

The New Silk Road and the New Tournament of Shadows – China and the EU in Central Asia

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Rudyard Kipling in his novel *Kim* (1901) introduced "The Great Game" (also called "The Tournament of Shadows" in Russian) into mainstream consciousness. He wrote about the strategic economic and political rivalry and conflict between the British and the Russian Empires for supremacy in Central Asia at the expense of Afghanistan, Persia and the Central Asian Khanates/Emirates. The classic Great Game period is generally regarded as running approximately from the Russo-Persian Treaty of 1813 to the Anglo-Russian Convention of 1907, in which nations like the Emirate of Bukhara fell.



Outline

- STAN-omics
- Central Asia in the New Silk Road
- China and the EU in Central Asia
- Assessing the impact of OBOR on STANs' trade



Stan-omics – current facts

- 4.8m km² (3.75% world, EU is 4.2m km²)
- 232m population in 2014 (3.61% world, from 3.44% in 2008, Indonesia is 235m)
- GDP now at 0.13% of world, down from 0.14% in 2008
- A very minor player in global trade – 0.62% in 2008, falling to 0.60% in 2014
- Twice as important in global FDI flows – 1.21% in 2008, falling to 1.17% in 2014
- Important and growing for remittances (from 3.08% to 4.80%)

Stan-ography

- Access – all but Pakistan are land-locked, Uzbekistan is “double landlocked”, i.e. surrounded entirely by one or more landlocked countries and requiring the crossing of at least two national borders to reach a coastline (one of two countries, Liechtenstein is the other)
- Poor connectivity and expensive logistics
- Fractionalization (Alesina et al. 2003)
 - High ethnic (0.54 vs 0.39)
 - High linguistic (0.52 vs 0.36)
 - Low religious (0.37 vs 0.43)

Development prospects of landlocked economies

Problems

- dependence on neighbors' infrastructure
- dependence on sound cross-border political relations
- dependence on neighbours' peace and stability
- dependence on neighbours' administrative practices

Solutions

- invest in internal infrastructure to lower transportation costs.
- invest in regional integration strategies — everyone needs to get its infrastructure right.
- focus regional integration strategies on administrative coordination — get customs and border procedures right
- invest, where possible, in sectors less affected by transport costs (e.g. services)

Stan-omics – MDGs outcomes

	\$1.25 per day poverty (%)			Country line poverty (%)			Gender parity index in primary education			Safe drinking water (% population)	
	Earliest	Latest									
Afghanistan	...	...		36.3 (08)	35.8 (11)		0.34 (93)	...		5 (91)	64 (12)
Kazakhstan	4.2 (93)	0.1 (10)		46.7 (01)	2.9 (13)		1.01 (00)	1.00 (12)		94 (90)	93 (12)
Kyrgyzstan	18.6 (93)	5.1 (11)		39.9 (06)	38.0 (12)		0.96 (96)	0.98 (12)		73 (90)	88 (12)
Pakistan	64.7 (91)	12.7 (11)		30.6 (99)	12.4 (11)		56.2 (02)	71.9 (13)		85 (90)	91 (12)
Tajikistan	50.1 (99)	6.5 (09)		96.0 (99)	47.2 (09)		0.93 (00)	0.99 (14)		58 (93)	72 (12)
Turkmenistan	63.5 (93)	24.8 (98)		...	...			...		86 (94)	71 (12)
Uzbekistan	...	...		17.7 (10)	16.0 (11)			0.97 (11)		90 (90)	87 (12)

Stan-omics – medium-term trends

- Population prospects
 - 2015 = 298m = world 4.06%
 - 2030 (medium-variant) = 378m = world 4.45%
 - 2050 (medium-variant) = 465m = world 4.78%
- GDP prospects
 - 4% average growth until 2017 (World Bank)
 - Pakistan projected to become 16% larger than Italy in 2050 (PWC)

China in Central Asia – an «Empty Fortress» stratagem?

- Pro-active promotion of economic interests and enhanced energy security.
- Defensive motivations
 - Build preferential relations with energy-producing countries, instead of relying on arms' length market transactions
 - Find new outlets for excessive production capacity
 - Maintain peace, predictability, and secular governments, to guarantee against linkups between internal challenges and external threats, notably the Uighur Diaspor.
- Through the Shanghai Cooperation Organization (SCO), China seeks to increase influence in Central Asia and thereby limit the influence of other powers.
 - outward appearance of potency and activism
 - a loose collection of states incapable of resolute collective action
- Bilateral relations:
 - largest investor in Afghanistan (where China has been a bystander to Western military activities)
 - Pakistan is probably China's closest and most enduring ally of the past half-century, but its strategic importance to China has decreased since the end of the Cold War.

