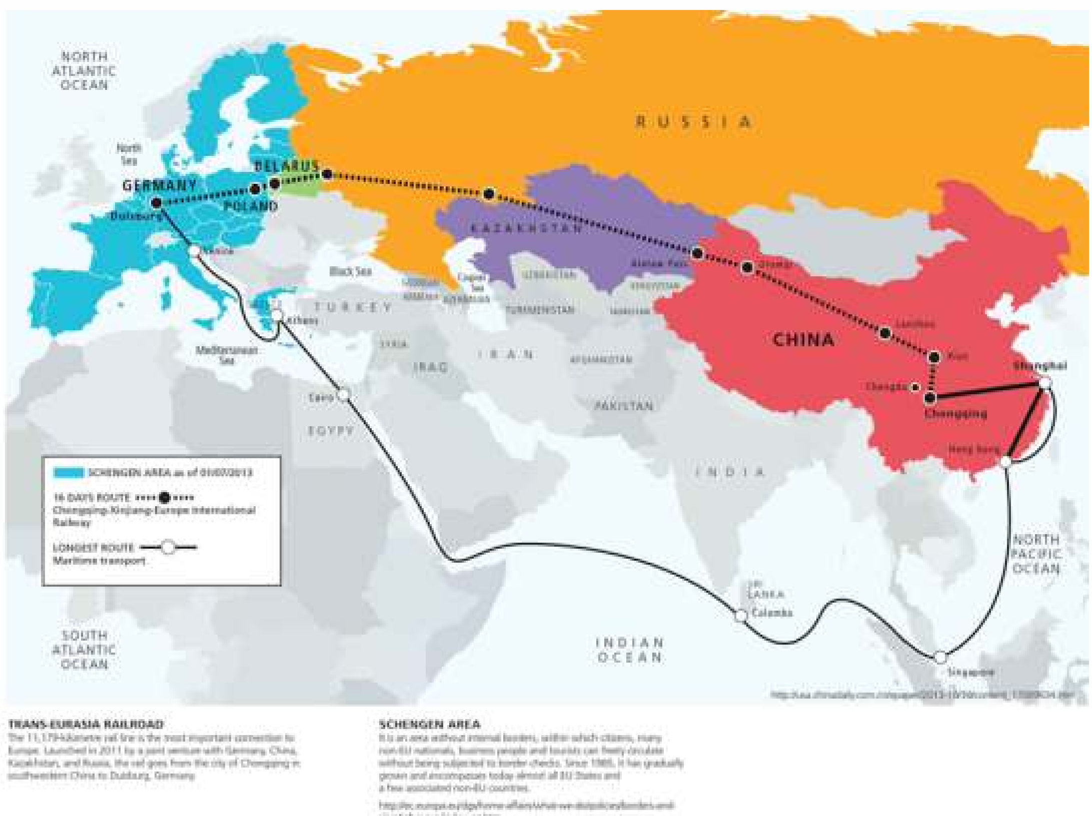

Chart 2: The Chongqing-Duisburg Trans-Eurasia Railroad & Schengen Area

The BRI is a response to the rapidity of the growth of Chinese comprehensive national power. By 2012, China was not just a major global economy, but a world leader and there were demands that it play a greater role in the world system. However, the Chinese have determined that the existing powers will not easily offer up their share in global political and financial institutions to accommodate China, and hence, the time had come for China to adopt a more active set of policies so as to protect its growing economic, political and security interests around the world.

So, the BRI was conceived as a national project, using Chinese funds and companies to achieve Chinese goals. But, today, given the massive economic and political spread of the country, it has developed a profile incorporating the entire Eurasian landmass, parts of Africa and the Indian Ocean. China has invited all the countries of the region to participate in the BRI, but given the Chinese dominance, their role and, presumably, the scope of the projects they will be involved in, will be subordinate to Chinese interests, in fact, if not in theory.

Developing connectivity is a central theme in BRI, which means the construction of pipelines, fibre optic links roads, railways and ports. This is linked to another facet of the Chinese economy. Having been on an infrastructure development spree through the country, consuming vast amounts of steel and cement, China had developed a dangerous overcapacity in this area. By pushing infrastructure projects in Central Asia, Pakistan, South-east Asia and Africa, China is proposing what it claims is a "win win" solution--its SOE's can deploy their excess capacities, while the recipient country gains in terms of infrastructure.

China is in the midst of rebalancing its economy from one based on investment and export to one on domestic consumption. The big problems it faces is that even as it slows it has to cope with the rise of indebtedness. This factor makes economic viability an important driver for BRI projects, especially since SOE's who in the main execute them, are also under pressure back home to clean up their debt overhang. Beijing is in no mood to underwrite the debts of its foreign partners, but there are always strategic considerations for which rules can be bent.

In his work report to the National People's Congress in March 2016, China's parliament that meets annually, Premier Li Keqiang said that China was facing a volatile market and sluggish manufacturing and needed to rein the slowdown in and restructure the economy. He spoke of supply-side structural reforms which included the need to cut red tape, support for innovative enterprises, closure of redundant factories and consolidation of some state owned enterprises. The word "innovation" figured 61 times in Li's speech when he noted that "Innovation is the primary driving force for development and must occupy a central place in China's development strategy."[6]

A report on the goals and missions related to the BRI in the 13th Five Year Plan issued during the annual session of the NPC called for quickening construction, developing country-to-country partnerships as well as leverage the new Silk Road Fund, the Asia Infrastructure Investment Bank (AIIB) and the New Development or BRICS Bank (NDB) with existing global financial institutions. It identified the priorities in building the China-Mongolia-Russia, the China-Central Asia-West Asia, China-Indochina, China-Pakistan, Bangladesh-China-India-Myanmar economic corridors and the new Eurasian Land Bridge.[7]

China's determination to press ahead with BRI became apparent in the mega show it organized in Beijing on May 14-16, 2017 called the Belt and Road Forum for International Cooperation (BRF). At one level it was a show of force to display the support that the initiative had garnered, at another, it was to reassure the world that the initiative did not seek to displace the current world order, but supplement it.

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[6] *"Xinhua Insight: China adopts new strategy to refuel growth" http://news.xinhuanet.com/english/2016-03/06/c_135160728.htm*

[7] *See the live blog of the 12th National People's Congress session on http://live.china.org.cn/2016/03/04/premier-li-keqiang-delivers-govt-work-report-at-12th-npc-session*

Present on the occasion were the heads of the World Bank and IMF, as well as representatives of the US, Japan, UK, Germany and other countries known to be skeptical of the initiative. Some 29 heads of state and government, more than 130 countries and 70 international organization participated. India, however, rejected an invitation to attend and issuing a strong statement outlining the reasons for doing so.

In his inaugural speech, President Xi Jinping outlined the benefits of the BRI--imports worth $2 trillion from participant countries over the next five years; an additional $ 14.5 billion funding for the Silk Road Fund. China Development Bank and Ex-Im Bank of China setting up lending schemes of $ 37.5 billion and $ 20 billion respectively; a special $ 8.7 billion fund for poverty alleviation in the participating countries. More important, Xi emphasized that the initiative would be "an open platform" and feature "extensive consultations and its benefits would be shared by all countries involved."[8]

The following month, June 2017, China released a document laying out the strategy which to be followed for the maritime leg of the BRI. This vision document, aimed at soothing fears over China's South China Sea posture, spoke of the need to develop the Blue economy by "shelving differences" , promoting openness, market-based solutions and aiming for "joint development and benefits sharing." Blue Economic Passages to Indian Ocean, Africa and Europe, as well as the South Pacific via the South China Sea, and to Europe via the Arctic were envisaged by the BRI. The initiative would emphasise green development, maritime connectivity, maritime security and so on. To this end, China had already mobilized resources through the China-ASEAN Maritime Cooperation Fund and the China-Indonesia Maritime Cooperation Fund and taken up ongoing projects in Gwadar, Hambantota, Kyaukphu, Mombasa etc.[9]

Later, at the end of the year at the 19th Congress of the Communist Party of China, an amendment was effected into the Party Constitution noting that "following the principle of achieving shared growth through discussion and collaboration, and pursuing the Belt and Road Initiative". This was aimed at signaling that the BRI is something closely associated with Xi Jinping and writing it into the constitution gives is a legitimacy not just as state policy, but that of the CPC, itself.[10]

China's principal geopolitical and economic focus remains the East and the Pacific region. However, in rebalancing itself, it is looking to the future and seeking to carve out a middle position where it will be the major power with Europe on its west, and the United States to its east. China aims to be a bridge between the two, as well as a hub of a larger region surrounded by India, Japan, ASEAN and Russia.[11]

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[8] *Full text of President Xi's speech at opening of Belt and Road forum, Xinhuanet May 14, 2017 http://news.xinhuanet.com/english/2017-05/14/c_136282982.htm*

[9] *Vision for Maritime Cooperation under the Belt and Road Initiative Xinhua June 20,2017 http://news.xinhuanet.com/english/2017-06/20/c_136380414.htm*

[10] *Xinhua, "Belt and Road" incorporated into CPC Constitution, October 24,2017 http://news.xinhuanet.com/english/2017-10/24/c_136702025.htm*

[11] *Wang Jisi, "China in the Middle" The American Interest volume X No 4 April (March/April) 2015*

There are, of course, long standing maritime connections, as well as an existing Asia-Europe railway connection in the form of the Trans-Siberian Express and the route through Kazakhstan. What the SREB and MSR are seeking to do is to enhance the quality of the connectivity through developing physical infrastructure, as well as create free trade areas and customs procedures to make the passage of goods as smooth and as fast as possible.

The land based SREB would begin in Xian in Central China, before going west through Lanzhou (Gansu), Urumqi (Xinjiang) and Horgos (Xinjiang) near the border with Kazakhstan. Thereafter it would run southewest from Central Asia (Almaty, Bishkek, Dushanbe, Samarkand) to northern Iran (Tehran) before going west through Iraq, Syria and Turkey. It would cross the Bosporous at Istanbul and head northwest through Bulgaria, Romania, Czech Republic and Germany (Duisburg) and then head northward to Rotterdam and then southward to Piraeus in Greece to meet the 21st century Maritime Silk Route.

The MSR would lead off from Chinese ports of Quanzhou (Fujian province), Guangzhou, Beihai (Guangxhi), Haikou (Hainan) before heading south to the Malacca Strait. From Kuala Lumpur, it would head to Colombo and Kolkata and thereafter cross the ocean to Mombasa/Dar es Salaam. Then it goes around the Cape of Good Hope, or the Suez Canal to and to Europe where it meets the SREB in Piraeus.

In undertaking to build a SREB and the MSR, China hopes to kill several birds with one stone :

First, develop ports, railways, pipelines and highways across Asia and the Indian Ocean, where China can utilise its excess capacity in steel, cement and infrastructural engineering.

Second, create high speed transportation networks and crunch the vast distances of Eurasia to link rich Europe, a market for higher end goods being made in a steadily enriching and innovative China.

Third, create an energy route from the Middle East and Africa that will be proof against the possibility of interdiction at the choke points like Hormuz and the Malacca straits.

Fourth, shed light manufacturing and go up the global value chains. So, the BRI will help China to send these jobs to target countries in Asia and Africa, even while integrating them in its value chain.

Fifth, use Chinese cash reserves to promote Chinese-led financial institutions like the AIIB and the NDB and give a fillip to existing Chinese financial institutions.

Sixth, to conslidate China as a maritime power in the South China Sea and the Indian Ocean and its littoral.

Seventh, develop China's poorer western provinces, in particular Xinjiang, which has a violent separatist movement and is viewed as a major vulnerability by China.

Eighth, give China the wherewithal to compete with the TTP, TTIP or any future mechanisms that are seeking to set new trading norms and regimes. Some of these regimes are aimed at offsetting the gains China made from its entry into the WTO.

Ways and Means

The BRI seeks to provide some sort of a common narrative to the policies China has been pursuing in various countries. Many past and ongoing projects have now been merged into the BRI vision. In the period 2001-2014, the top receipients of China's assistance were Iran ($143 billion), Pakistan ($ 135 billion), Venezuela ($126 billion, Nigeria ($ 110 billion), Brazil ($80 billion) and Indonesia ($61 billion). The aid programmes covered 92 emerging market countries and focused on mining and exports of natural resources and their associated infrastructure.[12]

Now it is seeking to seed the region with industrial and commercial partnerships wherein China occupies the higher end of the value chain. In line with this, it is seeking to incorporate BRI agreements with existing economic and geostrategic groupings. Thus it will work with the ASEAN Ten Plus One arrangements in South-east Asia, BRICS countries like India, Russia and South Africa the Eurasian Economic Union, the Central and Eastern Europe Community (CEEC) within the European Union and the individual states and regional organisations of the Middle East, South Asia and East Africa. It will seek to leverage existing agreements and plans such as the New Eurasian Continental Bridge, the China-Singapore economic corridor which goes through the Indo-China Peninsula, the Bangladesh-China-India-Myanmar (BCIM) economic corridors as well as groupings like the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC) involving Bangladesh, Myammar, India, Sri Lanka, Thailand and China.

China's banks have over $ 15 trillion in deposits and its foreign exchange reserves are more than $ 3 trillion. The principal funders are the four big state-owned banks--Bank of China (BOC), Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB) and the Agricultural Bank of China (ABC).

In turn they have shelled out money to banks like the China Development Bank, Export-Import Bank of China (Ex-Im) and the Agricultural Development Bank of China. Significant funding has also been provided to the China CITIC Bank, and the China Export Credit Insurance Corporation. Likewise, the huge public sector enterprises like the China Harbour Engineering Company (CHEC), the China Merchants Ports Holding Company (CMPHC),

[12] *Charles Wolf, "China's Foreign Aid Offensive," The Weekly Standard, June 29, 2015 http://www.weeklystandard.com/chinas-foreign-aid-offensive/article/978676*

PetroChina, Sinopec, China National Petroleum Corporation (CNPC), China National Offshore Oil (CNOOC), China Railway Construction, China Railway Engineering or the Three Gorges Corporation(YHC) are active in the execution of BRI projects.

To directly fund the BRI, China has set up a new Silk Road Fund with $ 40 billion during the APEC meetings in Beijing in November 2014. At the same time, the Bank of China has extended credit of $ 20 billion to BRI projects in 2015, and is offerng a total of $ 100 billion in the succeeding three years. The China Development Bank, one of the country's main policy banks has calculated that "some 900 projects worth a total of $ 890 billion are currently under way or planned."[13]

The Chinese side also sees the $ 100 billion AIIB as a parallel funding institution for the BRI. However, they reject suggestions that they aim to replace the existing regional and multilateral development banks like the World Bank and the ADB. Initial projects under BRI emphasise working in tandem with them, though China's emerging clout can hardly remain hidden.

