Short Term Policy Brief 91

The New Silk Road

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Executive Summary

In September 2013, Chinese President Xi Jinping visited the Central Asian republics reiterating China’s intention to pursue a policy of large-scale investment in the region. He emphasised the revival of the economic and cultural ties that had characterised Central Asian-China relations during the past glory days of the Silk Road, promoting the rebirth of a new ‘Silk Road Economic Belt’. The revitalisation of the Silk Road is a priority of current Chinese foreign policy and is based on the free transit of goods, removal of trade barriers, full convertibility of currencies and the modernisation of the logistical and energy infrastructures.

In March 2014, during his European tour, President Xi Jinping visited the inland port of Duisburg, paying undivided attention to the Yuxinou train that, three times a week, connects Chongqing with the German hub. This new Eurasian land bridge benefits China by providing faster access to the EU market (in less than three weeks, compared with an average of five weeks for container shipping). For EU companies, it not only provides a cost effective route for exports, but also an efficient way for these companies to import their own production output that has been offshored to China.

Although sea transport is considered to be the main form of freight for the near future, the revival of land connectivity, promoted by 12,000 km of rail network between the EU and China, is going to increase in scope and size for several political, economic and security reasons.

During the past decade, Central Asia has become increasingly economically attracted to China, as result of its geostrategic position and natural resources. While Russia, the United States, Turkey, Iran and India are competing, to differing degrees, in the Central Asian arena, the European Union has a unique opportunity to bring together its own best practices with Chinese-led economic growth and infrastructure capacity building. Moreover the China’s new Silk Road Economic Belt is posed to foster economic integration not only among the Central Asian states of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, but also in neighbouring areas from Afghanistan to Mongolia.
The New Silk Road Economic Belt

Chinese policies for the New Silk Road are deeply intertwined with the cultural and economic symbiosis between the Autonomous Province of Xinjiang and the Central Asian states. The main objectives range from ensuring access to natural resources and trade, enforcing border security and encouraging stable neighbouring states, to building a more complex logistics network that links China to Europe via the new Eurasian land bridge. Today economic balance between China and the region is based on increasing flows of oil, gas and commodities into China and parallel and offsetting flows of direct investments and low priced consumer goods back into the region. The foreign direct investment (FDI) of Chinese companies focuses mainly on energy, natural resources and the construction of transportation infrastructure.

Chinese FDI has increased rapidly worldwide and Central Asia has been one of the key strategic areas for this. The usual investment model starts with state-owned enterprises (SOEs) that benefit from inexpensive lines of credit supplied by Chinese policy banks, followed by Chinese private companies that act as subcontractors within deals, especially those related to the mining sector. While Chinese investment in the region is progressively increasing, the boundaries between economic and political influence are gradually blurring.

Central Asia is also a growing recipient of Chinese aid. This is mainly delivered through direct loans managed by the Ministry of Commerce and two state policy banks, the China Development Bank and the Export-Import Bank of China. During the last three years, several of these investments have repeatedly entered into the media spotlight as a result of their perceived negative environmental and social impacts on local communities.

Recent data from the Chinese Ministry of Commerce (MOFCOM) shows that in 2012 bilateral trade between China and the five Central Asian countries reached the sum of USD 46 billion, an increase of 13.7% over the prior year. The possibilities for future bilateral trade are still underrepresented in the current figures. Nonetheless, as the Chinese Ministry of Commerce states, these trade levels are more than 100 times higher than those before diplomatic relations were established. During the first two quarters of 2013, bilateral trade between China and the five Central Asian countries reached USD 32.4 billion (a 16.7% increase over the previous year) confirming China's position as the largest trading partner for Kazakhstan, Turkmenistan, the second-largest for Kyrgyzstan and Uzbekistan, and the third-largest for Tajikistan. According to