OBOR includes six corridors

- China-Mongolia-Russia corridor, anchored on the Trans-Siberian railway
- New Eurasian Land Bridge, anchored by a set of railways running from central China (Wuhan, Chongqing and Chengdu) to Europe via Kazakhstan, Russia and Belarus
- China-Central Asia-Western Asia Corridor, speculated to follow the overland Silk Road Economic Belt as depicted in maps released last year by the state-owned Xinhua News Agency, passing through Central Asia, Iran and Turkey to reach Europe
- China-Pakistan Corridor, which would extend the Karakoram Highway, which already crosses the mountains between China and Pakistan, and build highway and rail links all the way through Pakistan to the port of Gwadar
- Indochina Peninsula Corridor
- Bangladesh-China-India-Myanmar Corridor

Funding institutions for OBOR

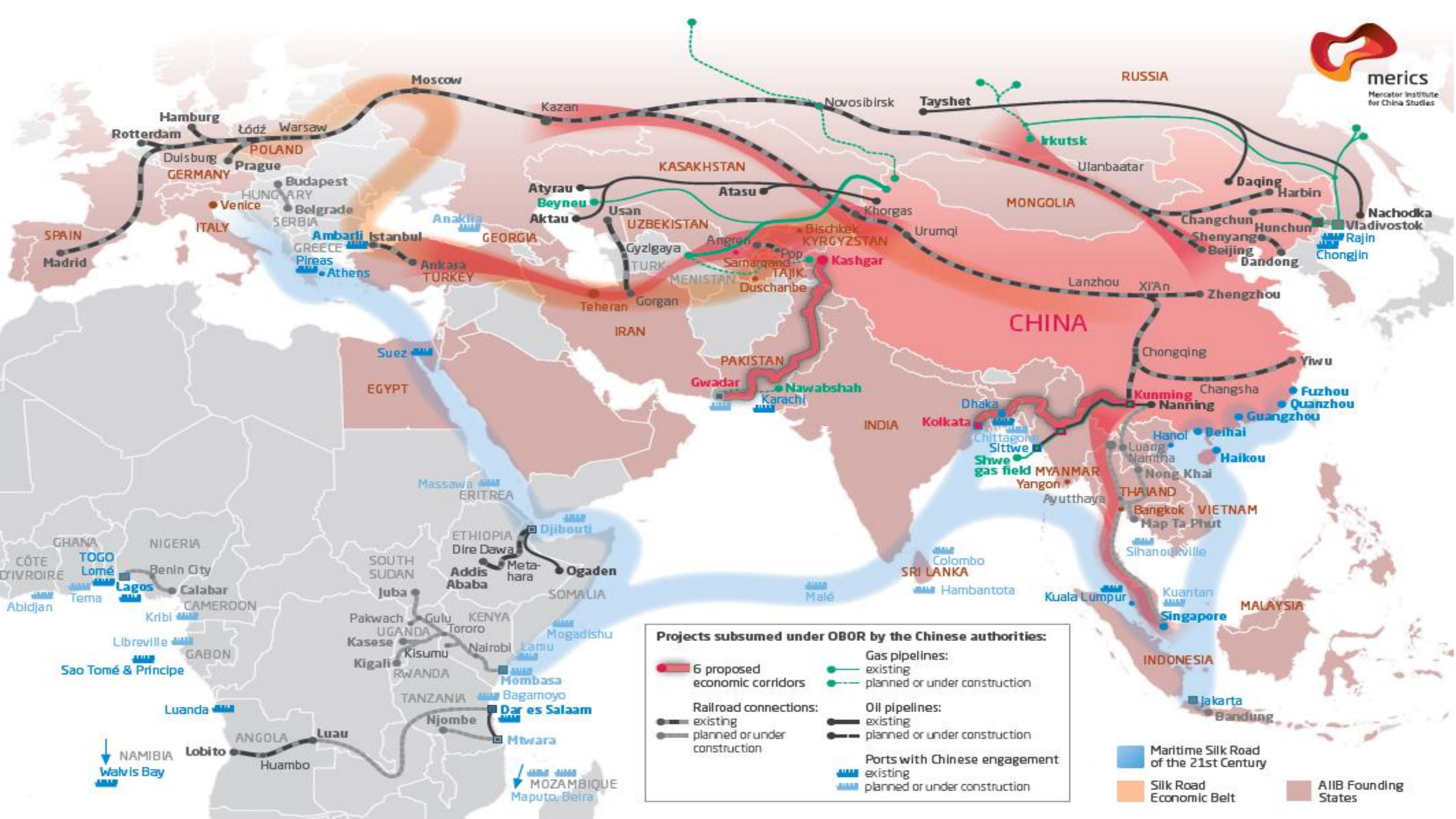
- **Silk Road Infrastructure Fund** - launched in February 2014 - US\$40bn - capitalised mainly by China's forex reserves and intended to be managed like China's sovereign wealth fund
- **Asian Infrastructure Investment Bank** - founded in October 2014 - US\$100bn - with 21 Asian member countries (including also 5 of the STANs: Pakistan, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan)
- **New Development Bank** - established on 15 July 2014 in Shanghai - US\$50bn - a BRICS multilateral development bank, by Brazil, Russia, India, China and South Africa

THE SIX ECONOMIC CORRIDORS OF THE BELT AND ROAD

600 mi

1200 km





Changing the geography of trade routes between China and Europe?

