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## Three Years of the Silk Road: Successes and Challenges

Justyna Szczudlik

*Three years ago, PRC Chairman Xi Jinping announced the Silk Road initiative. China perceives its implementation to date as a success. Nevertheless, in other countries, there are doubts about the lack of a defined scope and concerns about planned or already launched projects. For Poland, Silk Road is a chance to strengthen trade and attract investment, including in infrastructure. With China yet to propose beneficial projects and considering the potential risks involved with access to critical infrastructure, the Chinese declarations should be treated carefully and expectations lowered.*

China has evaluated as positive the first three years of its Silk Road initiative (also known as Belt and Road), announced in autumn 2013.<sup>1</sup> Apart from conceptualisation and institutionalisation, various economic, infrastructure and finance projects have been or will be launched. The PRC focuses on the initiative's broad scope and the positive response from other countries that collectively and with great enthusiasm are joining the Silk Road. However, more countries view it with increasing concern.

**Enthusiastic Chinese Assessment.** A meeting of the Leading Group for the Silk Road's Implementation was held in late August and attended by PRC Chairman Xi Jinping. An assessment of the first three years of the initiative was among the topics discussed.

China argues that more than 100 countries have already joined or support the initiative and more than 30 have signed Silk Road memorandums. What is more, international financial institutions have been established. For example, in June the Asian Infrastructure Investment Bank (AIIB) announced its first four infrastructure projects worth a total of \$509 million in Bangladesh, Indonesia, Pakistan and Tajikistan. The Silk Road Fund also unveiled its first three investments, one, to develop a hydropower plant in Pakistan, the second, acquisition of the Italy-based firm Pirelli, and the third, a 9.9% equity stake in the Yamal LNG project. China claims that there has been a 20% rise in trade with countries the PRC considers Silk Road states and that investments have also increased. The evaluation highlights that already there are almost 40 rail cargo connections between Europe and China, and that Chinese state-owned companies have concluded agreements on 38 infrastructure projects in 26 countries and are taking part in 40 foreign energy projects in 19 countries. Moreover, it says 52 economic zones have been established in 18 Silk Road countries. Currency swap agreements, signed with 35 countries, and offshore RMB settlement, are also considered Silk Road projects.

China argues that the Silk Road is a "public good." The reason for its success is that it is promoted as the Chinese contribution to the global governance system and forms a new model for integration but one different from Western notions. Silk Road aims to create a cooperation network rather than spheres of influence, such as the notion preferred by Russia, for example. What is more, the Silk Road initiative is a means to establish Chinese-style leadership based on taking responsibility, setting an example, and not exerting pressure on others. In that sense, the Silk Road is a kind of Chinese "third way". Chinese leaders stress that this is an open idea and a response to international needs. They see vindication of the initiative in its inclusion in the development strategies of other countries. A good example of that is the agreement between China and the EU, namely the synergy between the Silk Road initiative and the Juncker Plan.

<sup>1</sup> J. Szczudlik-Tatar, "One Belt, One Road: Mapping China's New Diplomatic Strategy," *PISM Bulletin*, no. 67 (799), 2 July 2015.

**Some Countries Express Doubt.** However, beyond China, the Silk Road initiative is raising doubts. They are articulated at two levels with the first the macro level, such as in the political discourse, assumptions about the initiative, and trust in Chinese statistics, and the second is at the micro level, relating to specific projects and cooperation proposals.

Despite Chinese efforts to give more “substance” and detail to Silk Road, the initiative remains vague. China’s argument that access to the initiative is voluntary combined with the lack of a list of objectives and tools reinforce its partners’ conviction that it is nebulous. Good evidence of this is the list of activities undertaken in the last three years. Apart from priority areas such as infrastructure, trade, investment and financial cooperation, Silk Road embraces any other forms of state activity, including those in domestic and foreign policy.