The sheer scale of BRI endeavour indicates that the success of the BRI will depend on greater coordination of policies in a range of areas such as credit, industry, fiscal and taxation rules, investment procedures and the overall foreign policies. Such close coordination would obviously have geostrategic consequences and being the driver of the processs and the biggest player in terms of its economy, China hopes to emerge as a great power by 2049.

The challenges before the Chinese are obvious. First, the internal challenge of coordinating action on the BRI between diffferent departments like the NDRC, the Commerce Ministry, lack of experience and human resources, technological knowhow and expertise which will be required on a vast scale. Second, there are the challenges of getting the private sector to invest in target countries. Third, are the risks, both political and economic, in relation to the political instabilities, economic problems, ethnic and religious complexities of the target countries. And finally fourth, are the problems that could arise from the fact that, as of now, countries like India, US, Japan and even Russia have not been too supportive of the BRI and view it with some suspicion.

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[13] *James Kynge, " 'One Belt, One Road' set to turbocharge renminbi usage," Financial Times, November 30, 2015, https://www.ft.com/content/6f105c2a-7f02-11e5-98fb-5a6d4728f74e*

BRI: The Economic Imperatives

The key and built in political imperative is the need of the Communist Party of China to provide leadership which will provide sustained economic growth. This arises out of the unwritten compact between the Chinese middle class and the CPC that the latter will provide governance which will deliver economic growth and prosperity. In return, the middle classes will remain loyal to the party and not question the legitimacy of its rule.

After the accession to the WTO, China became a larger and more open economy, with a greater impact around the world. Today, it is the second largest economy in the world and hence a significant source of world demand. Growth averaged 9.6 per cent since 2000 and led to China's share of the global GDP increasing from 3 per cent to 14.8 per cent in 2016. This was largely due to investments and exports, as the country developed its physical infrastructure and used its disciplined labour to become the world's top manufacturing power.

Further, after the collapse of demand following the financial crisis of 2008, China began to rely on investment to boost GDP growth. China's $600 billion economic stimulus during the world economic crisis of 2008 was a master stroke that led to the doubling of its GDP growing from around $4.5 trillion to $ 9 trillion by 2014. But in the process, its debt to GDP ratio has risen from 150 per cent to nearly 260 per cent in the ensuing decade.[14] The exports, aided by an undervalued yuan and repressed wages, led to a build up of the current account surplus before 2008, but after the 2008 crisis, the investment ratio rocketed up to 45 per cent, contributing to falling efficiency and debt. Rapid economic growth also led to rising inequality and deteriorating environment.

In recent years the Chinese economy has perceptibly slowed down to what the Chinese authorities say will be a "new normal." China has now become deeply integrated into global supply chains and hence what happens there has implications elsewhere as well.

In recent years, China has sought to rebalance its economy from investment and exports towards consumption. As of now consumption accounts for only 35 per cent of the Chinese GDP, in contrast to 70 per cent in the US. The slowdown in GDP growth has been accompanied by a decline of export and import growth. Just as its rapid growth helped the

[14] *"The coming debt bust," The Economist May 6, 2016 http://www.economist.com/news/leaders/21698240-it-question-when-not-if-real-trouble-will-hit-china-coming-debt-bust*

world economy, its rebalancing will also have a varying impact on global trade, investment and commodity prices. A smooth transition of the Chinese economy will benefit the global economy in the long term. New opportunities could open up for countries with abundant labour to take up the production of some labour intensive goods, on the other hand, it also provides opportunities for countries to export higher value goods to China for consumption.

The problems confronting China are complex. Chinese industries in areas like cement and steel, aided by energy subsidies and easy credit have led to an excessive expansion of this sector and helped create a global overcapacity. Nevertheless, within China they helped build a vast network of railroads, highways, bridges and cities. But there is only that much infrastructure that can be built within. And in any case, with the downturn of the global economy, China's steel production capacities, which exceed those of the world combined, have become a huge burden, especially with countries placing restrictions on imports.

But the process of rebalancing is hampered by structural problems, not the least that the Chinese economy is dominated by state owned enterprises (SOEs) and other state owned businesses who not only skew consumption, but also the rules of business at the expense of the private companies and ordinary consumers.

So far, according to a Chinese economist at the IMF, the progress has been mixed. It has been strong in switching from external demand to domestic demand in pushing growth, but uneven in other areas. According to him, consumption is now contributing more than two thirds of GDP growth. He says that China has made substantial progress in switching from industry to services in line with the international experience. However, there has not been sufficient progress in reducing reliance on credit. Indeed, he says that the use of credit to promote growth has actually increased. Even while the rebalancing of the economy is a work in progress, there is need to restructure and reform state owned enterprises and reduce credit to the nonfinancial private sector.[15]

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[15] *Longmei Zhang, "Rebalancing in China-Progress and Prospects," IMF Working Paper September 2016 WP/16/183*

BRI: The External Imperatives

There are three issues here when looked at from the Chinese prespective:

First, the SREB and MSR will see the development of infrastructural, economic and financial linkages between China and its immediate neighbours and the near abroad--Russia, Central Asia, South Asia and South-east Asia and the Indian Ocean. The emerging pattern visible shows Chinese policy tending to create dependencies on Chinese capital in many of the countries. This will aid China in consolidating itself as the a regional power in Central, South and South-east Asia and develop connectivity and linkages to enable a major outreach to Europe, the world's biggest economy.

Second, such a consolidation will help China to gain economic and political heft to deal with its peer competitor--the United States of America.

Third, this Eurasian consolidation will ease its concerns over the security of its sealanes. China's enormous economic growth has been based on a vast use of energy resources, sourced domestically as well as from abroad. At present, 43 per cent of Chinese oil and 18 per cent of its natural gas comes through the Straits of Hormuz and 82 per cent of its oil and 30 per cent of its gas go through the Straits of Malacca. The Chinese are aware that for the foreseeable future, the United States Navy will remain the dominant global force.

Bypassing sea lanes of communications is an important element of PRC strategy which manifests itself in developing energy and transportation linkages across the Eurasian landmass and also from places like Pakistan and Myanmar. As the map below indicates that a great deal of Chinese oil and natural gas continues to go through important choke-points such as the Malacca Straits and the Straits of Hormuz. Secure energy flows are therefore a vital national necessity. With its bases in the Persian Gulf and Diego Garcia and its alliance relationships, the U.S. has the ability to interdict Chinese cargo ships and oil supplies.

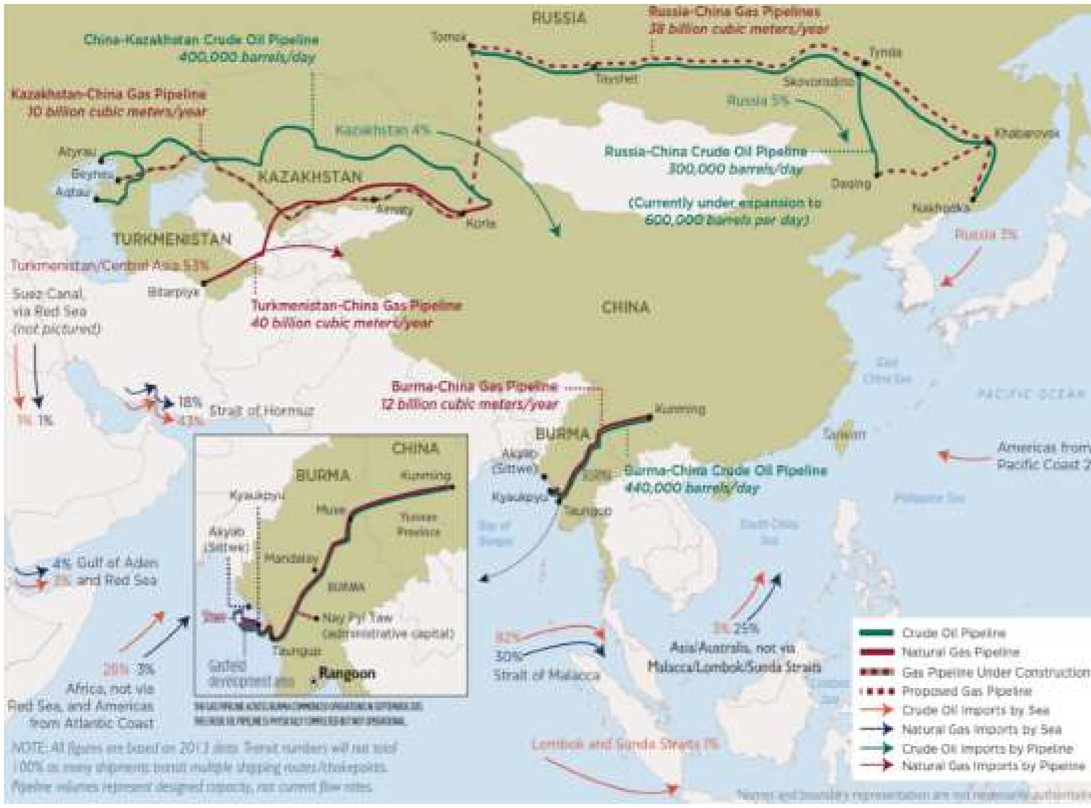

Chart 3: (U) China's Import Transit Routes/Critical Chokepoints and Proposed/Under Construction SLOC Bypass Routes

Since the flag follows trade, it is not surprising that China's growing economic footprint is already being accompanied by an expansion of its military footprint. China's peacekeeping contributions to Africa began in the 1990s with commitments reaching 2,000 troops by 2009. China has provided protection to its oil interests in South Sudan and also participated in the UN mission in Mali.[16]

In December 2008, China announced its decision to deploy three People's Liberation Army Navy (PLAN) ships with the international flotilla to fight the piracy in the Gulf of Aden. Since then at least three ships have been in the region at any given time. A total of 27 task forces have been deployed so far employing more than 70 ships of PLAN till Aug 2017.

This has given the PLAN an invaluable experience in out of area operations as well as what are called Military Operations Other Than War (MOOTW). It is not surprising that despite the fact that no piracy incident occurred between 2013-2016, the Chinese not only continued their operations but have actually enhanced their presence with the establishment of a base, the first outside its territory, in Djibouti.

[16] *Frans Paul van der Putten, "China's evolving role in peace-keeping and African security: The deployment of Chinese troops for UN Force protection in Mali," Clingendael Report (Netherlands Institute of International Relations) September 2015*

The Chinese rationale has been two-fold. First, that as many as 1600 Chinese vessels pass through the Gulf of Aden annually, indeed, there are more ships bearing oil using this route than those going through Hormuz. In addition, the Chinese see the utility of Djibouti to service their peace keeping operations in Democratic Republic of Congo, Liberia, South Sudan, Mali and Lebanon.[17] China has just built a rail line linking Djibouti with Addis Ababa and is also funding the expansion of the Djibouti port.

However, what has caused greater alarm in India has been the stepping up of PLAN activity in the other parts of Indian Ocean Region (IOR). In December 2013, China carried out its first nuclear submarine patrol in the Indian Ocean. In September 2014, a Chinese diesel-electric submarine was spotted in the IOR which was then seen in Colombo port, returning to China in November. In May 2015, a Yuan-class submarine participated in an anti-piracy exercise off Karachi. Since then Chinese submarine presence has become fairly routine in the IOR.

Indian concerns have also been stoked by developments in the Maldives, especially a 2015 law which allows foreigners to own land in perpetuity, provided 70 per cent is reclaimed from the sea. According to reports, China is interested in building a port in Gaadhoo Island in the southern part of the Maldives, near the island of Gan which was an erstwhile British communications base.

China is already a major supplier of military equipment to several countries that support the BRI scheme such as Myanmar, Bangladesh, Sri Lanka, and, of course Pakistan. All of them are, it may be pointed out, India's neighbours. China has also supplied DF 21 ballistic missile systems to Saudi Arabia to upgrade the older CSS2 IRBMs missiles provided in 1988 and is deepening its ties with the Middle East, to protect its growing interests. In a visit to Saudi Arabia in August 2016, Chinese Defence Minister said that his country was willing to take its ties with Saudi Arabia to a new level.[18]

In the case of Pakistan, a significant development is the decision to supply 8 conventional submarines with air independent propulsion. These will add significant capability to the Pakistan Navy and no doubt, provide a level of interoperability of the PLAN with the PN.

We do not know as yet the medium term impact of military reform in China. In the plans announced in early 2016, China has created theatre commands which mimic the American commands. However, as of now, they have not designated them for geographies outside the national borders of China. In the future, as Chinese military capacities grow, it is possible to see the Western Theatre Command headquartered in Urumqi, for example, playing a greater role in Central Asia, Middle East, and even Africa. The command's units already face India.[19]

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[17] *Zhou Bo, " Station looks beyond anti-piracy mission," China Daily March 18, 2016 http://usa.chinadaily.com.cn/epaper/2016-03/18/content_23948894.htm*

[18] *"China willing to advance military relations with Saudi Arabia," China Military Online August 31, 2016 http://english.chinamil.com.cn/view/2016-08/31/content_7235055.htm*

[19] *See Manoj Joshi, "Xi JInping and PLA Reform," ORF Occasional Paper No. 88 February 2016 (New Delhi, Observer Research Foundation)*

BRI: Destination Europe

The BRI may be a cumulation of existing and planned Chinese economic and political activity in its neighbourhood and near abroad. But at the end of the day, it is destination called Europe. Both the land and maritime corridors of the BRI converge there. As China moves its manufacturing up the value chain seeks to become an aggregator of high-quality goods, it sees in Europe the potential market it would like to engage with. Likewise, it would like to import high quality and high-value European goods for its growing middle classes.

Europe is the largest economy in the world, if you count the 28 EU nations plus Norway, Switzerland and Iceland. This grouping accounts for 25.4 per cent of the world's output in 2014 as compared to the US (22.5 per cent) and China (13.4per cent). They also account for 28.5 per cent of all consumer spending in 2014 above the 26.6 per cent spent by US consumers and 15.6 per cent by all BRICS nations combined. Europe is both a market, as well as a source of high-tech and finance.