Currently, sea trade routes are faster and more cost-effective than land routes

Expectations are that the shift to inland trade routes will be small

This seems contradicted by current developments:

- Potential of transcontinental rail lines to deliver relatively high value-added goods, such as electronics, which are sensitive to rapid changes in demand
- e.g. from Chongqing to Duisburg 3-4 times per week (soon on daily basis).
- HP already shipping door-to door with transit time max 17 days, slightly more than 50% of the door-to-door transit time by ocean freight

The EU in Central Asia

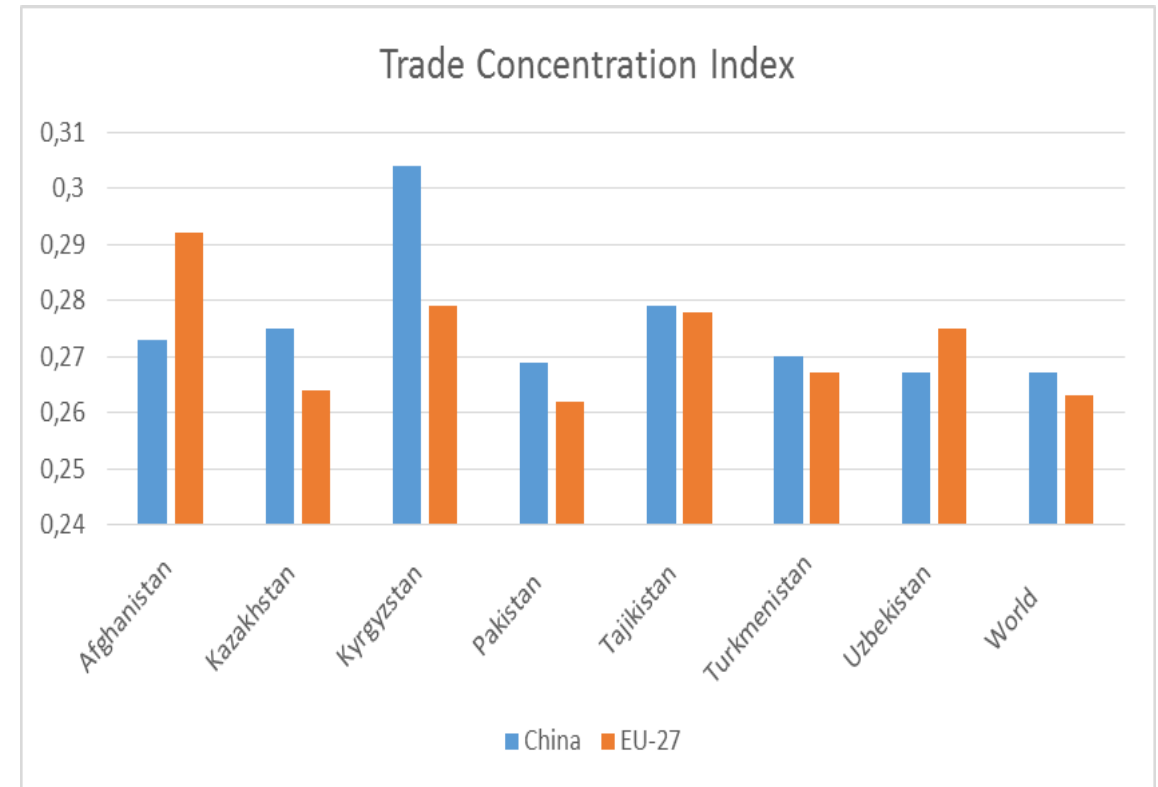
- *The EU and Central Asia: Strategy for a New Partnership* (Council in June 2007):
 - political dialogue
 - dialogue on human rights
 - Cooperation
- Council conclusions (June 2015)
 - strengthening trade and energy links
 - reinforcing cooperation on security and stability, including sustainable management of natural resources
 - fundamental importance of democratisation, respect for human rights and the rule of law, and socio-economic development