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2 Li Yuanchao, Vice President of the People’s Republic of China “the Third China-Eurasia Economic Development and Cooperation Forum” Urumqi, 2 September 2013
3 Alessandro Arduino, The influence of China’s sovereign wealth fund in Central Asia: China’s new role in a multi-polar world and what it will mean for the EU (CASCC, 2011) p.5
4 Henry Sanderson, Michael Forsythe “China’s Superbank: Debt, Oil and Influence - How China Development Bank is Rewriting the Rules of Finance”; John Wiley & Sons, 2012
6 “Between 2001 and 2011, China’s pledged foreign aid was $671 billion, divided among 93 emerging-market countries. … $189 billion – equivalent to about 3% of the reported GDP in 2011” Charles Wolf, Xiao Wang, Eric Warner, “The Strategy Behind China’s Aid Expansion” RAND Corp, 2012
7 Chinese Minister of Commerce and Trade statistics, Xinhua news agency; 14 November 2013
the IMF Regional Economic Outlook for Central Asia, overall regional growth is expected to remain robust, but the region’s long-term growth depends heavily on China’s and Russia’s energy needs.

During his tour of the Silk Road region in September 2013, Chinese President Xi Jinping visited all of the Central Asian republics starting with Kazakhstan, China’s foremost economic partner in the region. President Xi reiterated China’s intention of pursuing a policy of large-scale investment in Kazakhstan with an FDI package worth USD 30 billion. President Xi’s speech at the University Nazarbayev in Astana placed emphasis on reviving the economic and cultural ties that characterised Central Asian-China relations during the past glory of the Silk Route and pointed to the rebirth of the ‘Silk Road Economic Belt’. The focal points for revival of the area, as expressed by the Chinese are: the free transit of goods, the removal of trade barriers, the full convertibility of currencies and the modernization of the logistics and transportation infrastructure.

While the revitalisation of the Silk Road is a priority for current Chinese foreign policy, the narrative originated in 1996 with President Jiang Zemin’s efforts to overcome border disputes. It evolved further with President Hu Jintao’s ‘Go West’ policy before becoming the New Silk Road, as promoted by President Xi Jinping. This latest narrative sees a range of Chinese actors, from the Chinese leadership to SOEs, state owned banks and national think tanks, aligned with the need to unite the Silk Road to Europe in order to form a strengthened Silk Road Economic Belt. The Chinese media promotes a vision of unified ambitions and common shared values regarding the development and integration of the Autonomous Province of Xinjiang and Central Asia, encouraging the development of an East-West logistics network. Nevertheless the narrative of Chinese investment flows are best not considered as single and homogeneous, but rather as a multi-faceted amalgam of interests led by different state corporate actors. Chinese SOEs may well act solely to promote their own agenda, actively influencing political outcomes in Beijing and in the region.

While China plays a prominent economic role in Central Asia, Russia has a greater vision of its own role within the Eurasian context. Moscow nevertheless lacks the financial strength to support President Putin’s twin visions of “Eurasia” and the “Iron Silk Road”. Meanwhile, Russia is trying to cope with Beijing’s growing economic influence. The CSI customs union, which

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9 Alexandros Petersen, Katinka Barysch, “Russia China and the Geopolitics of Energy in Central Asia”, Center for European Reform, November 2011; see also: “uncertainty over gas export volumes to Iran and the possibility of lower gas prices or slower demand from China or Russia” http://www.imf.org/external/pubs/ft/rego/2013/mcd/eng/mreo1013.htm
10 With the exception of Tajikistan as President Xi previously met Tajik president Rahmon in Beijing in May
11 Bilateral trade between Kazakhstan and China, in the first semester 2013, has reached USD 13.57 mln with an increase of 23.1%. Chinese exports have reached USD 5.66 mln with an increase of 30.5% and the Kazak exports have reached USD 7.92 mln with an increase of 18.2%. Source: Chinese Minister of Commerce; 2013
13 Vladimir Putin “A new integration project for Eurasia: The future in the making” Izvestia daily, (4 October 2011)
14 China Daily “ Putin presses for Asia-Europe rail”. 14 November 2013
includes Belarus and Kazakhstan, has erected strong barriers to prevent low-cost goods produced in China from saturating the region. At the same time it has diluted EU efforts to include Kazakhstan in its own market zone. Turkey,\textsuperscript{15} India, Pakistan and Iran are also paying increased attention to the Central Asian states due not only to their historical, cultural and linguistic ties, but also to the immediate concerns arising from an Afghanistan power vacuum.