China is EU's number two trading partner behind the US and their trade amounted to nearly $ 633 billion in 2015. China is the EU's biggest source of imports which are dominated by industrial and consumer goods. China is the second largest destination of EU exports after the US.

China has received political support from Europe for the BRI. Countries like UK, France, Germany and other European nations ignored Washington and signed up with the AIIB. China has also become a member of the European Bank for Reconstruction and Development (EBRD)

In this, relations with Russia are a category in themselves. At one level, Russia is a key component of the railway route to western Europe, at another it is a source of energy and other mineral resources which bypass China's sea lines of communications dilemma. At yet another level, Chinese infrastructure construction, especially gas and oil pipelines and new railway links, have negated Russia's historic connectivity advantage in the region. Ironically, without the 2011 Eurasian customs union between Russia, Belarus and Kazakhstan, fast transcontinental movement of goods from China to Europe would not have been possible.

Investment and technology

In recent years, China has acquired companies all over the world in a pattern that sees a shift from acquiring brands required to keep their old economy running, to those where they are acquiring technology needed to promote an economy which is based on innovation and consumption. China has made significant energy related acquisitions such as CNOOC's 2012 acquisition of Canada's Nexen for $ 14 billion, along with smaller deals elsewhere. China's top cement maker Anhui Conch is building large plants in Indonesia, Vietnam, and Laos, and CITIC Bank has an oilfield and asphalt factory in Kazakhstan.

In 2013, the China and Russia signed a $270 billion deal to supply oil over the next 25 years, this was followed by another $ 85 billion prepaid deal for 200,000 bpd of oil. Another $400 billion deal will see the supply of gas from Siberan fields to Russia making it the primary destination of Russian gas. Because of the western embargo on Russia, China has also become an important source of FDI into the country, which has increased by a factor of five from 2009 to 2014. In the past, Russia had pushed the concept of the Eurasian Economic Union, but now China is in command the game, but out of concerns over Russia's sensitivities, it has agreed to coordinate BRI investments in Central Asia with Moscow.

In the past two years we have been witnessing a surge of Chinese interest in Europe. Xi's first trip abroad as President was to Russia in 2013. In March 2014, he made his first visit to Western Europe when he attended the Nuclear Security Summit at The Hague followed by visits to France, Germany and Belgium. In October 2015, he made a state visit to UK. In March 2016, he visited the Czech Republic and in June, Serbia and Poland.

The wooing of Western Europe was evident in Xi's visit to UK, one of the world's largest economies, in October 2015. Here he put down a $ 8.7 billion one-third stake in a British nuclear power company, entered into a deal with British Petroleum to supply China with 1 million tonnes of LNG worth $10 billion for 20 years, Rolls Royce got engine sales worth $ 3 billion and joint ventures in cruise ships, R&D, hospitals, real estate, electric cars, education and training were announced. London is viewed with great interest by Beijing which has doubled the volume of RMB being traded there in the past two years.

XI's presence at the World Economic Forum at Davos in January 2017 was significant for China seeking to position itself as the leading proponent of globalisation and free trade. Subsequently, his visit to Germany to attend the G 20 summit underscored the message that in the Trump era, China would be happy to assume the mantle of global leadership.

Another leg of the Chinese strategy is towards acquiring high-tech companies in western Europe. In 2016 alone, the Chinese have acquired 24 German companies, 15 French, 15 British, 11 Swiss, 8 Spanish, 8 Italian, 5 Czech, 4 Belgian and 3 Finnish.[20]

Earlier in the year Kuka, a German company specialising in making robots for automobile plants was bought by a Chinese bidder, Midea Group, China's largest home appliance maker. The Kuka case was a particular shock to the Germans since it was the embodiment of the country's industrial prowess. As a global leader in factory automation, it helps build fuselages for the US F-35 fighter. Subsequently, Aixtron a German company with a long history of making the advanced tools required for making very sophisticated semiconductors was sought to be purchased by the Chinese. But only a last minute furore prevented it from being acquired. Earlier the Chinese had acquired the IBM server business and chip designer Spreadtrum communications.

[20] *William Wilkes "China's Deal makers have German tech firms in their sights," Wall Street Journal, June 9, 2016, http://www.wsj.com/articles/chinas-deal-makers-have-germany-tech-firms-in-their-sights-1465394152*

Experts say that the Chinese drive is motivated by the goal of keeping their own companies competitive. Now that they are losing the wage advantage, they need technology to be able to compete in western markets. However, the complaint by the Germans and other Europeans is that while their companies and technologies are open to acquisition, the Chinese use a variety of means to block reverse acquisitions or even the functioning of western companies in their country.

While the Chinese see western Europe as a source of technology, markets and lifestyle goods like wine, cheese and olive oil, they view central and east Europe as an investment opportunity and a forward base for doing business with western Europe. In 2012, during the visit of Premier Wen Jiabao to Poland, China and 16 Central and East European countries (CEEC) formed a platform called the 16+1 grouping that effectively circumvented Brussels. The CEEC and China have held annual summits and created a system of loose coordination. In November 2015 when China hosted the fourth summit of CEEC in Suzhou, countries like Czech republic, Serbia, Albania, Bosnia, Bulgaria, Croatia, Estonia, Latvia, Hungary, Lithuania, Macedonia, Slovenia, Montenegro sent their Prime Ministers or heads of state to participate. In November 2016, the meeting has been held in Latvia and attended by Premier Li Keqiang and it has led to the establishment of a $ 11 billion fund to boost investment in the CEEC area. The fund managed by Sino-CEEF Holding company, a subsidiary of Industrial and Commercial Bank of China, will leverage the amount to raise another $ 55 billion to finance joint ventures in logistics, clean energy and pharmaceuticals. In short, it will look for providing opportunities for Chinese firms who are facing a slowdown back home.[21]

In the last decade, trade between China and CEEC has boomed and in 2014, it reached $ 60.2 billion. Chinese companies are active investors in CEEC countries, as are Chinese construction companies which are involved in bridge and road building projects in the region. In December 2014, a road bridge across the Danube river in Belgrade was financed by the ExIm Bank of China and built by the China Road and Bridge Corporation and was the first major infrastructure project by China in Europe.

The relatively lower labour costs of the CEEC region are seen by the Chinese companies as a means of establishing intermediate bases to target the richer West European markets. In line with this, China is planning to build a massive global logistics hub in Plovdiv, Bulgaria which will tie up with the SREB route through Turkey.

Railways

China's rail system had been linked to the Trans-Siberian line thus providing a cross-continental rail connectivity to Europe since the 1950s. Since 1973, goods have been transported between China and Germany passing through Kazakhstan, Russia, Belarus and

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[21] *Chen Na and Wang Liwei, "China Launches 10 billion Euro fund to boost Investment in Central and Eastern Europe," Caixin November 11, 2016 http://english.caixin.com/2016-11-07/101004861.html?*

Poland, Germany. Poland and China use the same standard gauge with 1435mm while Russia, Belarus and Kazakhstan use the broad gauge of 1520 mm.

The first of the transcontinental trains from China to Europe began in 2008 from Xiangtan in Hunan province to Hamburg. Subsequently, HP demonstrated the economic advantages of its Chongqing-Duisburg trains, running four times a week, with other computer manufacturers also getting into the act.[22] Subsequently, other Chinese cities, Xiamen, Harbin, Suzhou, Yinchuan, Wuhan, Changsha, Ningbo and other cities began starting up their own trans-Eurasian trains in partnership with European cities. 1702 freight trains went from China to Europe in 2016, double the 2015 number. Now with the first phase complete, China has worked out customs procedures right through from the beginning to the destination.[23] By 2020, estimates are that there could be some 5,000 trains traveling from China to Europe, or some 13 trains a day.

The entry from China to Kazakhstan is via the Altaw pass, or Alashankou, through the dry port of Dostyk which is 50 per cent Russian owned. But a second route has been opened via Khorgos and Poland. Khorgos is being mooted as the "new Dubai". It is the trans-shipment point where containers are shifted from the Chinese trains to those that will travel on those with the Russian gauge. Some 65 trains with 6,500 TEUs, are currently being trans-shipped through what is called the Khorgos Gateway. The goal is to trans-ship half-a-million per annum. But because of pre-existing agreements, the bulk of the traffic still goes through Dostyk.[24]

Around Khorgos and its Chinese counterpart, Horgos, a vast new International Centre of Boundary Cooperation (ICBC) is coming up comprising of a Special Economic Zone wherein China's Jiangsu province is investing $ 600 million to develop the Kazakh side and a new high-tech zone in Horgos, which is being positioned as a future robotics export base, with a Shenzhen registered company, Horgos Boshihao Electronic set to begin production of its industrial robots by May 2017.[25]

12 Chinese cities are now linked to fifteen European destinations in trans-continental trains, the main connections being Chongqing to Duisburg, Suzhou to Warsaw, Lianyungang to Rotterdam, Chengdu to Lodz, Yiwu to Madrid, Milan and London via Duisburg, Zhengzhou to Hamburg. The trains go through two main routes-north from China and connecting to the Trans Siberian, or west to Kazakhstan via Alashankou and

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[22] *HKTDC Research, "China-Europe Express Trains: on track to access Belt and Road business," http://hkmb.hktdc.com/en/1X0A7UXL/hktdc-research/China-Europe-Express-Trains-On-Track-to-Access-Belt-and-Road-Businesse*

[23] *Wade Shepard, "How those China-Europe 'Silk Road' Trains first began," Forbes, June 29, 2016 https://www.forbes.com/sites/wadeshepard/2016/06/29/the-story-of-how-those-china-europe-silk-road-trains-first-began/#b2eefba1734b*

[24] *Wade Shepherd, "Khorgos: The New Silk Road's Central Station comes to life," Forbes, February 20, 2017 http://www.forbes.com/sites/wadeshepard/2017/02/20/khorgos-the-new-silk-roads-central-station-comes-to-life/#21ee48181508*

[25] *" Horgos: a future robot export bast in China," Xinhua January 6, 2017 http://news.xinhuanet.com/english/2017-01/06/c_135961186.htm*

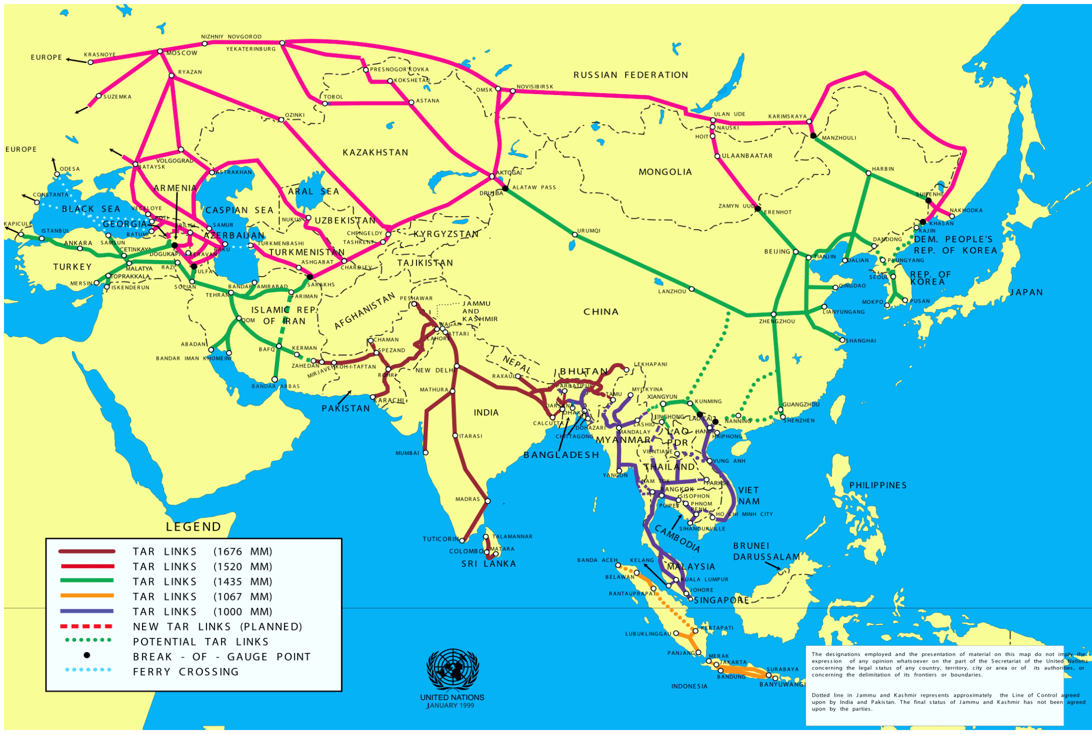

Chart 4: Proposed and actual Trans-Asian Railway Routes

Khorgos and then joining up again with the Trans Siberian again.[26] But plans are there to link Khorgos to Aktau in the Caspian Sea which would enable the traffic to be ferried across to Azerbaijan and Georgia and onwards to Europe, bypassing Russia. In October 2017, this route came closer to fruition with the opening of the 846 km Baku-Tbilisi-Kars railway linking Azerbaijan with Georgia and Turkey. This is an example of how regional states are collaborating to finance and build infrastructure to take advantage of the Chinese BRI project.

The arrival of the first trains in Afghanistan and Iran in 2016 signals the efforts to develop the central route to Europe via Turkey. In 2013, Turkey inaugurated a railway tunnel under the Bosporus which will facilitate such a route whenever the other links are developed. In 2014, China agreed with Hungary, Serbia and Macedonia to build a rail link between Budapest and Belgrade, to be financed by Chinese companies. The rail like will be extended to Skopje, Athens and the Greek port of Piraeus where COSCO, the Chinese shipping giant, operates two piers for container units and which is emerging as the terminus of the MSR, a port to rival Rotterdam, Hamburg and Antwerp.

Reports suggest that Turkey, which has already built a tunnel through the Bosporous, is keen to be the link between the SREB route from China to Europe via Iran. They are keen to revive a

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[26] *Wade Shepard," Why the China-Europe Silk Road Rail Network is growing fast," Forbes January 28, 2016 https://www.forbes.com/sites/wadeshepard/2016/01/28/why-china-europe-silk-road-rail-transport-is-growing-fast/#292913f3659a . See also Robbie Gramer, "All aboard China's 'New Silk Road' Express" Foreign Policy, January 4, 2017 http://foreignpolicy.com/2017/01/04/all-aboard-chinas-new-silk-road-express-yiwu-to-london-train-geopolitics-one-belt-one-road/*

Chart 5: China's Proposed 'Land Sea Express Route'

2010 deal to build and upgrade Turkish railways with Chinese money and technology. Turkey plans to put in 3,500 km of high speed rails and China is interested in both financing and building it.