Assessing the impact of OBOR on STANs' trade with China and the EU

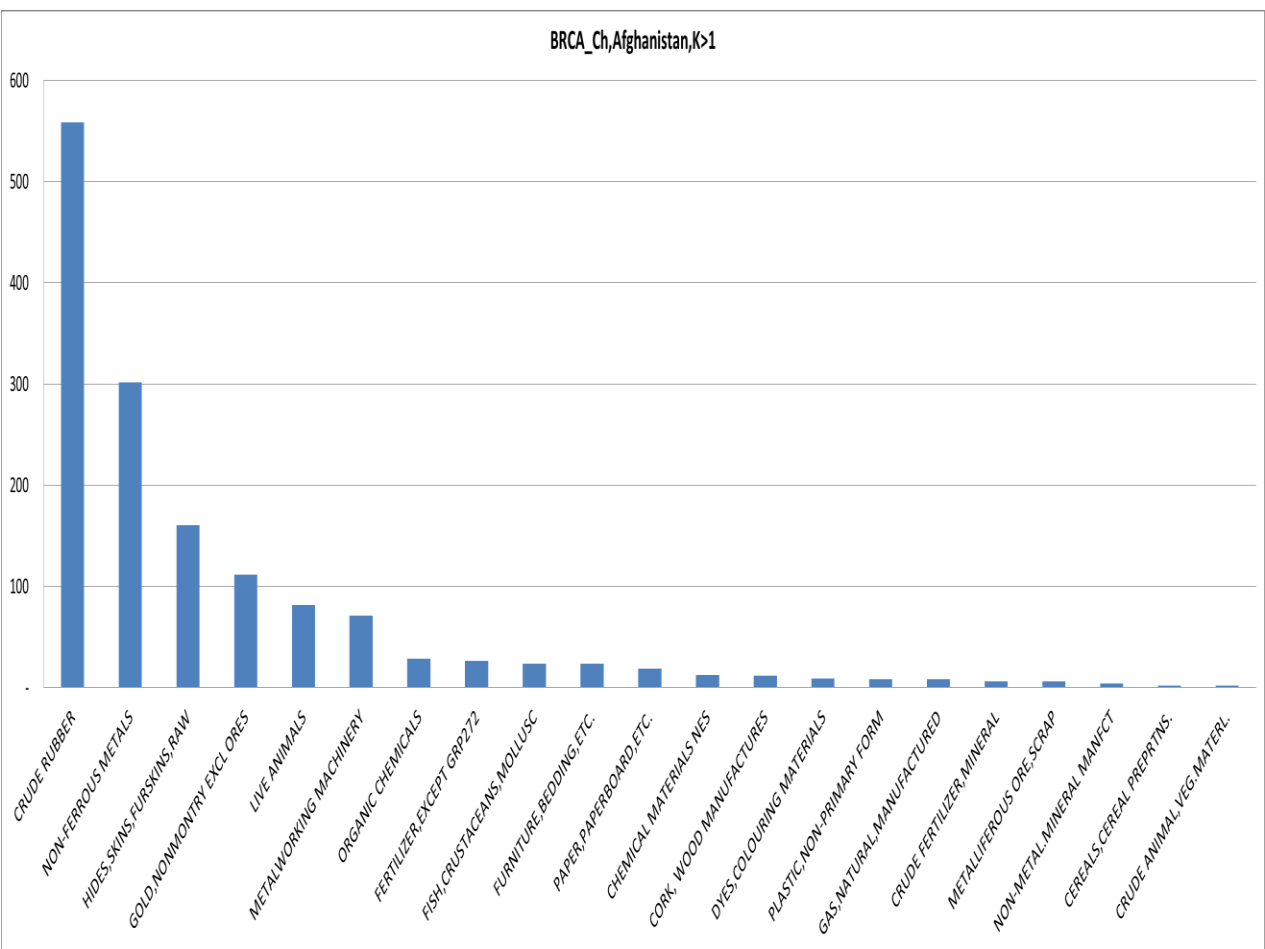
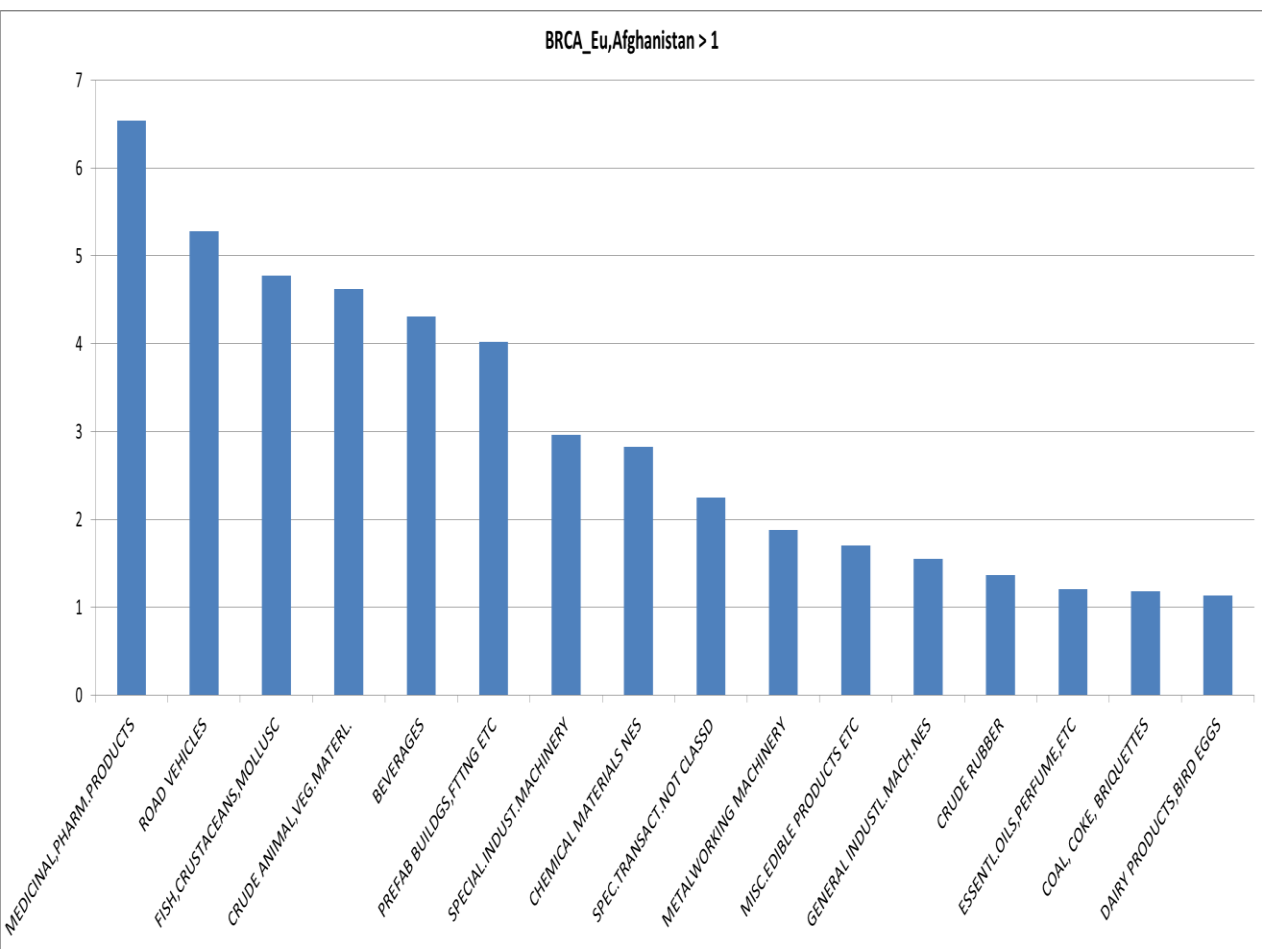
- Structure of bilateral trade – EU and China in the STANs
- Bilateral RCA – EU vs China in the STANs
- Chinese competition to the EU in the STANs
- Similarity of EU and China export patterns in the STANs