\section*{II Building a New Land Bridge: Logistics and Energy}

The Europe-China transport links promoted by China encompass several projects along different corridors, including high-speed rail connections, trans-national highways and pipelines. In President Xi’s vision, Central Asian states’ geostrategic land-locked position and their economic development potential offers an opportunity for the bridging of trade flows between Asia and the EU.

The new Eurasian land bridge would benefit China by providing faster access to the EU market (less than three weeks compared to an average of five weeks via container shipping), while EU companies would not only have a cost effective route for exports, but also an efficient way to import their own production output that has been offshore to China. Following the demise of the Soviet Union, the Eurasian rail network has become an efficient trade route and also - from the Chinese geopolitical point of view - a safer option than the maritime one, avoiding the choke point of the Malacca Straits.

The main trade routes encompass:

\textbf{Chongqing – Duisburg}, operated by the Sino German Joint Venture Yuxinhou - TEL (DB Schenker), via Dostyk – Brest border region. There are several transit routes with three trains per week. The line has been operational since 2011 evolving from the use of public trains to dedicated single carriage container transport. It enabled the first train connection between Germany and China. The TEL carbon footprint accounts for 256 Kg CO\textsubscript{2}/t compared to 5984 Kg CO\textsubscript{2}/t generated by airfreight and 3414 Kg CO\textsubscript{2}/t\textsuperscript{16} by sea freight. The line covers more than 10,000 km throughout the, on average, 16 day journey.

\textbf{Chengdu – Lodz}. This lane is operated by YHF-HaTrans via Dostyk and Brest border regions and started in 2012 with a weekly train. DHL is the main user of the train, in close cooperation with the operator, and has a contracted fixed block space agreement for 60\% of the overall capacity. The ‘Chengdu Express train’ consistently operates at full capacity connecting China to Poland/EU in 12-14 days, with deliveries in Russia and Kazakhstan. The key customers include Philips, Ericsson, Segate, Samsung and FIAT.

\textsuperscript{15} “Turkish investment and interest in Central Asia, not least in energy assets, has also grown considerably. To the degree that Turkey takes for granted that it is foreordained to play the role of an energy hub between the Caspian and Central Asian Producers and European consumers …” Stephen Blank “What Impact would Turkish membership have on the SCO?” CACI Analyst (April 2013).

\textsuperscript{16} Source: TEL EU China
Lodz – Praag. This line is locally operated by Interrail via Dostyk and Brest border regions, alongside other local operators. This new route, which is strongly subsidised by the local government offers free pre-carriage up to 1,500 km from the station.

Zhengzhou Hamburg – Duisberg. This line is operated by local railways and TEL as a partner (DB Schenker) via Dostyk and Brest border regions. This new route utilises just one private train that is subsidised for use of electronics cargo transport. Zhengzhou industry park accounts for the largest Chinese manufacturing base for electronics including the Taiwanese Foxconn and the manufacturer of Apple products that are shipped directly to Hamburg.\(^{17}\)

Suzhou – Warsaw. This is the latest line operated by FELB via Zabaikalsk and Brest border region having been operational since March 2014. Suzhou SIP industrial park is an industrial hub for electronic and automotive multinationals such as Nokia and Bosch. The transit time of the ‘Far East’ land bridge averages 14 days crossing China, Russia Belarus and Poland.

Overall, these rail freight share similar constraints and advantages. The rail freight are fully booked from the Chinese route to the EU while the reverse route often travels at less capacity. One of the reasons is related to the fact that, from the Chinese side, the cargo shipments, especially those from areas which are the main production bases for electronics and automotive components, are heavily subsidised in order to support the local economy. Including subsidies, the overall price for cargo rail shipments can be 25-30% more expensive than the equivalent sea route.\(^{18}\) However, the land route is very competitive compared to airfreight shipments costs.