China's own rail system is being modernised at a furious pace. In December 2016, Beijing announced that it would spend some $ 503 billion to expand the country's system by 2020. A high speed network will span more than 30,000 kms and will cover most of China.

As of now only 1-2 per cent of the trans - continental freight traffic goes through railway networks, many of the containers in the Siberian route are empty and there is much smaller reverse traffic from Europe to China. But given that EU-China traffic is $ 600 billion per annum, slated to hit $ 1 trillion in 2020, it is still a useful target especially since it is in the main high-tech and high-end fashion goods often targeting inland cities like Chongqing and Chengdu. Countries like Kazakhstan are interested in promoting this traffic and various Chinese provinces are keen to take advantage of the subsidies associated with promoting overland transportation.[27]

In comparison to the importance of Europe, the ultimate destination of the BRI, other regions look more like way stations. Even so, by the very fact that they provide logistical hubs aimed at the European market, they will get economic benefits in terms of infrastructure and investments.

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[27] *Ivan Zuenko, "Why China subsidizes loss-making rail transport via Russia and Kazakhstan," Carnegie Moscow Centre September 13, 2016 http://carnegie.ru/commentary/?fa=64555&mkt_tok=eyJpIjoiTUdZMlIXTTRNRF*

Central Asia

Perhaps the most important region for the SREB routes to Europe is Central Asia. The Central Asian states were relatively neglected in the aftermath of the Soviet collapse. Trade links of the Central Asian republics remained centered on Russia through the 1990s, if only because the existing infrastructure involved rail, road and pipelines going northwards. However, following Nine-Eleven, there was heightened American interest for security cooperation and economic integration. In turn, Russia sought to pull them back into its embrace through organisations such as the Collective Security Treaty Organisation and the Eurasian Economic Community, even while China put forward its own vision through the Shanghai Cooperation Organisation.

Even as this three-way competition played out in the 2000s, China steadily built up its economic linkages with the region through bilateral deals. As a result, from just about $ 1 billion in 2000, Chinese trade reached $50 billion in 2013 compared to Russia's $ 31.5 billion. By 2008, China's enormous appetite for commodities led to it becoming the dominant regional trading partner displacing Russia.

After the 2008 economic crisis, China also became the source of the largest amount of external finance to the region, through aid and grants. China gave loans for energy agreements worth $ 8 billion to Turkmenistan and $ 13 billion to Kazakhstan during the crisis "making it the de facto lender of last resort and regional development assistance provider." China's Export-Import bank holds 49 per cent and 36 per cent of the government debt of Kyrgyzstan and Tajikistan respectively.[28]

So even before the BRI was formally announced, China had developed deep linkages, both financial and infrastructural, with the Central Asian Republics. The section below shows the oil and gas pipeline linkages planned or already created between Central Asia and China, as well as the trans-Asian railway corridors. Today, Central Asia has emerged as the core region for the SREB with many of the older and planned rail lines, highways and pipelines going through it.

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[28] *Alexander Cooley, "The Emerging Political Economy of OBOR: The challenges of promoting connectivity in Central Asia and beyond," A report of the CSIS Simon Chair on Political Economy (Washington DC, Center for Strategic and International Study, October 2016) p.4.*

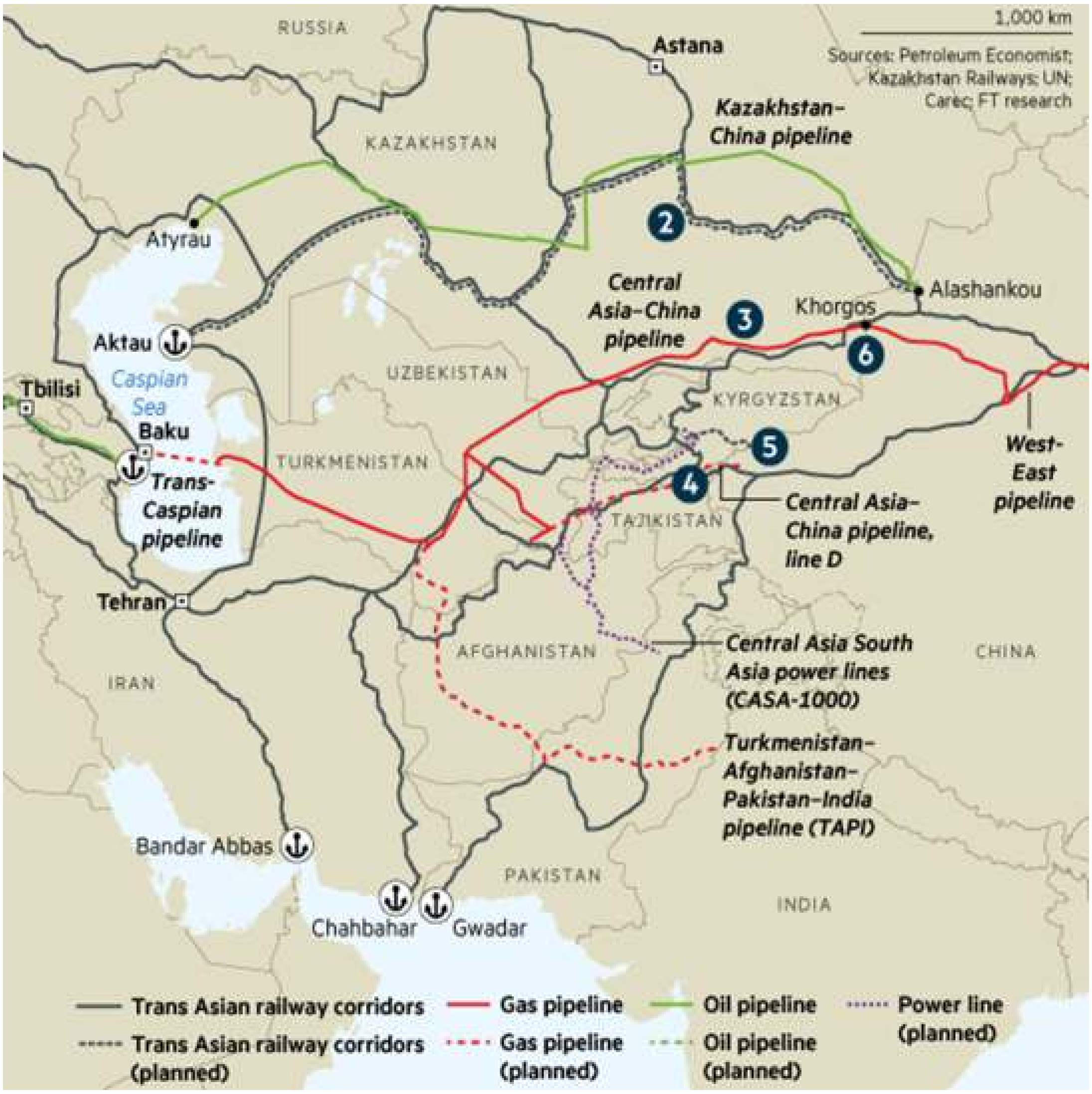

Chart 6

1) **Khorgos-Aktau railway**: In 2015 plans were announced for building a railroad from Khorgos, Kazakhstan which lies on the Chinese border, to the Caspian Sea port of Aktau.

2) **Kazakh-China pipeline**: The 2,228 km pipeline runs from Atyrau, on the shores of the Caspian to Alashankou in Xinjiang. The first section of the pipeline was completed in 2003 and the final section by 2009.

3) **Central Asia-China gas pipeline**: Two parallel 1,833km pipelines go from the Turkmenistan/Uzbekistan border through Kazakhstan and end at Horgos, in Xinjiang. Line A came up in 2009 before BRI and Line B in 2010 and the whole cost was $ 7.3 billion. A Line C which is 1840 km was begun in December 2011 and completed in 2014.

4) **Central Asia-China gas pipeline, line D**: China signed agreements with Uzbekistan, Tajikistan and Kyrgyzstan to build a fourth line of the Central Asia-China gas pipeline in September 2013. Reports say that work on this is currently suspended.

5) **China-Kyrgyzstan-Uzbekistan railway**: Differences over the route and the gauge continue to dog the construction of the Kyrgyz leg of the China-Kyrgyzstan-Uzbekistan railway. In September 2015, Uzbekistan finished 104km of the 129km Uzbek stretch of the railway.[29]

In May 2013, Iran inaugurated its rail link to the Turkmenistan border. A year later in December 2014, the Iran-Turkmenistan-Kazakhstan rail link was established and in February 2016, the first container train service with two breaks of gauge was launched between Yiwu in China and Teheran

Kazakhstan is perhaps the most important country in the BRI scheme. It is the largest of the Central Asian countries with important oil and mineral resources and also located strategically in terms of links between China and Europe. The older portion of the China-Europe rail link runs through Alashankou to Astana via Dostytk, its capital and onwards to the Trans Siberian railway. This carries bulk and over-size cargo.

The new link via Khorgos focuses on container traffic.[30] It is also the one country which has created a comprehensive infrastructure development plan, the Nurly Zhol, with a view of taking advantage of BRI. The Kazakhs are careful not to spook the Russians. They seek to upgrade their transport infrastructure and integrate it with Eurasia, but the way they see it is that the multi-modal high-speed transnational corridor will have two directions--the first from Kazakhstan to Russia and the rest of Europe, and the second from China through Khorgos to Aktau and then along the Caspian and Caucasus to Europe and also south, through Iran, to the Persian Gulf.

In 2016, saw the first container train from China's Zhejiang province going through Kazakhstan and Turkmenistan to Tehran in a 10,400 km journey taking advantage of two new links in the Kazakh network linking the eastern part of the country with Akatu and then going south across Turkmenistan to Tehran. This was a fortnight long journey as compared to the six weeks it takes to get to Bandar Abbas from China.

In August, another cargo train journeyed from Nantong to Afghanistan. It went to Urumqi, then through Khorgos to Almaty, circumventing Tajikistan and going through Tashkent, Samarkand, Karshi and reaching the town of Mazar-e-Sharif.

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[29] *The map and details above taken from Jack Farchy, Financial Times May 10, 2016 https://www.ft.com/content/e99ff7a8-0bd8-11e6-9456-444ab5211a2f*

[30] *Wade Shepherd, "Khorgos: The New Silk Road's central station comes to life," Forbes, February 20, 2017, https://www.forbes.com/sites/wadeshepard/2017/02/20/khorgos-the-new-silk-roads-central-station-comes-to-life/#1a08175c12a7*

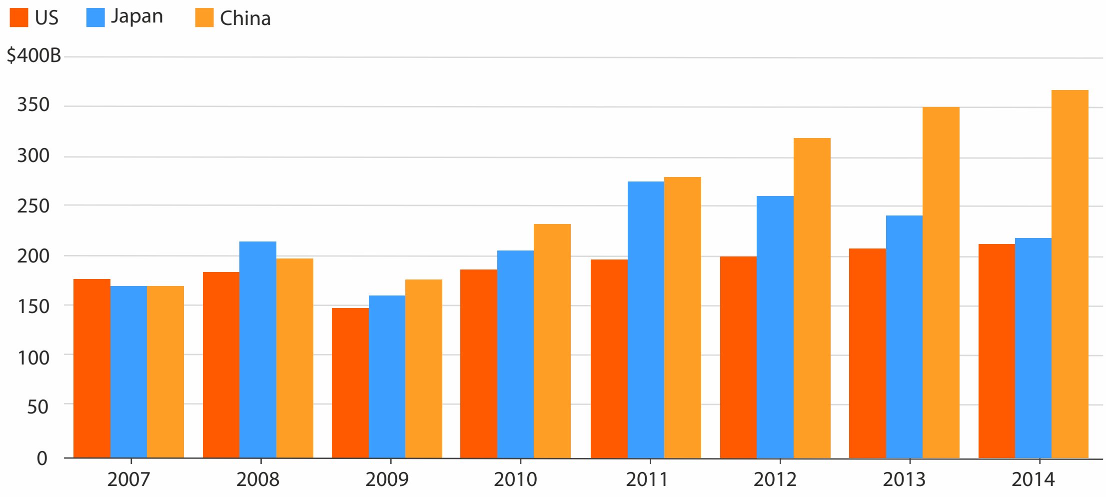
South East Asia

South East Asia is an important area for China and their economic relations have grown rapidly in recent years. South East Asia can be seen through the lenses of its regional grouping, the Association for South East Asian Nations (ASEAN). As of now, it is loose collection of countries with varying levels of development. While two of its states--Brunei and Singapore are seen as high-income countries, the Philippines, Thailand, Malaysia and Indonesia as middle income and the other four Vietnam, Cambodia, Laos, and Myanmar are developing economies.

The more advanced countries of ASEAN are emerging as economic competitors of China, while its poorer countries want to benefit from China's rebalance and are seeking to benefit from China's real wage increases by becoming a source of cheap labour for Chinese companies.

Neighborhood Muscle

China displaced the U.S. and Japan to become Asean's largest trading partner.



Source: Association of Southeast Asian Nations

Bloomberg

The Asian Financial Crisis of 1997-98 enabled China to make inroads into the ASEAN and led to the negotiations for an ASEAN-China Free Trade Area (ACFTA) which came into force in 2010. Today the key features of ASEAN-China ties are economic integration and political tensions.

China is among the top five trade partners for the ASEAN, but the individual relationships vary. Manufactured goods, especially machinery and electronics are still a major source of ASEAN-China trade. Many ASEAN countries are part of integrated value chains linked to China, Taiwan, Japan and Korea. In 2013, ASEAN accounted for 10.7 of China's total trade, but only 6.7 per cent ($35.7 bilion) of its investment stock, so China is not a particularly significant player in ASEAN's FDI scene. Singapore is a big investor in China accounting for $7.2 billion in 2013 and as a major financial centre, it plays the role of linking China to the ASEAN grouping.

During the fifth leaders meeting of the Greater Mekong Sub Regional Economic Cooperation held in Bangkok in December 2014, Chinese Premier Li Keqiang suggested joint planning for a transportation network and industrial projects and creating new platforms to fund the projects.

Given China's larger perspective, the region is important because of the sealanes that carry a great deal of Chinese commerce and energy supplies run through the Straits of Malacca or Sunda Strait, and then through the South China Sea. The South China Sea also has intrinsic importance for China's nuclear deterrence force based on submarines located in Hainan island.