Structure of bilateral trade - EU and China in the STANs

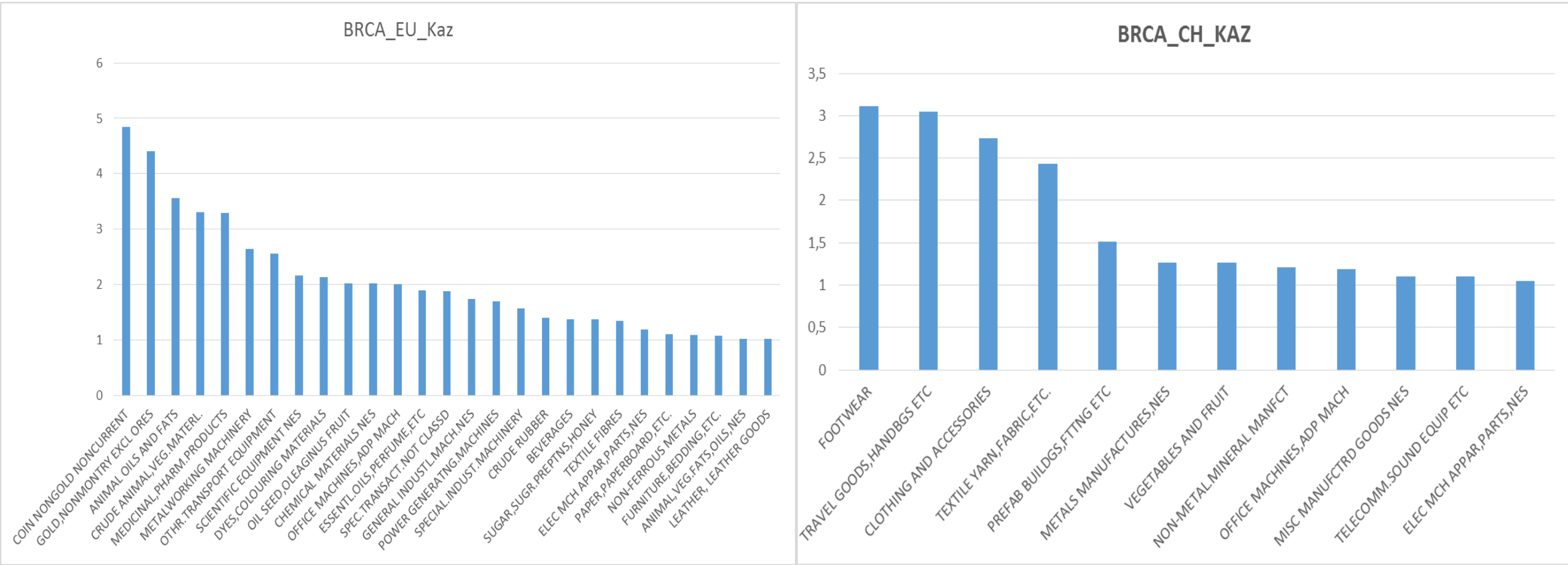
- Bilateral Chinese trade is more concentrated (in terms of products) than EU trade – on average and in the STANs.
- Bilateral trade – EU vs STANs and China vs STANs - shows a concentrated product structure compared to the RoW, except in Pakistan.