The main advantage for rail is its smaller carbon footprint per shipment and faster cash flow. Savings can be generated from reduced transit times - 14 to 18 days rail transit time equates to 30 to 40 days via the sea. At the same time the shipments via rail are more stable in price as the cost structure tends to remain fixed for longer periods, while sea freight costs often change abruptly. While the EU is still letting the free market play a role in price allocation, Chinese MOFCOM will likely provide subsidies if local Chinese municipalities cannot sustain rail freight, as in the case of Chongqing.

Presently the main structural constraint is related to limited capacity. While there is a common agreement from the EU and Chinese sides to increase overall capacity, there are several constraints, which are mainly related to the limits of capacity at borders, as well as platform provisions. Seasonality also affects capacity as, in summer, the peak season, all cargo converges at the borders generating congestion and delays. In addition, during the winter months, electronic goods can be affected by the severe cold weather and there shipment is thus usually postponed to warmer periods. The different rail systems adopted by the CIS\(^{19}\) also lengthen required reloading times – for example, a double reload is needed to enable the transfer of cargo from the Chinese\(^{20}\) CIS rail platform to the European one, generating a bottleneck due to a lack of capacity in terms of terminals and cranes.

\(^{17}\) Three different routes are available for further development 1. RU-CN (Umladen: Zabaykalsk - Manzhouli) 2. RU-MN-CN (Umladen: Zamyn-Uude - Erlian) 3. RU-KAZ-CN (Umladen: Dostyk - Alashankou)

\(^{18}\) If not subsidized, the full price door to door for a 40ft container may reach 12/15.000 USD vs. 3/5.000 USD by sea freight.

\(^{19}\) 1,520 mm wider gauge

\(^{20}\) 1,435 mm standard gauge
Moreover, the price of rail transport, if not subsidized, is very high and only competitive against airfreight. It could appeal to companies that produce low volume high value goods and who are willing to adapt the company stock model in order to take into account the longer transit times.

Currently most commercial companies are in the testing phase regarding use of rail freight and are reporting positive feedback on the overall rail network. It is expected that the volumes will increase by at least 30% per year on average, while some shipping companies provide a more optimistic forecast reaching 40-45%. During Q1 2013, only 170 containers were shipped to Poland/Germany, while Q1 2014 has already witnessed an increase of 820 containers. This trend should continue in the years to come. While China is expecting the EU to finance the EU-China route in order to create economies of scale, there is a perception on the Chinese side that European companies are not necessarily familiar with the rail network and that the main partner to discuss strategies and trade policies is Germany. While Germany has been a focal hub for the beginnings of the project, Poland and soon Holland and Belgium are likely to increase their involvement, which will have positive commercial spillover to other European partners.

Many Central Asian states share China’s concerns regarding the EU’s willingness to financially sustain the Eurasian land bridge. From a Central Asian perspective, the EU appears an abstract concept without a clearly defined stakeholder. However, at the same time, states such as Kazakhstan are open to EU participation in public procurements, because they do not want to become reliant exclusively on Chinese support.

For both the EU and China, one of the main concerns about Central Asia is related to the fast changing political landscape, corruption and border constraints. However, concerns regarding border constraints have been partially resolved as the fixed block trains now work with EDI (electronic data interchange) systems, which manage transit formalities in a faster and more accountable manner. Additionally China, Kazakhstan and Russia’s top-level government bodies are overseeing the accountability of the rail lines and local custom officials have been made well aware of their duties and responsibilities.

On the financial side, China is willing to invest in promoting the rail network with the EU. However, besides the rhetoric in the public announcements there has not been any improvement in the establishment of structured government communication channels. There is some concern regarding MOFCOM’s willingness to pursue bilateral discussions with Germany and Poland, with the opening of a new route linking with the Eastern European countries in order to link the rail network with Pireus port.

Chinese rail platforms have been eligible for preferable loans from Exim and other Chinese State Investment banks, allowing the receiving countries favourable loan conditions. However, at the same time, EU companies that are eager to compete in public procurements have to abide by a strict framework of laws, compared with the more flexible approach of the Chinese counterpart.