When it comes to China, ASEAN is no longer a united presence. For this reason, they have failed to unequivocally support countries like the Philippines and Vietnam on their South China Sea claims. Even following their victory in the South China Sea arbitration in 2016, the ASEAN did not take a unified position.

ASEAN could benefit from Chinese funding of BRI, both in its overland and maritime components. The AIIB and the NDB could emerge as major funders for enhancing transportation networks, ports, electricity telecom, water and sewage plants, especially in the poorer ASEAN nations like Myanmar, Laos, Cambodia, the Philippines and Indonesia.

Kunming, the capital of Yunnan province is major terminus for rail and road networks focusing on the ASEAN. These include an ambitious rail network linking Kunming with Singapore with branch lines to Rangoon, Phnom Penh, Ho Chi Minh City and Hanoi. Construction, mainly to link existing sections, is already underway to link China with Vietnam and Myanmar and Laos with Vietnam.

A project to link southern China with Thailand's industrialised eastern coast will go via Laos and the Gulf of Siam, and another through northern Thailand to Bangkok. However, the Thais would fund the construction and the Chinese would put in money for the technical systems. This could be linked to the 620 km railroad spanning the east coast of Malaysia that is likely to

Chart 7

be built by the China Communications Construction Commpany with funding from the ExIm Bank of China.

There is also the plan to make a canal through the Kra Isthmus in Thailand to bypass the Straits of Malacca entirely.[31] As of now, however, there is not much happening on the project, but if carried through, the project could have momentous consequences.

Many of the Chinese plans and projects in Myanmar pre-date the BRI initiative. The Chinese have already established the Kyaukpyu-Kunming gas and oil pipeline. On the drawing board is a parallel railway line. These are aimed at overcoming China's Malacca dilemma. China's CITIC group has won two contracts to develop the Kyaukpyu port and Special Economic Zone. This would be the third Chinese built port proximate to India, the other two being

[31] *Lyle J Goldstein, "China weighs a big dig in Thailand," The National Interest, May 30, 2016 http://nationalinterest.org/feature/could-be-chinas-panama-canal-16389*

Gwadar and Hambantota to also be run by a Chinese company. A little to the north is the Indian-built port of Sittwe which is part of the Kaladan multi-modal project aimed at enhancing connectivity to India's North-east.

Myanmar realises the value of the Chinese relationship, but in recent years it has drawn back in some areas where Chinese projects are meeting popular resistance such as the Myitsone dam financed by China. Myanmar is also now doing an environmental assessment of other Chinese business activity in the country.

Chinese companies are making big Investments in Malaysia and buying stakes in energy and real estate. China is Malaysia's biggest trading partner and among the assets the Chinese have acquired is land for a possible terminal for a high-speed train project linking Kuala Lumpur with Singapore. In October 2016, China Communications Construction Company won a contract to build a 620 km rail line along the east coast of Malaysia which would be funded by the Exim Bank of China. Prime Minister Najib's visit to China that month has also resulted in the sealing of other deals which will enhance the China-Malaysia relationship.

Equally interesting is the Melaka Gateway project being developed 200 km away from Singapore as part of the BRI. The $10 billion project is being built on a 1,366 acre plot with capital provided by a state-owned Chinese firm Power China. This will comprise of a deep sea port, a cruise terminal and a waterfront district. Nearby, a $2.8 billion Kuala Linggi International Port is being built to handle oil tankers.[32]

While Malaysia is the top trader with China, Singapore has a special role in BRI calculations. Its trade and related services infrastructure for overseas business operations is world class. It is global financial centre and already the second largest offshore centre for the Chinese yuan (RMB) and has well developed business links with China. In addition, Singapore is also home to expertise in urban and industrial infrastructure such as ports and airports.

In September 2016, China's largest bank, the Industrial and Commercial Bank of China (ICBC) signed an agreement with five Singapore parties to provide funding for BRI projects. Singapore Business Federation, for example, would receive $ 10.2 billion for infrastructure investments. Earlier that month, International Enterprises, a Singapore government agency to promote international trade and partnering efforts by Singapore companies going global, signed MOUs with three Chinese banks--the Bank of China, the China Construction Bank and the Industrial and Commercial Bank of China--for funding BRI investments across Asia and developing Singapore's commodity trading and financial sectors.

[32] *Bhavan Jaipragas, "Can China really deliver Malaysia's Singapore Slayer ?" South China Morning Post April 15, 2017, http://www.scmp.com/week-asia/politics/article/2087402/can-china-really-deliver-malaysias-singapore-slayer*

East Africa

Economic engagement with Africa has been a priority area for China for some time. A World Bank study says that China benefits from access to a dynamic and growing market in Africa for Chinese goods and services, as well as a reliable source of raw materials and investment. In turn, Africa benefits from Chinese financial and technological assistance, especially in the area of infrastructure. But China has also created Special Economic Zones in Ethiopia, Mauritius, Zambia and Nigeria. China has also been a major aid provider to Africa which accounts for roughly half of its concessional aid commitments with 61 per cent used for infrastructure construction.[33]

In early 2016, the 750 km Addis Ababa-Djibouti rail line built by a China Railway Group and China Civil Engineering Construction and financed up to 70 per cent by the Exim Bank, the China Development Bank and the ICBC, was inaugurated. Chinese personnel are likely to staff the running of the line, which is mainly for freight, for the coming five years. This is said to be the first electrified cross-border railway in Africa.

Two of the most important ports of East Africa--Mombasa in Kenya and Dar es Salaam in Tanzania--have long competed for business, now both are seeking to expand their business through new developments involving the Chinese. Kenya is planning a new port at Lamu, while Tanzania is developing Bagamoyo.

Financing for the Bagamoyo port is through the China Merchant Holding Ports Company, along with an Omani partner, but the former will run the port. Lamu will be developed by the China Communications Construction Company, though the partner Kenya Ports Authority will retain control. CNOOC has won the production license for the Kingfisher oil field in Uganda and plans to bring the oil out to the Bagamayo port through a new pipeline.

Linked to these developments are the building and upgradation of railway networks linking the ports to the hinterland. The Chinese are funding a new modern railway between Mombasa and Nairobi. One of the first Chinese infrastructure projects was the Tanzania-Zambia railway built in the 1970s, now China's ExIm Bank will provide $ 7.6 billion to Tanzania to build a railway line from Rwanda to Dar es Salaam, with branches to Burundi and Uganda.

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[33] *Csilla Lakatos, Maryla Maliszewska et als, "China's Slowdown and Rebalancing: Potential Growth and Poverty Impacts on Sub-Saharan Africa," World Bank Group May 2016 http://documents.worldbank.org/curated/en/976611468194051601/pdf/WPS7666.pdf*

Chart 8

Further south in Mozambique, Beijing is funding and constructing several ports. The CHEC is part of an international consortium to develop a new port in Maputo which will service Botswana, Zimbabwe and Swaziland and shorten distances to important mining areas in South Africa. The CHEC is also involved in the building of the Beira port whose primary activity is as a fishing harbour in a project which began in September 2015.

The Chinese are also involved in the funding and building of a 2,600 km pipeline aimed at transporting gas from Mozambique to South Africa, a Chinese company owns 20 per cent stake in the Area 4 block of the Rovuma basin. Currently, a China Petroleum Pipeline Company is doing a feasibility study and said it will provide 70 per cent of the $ 6 billion venture. China has helped build the Maputo circular road, a major sports stadium, a new 3 km bridge and new terminals at the Maputo International Airport. South Africa and China have a complex relationship underscored by their membership of BRICS. South Africa is among the top destinations for Chinese investments in Africa, but more important, South Africa is willing to provide political support for China on issues as varied as the South China Sea, internet freedom and the Dalai Lama. The two countries have growing economic ties with strategic alliances between their financial institutions like the Exim Bank of China and the Investec

Bank of South Africa, the Standard Bank of South Africa and the Industrial and Commercial Bank of China, the China Construction Bank Corporation and the Industrial Corporation of South Africa Ltd. In addition, there is a framework cooperation agreement between China Export Credit Insurance Corporation (Sinosue) and Transnet to aid the purchase and maintenance of Chinese equipment relating to railways, ports and pipelines.

South Asia and the Indian Ocean

South Asia is very much in the sights of the Chinese planners in the BRI. Their problem is India, which views itself as a geopolitical competitor of China which has publicly come out against the BRI. From the Chinese point of view, one existing project, the Bangladesh, China, India, Myanmar (BCIM) corridor comes within the BRI. Some maps have shown a rail corridor going onwards to Pakistan across India and then to Iran and Europe.

Chart 9: The map published at the office of Suzhou Railway Consolidated Freight Station shows how a railway link across India constitutes the third major China-Europe rail link[34]

Chinese railway projects from Tibet to the Indo-Nepalese border, too have a strategic potential uncomfortable to India. Even more worrisome have been the development of ports like Hambantota, Gwadar and Kyaukpyu and the increasing frequency of Chinese naval presence visible in the IOR and its ports.

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[34] *Wade Shepard, "How those China-Europe 'Silk Road' Trains first began," Forbes, June 29, 2016 https://www.forbes.com/sites/wadeshepard/2016/06/29/the-story-of-how-those-china-europe-silk-road-trains-first-began/#b2eefba1734b*

As of now, Indian scepticism about a Chinese national project has resulted in little or no progress in the BCIM corridor. The Indian view was put across first by Foreign Secretary S Jaishankar at the Raisina Dialogue in New Delhi in March 2016 when he declared "The key issue is whether we will build our connectivity through consultative processes or more unilateral decisions. … we cannot be impervious to the reality that others may see connectivity as an exercise in hard-wiring that influences choices".[35] Jaishankar is right in stating what he did, however, the problem is that a great deal of hard-wiring has already been done, especially in terms of pipelines, railroads and ports.

India has specific concerns relating to the China Pakistan Economic Corridor (CPEC), primarily that it passes through territory, legally Indian, but occupied by Pakistan. However the Karakoram Highway has been around since the 1960s and India has not made a big issue of this. The real worry is what the broad-based Chinese commitment to the Pakistani economy means for the region, as well as the troubled relations India has with both China and Pakistan.

On the eve of the BRI Forum, the Indian official spokesperson said that India had been invited to the Forum and its related events, but declared that it would not attend. Its rejection of the invitation was based on India's belief "that connectivity initiatives must be based on universally recognized international norms, good governance, rule of law, openness, transparency and equality. " More important and with reference to the problems being faced by many countries, the spokesperson noted, the initiatives "must follow principles of financial responsibility to avoid projects that would create unsustainable debt burden for communities".

Equally important was the importance of respecting sovereignty and the territorial integrity in pursuing the projects. With reference to China Pakistan Economic Corrodor (CPEC) passing through Pakistan Occupied Kasmir, the spokesperson said that "no country can accept a project that ignores its core concerns on sovereignty and territorial integrity."[36]

Nepal

The Nepal government supports the BRI and is hoping to work out an agreement with China on issues relating to connectivity and trade. The then Prime Minister Pushpa Kamal Dahal proposed the development of the Kerung-Kathmandu-Pokhara-Lumbini railway as part of BRI and the two sides were likely to take up the proposal soon. The Tibetan railroad has been extended from Lhasa to Xigatse and from there to Kerung, some 25 kms from the Nepal border.[37]

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[35] *Speech by Foreign Secretary at Raisina Dialogue in New Delhi, March 2, 2016 http://www.mea.gov.in/incoming-visit-detail.htm?26433/Speech+by+Foreign+Secretary+at+Raisina+Dialogue+in+New+Delhi+March+2+2015*

[36] *Official Spokesperson's response to a query on participation of India in OOR/BRI Forum, May 13, 2017 http//mea.gov.in/media-briefings.htm?dtl/28463/Official+Spokesperson+response+to+a+quary+on+participation+of+India+in+OBORBRI+Forum*

[37] *"Govt proposes to link Kerung-Kathmandu-Pokhara-Lumbini with OBOR," Kathmandu Post, April 28, 2017 http://kathmandupost.ekantipur.com/news/2017-04-28/govt-proposes-to-link-kerung-kathmandu-pokhara-lumbini-with-obor.html*

Sri Lanka

China-Sri Lanka bilateral trade has grown from $1.07 billion in 2009 to $ 3.5 billion in 2013. Chinese assistance totals $ 5.06 billion of which nearly half has come in during the 2012-2014 period. China has invested in the road network of Sri Lanka such as the Katunayake Expressway and the Southern Expressway.

The first phase of the Hambantota port was built by a Chinese company in 2010 with Chinese loans and has not been much of an economic success.[38] Associated with this was an international airport which remains largely unused. It was built with a $ 190 million Chinese loan from the Exim Bank of China. The second stage of the Hambantota project has been taken up by the China Harbour Engineering Company (CHEC) and China Merchants Holdings and Ports have invested over $ 600 million in a joint venture with the Sri Lanka Ports Authority (SLPA) to construct and operate a container terminal for the port.

The Chinese maritime footprint in Sri Lanka is also visible through the Colombo International Container Terminal (CICT) which is a joint venture between the CMHI and the SLPA. The CICT has invested $ 500 million to construct and operate the Colombo South Container Terminal for 35 years after which the terminal will revert to the SLPA.

Parallel to this is the Colombo Port City Project, a project which was inaugurated during the visit of President Xi Jinping in September 2014. The $ 1.34 billion project, funded by the Chinese would involve land reclamation and real estate development to create a residential and financial hub.[39]

Bangladesh and Maldives

Bangladesh formally supports BRI, a decision announced during the visit of President Xi Jinping to Dhaka in 2016, the first by a Chinese President in three decades. China has been providing project loans and development assistance to Bangladesh in the area of ICT, river management, land reclamation and maritime cooperation. During the visit, the two sides signed MOUs for projects worth $24.25 billion which includes the Padma Bridge Rail Link, Marine Drive Expressway, expanding power grid and a power plant at Pyra.

Most maps of BRI show Bangladesh as one of it ports of call. Chinese companies have long sought to build a port in the country, but the projects have failed. In February 2016, the CHEC project to make a port in Sonadia in the southern part of the country was scrapped allegedly on pressure from the US and India. Another project planned for Pyra, in the northwest coast, has become a joint project of several countries including India. Now, plans have been finalised for a port to be built in Matarbari in the south with funding through the Japan International Cooperation Agency.