There are also doubts about the Chinese statistics. Usually, only access to general, quantitative data is available. It remains unknown when some projects were launched and their stage of implementation. It is highly probable there are only a few real Silk Road projects, that is, those that began after autumn 2013. In that sense, projects finalised or launched before the initiative’s announcement, such as the rail cargo connection between Łódź and Chengdu, have been claimed as examples of Silk Road initiatives. The names of the countries taking part in the projects or signatories to agreements are rarely made public. As a result, China’s enthusiastic assessment of the Silk Road initiative is perceived as arbitrary and unable to be verified. Currently, “Silk Road” is more a label under which China pursues its assertive export, investment and foreign policies while diversifying their directions.

At the micro level, the doubts are connected to the first, unsuccessful projects. For example, energy projects in Mongolia have been suspended for environmental reasons, such as threats to Lake Baikal. Some countries also have expressed doubts about their security because of the mode of the Chinese investments. A good example is Thailand, which declined a railway infrastructure project because the Chinese side requested the right to land at the stations and along the tracks. There are also problems with the launch of a similar project in Laos and with the Belgrade-to-Budapest railway. Other concerns include Chinese demand for access to critical infrastructure and the potential for acquiring technologies through investment in the energy and high-tech sectors. This was why the Australian government rejected two Chinese companies’ offer to lease transmission lines. There also have been concerns in Germany about access to digital data following China-based firm Midea’s acquisition of Germany-based robotics company Kuka. Another German company, Aixtron, saw its shares fall sharply after the unexpected cancellation of a large order by a Chinese company followed by an offer from another Chinese enterprise to take over the company.

There is also apprehension about whether China, due to its economic slowdown and potential for crises (such as stock market slumps that could result in capital outflow), can finance the projects and how profitable they will be. Concerns about economic sustainability have been raised in connection with, for example, transport projects in Central Asia.

**Silk Road’s Prospects.** Despite these problems, the initiative will remain Xi’s most important political concept. Silk Road will remain general and vague because it gives the Chinese authorities room for manoeuvre depending on its needs and avoids criteria that may indicate failure. Silk Road will remain the state’s “umbrella” over its domestic and foreign policies. Apart from export promotion, it will become an increasingly more important instrument for acquiring technology, much needed for China’s economy to diversify. Silk Road may also result in an influx of Chinese workers to countries where the projects are located. For example, China’s military base in Djibouti is already seen as its foothold in Africa (about a million Chinese live on the continent) and is capable in an emergency to be a hub for protecting or quickly evacuating Chinese citizens.

Silk Road will remain a tool for strengthening China’s global position under Xi’s rule. It is an essential and important instrument to project Chinese power given recent setbacks to its neighbourhood policy, including the unfavourable ruling by an arbitration court at The Hague in connection with the South China Sea, and in its economic policy, namely the stock market plunges in 2015 and 2016. Chairman Xi needs confirmation of his image as a strong leader before the personnel reshuffle of party leadership that will take place after the 19<sup>th</sup> CPC congress in the autumn of 2017.

**Implications for Poland.** Poland has declared participation in Silk Road. The initiative is seen as a chance to increase Polish exports to China, attract investment and improve infrastructure. However, no significant project for Poland has yet been launched under the Silk Road banner. On the other hand, China’s assertive rhetoric, including open criticism of the United States, aggressive export promotion of overproduced goods and extra manufacturing capacities, and access to technology through mergers and acquisitions, may pose various risks for Poland. Among the challenges are the effects on transatlantic relations, EU cohesion, global economic governance, and even state security. Under these circumstances, Poland should assess the Chinese declarations carefully and lower its own expectations. When engaging deeply in cooperation with China, Poland should strengthen the support system for entrepreneurs and cooperate closely with the EU’s institutions and other EU Member States. It is also worth strengthening relations with other Asian states, such as Japan and the Republic of Korea, which have developed similar or even competitive projects to Silk Road.<sup>2</sup>

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<sup>2</sup> J. Szczudlik, “Many Belts and Many Roads: The Proliferation of Infrastructure Initiatives in Asia,” *PISM Policy Paper*, no. 7 (148), February 2016.