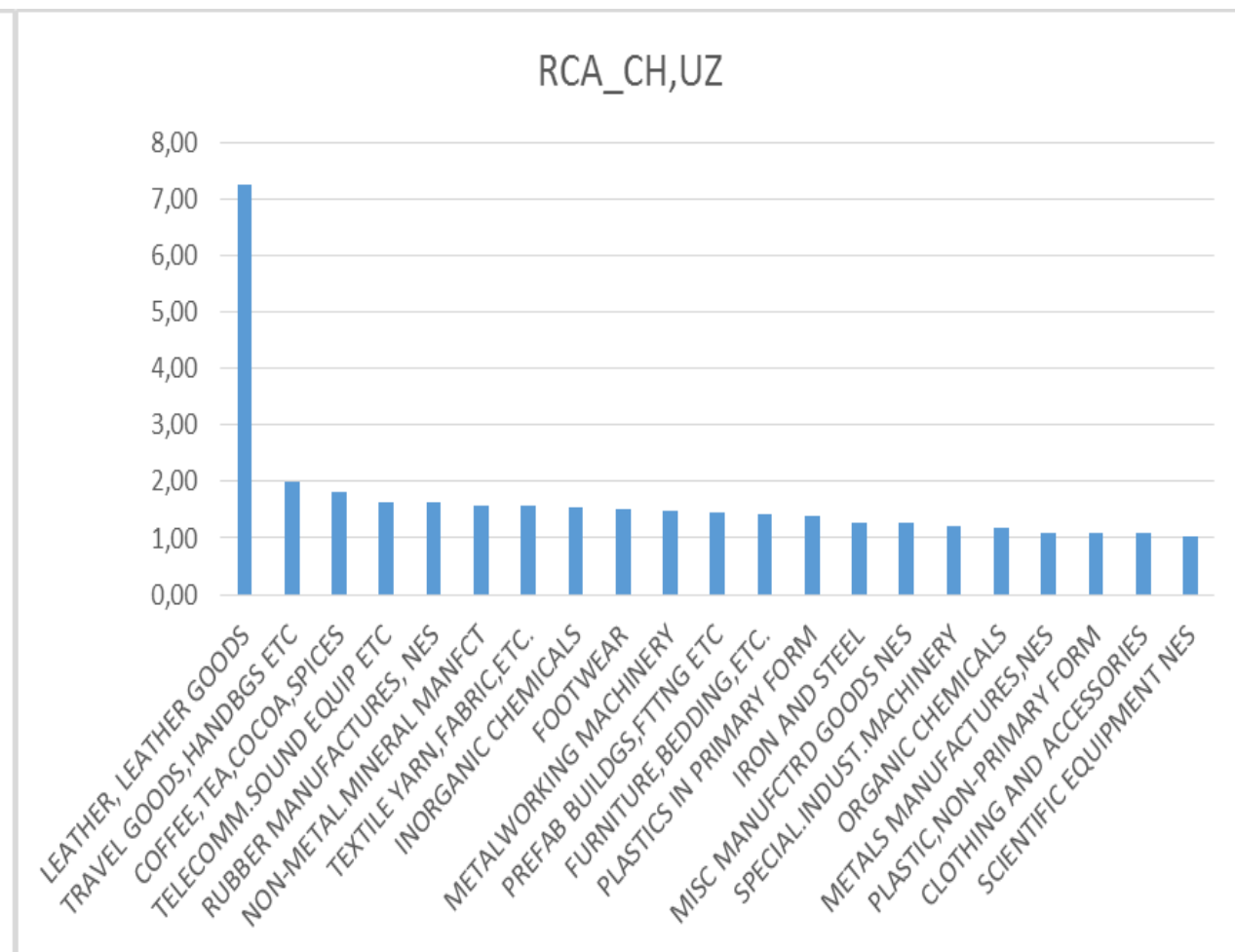
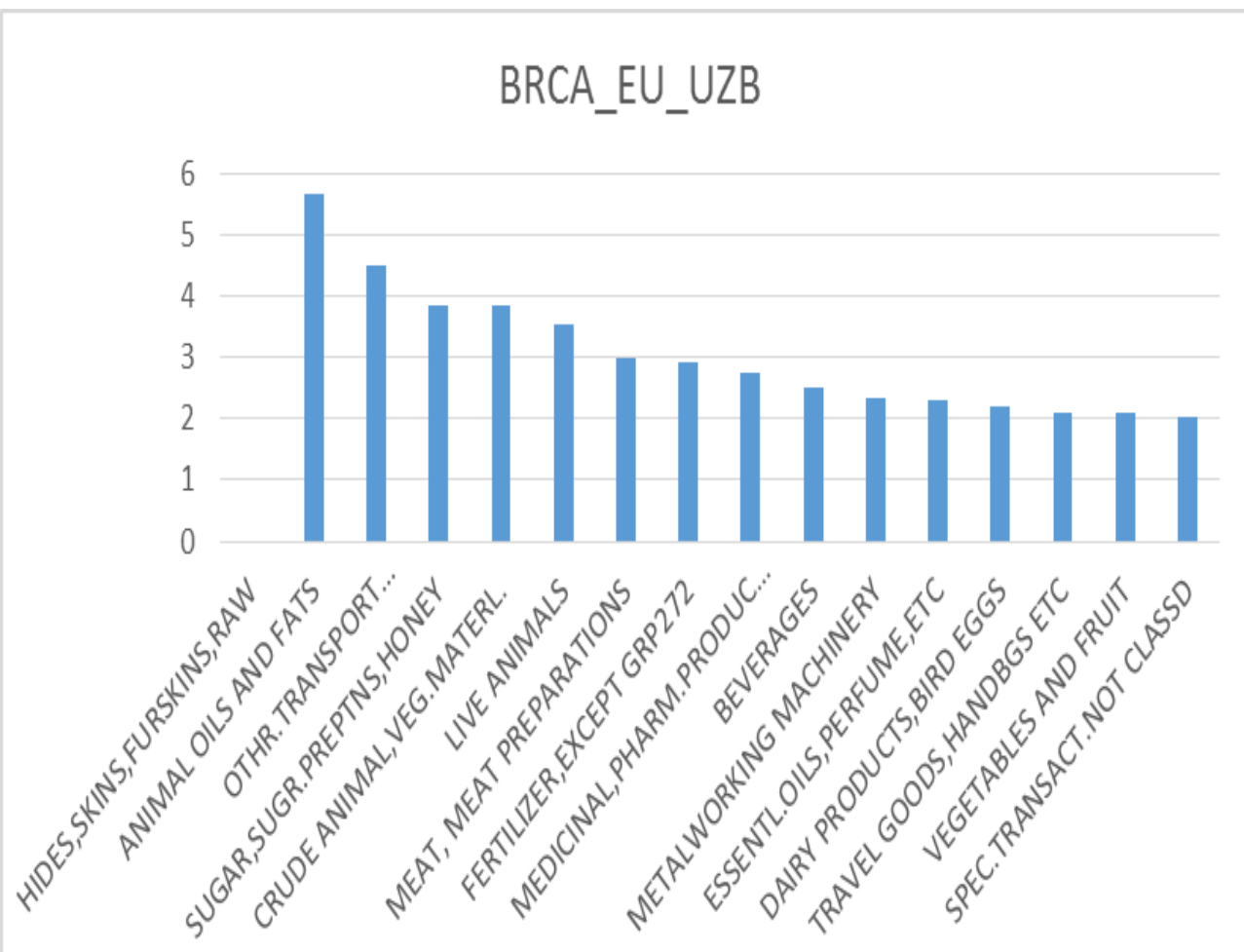
Bilateral RCA – EU vs China in Afghanistan