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[38] *"Sri Lanka to sell 80 percent of southern Hambantota port to Chinese firm," Reuters October 28, 2016 http://www.reuters.com/article/us-sri-lanka-ports-idUSKCN12S12R*

[39] *Atul Aneja, " China, Sri Lanka to redefine Colombo Port City project," The Hindu April 10, 2016, http://www.thehindu.com/news/international/china-and-sri-lanka-decide-to-make-port-city-into-a-financial-hub-as-part-of-20-year-plan/article8455509.ece*

Maldives is another area of Chinese focus, given its strategic location along the key sealanes from the Persian Gulf to the Malacca Straits. China has been given the contract to expand the Male International Airport, after a concession to an Indian company was abruptly withdrawn. A Chinese construction firm is building a $ 280 million bridge linking the airport to Male. Maldives under President Abdula Yameen has also publicly supported the idea of the BRI.

China Pakistan Economic Corridor

The CPEC is now seen as one of the more important legs of the BRI. In the late 1960s, the Chinese began to build the first transportation corridor--the Karakoram Highway (KKH) which ran from Kashgar through the Khunjerab Pass to Abbottabad in Pakistan. This was completed in 1979 and opened to the public since 1986. Subsequently, the Pakistan government under General Musharraf proposed linking Gwadar to the highway, but instability prevented a concerte proposal.

Proximate to the Persian Gulf, the Gwadar port was built by the China Overseas Port Holding Company (COPHC) in the early 2000s in the wake of the arrival of the US in Afghanistan and its outreach to various Central Asian nations.

In 2013, ideas of an economic corridor took shape and the Chinese agreed to finance the project which would involve the development of a transportation corridor as well as energy and infrastructure projects. During Xi Jinping's April 2015 visit, the two sides signed an agreement to commence work on a $ 46 billion scheme of which roughly half was slated for completion by 2018 in the so-called "early harvest" projects. In this, $ 10 billion would be allocated for road, rail and port infrastructure with concessional Chinese government and associated bank financing. Another $ 18 billion would be for energy related projects funded through Chinese FDI involving Chinese firms and commercial banks. The electricity sales will be guaranteed through pre-negotiated power purchase agreements and guaranteed tariffs. The Pakistani Army would create a new Special Security Division to look after the security of the projects and this would add to the burden of costs.

In addition, China would fund the upgrade of roads connecting Gwadar with the north through Sind, Punjab and Khyber Pakhtunkhwa and eventually link to the Karakoram Highway. The KKH would itself be upgraded and reconstructed in parts. Another aspect of the CPEC is the construction of several hydropower projects in which prominent Chinese companies such as the Three Gorges Corporation are involved. Besides, the Exim Bank of China would finance a number of other energy projects in Pakistan with coal-based plants providing the bulk of the power. As part of the CPEC, the Chinese would also build a $ 2.5 billion LNG pipeline from Gwadar to Nawabshah in Sindh which will eventually be part of the Iran-Pakistan gas pipeline. Today, Gwadar is seen as a terminus of the China-Pakistan Economic Corridor which will provide rail, road and pipeline links through Pakistan to Kashgar in Xinjiang. Besides operating the port, the Chinese have agreed to finance the construction of an international airport through a $230 million grant, and through a zero per cent interest loan by China's Exim Bank, build a hospital, and a power plant and interconnecting roads to link with the Makran coastal highway.

The upgrading of Pakistani railway stock is another aspect of the CPEC as well as the rebuilding of the main Karachi-Peshawar line by 2020 as well as upgrades of other lines in Sind and Balochistan. CPEC's most ambitious goal is to build a rail link over the Khunjerab Pass, but this is a formidable task that will take some time.[40]

The primary driver for Gwadar appear to be strategic, given its location next to the Straits of Hormuz and its 725 km distance from Karachi, which has been blockaded by the Indian Navy in the past. While a great deal is talked about its economic value, that would require the development of roads railways and pipelines linking to Iran, Central Asia, Afghanistan and even to the other parts of Pakistan. But more than that, it would require peace, since it is located in an extremely volatile region.

The sheer scale and scope of the CPEC is expected to promote Pakistani economic growth. But questions are being raised about the extent to which Pakistan will become dependent on on China. One reason for this is that the ambitious energy related projects are being financed through commercial loans.

The CPEC suffers from a lack of clarity. According to one estimate, the total of projects actually under implementation are of the order of $10-14 billion, and the $46 billion figure being touted is deceptive. There is the issue of the meaning of the word "corridor" since as of now it is mainly some link roads and fibre optic connections, but the idea of railways and pipelines remains in the distance. CPEC says Andrew Small, is a work in progress rather than a single mega package and he is critical of the hype around the project which detracts from its usefulness to both China and Pakistan and possibly, India and Pakistan's other neighbours.[41]

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[40] *Khaliq Kiani, "Pakistan refuses ADB loan for railway as China becomes sole financier," Dawn, April 28, 2017 https://www.dawn.com/news/1329651*

[41] *Andrew Small, "CPEC: Road to the future?" The Herald (Pakistan), October 14, 2016 http://herald.dawn.com/news/1153559/china-pakistan-economic-corridor-a-work-in-progress*

Middle East

Technically, the Persian Gulf is not on the main route of the BRI, but it is flanked by two key areas--Iran which is part of its Eurasian plans and the Indian Ocean. The six Gulf Cooperation Council countries have significant stakes in the corridor because of its economic potential. The whole peninsula has been thinking long and hard about the post-oil economy and the Saudis and the Qataris, for example have articulated an ambitious "Vision 2030" strategy in which they see an important role for China.

The Chinese goal is to stay above the intra GCC or Saudi-Iran tensions. However, Iran, by virtue of its location is already better integrated into the Chinese Eurasian plans. This is a matter of some concern to Saudi Arabia and the GCC countries, though Beijing maintains a neutral posture and seeks to enhance economic ties with all the players.

The CPEC and Gwadar are China's gateways to the Middle East and the Indian Ocean. China's focus in the region has been sharply evident behind its warming ties with Saudi Arabia, Iran, UAE and Egypt. In January 2016, Xi Jinping traveled to these three countries, a visit somewhat fraught because of the growing Saudi-Iran tensions.

The Saudi giant Aramco and China's Sinopec signed a framework agreement for cooperation. As it is, Saudi Arabia is the biggest supplier of crude to China, with their bilateral trade reaching $ 74 billion in 2012. In early 2017, Saudi King Salman visited China and the two countries signed deals worth $65 billion related to a range of sectors from energy to space. Though ties with Egypt are close, there is little trade between the two countries. However, the Chinese side views ties with Egypt as strategic in the main because of its location and the Suez Canal which is a key link in the maritime leg of the BRI.

China was part of the effort to work out the nuclear deal with Iran and Xi Jinping was first leader to visit the country following the lifting of the nuclear-related sanctions in January 2016. China is Iran's biggest trading partner with 2014 volumes totalling $51.8 billion in 2014 and following Xi's visit, the two sides said that they would work on a comprehensive 25-year plan to take their trade up to $ 600 billion. Iran is an important link in the SREB which hopes to see railway traffic from China, coming through Central Asia and going through Iran to Turkey and onwards to Europe.

Earlier this year in February, the first train from China arrived in Tehran bearing goods from the trading hub Yiwu in eastern China. China is helping Iran modernise its railway network towards Central Asia. A China-led consortium is electrifying the rail track between Tehran and

Mashad which is linked to the Turkmenistan rail network in the north.[42] On the western side, Tehran is already a terminus on a rail route that goes to Europe via Turkey.

Iran has been high in the list of countries that have been provided Chinese assistance and in the 2001-2014 period, Iran received even more Chinese economic assistance than Pakistan. Given Iran's requirement for investment and upgradation of its infastructure, China is expected to play an even larger role in the future. This, of course, fits in with its BRI. So it was not surprising that Iran has indicated that it would like to be part of the CPEC. This was announced following a meeting between Iran President Hassan Rouhani and Pakistan Prime Minister Nawaz Sharif at the sidelines of the UN General Assembly in New York in 2016.[43]

The Jebel Ali port in UAE, one of the busiest in the world, wants to be a fulcrum of the BRI and is developing deeper ties with Beijing. China is currently Dubai's number one trade partner and the UAE's second largest. Like many for many other countries, Dubai is an important re-export centre and so 60 per cent of China-UAE trade is re-exported to Europe or Africa.

In 2016, the Dubai Multi Commodities Centre (DMCC), UAE's biggest industry free zone signed more than 20 MOUs, including those with the Shanghai Gold Exchange, one of the largest in the world, China Silver Group and so on. The China National Petroleum Corporation is setting up its regional headquarters in Dubai.

The neighbouring Khalifa Port, which also has free zones, has been developed as a specialized container terminal capable of receiving the largest of ships. In 2016, the Chinese port giant, COSCO announced that it would establish a dedicated container terminal at the port which will double its capacity in container transportation to roughly 5 million TEUs.

From the point of view of the BRI, the most interesting country for China would be Oman, given its location, proximate the Straits of Hormuz and facing Iran, Pakistan, India, and eastern Africa. Oman is a major oil and gas exporter to China, but it is viewed as a strategic partner by Beijing whose ships have made routine port calls to Oman's Port Salalah to pick up supplies. Oman's Sohar Port and free zone is one of the largest developments of its kind. Under Oman's vision 2020, the Chinese are investing $ 10.7 billion in Duqm, an Omani fishing village between the Gulfs of Oman and Aden. The Chinese will build an entire industrial city which will include solar energy operation, an automobile assembly plant, production sites for oil and gas equipment and an oil refinery.

In seeking independence from the Saudis, the Omanis have turned to the Chinese for a $ 3.6 billion loan to fund government spending because of shortfalls in government revenues arising from low oil prices. China imports more than three-fourths of Omanese crude which is preferred by its refineries. Oman is its fourth largest source of oil.

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[42] *Atul Aneja, " Iran in the Belt and Road loop as first train from China arrives," The Hindu February 16, 2016 http://www.thehindu.com/news/international/iran-in-the-belt-and-road-loop-as-first-train-from-china-arrives/article8245236.ece*

[43] *"Iran wishes to be part of CPEC: Rouhani, " The Express Tribune, September 22, 2016 http://tribune.com.pk/story/1186433/iran-wishes-part-cpec-rouhani/*

Conclusion

At the end of the day, the BRI is a vast geostrategic vision of economic and strategic transformation of China's place in the world. As of now there are many questions about its economic utility and in turn, there are issues relating to what it can achieve politically for China.

Clearly what it has not yet generated is trust. One reason is that though many countries have bought into the BRI, it remains essentially a Chinese national project. Countries like India and the US, and even those close to China, like Russia, are worried that it will erode their geopolitical position. Smaller countries fret that they will be compelled to take sides between China and Russia or China and India or the US and China and some worry that they will have no option but to tail Beijing.

Cooperation is difficult because plans of different actors don't match. There are differences in rules, regulations and land acquisition policies. Further, there are ongoing disputes such as the one between India and Pakistan, Iran and Saudi Arabia, and threats like the Islamic State, the Taliban, Chechen and Uzbek radicals, or colour revolutions such as those in Georgia, Kyrgyzstan and Ukraine. There are local rivalries in Central Asia between Uzbekistan and Kazakhstan; Turkmenistan is more outward looking and the other two, Tajikistan and Kyrgyzstan are small and feel their interests are not being taken into account.

There are many internal faultlines such as the one between ethnic Uzbeks and native Kyrgyz people in Kyrgyzstan that has led to ethnic violence in the past. There is also an incipient quarrel over water hovering over the region. Further, Chinese policy, such as its famous claim that it does not interfere with the internal policies of other countries is a problem when those policies or internal instability can affect Chinese businesses and investments. China has not yet thought through the issues of dealing with such situations.

A vast amount of hype and fanfare has accompanied the BRI. Governments and companies across a vast region have hoped that the huge scheme will encourage growth, even while its critics have worried about how it will add to Beijing's power and influence across the board. The BRI as we have shown, comprises of a slew of projects and activities some that were ongoing before the initiative was announced. This makes it difficult to judge just where BRI really begins, since there is an understandable tendency to hook onto the BRI bandwagon to access the funding being made available to it.

Given the lack of coordination, local governments and provinces in China are launching projects without a clear focus. According to Zhang Junhua, a professor in Shanghai Jiao Tong University, "there are at least eight train lines to Europe from different cities and not all of these are successful."[44] There is every danger that competition among various Chinese actors--banks, governments, SOEs could end up in the kind of unsustainable development that led to the creation of vast ghost cities and infrastructure that serves no purpose in China. Likewise, many of the SOE's investing abroad are loss-making companies and in undertaking new ventures in countries, many of which are high risk, they could deepen their problems.

One of the most beneficent developments have been that, spurred on by China, Japan has come up with a $ 110 billion investment fund for Asia which will extend yen loans to Asian countries through the Japan International Cooperation Agency and lend to the government affiliated Japan Bank for International Cooperation and Asian Development Bank over a five year period.[45] Parallel to this, Europe has announced its intention to set up a Euro 315 billion infrastructure investment plan focusing on enhancing European infrastructure, especially in its poorer areas. But unlike China and Japan, the fund aims at unlocking private financing for strategic investments.

