EXPERT OPINION

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NEW SILK ROAD: A STAGE FOR EU AND CHINA TO COOPERATE
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Chinese National Rationale for the Silk Road

In 2013, the One Belt and One Road initiative came from the Chinese government as a global initiative for developing six transport corridors involving at least three continents. According to the project, China should become a globally well-connected economy with an easy and rapid reach of international markets. More ambitious than any other regional cooperation project ever developed along the East-West corridor, the One Belt One Road connects Asia, Europe and Africa, in particular:

*With terrestrial routes*

- Bring together China, Central Asia, West Asia, Russia, Europe;
- China - Persian Gulf, Mediterranean Sea through Central Asia and West Asia;
- China - Southeast Asia, South Asia and the Indian Ocean.

*With maritime routes*

- From China’s coast to Europe through the South China Sea and the Indian Ocean;
- From China’s coast in one route through the South China Sea, to the South Pacific in the other.¹

The mega-project envisages the development of ports, logistic facilities, railway connections, power supply chains and other infrastructure improvements along the mentioned routes. The routes are supposed to shorten considerably the time and cost of shipment of goods from China to European and global markets. But not only the absence of infrastructure challenges the interstate and interregional transportation of goods; trade and customs barriers, discrepancies in laws, irrelevant transit fees, absence of political will and other factors also discourage trade and economic cooperation. So, the Chinese vision tries to encompass the development of transport corridors tackling all the mentioned barriers and is ready to engage in intensive international dialogue and discussions with all actors along the mentioned corridors. The economic project grew into a foreign policy project, demanding immense efforts from the China’s foreign policy-making institutions. That’s why, during the last two-three years, we have
witnessed the strong activation of the Chinese foreign policy in the countries concerned. More than 60 visits at the highest level have been carried out and memorandums signed with several dozen countries. Seemingly, China is consolidating international support for the Silk Road project. Obviously, the aim is not only to get a promise to facilitate transportation through their countries, but something bigger – solidarity and recognition of the ownership of the initiative from those counties which will be affected.

China’s economy has been growing at impressive rates for the last few decades and recently became the second largest producer in the world. Growth of the economy to a large extent was linked to the growth of internal demand, but exports also played an important role in the country’s economic advancement. With important FDI inflow and import of technology and know-how, Chinese development became internationalized. The more China’s economy grows, the more goods are traded to European and global markets, the more imports from those same markets become demanded in China. Sustainability of the growth of the Chinese economy increasingly depends on foreign trade. The volume of the traded goods depends on their competitiveness, access to the market and connectivity. While Chinese goods become increasingly competitive on global markets, because of the relatively low price, but improved quality, the access of the goods to the markets has already been eased upon the country’s accession to the WTO. Moreover, China has been engaged in free trade relations with a number of states in the region and has negotiated FTAs with many countries (including with European Union, since 2013) along the supposed new silk road route. It is obvious that to support China’s growing export potential, its active policy on foreign markets was necessary, first of all to provide adequate growth of transportation capacity towards the countries and parts of the world which represent priority destinations for Chinese goods.
## Table 1. China’s biggest trade partners in 2016 (USD billion)

<table>
<thead>
<tr>
<th>Region</th>
<th>EExports</th>
<th>Imports</th>
<th>Total trade</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>344.6</td>
<td>170.1</td>
<td>514.7</td>
<td>174.5</td>
</tr>
<tr>
<td>United States</td>
<td>388.1</td>
<td>174.5</td>
<td>562.6</td>
<td>253.1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>292.2</td>
<td>16.9</td>
<td>309.1</td>
<td>275.3</td>
</tr>
<tr>
<td>Japan</td>
<td>129.5</td>
<td>145.8</td>
<td>275.3</td>
<td>-16.3</td>
</tr>
<tr>
<td>South Korea</td>
<td>94.7</td>
<td>159.2</td>
<td>253.9</td>
<td>-64.5</td>
</tr>
<tr>
<td>Germany</td>
<td>65.8</td>
<td>85.8</td>
<td>151.6</td>
<td>-20</td>
</tr>
<tr>
<td>Vietnam</td>
<td>61.6</td>
<td>37.2</td>
<td>98.8</td>
<td>24.4</td>
</tr>
<tr>
<td>India</td>
<td>58.9</td>
<td>106.1</td>
<td>165</td>
<td>-47.2</td>
</tr>
<tr>
<td>Taiwan</td>
<td>40.4</td>
<td>139.7</td>
<td>180.1</td>
<td>-99.3</td>
</tr>
</tbody>
</table>

Research Source: International Monetary Fund, *World Economic Outlook Database*

China’s trade with the EU has drastically grown over the last decade and exceeded EUR 500 billion in 2015 and reached EUR 514 billion in 2016. Both imports and exports more than doubled over the last decade (see Table 2).