On the Central Asian side, during President Xi’s state visit to Uzbekistan during his Central Asia tour, President Karimov, who was previously reluctant to accept any foreign intervention, agreed to the expansion of railway lines connecting China, Kyrgyzstan and Uzbekistan. The project, with an estimated cost of USD 2 billion, is fully financed by the Chinese side. According to

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21 In 2013, 3200 containers were shipped from China to Poland/Germany via Dostyk only.
to official announcements, the China Road and Bridge Corporation (CRBC) will obtain use-rights to the railway. Once the lease expires, they will maintain a 49% share in the project leaving the remaining 51% to each country. This ambitious project is also aimed at promoting North-South market integration, connecting Uzbekistan, Pakistan and Afghanistan by rail. As is the case elsewhere, the project will involve multiple Chinese state actors from China Railway High-speed (CRH) and China Bridge and Road Corporation (CBRC). In November 2013, a new cargo train route was inaugurated, linking Xi’an, the capital of China's northwest Shaanxi province, with Almaty through Xinjiang Autonomous Region by means of a 3,866 km route. This new route adds another link to northern Kazakh cities more than 5,000 km away from Xi’an and is part of a broader project, which is expected to become operational by the end of 2015. This aims to link China and Europe via Kazakhstan and Russia along 8,000 km of highway (Khorgos China – Almaty Kazakhstan – St. Petersburg Russia – Lithuania).

China and Turkey are also in discussions to build a new high-speed railway. In his first visit to China in April 2012, Prime Minister Erdogan chose Urumqi and not Beijing as his first stop. This has led to agreement on the construction of a rail network that would connect Kars to Istanbul and then, via the planned Bosphorus rail tunnel, to the EU, crossing through Greece and Bulgaria, at an estimated cost of USD 35 billion. The project, almost entirely financed by China, would also link into the Baku-Tbilisi-Kars rail route, so enabling connections to Azerbaijan and Georgia and increasing the reach of Chinese economic diplomacy. Transport and logistics integration are also poised to benefit from the planned rail link project that will connect Urumqi with Ashgabat and then run from the Turkmen capital to the Iranian border. Besides the financial issues, which can easily be resolved by the Chinese side, these Central Asian rail projects still pose several technical issues. These relate to their heritage from the former Soviet Union and China’s use of the international standard track gauge, which is shorter than the gauge used in the Central Asian states and Russia.

China’s Central Asian energy security policy, undertaken by Beijing in recent years, continues apace with the opening of the new Beineu - Bozoy – Shymkent pipeline and China National Petroleum’s acquisition of 8% of the mining and drilling rights of Kashagan, and other drilling rights in the Caspian Sea at a cost of USD 5 billion and 3 billion respectively. A recent agreement with Turkmenistan also boosted the supply of natural gas to China up to 25 billion cubic meters annually. Even President Xi’s visit to Dushanbe had energy as its central theme. His counterpart, the Tajik President, Emomali Rakhmon, agreed on the need to start construction on segment D of the pipeline linking Central Asia to China. This Chinese natural gas pipeline epitomises the prominent role of Chinese energy companies in the region. The 1833-km pipeline not only ensures a steady flow of natural gas to Xinjiang, but also underlines the pragmatic approach of Chinese SOEs through the use of European and Russian technology and expertise. While the Chinese project has been implemented in record time, Western proposals are still in their infancy. In the meantime, the Turkmen government has drastically rewritten the terms of their former, monopolistic agreement with Russia’s Gazprom in favour of a better deal with China’s Sinopec. Moreover, in 2005 Sinopec formed a strategic cooperation with KazMunaiGaz, with a

Contrary to the collective imagination of a low quality ‘Made in China’, China Railway High-speed (CRH) and China Bridge and Road Corporation (CBRC) have already acquired a good reputation among Asian Development Bank and Islamic Development Bank with the construction of important infrastructural projects.
series of mergers and takeovers that allowed China’s ‘Three-Sisters’ energy companies to gain a dominant position.\textsuperscript{23}