There are other problems relating to financing projects that are already becoming apparent. The Governor of the State Bank of Pakistan, Ashraf Mahmood Wathra pointed out in December 2015 that CPEC needed to be more transparent. "I don't know out of $ 46 billion how much is debt, how much is equity and how much is in kind."[46] An IMF assessment of the Pakistani economy has suggested that BRI repayments could pose a heavy burden on the Pakistani economy in view of its declining exports, reduced remittances and existing debt. The power purchase agreements involving guaranteed prices could well land Pakistan in a trap. Essentially the report argues that to meet the CPEC-related expectations, Pakistan would have to have much better governance, business climate and security situation.[47]

The reason for the problems do not lie with China, but the institutional weaknesses of the target countries. There is a tendency to politically oversell the benefits of the projects. Thus Mahinda Rajapakse took billions of dollars of loans for projects in his own constituency, Hambantota. As *The Economist* noted in a report: "The port sees less than a ship per day and the airport, which has been open for three years, no longer offers regular flights. The Sri

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[44] *Lisa Murray, "Speed bumps in China's new Silk Road," Financial Review, September 29, 2016 http://www.afr.com/news/world/asia/speed-bumps-in-chinas-new-silk-road-20160928-grqxe8#*

[45] *Leika Kihara and Linda Sieg, "Japan unveils $ 110 billion plan to fund Asia infrastructure, eye on AIIB," Reuters, May 21, 2015, http://www.reuters.com/article/us-japan-asia-investment-idUSKBN0O617G20150521*

[46] *Reuters, "Pakistan should be more transparent on $ 46 billion China deal: SBP," The Express Tribune December 4, 2015, http://tribune.com.pk/story/1004177/cpec-needs-to-be-more-transparent-sbp/*

[47] *Farrukh Karamat, "IMF on CPEC" Spearhead Research October 17, 2016 http://spearheadresearch.org/index.php/researchopinions/imf-on-cpec*

Lankan government's debt on the complex runs to at least $1.5 billion, or nearly 2 per cent of the country's GDP and almost all of that is owed to Chinese banks."[48]

A leading Sri Lankan professor, Amal S Kumarage analysed highway construction in Sri Lanka and came to the conclusion that a number of projects funded by Chinese borrowings and awarded without competitive bids were heavily over-priced, some extremely heavily so.[49] In November 2016, the Sri Lankan Finance Minister complained about the high interest rates being charged by the Chinese. Sri Lankan estimates are that the interest rates average 6 per cent, whereas the Chinese claim they are only 2 per cent. It has been pointed out that ADB loans from Japan come at around 0.1 per cent.[50]

The Sri Lankans have now sold 80 per cent of the $1.5 billion stake in Hambantota port and given it on a 99-year lease to a consortium controlled by the China Merchants Ports Holding Company. The move is aimed at reducing Sri Lanka's $ 8 billion debt and is a pointer to the way that China is expanding its influence in the Indian Ocean region. Gwadar is already being operated by the China Overseas Port Holding Company, because the Port of Singapore Authority that ran it earlier found it economically unviable. Meanwhile in 2017 it became clear that Myanmar wanted to off load 50 per cent of its Kyaukpyu holding. However China's CITIC group has indicated that it would be willing to close the deal only if it got 70-85 per cent stake in the $ 7.3 billion port. While ostensibly, all the ports are commercial projects, countries like India are not entirely comfortable in their being run by Chinese entities.

There are also charges of corruption and favouritism in several areas. Chinese labour in projects in poorer countries of Africa often face resentment from locals. Protests have taken place in Zambia. In Central Asia, there is some latent Sinophobia but there have also been instances of scandals and corruption stories. In April 2016, Kyrgyz Prime Minister resigned amidst anti-Chinese protests, because of charges that he had awarded a $ 100 million road contract to a Chinese company and overruled a local and a Turkish company.[51] In Sri Lanka, too, there were charges against the Rajapakse government's award of contracts to China and the Sri Lankan authorities temporarily suspended the Colombo port project. However, notwithstanding protests and caution, most smaller states find the Chinese allure irresistible because of their propensity to put down money on what would be considered high risk projects by others.

Even in Europe, there are concerns that BRI projects, which are typically financed and

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[48] *"Nowhere to hide," The Economist May 7, 2016http://www.economist.com/news/special-report/21697982-chinas-newest-export-its-financial-system-good-and-ill-nowhere-hide*

[49] *Prof Amal S Kumarage, " Why highway constructions are a costly exercise in Sri Lanka," The Sunday Times December 21, 2014 http://www.sundaytimes.lk/141221/news/road-building-or-rip-off-128259.html*

[50] *P.K. Balachandran, "No paradise for the dragon, " The New Indian Express November 5, 2016 http://www.newindianexpress.com/opinions/2016/nov/05/no-paradise-for-the-dragon-1535135--1.html*

[51] *Cooley, "The emerging political economy…" p. 7*

executed by the Chinese, are breaching European Union rules on fair tendering. The European Commission is reportedly investigating the planned 350 km high-speed rail between Belgrade and Budapest.[52]

Geopolitical issues

The path of BRI is littered with other obstacles, primarily the United States of America. US grand strategy has been to prevent the rise of a regional hegemon in either Europe or East Asia. It is hardly likely to easily accept the rise of a Eurasia dominated by China. So far, it has sought to coopt China into the international system in such a manner that it would reinforce US hegemony. The US still has significant economic, diplomatic and military resources to slow China's rise. So, China has signalled that it has no intention of playing that game. It has adopted a path where it will cherry pick the international system and accept those rules which serve its interests and bypass or block those that it perceives do not.

But the US remains a distracted player in the system. In South-east Asia, for example, even though it has dense relations with the principal ASEAN nations, it has not been able to execute its grand strategy of raising the bar for Chinese exports through the TPP. Indeed, instead, China has made significant inroads in nations like Thailand, Laos, Cambodia and now the Philippines and Malaysia. In Central Asia, US is a non-actor and in the Middle-East, it treads carefully after its Iraq misadventure and Afghan failure. Even with Europe, American relations remain proper, but not enthusiastic. Indeed, the US now appears to be going through a bout of isolationism.

There are other hurdles to BRI, states like India, Russia, Japan who fear the growth of Chinese power, or the existence of rivalries such as those between India and Pakistan, or Russia and the US or Saudi Arabia and Iran which could prevent a smooth roll-out of the BRI. And then we have individual states whose volatility could act as speed bumps on the BRI road.

The smaller countries, whether in Central Asia or elsewhere face a dilemma. On one hand, China offers them a means of offsetting the power of their regional "hegemon" -- Russia in Central Asia, India in South Asia or the US in South-east Asia. But despite its claims to be offering partnership, it is not clear what Chinese power would mean for them.

When it comes to geopolitics and foreign policy, China has often spoken in different voices. Chinese writers have written rejecting the power transition theory and ideas of a Thucydides trap which argue that a rising power will inevitably come into conflict from neighbours and existing powers. Chinese therefore claim that they will be a new kind of rising power and that China's rise will be non-threatening and non-revisionist and so, the BRI is never posited as being in opposition to the American pivot to Asia, or for that matter, Indian primacy in South Asia, minus Pakistan. However, the ground realities have been somewhat different. Chinese

[52] *James Kynge, Arthur Beesley and Andrew Byrne, "EU sets collision course with China over 'Silk Road' rail project," Financial Times, February 20, 2017 https://www.ft.com/content/003bad14-f52f-11e6-95ee-f14e55513608*

actions, whether in the South China Sea, the East China Sea or the Sino-Indian border have belied the notion of the "peaceful rise."

The election of Donald Trump has upended many geopolitical calculations. After campaigning on a tough line on China and even reaching out to Taiwan, Trump appears to be making a deal with China, based on his claims, on the latter's ability to restrain North Korea. We have seen his Secretary of State Rex Tillerson argue for confronting China on the South China Sea issue, but eventually come around to a position which seems to accept Beijing's formulation of a New Type of Great Power Relations. In a visit to China, Tillerson said that the US was willing to develop relations with China "on the principle of no conflict, no confrontation, mutual respect, and win-win cooperation." This sounded uncomfortably like a formulation that Xi Jinping had unsuccessfully lobbied for in his first meeting with President Obama in 2013.

In an op-ed in Washington Post, to mark his 100 days in office, Trump boasted that his abandonment of the Trans Pacific Partnership (TPP) prevented "millions more jobs to [be shipped] to other countries." But many observers feel that in abandoning the TPP, Trump has undercut the non-military component of the pushback against China by the US and its allies. There are also question marks about the military component as well.[53]

The result is predictable, China's gravitational pull in South-east Asia has only increased further. This was evident in the mild position taken by ASEAN nations on the South China Sea at their summit on April 27-29, 2017. No customary joint statement was issued and the Chairman's statement made an anodyne reference to the need to maintain "peace, stability, security and freedom of navigation and overflight in and above the South China Sea." According to Reuters, it avoided references to "land reclamation and militarization" which was there in an earlier draft.[54]

There are various nuances of Chinese policy that have recurred over time--safeguarding national sovereignty, opposing "hegemonism", the five principles of co-existence among them being the idea of "non interference in each other's internal affairs and respect for each other's political systems. Another strand of Chinese thinking has been the belief that "the growing trend towards a multipolar world will not change." In other words the relative power of the China would grow and that of US would decline.

Xi's strategy has been to avoid a frontal challenge to the US or the existing international institutions. Instead, in 2013, he had mooted a New Type of Great Power Relations in his first meeting with Obama in Sunnylands. By New Type, Xi was signaling that China wanted a collaborative relationship where China would be treated as an equal by the US, at least in the regions of its primary interest like East Asia and South-east Asia.

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[53] *Helene Cooper, "Trump's turn toward China curtails Navy patrols in disputed zones," New York Times, May 2, 2017, https://www.nytimes.com/2017/05/02/world/asia/navy-south-china-sea.html?*

[54] *Manuel Mogato, ""ASEAN gives Beijing a pass on South China Sea dispute, cites 'improving cooperation'", Reuters, April 30, 2017 http://www.reuters.com/article/us-asean-summit-idUSKBN17W02E*

Subsequently, Xi began to speak of a "community of destiny" among Asians. Its sharpest manifestation was in a Conference on Interaction and Confidence Building Measures in Asia (CICA) summit in Shanghai in 2014 when Xi unveiled a new "Asian security concept" and spoke of the need to leave Asian security to Asians. Associated with this theme is the century of humiliation that China suffered at the hands of western powers and Japan. It does not take much to realise that the essence of this is a critique of the US-dominated security architecture of Asia.

According to one analyst, the BRI "could stretch China's foreign policy doctrines and capabilities to a breaking point". He argues that the concepts of win-win outcomes, consensus driven decision making and non-interference in the internal affairs of other countries are not easy to exercise in the vast sprawl of states covered by the BRI, some of which are extremely volatile or exist in a volatile region.[55] In the Middle-East, China will have to take sides in the Israel-Arab quarrel, in Europe, the standoff between EU and Russia or the many African disputes. In South Asia it is being asked to take sides in the India-Pakistan dispute on Kashmir. Then, just like the earlier "hegemons" China may find that it needs to send in its forces to protect its properties and nationals. A more expansive notion of security could see it involved in the South China Sea, Central and South Asia, Africa and the Indian Ocean.

Though countries like the US and Japan participated in the BRI Forum. They have subsequently nuanced their positions somewhat. Speaking on October 18, 2017 on the eve of his visit to the South Asian region, US Secretary of State Rex Tillerson urged closer cooperation in the Indo-Pacific between India and the US "so that the region does not become a region of disorder, conflict and predatory economics." Subsequently in response to a question he noted "We have watched the activities and actions of others in the region, in particular China, and the financing mechanisms it brings to many of these countries which result in saddling them with enormous levels of debt… Financing is structured in a way that makes it very difficult for them to obtain future financing, and oftentimes has very subtle triggers in the financing that result in financing default and the conversion of debt to equity."[56]

He said that various countries were having "a quiet conversation" in finding alternative mechanisms. Already, India and Japan have initiated an Asia-Africa Growth Corridor (AAGC) to promote development, connectivity and cooperation between Asia and Africa. The plan is part of a wider strategic convergence between the two countries.[57]

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[55] *Jacob Stokes, "China's Road Rules: Beijing looks west toward Eurasian integration, " Foreign Affairs April 19, 2015 https://www.foreignaffairs.com/articles/asia/2015-04-19/chinas-road-rules*

[56] *Remarks of US Secretary of State Rex Tillerson on "Defining our relationship with India for the next century," Centre for Strategic and International Studies, Washington DC, October 18, 2017. http://www.state.gov/secretary/remarks/2017/10/274913.htm*

[57] *See Jagannath Panda, "The Asia-Africa Growth Corridor: An India-Japan Arch in the Making ? Focus Asia: Perspective & Analysis August 21,2017 http://isdp.eu/content/uploads/2017/08/2017-focus -asia-jagannath-panda.pdf*

India's options

There is little doubt that the BRI will have an impact on India at two levels--the geopolitical and the economic. Sharply enhanced Chinese economic loans and grants to countries in India's periphery will make them more dependent on Beijing, or at least amenable to seeing things from its point of view. India has to worry that this could also be accompanied by an increase in Chinese military activity in its neighbourhood, as it is witnessing in the case of Sri Lanka and Pakistan.

From the outset, India has taken a position that appears hostile to the BRI. This is not surprising because China's growing presence in the South Asia and Indian Ocean Region (SA-IOR) reduces New Delhi's traction. Further, as Foreign Secretary Jaishankar noted that the hard-wiring of the connectivity projects are aimed at benefiting China, no matter what, the rhetoric is about the "win win" formulations. Only now, after a hiatus of two years, New Delhi has again indicated some interest in moving forward with the project aimed at linking Kolkata with Kunming via Bangladesh and Myanmar.[58]

Given the scale of the BRI project and its scope, which covers all the regions of the Indian Ocean littoral, Central and South Asia, it leaves New Delhi with few good choices. The biggest drawback that India has is the lack of the kind of resources that China is deploying in building infrastructure and winning friends. Given the effort and money that Beijing is putting in, it will be difficult for India to compete with it directly, or for that matter ignore or deflect it. But there are two other options that can be considered.

New Delhi may have raised questions about BRI, but it has, at the same time, joined the Asia Infrastructure Investment Bank as a leading member. As China's partner in the BRICS grouping it is also a member of the New Development Bank and has joined the Shanghai Cooperation Organisation.

China will find it difficult to push the BRI in South Asia and the Indian Ocean Region if it seeks to side-line India. New Delhi may not be able to halt its progress, but it can certainly slow it down. India may not have the financial resources to match Chinese largesse in Nepal, Sri Lanka or East Africa, but New Delhi geography uniquely favours India in the SA-IOR. In the end, Indian recalcitrance will be counterproductive to both Beijing and New Delhi.

India is not unimportant to the BRI project. It is envisioned as the southern route through Pakistan and Iran to Europe. Then, jutting out into the Indian Ocean it is sitting astride the MSR. There is also the intrinsic value of the developing Indian markets for Chinese companies and for Indian companies, many with good knowledge of IOR markets, to participate in BRI projects. Somewhat counterintuitively perhaps, on the eve of the BRF, a report by Credit

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[58] *Atul Aneja, " Dialogue on BCIM corridor to resume next week," The Hindu April 20, 2017 http://www.thehindu.com/todays-paper/tp-international/dialogue-on-bcim-corridor-to-resume-next-week/article18150112.ece*

Suisse said that India and Russia could be the big winners from the BRI investment. Indeed, the report said that it could well see anywhere between $ 84 to $ 126 billion of Chinese investment in the coming years.[59]

All said and done, while Pakistan may provide political benefits to China, its economic value remains questionable, in contrast to the growing Indian economic profile. India has suggested consultations. These could also involve hard-headed negotiations to demand a reasonable share of the outcomes of projects India participates in. Given the persistent trade imbalance India suffers from with China, this is a reasonable demand.