Figures show that China’s economy has internationalized to such an extent that the further growth of the economy in China cannot be ensured without stably growing foreign economic relations. The EU and US in this respect represent priority directions for Chinese exports and imports. But the importance of member countries of ASEAN and of such regional partners as India and the states of Indochina peninsula grows as they develop into potentially very promising attractive markets for Chinese goods.
China’s trade with the US (its second largest trade partner after the EU) and Brazil is the subject of transpacific negotiations. The main topics are simplification of trade measures and increasing the access of goods and services through overcoming tariff and non-tariff barriers. The issue of transportation is not an important topic, as a) maritime transport has no alternative here; b) bottlenecks and logistical infrastructure capacities are quite enough to cope with growing trade volumes.

Trade with the EU, first of all, but also with other states of the Eurasian continent – Russia, Gulf countries, Central Asia, as well the African continent, necessitates much effort to increase possibilities for the higher demand for exchange of goods.

**Etymology of a New Silk Road Idea**

It is well known that the Silk Road has existed and served as a bridge between East and West, China and Europe, since ancient times. Indeed, security along the route was not always guaranteed. The control of the motioned routes by belligerent nomad people discouraged the traders and merchants from using the terrestrial itineraries for their caravans for centuries. Colonial wars in the 19th century and the geopolitical divide...
and confrontation on the Eurasian continent in the late 20th century also inhibited a renaissance of the Silk Road.

Changes in global politics have created new prospects for the renewal of the idea of Silk Road and since 1990, has gradually acquired importance for many countries and regions in Eurasia.

China was not the first to articulate the idea to renew the historical Silk Road. In the lesser scale that we discuss today, it was the EU which started developing the transport corridor concept from Europe, through South Caucasus and the Caspian towards Central Asia. At that time, the EU’s intention was not to reach China through the mentioned corridor, but to get access to the natural resource- and oil-rich Central Asian region. High dependency on Russian gas and oil have forced the EU to search for alternative energy supplies. Two important projects, TRACECA³ and INOGATE,⁴ which were initiated in the early 1990s have respectively been dedicated to producing wide feasibility studies for transport and energy infrastructure development along the mentioned routes.

Harmonization of customs procedures, simplification of transit and harmonization of trade and economic legislation along the mentioned routes was considered a necessary condition to increase the attractiveness of the corridor for private business. The EU has been quite consistent, as usual, in implementing the idea and took quite a comprehensive political approach. The EU (EC at that time) pushed and assisted practically all countries of the wider region to prepare and enter the WTO. This was considered necessary to harmonize rules of trade, including free transit
of goods, through the countries along the corridor. Another important
deavour was the creation of the European Energy Charter and attempt to
subject trade in energy products to WTO-compatible rules, including free
transit and dispute settlement mechanisms. The third important dimension
was investing (promoting investments) in transport or infrastructure. More
ambitious plans taking place in the EU is observing the possibilities of
connecting the potential East-West corridor with Pan-European networks,
in particular with corridors IV, VII, VIII and IX (see Table 3). The mentioned
projects, which are ongoing, have been incorporated in the EC’s wider
policy towards the post-soviet region, which included stabilization of
interstate tensions, settlement of internal conflicts, developing rule of law,
good governance, supporting state building, and so on. All this was very
important for the development of the mentioned East-West corridor and
sustainability of a stable environment along the “Silk Road”.

Map 2. Pan-European Transport Corridors (Through the Balkans)

The idea has been just partially successful. Firstly, as not all countries
became WTO members, stability and peace was not fully ensured and
corruption and inefficiency of customs procedures, alongside unfair
and very high transit tariffs \(^5\) remained as an obstacle for the idea. Most important, the weakness of the EU’s approach was likely the limitation of the route ending in Central Asia, which did not promise a large enough scale to private businesses, investors or for those countries desiring full participation and engagement. Another important weakness was lack of investments from the EU. The EU always considered the mentioned projects as “one of EU’s endeavours”, never promoting the idea at a high enough level to stimulate and secure strong financial commitment from the member states. Finally, Russian diplomacy and sometimes aggressive moves in the South Caucasus and Central Asia were also a discouraging factor. In the 1990s and 2000s, the EU still believed that the normative transformation of Russia was possible and did not consider the Russian monopoly on oil and gas supplies to Europe as an existential threat. From other side, the importance of developing access to Central Asia avoiding Russia was essential. The EU was not ready to invest tens of billions in ports, railways and highways along the corridor and the partner states did not have enough credibility to consolidate such funds from International Financial Institutions or borrow from the financial markets.