The financial strength of Chinese SOEs will also play a vital role in addressing the aging infrastructure of natural gas production and distribution. Even Uzbekistan has planned an amendment to the legal framework for production sharing agreements that will allow the formation of foreign joint ventures with Uzbekneftegaz, (Uzbekistan’s state oil energy company). It will also grant wider access to Chinese state actors. However, the short-term gains for the Chinese companies must be balanced against longer term political risks associated with the internal stability of these Central Asian regimes,\textsuperscript{25} the same risks are also borne by EU companies that cooperate with China in the region.\textsuperscript{26} Another long-term risk, associated with the Chinese investment footprint, stems from fears harboured by the local population of the Chinese migrant workers who are starting to flood into remote and scarcely populated areas. The incident at the Chinese-owned Taldy-Bulak Levoberejny gold mine in Kyrgyzstan exemplifies this issue. Moreover, there is a widespread perception that Chinese companies are pursuing a predatory policy of depleting local resources without creating positive economic spillovers into local communities. As with Chinese investment in Africa, several incidents have been related to a lack of work-safety measures, environmental pollution, and endemic corruption, fuelling local tensions. In this regard the EU could provide incentives for China focused on corporate social responsibility guidelines and best practices, in order to avoid using Central Asia simply as a resource pit and storing up problems for the future.\textsuperscript{28}

III China’s Growing Geostrategic Interest in Mongolia

Since the start of Chinese efforts to develop the new Eurasian land bridge, Mongolia, landlocked like the Central Asian states, has been on the receiving end of growing geostrategic interest from Beijing. China is Mongolia’s biggest trade partner, and is set to deepen economic and trade cooperation through the development of essential infrastructure that boosts local industrial capacity and transportation networks. Since 2011, the mineral and coal mining sector, sustained by Chinese financial and technical expertise, has driven Mongolia’s rapid economic rise.\textsuperscript{29} It seems reasonable to assume that Beijing’s closer partnership with Mongolia will soon

\textsuperscript{23} CNPC-Petro China, Sinopec Group and CNOOC Ltd.
\textsuperscript{24} “Another example is the takeover of PetroKazakhstan in 2005, a Canadian-registered company with all its assets located in Kazakhstan. This deal guaranteed Beijing’s full ownership of several oil fields in the Kumkol area, not far from the China–Kazakhstan oil pipeline. The competitors from Indian and Russian state-owned groups, Oil & Natural Gas Corporation and LukOil, failed to secure the deal, showcasing China’s growing financial expertise in foreign energy stock markets.”
\textsuperscript{25} China Central Asia Problem “China’s high-value investments are prey to changing political agendas in Central Asia, localized outbursts of violence and the potential for a regional downturn in stability due to the rotting from within of some of its states and spillover from Afghanistan.” International Crisis Group, Asia Report N°244 27 February 2013
\textsuperscript{26} An example is the Kashagan consortium under the leadership of the Italian ENI.
\textsuperscript{27} The gold mine has been acquired by the Chinese company Zijin Mining Group from Fujian in 2011 for 660 million USD following a trend that from 2009 has saw more than 50 Chinese mining companies operating in the area. Liu Linlin, Global Times 26 October 2012.
\textsuperscript{28} Li Lifan, The SCO and how Chinese foreign policy works, (SIPCAS) pp161
\textsuperscript{29} It accounts approximately to one third of the GDP growth.
become another source of Chinese influence in the region. In this respect, the EU will have to assess the needs of the Mongolian government in developing a sound economy, so that it does not simply become a market for Chinese products and a natural resource hub to be exploited. Ulaanbaatar, in common with the Central Asian states, actively promotes a multi-vector foreign policy that avoids leaning too close to its superpower neighbours of Russia and China. Moreover Mongolia has found a way to manage its relationship with the great powers by balancing security alliances with Washington and Moscow together with strong trade ties with Beijing. At the same time, Mongolian civil society is often wary about Chinese investment, which provides ample room for manoeuvre for EU economic and social development policies.