As for the CPEC, we have seen, it comprises of a road/pipeline/fibre optic link from Kashghar to Gwadar. In addition, it comprises of a range of investments in other areas, mainly in the Pakistani energy sector. While the connectivity goals of the CPEC are aimed at serving China's interests, the energy and other investments are presumably aimed at giving a fillip to the Pakistani economy. If this is so, its goals are not very different from the Pakistani participation in a South Asian Free Trade Area (SAFTA).

This scheme initiated in 2004 has yet to work on the ground despite its ratification by all the SAARC countries. Pakistan has formally implemented it, but it has severely restricted imports from India, despite the fact that no reservations are permitted under the agreement. More important, has been Pakistan's refusal to give India transit access generally and more specifically to Afghanistan, a fellow SAARC nation. Given the fact that it would require a fast growing Pakistani economy to escape the Chinese debt trap, it could be argued that opening up to the larger South Asian economy is a necessary condition for Pakistan to benefit from CPEC

Indeed feeding the CPEC through east-west linkages to Iran, India and Afghanistan is the surest way of ensuring that it will deliver its promise of being a game changer for Pakistan. But the foremost requirement for this is peace, something that requires the joint effort of Islamabad and Rawalpindi and negotiation with New Delhi. China has to realise that if CPEC has to succeed, it needs to end it strategy of using Pakistan as a foil against India.

New Delhi opposes the CPEC because it passes through territory claimed by India. No government in New Delhi can formally acquiesce with a major project being formulated in territory that it considers its own. However, it is a moot question as to how strongly India has asserted its Gilgit-Baltistan claim because at least three times since 1947, it has signalled its agreement to let it remain in Pakistan, as part of a wider deal on Jammu & Kashmir.

There is, therefore, the option of negotiating a position through which India could accept the passage of the CPEC through Gilgit Baltistan, in exchange for concessions elsewhere -- perhaps in having China accept India's right to obtain financing for projects in Arunachal Pradesh.

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[59] *Peggy Sito, "India and Russia tipped to be the big winners from China's massive 'Belt and Road' investment" South China Morning Post May 13, 2017 http://www.scmp.com/business/article/2094224/india-and-russia-tipped-be-big-winners-chinas-massive-belt-and-road*

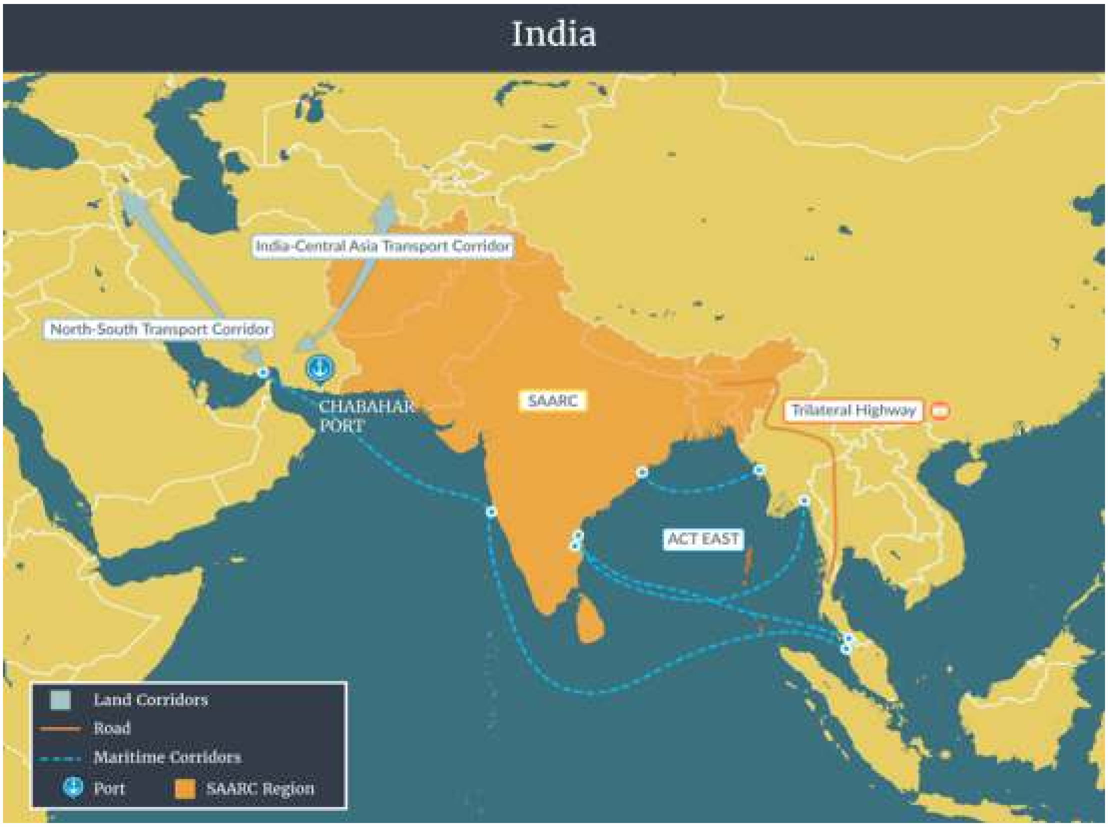

Chart 10: India's connectivity vision (Source: csis.org)

New Delhi could perhaps explore the idea of creating an Indian version of BRI and see which project-a railway line, an airport or port -- can effectively benefit Indian parties by creating strategic links or assets that benefit Indian trade and commerce. Once identified, India can seek financing from banks, including the AIIB and NDB, as well as existing institutions like the World Bank and the Asian Development Bank and development assistance from countries like Japan.

India already has several internal projects such as the Delhi-Mumbai, or the Delhi-Kolkata freight and industrial corridors, as well as a slew of highways traversing the country. Its maritime component is the Sagarmala project developing ports along India's coastline.

In addition, there are projects with a wider regional scope. First, is the Chah Bahar port and second, projects in Myanmar, particularly the India-Myanmar Thailand Road which will lead and Indo-China Malaysia. This can also be associated with the BCIM corridor or the more limited Bangladesh, Bhutan, India and Nepal (BBIN) initiatives such as the Motor Vehicles Agreement, along with developing better road and rail connectivity. Bangladesh and Nepal both welcome BRI and development of infrastructure, there will definitely be a gain for India, as it will be for them. A bolder initiative could directly take up a Tibet-India connectivity for the development of a Kolkata-Lhasa link via Nathu La or Jelep La.

There are also maritime options that India needs to pursue--the Kaladan Multimodal project linking Kolkata with Sittwe port, the Trincomalee tank farm project or linkages with the Persian Gulf, Mynmar, Malaysia, Kenya, Tanzania and Mozambique.

Perhaps the most significant is the Chah Bahar project. In 2016, as a result of Prime Minister Modi's visit, India agreed to develop the port as it had been promising to do for the better part of a decade, as well as finance the Chah Bahar-Zahedan railway. India is investing $ 500 million to develop the port and has promised another $ 400 million for the railway. Indian companies like NALCO are also interested in investing in the Chah Bahar Free Trade Zone. At present there is an excellent 1000 km long road connecting Chah Bahar with Mashad and Sarakhs, on Iran's trijunction with Turkmenistan and Afghanistan.

Investment in Iranian infrastructure could tie in with India's commitment, with Russia and Iran, in 2002 to develop the International North South Transportation Corridor (INSTC). This envisages a multimodal transport network that would connect ports in India's west coast with Bandar Abbas or Chah Bahar and transport containers to Bandar Anzali port in the Caspian sea and thence to Rasht and Astara on the Azerbaijan border, and onward to Russia and Europe. There is already a railway line between Bandar Abbas and Amirabad in the Caspian Sea and Inchebarun on the Iran-Turkmenistan border. India has indicated its willingness to build the missing sections, through Iran has already constructed the Qazvin-Rasht-Astara line.

India has recently decided to join the international customs convention TIR, which will facilitate the process. Already three dry runs have been conducted, the most recent in October 2016 invoving Russian, Indian and Iranian entities.[60]

Such connections would enable the INSTC to intersect with the BRI in Central Asia, the Caspian region and Russia. There is no reason why India, Iran and Russia cannot seek and obtain funding for this from funds available for the BRI. China may not be particularly happy having a port so proximate to Gwadar, but it could show what it means by win-win cooperation. The Iranians for their part are willing to straddle both the BRI and the Indian project, there is no reason why India cannot do the same.

Where are the opportunities for Indian corporates ?

This is not an easy question to answer. First and foremost it needs to be understood that the BRI is a Chinese national project, aimed to fulfil Chinese needs. The usual pattern in BRI infrastructure projects is that they are planned, funded and executed by Chinese companies, usually State Owned Enterprises, using Chinese labour.

The Chinese say that by constructing infrastructure in developing countries and creating special economic zones as they are doing in Sri Lanka, Pakistan and several nations of Africa, they are offering win-win solutions wherein these countries also benefit.

But the example of Central Asia is perhaps instructive.

This region was part of the erstwhile Soviet Union and linked in terms of road, rail, pipeline

[60] *Dipanjan Roy Chaudhury, "International North South Transportation Corridor for better Indo-Russian connectivity inches towards reality," Economic Times April 10, 2017 http://economictimes.indiatimes.com/news/defence/international-north-south-transportation-corridor-for-better-indo-russian-connectivity-inches-towards-reality/articleshow/58099129.cms*

and security networks with Russia. According to the economist Aravind Yelery, China accounted for 2.4 per cent of Central Asian imports in 2000 and Russia for 29.4 per cent. But by 2010, the figures for China was 20.5 per cent and Russia was 18.9 per cent. In his view, Chinese investments in Central Asia are what can be termed "supply-line infrastructure" investments and the mechanisms to regularise the customs and soft-investment in Central Asia have been minimal or non-existent. More important, while China is moving up the value chain, its regional and global dominance is kept uncontested. In other words, the Chinese are strengthening their supply to benefit their own internationalisation and there is little apparent benefit to their BRI interlocutors, beyond the construction of infrastructure.[61]

This infrastructure is, as must be noted, "hard wired" to destinations, or in the case of oil and gas, commodities, sought by China. This is, of course, less true in the case of a port or harbour which can be used by anyone for any destination, though given the way things have developed, Chinese-owned companies have also ended up running the ports.

Not surprisingly, the BRI thrust has been a major boon for Chinese SOEs. The State-owned Assets Supervision and Administration Commission of the State Council (SASAC) which supervises central enterprises claims that 107 central enterprises have set up over 8500 branches across the world. Out of which, 80 state enterprises are actively engaged in 80 countries which are part of the BRI.[62]

China's infrastructure related companies have boosted their exports sharply. In 2016, Chinese companies won $126 billion worth of contracts related to BRI, that was 36 per cent more than the $92.6 billion in 2015. Most of these relate to state-owned producers of cement, steel and other raw materials.[63]

State Grid Corporation of China (SGCC) is the best example of a state enterprise which is delivering the BRI promises and at the same time overcoming the difficulties it is undergoing on the domestic front. State Grid is one of the top vehicles for BRI as it aims to build the network of global energy supplies by building global grid interconnections. It is believed that by 2020, State Grid will make the cumulative increase in overseas investments by US$50 billion to achieve growth.[64] In these circumstances, finding space for Indian companies to establish themselves will not be easy.

However, if there is no space, perhaps it needs to be created. As we have noted in the previous section, India has serious political objection to several aspects of BRI. Some, though not all, can be subject to a process of negotiation through which China gains Indian support for BRI in exchange for accommodating India's interests. Beijing may find that accommodation is a

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[61] *Communication with the author*

[62] *Ibid*

[63] *Yasu Ota, "Think the RCEP is about free trade ? Think again," Nikkei Asian Review April 27, 2017, http://asia.nikkei.com/Features/Mirage-of-Free-Trade/Think-the-RCEP-is-about-free-trade-Think-again?page=2*

[64] *Communication with Dr Yelery*

better option than ignoring a sulking India which cannot block BRI, but could undermine some important aspects of it.

India has another item in its agenda for negotiating with China--the growing trade deficit which is hugely imbalanced in China's favour. Last year it reached a figure of $45.56 billion and in 2015 it was $44.87 billion.[65] One way of dealing with this issue is for Beijing to encourage Indian participation and investment in the BRI even while providing Indian companies access to markets in China or in projects controlled by its companies.

So, opportunities can be created in a slew of projects hard-wired to India's interests and funded through a variety of institutions, including those associated with the BRI. India may have its own connectivity ideas but some of them can actually synergise the BRI. But for that there is need for a cool-headed conversation with Beijing which could see a truly win-win scenario in which China and India pursue their respective goals, but can agree to differ in some areas, even while collaborating in others.

However, an important pre-condition to this would be the government of India playing the lead role in revitalising Indian SOEs like National Building and Construction Company the Engineering Projects of India, Engineers India Ltd, RITES and others which are either defunct or busy doing projects in the sheltered markets of home. They lack the fire in the belly to go out into the world and metaphorically conquer it on behalf of India, as the Chinese SOE's are doing. There is need to sharply enhance their autonomy, imbue them with a greater sense of purpose and demand higher level of management skills from them.

Beyond government leadership, which is needed for all infrastructure projects, there is scope for Indian private sector companies in taking advantage of the the infrastructure developed by the Chinese for their own benefit. Ports like Hambantota, international airports or the special economic zones being developed in Sri Lanka, Bangladesh, Nepal or in the Persian Gulf Egypt, Ethiopia, Mauritius and Zambia can be used by them to promote their own businesses on their own or through joint ventures and partnerships be it with local players or Chinese, Korean or Japanese companies. The most important development here is the need to follow through American suggestions that countries like India and Japan collaborate to come up with mechanisms and strategies that can provide regional states with alternatives to the BRI. The goal must be to unlock government and private funding in a manner that is transparent, sustainable and less onerous.

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[65] *KJM Varma, "India's trade deficit with China mounts to $ 46.56 billion," Mint, January 13, 2017 http://www.livemint.com/Politics/Ag4wktkZODwjHtESc1l7WO/Indias-trade-deficit-with-China-mounts-to-4656-billion.html*