Two newly independent states of the South Caucasus, Georgia and Azerbaijan, in the 1990s were highly interested in acquiring an international function which would raise the interests of regional and global powers to support and contribute to the development and stability of these weak states. That’s why leadership in both countries became very supportive to the idea of the East-West corridor – an EU project named the Transport Corridor Europe-South Caucasus - Central Asia (TRACECA), informally – the New Silk Road. In 1997, Azerbaijani President Aliyev and Georgian President Shevardnadze jointly proposed to host a Presidential Conference in the Caucasus in 1998 \(^6\) that could lead to the signing of the Basic Multilateral Agreement on Transport initiated within the TRACECA program. This initiative resulted in the International Conference “TRACECA – Restoration of the Historic Silk Road”, held on 8 September 1998 in Baku. The conference was attended by the presidents of Azerbaijan, Bulgaria, Georgia, Kyrgyzstan, Moldova, Romania, Turkey, Ukraine and Uzbekistan, representatives of the European Commission, heads of governments and transport ministries and experts from 32 countries, as well as representatives of 12 international organizations. The important achievement of the conference was the signing of the Basic Multilateral Agreement on International Transport for Development of the Corridor
Europe—the Caucasus-Asia and its Technical Annexes on international railway and road transport, international maritime navigation, customs and documentation procedures. The Agreement (MLA) served the following aims:

• development of economic relations, trade and transport communication in Europe, the Black Sea region, the Caucasus, the Caspian Sea region and Central Asia;
• ensuring access to the world market of road, rail transport and commercial navigation;
• ensuring traffic security, cargo safety and environment protection;
• harmonization of transport policy, development of legal framework in the field of transport;
• creation of equal conditions of competition for transport operations.\(^7\)

After the signing the Basic Multilateral Agreement in September 1998 in Baku, TRACECA became the program of development cooperation in the field of transport along Europe-Caucasus-Asia Corridor.

To date, Georgia and Azerbaijan both intensively support and advocate for developing and improving the TRACECA corridor. Yet, a number of political problems and unresolved infrastructural issues prevent the corridor from becoming competitive and attractive enough.

**Interests of the Big Regional Actors**

The EU has already shown an interest in connecting Europe with Central Asia via the South Caucasus. Indeed, interest was formed when trade between the EU and China failed to reach such scale. Existing maritime routes and shipment facilities seemed enough to satisfy the connectivity demand between the two great powers. The recent drastic increase in EU-China trade obviously forced the EU to rethink its approach and accept new the Chinese initiative, which seems as beneficial for the EU as for China.

Although the US does not trade with China through Europe, it was always supportive of the idea of a Europe-Asia transport corridor, first of all because its companies have high stakes in global energy transit. In general, US policy has always been based on opening trade routes for competitive engagement elsewhere in the world. Another motivation could be related to security and geopolitical considerations.
Russia may have divergent interests which oppose the development of another terrestrial route between Asia and Europe save one, through its own territory. Monopolization of Europe-Asia relations, including trade, energy supply and goods transit, is one of priorities of the Russian policy.

**Global Rationale**

The Chinese “One Belt - One Road” initiative is qualitatively wider than the EU’s TRACECA, being more comprehensive in terms of the scope of directions of cooperation and ambitious objectives. China is also committing much more financial resource to its implementation and dedicates important diplomatic and political efforts to convincing states and non-state actors placed/operating along the proposed route. The strength of the idea is that any country, any actor, will benefit from the initiative, if implemented. The markets will become closer and more easily reachable. This effort by effect can be compared to the creation of WTO in order to eliminate tariff and non-tariff barriers between states. In the past a number of countries have benefited from high tariff and non-tariff barriers, but, in general, overall global progress suffered and gradually WTO rules have become accepted by almost everybody. The same can happen with the Silk Road- as mentioned, some countries may not be interested in developing several competitive corridors, which reduce the inefficient, monopolist cost of transportation of goods. Indeed, the global/or mega regional interest would prevail and the countries will contribute to this project with the understanding that progress should ultimately benefit free competition and efficiency in general.

