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A Series of OBOR by Silk Road Academy

The Development in the Four Economic Corridors of Indian Ocean under the Chinese Belt and Road Perspective

I Yang Yunxin, Zhi Yuchen, Ma Wencheng



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Preface

From both what happened in the United States and Europe and what the political economy perspective of the world would expect, anyone may predict a weakening trend of the economic globalization in at least the near future. That is, the predictable politics and economic policies in the western countries, which have been the major drivers of the previous wave of globalization, tend to drive down the economic globalization, alongside nationalism and populism dominate the policy-making of international trade and investment flows in a quite few countries.

That trend does not necessarily mean a catastrophe for China's economic growth, though it has benefited from the previous economic globalization. China will accomplish its goals of building a moderately prosperous society in all respects in 2020 and realizing its great rejuvenation in 2050, no matter what happens to the globalization. China, however, does hope that there will be a sound environment of international trade, capital flows, mobility of the talented, and other factors that economic globalization can bring in.

As the beneficiary of the globalization, the second largest economy, a country trading the largest volume of commodities internationally, and other number ones, China is indeed willing to initiate and lead the potentially next wave of economic globalization. In addition, China is also obligated to seek a change in global system of governance on behave of its own, other developing countries, and other emerging markets. All those can help developing countries in general and emerging markets in particular to gain bigger say in global governance and bigger share of globalization dividends.

The Silk Road Economic Belt and 21st Century Maritime Silk Road Initiative proposed by Chinese President Xi Jinping, taking ancient land and maritime silk road as a symbol, aims to develop economic collaboration relationships and partnerships with countries along the belt and road, build a community with political mutual trust, economic integration and cultural inclusion. This initiative covers the core of economic globalization, seeks to construct new global governance framework, and is expected to become the tipping point of next wave of economic globalization. It aims to link the Chinese domestic development to the world development, to push forward the collaboration

of real economy and production capacity among countries, and to extend domestic pattern of transferring manufacturing from coastal to inland regions to international “flying geese paradigm”.

Before the global system of governance fully changes to more represent interests of developing countries, the Belt and Road Initiative and its corresponding institutional arrangements, such as Asian Infrastructure Investment Bank can supplement the defects of the existing system. On the other hand, one should not forget that the Belt and Road Initiative’s original purpose, that is, serving to fill the worldwide financial gap in constructing infrastructure.

Since the Belt and Road Initiative was proposed in 2013, over 100 countries and international organizations have responded positively, and 40 of them have signed cooperative agreements with China. Chinese enterprises’ investments in countries along the belt and road amount to more than 50 billion US dollars, which serves to facilitate a host of major projects, boom economic development and expand employment in host countries. As President Xi put it, while the Belt and Road Initiative comes from China, it benefits the world.

In front of readers is a series of books, on the theme of the Belt and Road Initiative and its practices in various localities. Those books include (1) A Field Investigation Report on the 21st Century Maritime Silk Road; (2) The Alignment of the Silk Road Economic Belt and the Bright Road of Kazakhstan: Problems and Perspective; (3) The International Risk and Cooperative Space Expansion of the Belt and Road Initiative—the Example of Sri Lanka; (4) Port and Port Cities in Building of the Belt and Road; (5) Study on “21st Century Maritime Silk Road” Docking with “Global Maritime Fulcrum”: Research Report about Fujian Province of China and Indonesia; (6) Expanding the Belt and Road : A New Perspective on China—Latin America Integrated Cooperation; (7) The Construction and Development of Asia and Africa Economic Circle under the Belt and Road Perspective; (8) The Development in the Four Economic Corridors of Indian Ocean under the Chinese Belt and Road Perspective. I hope readers, both theorists and practitioners, will find them helpful.

Cai Fang

Vice President of the Chinese Academy of Social Science
Beijing, May 4, 2017

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General Introduction: China and the Indian Ocean in the Context of the “One Belt, One Road” Initiative

The Silk Road Economic Belt and the 21st Century Maritime Silk Road (“One Belt, One Road” or “OBOR”) were initiated by Chinese President Xi Jinping during his visit to Kazakhstan and Indonesia in 2013. The OBOR Initiative has become China’s most important development and diplomacy strategy in the new era.

Lying at the heart of the initiative is peace and development, which are common visions of people of different colors and ethnicities, from different regions and civilizations, who wish to put an end to wars and conflicts and desire a well-functioning global order and socio-economic development. It is of great significance to improve global governance and fuel economic growth. The key to the OBOR Initiative is to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness in accordance with the principle of achieving common development through consultation and collaboration, to promote policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds, to push for the restructuring of global governance so that the structure stays aligned to globalization, and to help countries along routes of the OBOR Initiative achieve sustainable growth.^①

The land-based component of the OBOR Initiative, the Silk Road

① Li Yongquan. One Belt, One Road - A Concept of Cooperation beyond Power Game. In Li Yongquan and Wang Xiaoquan (Eds), *Report on the Implementation of the “One Belt, One Road” Initiative*. Social Sciences Academic Press, Jul. 2016.