Bilateral RCA – EU vs China in Kazakhstan

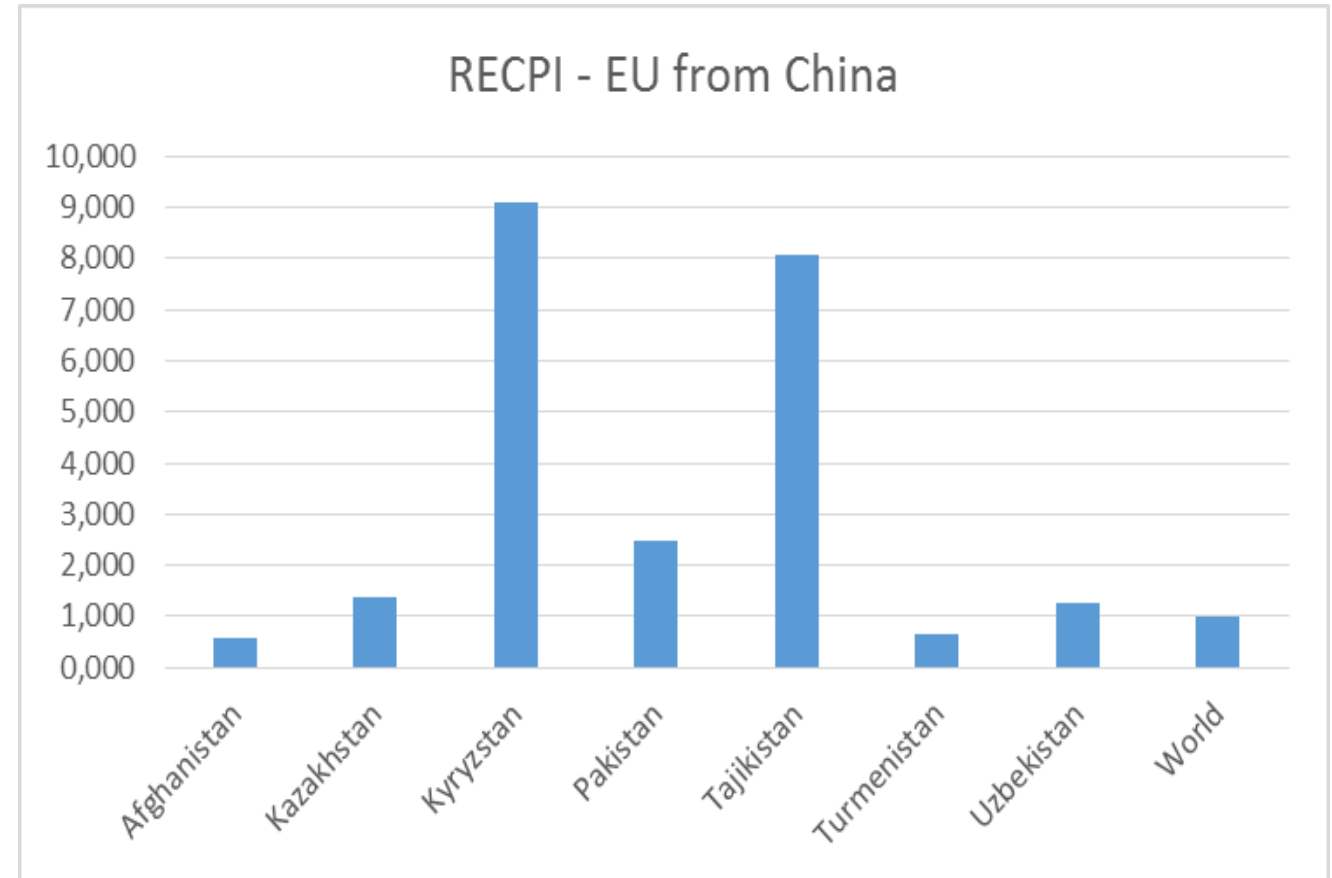


Bilateral RCA – EU vs China in Uzbekistan



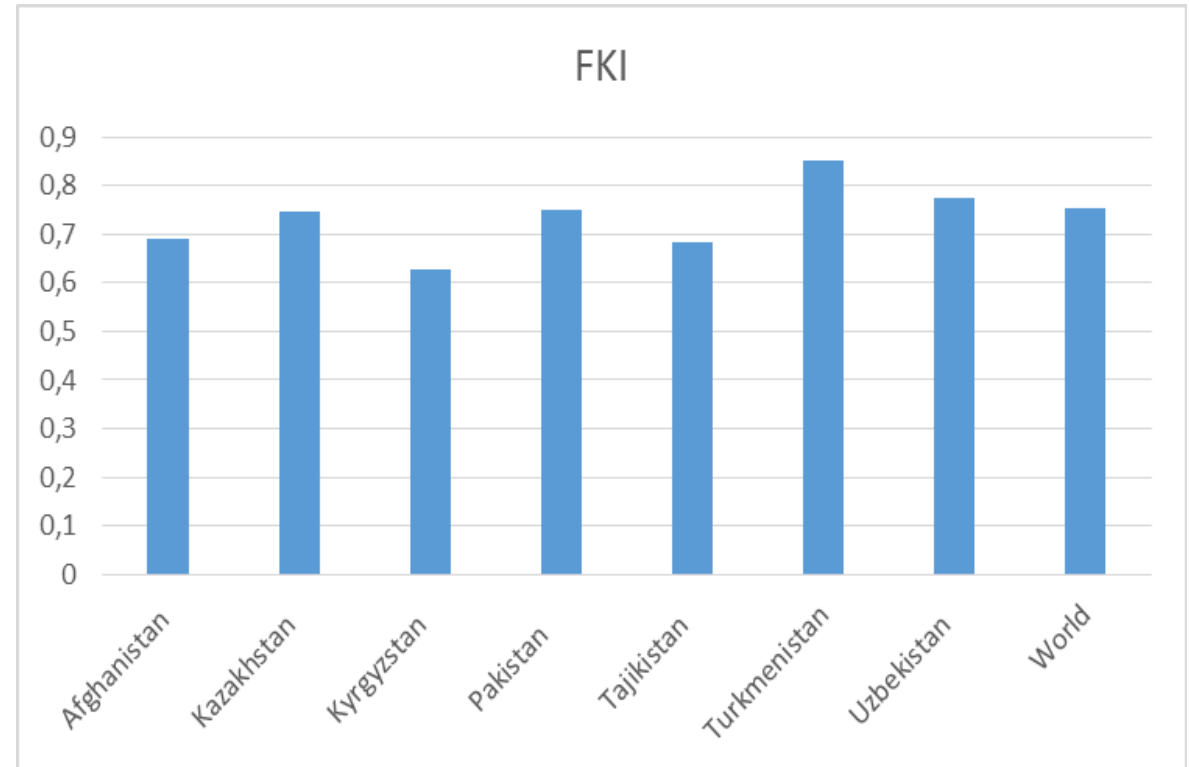
Chinese competition to the EU in the STANs

- The average degree of competition the EU faces in STANs' markets from China varies, lowest in Afghanistan and highest in Kyrgyzstan.
- In Pakistan, Kazakhstan and Uzbekistan, the largest markets in the area, the Relative Export Competitive Pressure is higher than in the RoW



Similarity of EU and China export patterns in the STANs

- EU and China show very similar export patterns in the STANs.
- The more similar export patterns are, the higher the competition in those markets.



“Conclusions”

- Early evidence that OBOR infrastructure is changing the transport geography of China-EU trade
- Implications for trade and investment rivalry in the STANs still underestimated and under-studied
- The future of intra-STAN integration is a major unknown
- Rivalry not limited to China vs. EU – consider many Global South countries that have interests in the STANs (e.g. Russia, India, Korea, Turkey, Iran)

The road(s) ahead

- Gravity analysis – how will the structure of STANs' trade patterns react to changes in the (financial and non-financial) costs of trade?
- Sectoral analysis – will the STANs be able to intercept changes in China-centered GVCs?
- Scenarios building – based on interviews with key informants (logistics experts, supply chain managers in MNEs, freight-forwarders, airport and port operators, etc.)