**South Caucasian Middle Corridor**

The Middle Corridor “...crosses Kazakhstan to reach the Kazakh Caspian port of Aktau. Using a sea connection, it reaches the newly built Azeri port of Alat. The corridor then passes through the South Caucasus and reaches Europe via Turkey” through the Caucasus. Much importance for the decision of big players to develop the mentioned corridor as a part of New Silk Road mega project depends on the stability and good cooperation, existence of a common spirit between partner “chain states” — Azerbaijan, Georgia and Turkey.
The wider Caucasus region is as much blessed as it is cursed due to its location, as it is an arena of geopolitical competition for regional and extra-regional powers and its strategic importance is further increased due to the East-West transportation and energy projects in the globalized world. The strategic vision of the regional cooperation scheme between Georgia, Turkey and Azerbaijan was developed in the 1990s to respond to common threats but at the same time marked the common adherence to the Euro-Atlantic space that predetermined strong support for their cooperation projects from the US and EU. Today’s level of relations between Azerbaijan, Georgia and Turkey is a result of multiyear natural development and is not based merely on the political will of the countries to establish stronger cooperation, but on a natural interest and development of projects bringing real benefits to all three. Initiation of this so-called “contract of the century” afforded 10 western multinational companies the opportunity to explore and exploit Caspian energy resources. On the basis of this agreement, Azerbaijan and Georgia became significant transit states for these energy resources. Since 1999, oil from the Chirag oilfield has flowed to the international market through the Baku-Supsa pipeline and since 2006 Baku-Tbilisi-Ceyhan transports oil from Chirag and Guneshli oilfields to the Mediterranean port of Ceyhan and then onwards to European and other international markets. The same corridor includes
the Baku-Tbilisi-Erzurum gas pipeline, transporting gas from Shah Deniz in Azerbaijan to Turkey since 2006. And finally, the Trans Anatolian Pipeline Project (TANAP) was initiated that envisions construction of a natural gas pipeline to transport the Shah-Deniz natural gas to the Western markets, the ground-breaking opening ceremony of which took place in Kars in March of 2015.

Another important dimension of cooperation is realization of an advantage that all three countries together may offer the rest of the world, in particular to connect by transportation routes Europe with the Caspian region and beyond, essentially, to further increase and facilitate trade between East and West. This potential was supported by Western powers, including the EU which financed the massive regional cooperation project TRACECA. While the main transport routes from the Caspian were connected and dependent on the functioning and capacity of the Black Sea ports of Georgia, or motorways, May 2005 witnessed another important undertaking and opportunity more closely connecting Azerbaijan-Georgia and Turkey: the Baku-Tbilisi-Akhalkalaki-Kars Railway project. Each country has its own mission and functions in the Baku-Tbilisi-Kars railway project. This project has increased the overall potential capacity of international trade turnover directed through the three countries and opened the perspective for such a global endeavour as the New Silk Road project; a project which involves a number of transport corridors which will compete in the near future to attract cargo and passengers. The strong commitment of the involved countries for trilateral cooperation will determine the success of the project.

**Baku-Tbilisi-Kars Railway Project**

As a result of these practical steps, multiplied by the abovementioned high political interest, the three countries achieved a historical level of trilateral cooperation by 2012, materialized in Trabzon Declaration. Following ministerial meetings in Batumi in March of 2013, then in Ganja in February 2014, in Kars in December of the same year, and in Tbilisi in February 2016, the base for these endeavours was strengthened and fomented.

Cooperation and understanding of the common interests of the three key countries on the route from East to West plays a decisive role in the potential of regional and global connectivity⁹ and needs to be supported and further encouraged¹⁰.
Conclusion

The idea of the New Silk Road leading transport routes from China to Europe has been explored and practically implemented by different states and groups of states, including the European Union. The Chinese approach to this idea is more comprehensive and inclusive than any other. It is oriented on developing full-fledged cooperation and trust between all players on the way. Georgia, Turkey and Azerbaijan fully acknowledge the importance of their involvement in the creation of a middle branch of the Silk Road and are making practical steps for it. It is important that the EU and China develop strong cooperation and divide tasks and duties as well as financial burden to implement projects along the corridor as it is in their interests that states along the corridor equally contribute and actively engage in cooperation on said projects.
References


4. See: www.inogate.org/pages/1?lang=en


7. ibid