IV The Shanghai Cooperation Organisation and Collective Security Treaty Organization

While Chinese financial support in upgrading Central Asia’s ageing energy infrastructure is proceeding incrementally, it is not yet clear that ‘symbiotic distrust’\(^{30}\) between China and Russia will allow economic interest to outweigh political and security concerns.\(^{31}\) The five Central Asian republics have adopted a multi-vector policy with two different ‘Security Clubs’ that encompass border defence and terrorism prevention. The results are the Russia-sponsored Collective Security Treaty Organization (CSTO) and China-convened Shanghai Cooperation Organisation (SCO).\(^{32}\) At the moment China and Russia share common interests in the stability and maintenance of the security status quo, fighting the ‘three evils’ of terrorism, separatism and religious extremism. The SCO,\(^{33}\) thanks to Chinese economic support, is a prominent organization in the region and encompasses China, Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, and Tajikistan. The CSTO comprises all SCO countries (with the exception of China), with the addition of Armenia and Belarus. The CSTO has a rapid reaction force and shares a higher degree of military inter-operability than the SCO does. In this respect China’s military rise in the regional security arena is not going to pose a direct challenge to Russia. The SCO’s military cooperation framework is still limited both in structural and operational terms. The SCO’s multilateral security component will always run up against the ‘principle of non-interference.’\(^{34}\) Differences in language, doctrinal traditions and equipment between China and the former Soviet Central Asian armies will likely limit any deep reform.\(^{35}\)

\(^{30}\) Alessandro Arduino “China’s Regional Policy in Asia: An Omni directional Assessment “ - Workshop RSIS, 9 December Singapore

\(^{31}\) Recently CNPC acquired 20% of the Yamal peninsula’s LGN pipeline, owned by the Russian Novatek. Also PetroChina is waiting the approval to participate as prominent actor in the upgrade of the eastern branch pipeline, owned by Gazprom and Rosneft, that is supposed to link Siberia oil and gas fields with the growing Chinese demand by 2018.

\(^{32}\) Bellacqua J, The Future of China-Russia relations, University press of Kentucky, 2010

\(^{33}\) SCO observer nations include: India, Iran, Pakistan, and Mongolia and Afghanistan, also Belarus, Sri Lanka and Turkey are considered dialogue partners.

\(^{34}\) Chen Zhimin “Soft balance and reciprocal engagement: international structures and China’s Foreign policy choice” Fudan (2010)

\(^{35}\) “The sources of domestic weakness and violence in Central Asia and the promotion of agendas of reform are being overlooked in favor of combating the future threat of external terrorism.” Neil Melvin, Don’t
V Recommendations

- The geopolitical implications of the Eurasian corridor, confirm the trend towards a new foreign policy whereby Beijing uses its economic investments to strengthen bilateral relations with Central Asian states.
- The EU’s involvement in the Silk Road will promote positive outcomes when the use of the Eurasian corridor is seen not only as a mechanism for enabling the flow of high value-low volume products from the EU to China, but also as a means of access to growing markets in Central Asia, such as Kazakhstan.
- The extensive development of new platforms with an increased number of trains (deployed on a weekly basis) will increase the rail route’s efficiency and decrease the need for subsidies and opening the rail freight to a wider range of companies. At the same time an unregulated use of subsidies, especially from the Chinese side, could spark an imbalance in products and competitiveness of the industrial parks.
- Environmental protection and a reduced carbon footprint for the products shipped by rail freight add a significant value to the increase in rail line capacity.
- Efficient rail freight will have a positive impact on service supply chain costs and competitiveness introducing major savings on freight and working capital.
- Private and government sector partnership is a key issue for strengthening efficiency and accountability in the long-term development of the New Silk Road, but the EU has to diversify the available financial instruments.
- A balanced EU – Chinese’s cooperation in platform development has to involve a set of common agreed public procurement and credit financing rules, not only in Central Asia but also in China, giving more access to the EU companies in restricted investment areas.
- Economic drawbacks relate mainly to weak economic systems in Central Asia that are prone to external pressures and lead to business malpractice, lack of financial transparency, environmental degradation and social instability. Failure to promote a stable Central Asia will generate negative ripple effects across all of Eurasia.
- Land connectivity presents a win-win situation not only for EU and China but for all countries involved, promoting broader Eurasian socio-economic integration.
- The EU's involvement in the Silk Road, in cooperation with Chinese and regional counterparts, has the potential to harmonise sustainable growth with the development of civil society, thereby promoting not only an East-West trade route, but also trans-regional integration.