Economic Belt (SREB), is envisioned as three routes connecting China to Europe (via Central Asia and Russia), to the Persian Gulf and the Mediterranean (through Central Asia and West Asia), and to Southeast Asia, South Asia and the Indian Ocean. The oceangoing 21st Century Maritime Silk Road (also known as “Maritime Silk Road”) consists of two routes: one is designed to go from China’s coast to Europe via the South China Sea and the Indian Ocean, and the other one from China’s coast to the Pacific via the South China Sea. The Indian Ocean is the third largest ocean in the world, covering 20% of the water on the Earth’s surface. One-third of the world’s population lives on the sea shore of the Indian Ocean. Around 100,000 ships transit the expanse of the Indian Ocean annually, carrying one-third of the world’s cargo, two-thirds of the world’s oil trade and one billion tons of crude oil. Therefore, the Indian Ocean has become one of the most important geographical locations to the global economy and is of great significance to the OBOR Initiative. Whether as we look at the much-needed energy supply and the maritime lifeline for economic growth or ponder the political, diplomatic and security aspects or out of other considerations, we will come to a conclusion that the strategic importance of the Indian Ocean to China will continue to increase.^①

When we discuss about the issue of the Indian Ocean and the construction of OBOR, we should pay special attention to Saudi Arabia, Kuwait, the United Arab Emirates, Qatar and other Gulf Cooperation Council (GCC) countries. The GCC countries play very important role in keep peace and order of the Indian Ocean as well as the process of OBOR construction. Meanwhile, Companies and investors from GCC countries are active in mergers and acquisitions (M&A). Since 1999, more than 5,200 transactions with a known value of US\$573 billion have been announced. They are not only active in national deals or within GCC, but also as important investors in cross-border M&A abroad. The GCC countries are also important markets for the OBOR countries. Therefore, the importance of the GCC countries includes economical,

① Zhang Jiegen. The 21st Century Maritime Silk Road and China’s Indian Ocean Strategy: Analysis from the Perspective of Cooperative Security. In Wu Jianmin, Wang Rong and Zhu Cuiping (Eds.), *Annual Report on the Development of the Indian Ocean Region* (2015). Social Sciences Academic Press, Apr. 2015.

political and other aspects.

As China advances the OBOR Initiative, China has built a solid foundation for deepening cooperation with Pakistan and made significant progress in building a rapport with East African countries. China-Pakistan Economic Corridor, Kenya-Uganda Economic Corridor, Tanzania-Rwanda Economic Corridor and Ethiopia-Djibouti Economic Corridor have become important pillars in China's strategy concerning the Indian Ocean. However, the above-mentioned countries and regions have disadvantages such as poor economic base, low level of development, greater risk of war, greater security risk, intervention of the West and political unrest. This report mainly aims to adopt a problem-oriented approach to analyze the strategic goals and challenges of China in relation to the four major economic corridors, and make recommendations for next steps.

I. Major Economic Corridors in the Indian Ocean Region that China is Involved in

The OBOR Initiative includes six economic corridors, which are China-Mongolia-Russia Economic Corridor (CMREC), New Eurasian Land Bridge (NELB), China-Central and West Asia Economic Corridor (CCWAEC), China-Indo-China Peninsula Economic Corridor (CICPEC), China-Pakistan Economic Corridor (CPEC), and Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC). They are important strategic pillars, main components and linchpins of the initiative. Among them, CPEC and BCIMEC are in the Indian Ocean Region.

The CPEC project, proposed by Premier Li Keqiang during his visit to Pakistan in May 2013, aims to strengthen the exchanges and cooperation between China and Pakistan in transportation, energy, oceans and other fields, improve the interconnectivity and promote common development of the two countries. The 3,000 km CPEC project connects Kashgar, Xinjiang to Gwadar Port in Pakistan. Its northern end is connected to the SREB and its south end to the Maritime Silk Road. As a linchpin connecting through the Northern and Southern Silk Roads, the trade corridor project includes roads, railways, oil, gas and fiber optic

infrastructure. At present, related major projects include but not limited to Gwadar Port, Karakoram Highway, Karachi-Lahore Motorway, ML-1 Main Line Upgrading, Havelian Dry Port, Port Qasim Coal-fired Power Project, Sahiwal Coal Power Project, Karot Hydropower Project, Orange Line of the Lahore Metro, Chashma Nuclear Power Project and Karachi Nuclear Power Project. The BCIMEC project, proposed by Premier Li Keqiang during his visit to India in May 2013, received positive responses from India, Bangladesh and Myanmar. The project is expected to play a critical role in deepening the friendly and cooperative relations between the four countries and strengthening interconnectivity between East Asia and South Asia. Major sub-projects include Sino-Myanmar Oil & Gas Pipelines Construction Project, the Kyaukpyu Industrial Park (Myanmar) and the Kyaukpyu Deep Sea Port (Myanmar), etc.^①

If we turn to look at the West Coast of the Indian Ocean, we will find that China has been deeply involved in the construction of three very important economic corridors in East Africa within the framework of the China-Africa Comprehensive Strategic Partnership, namely: Ethiopia-Djibouti Corridor, Kenya-Uganda Corridor and Tanzania-Rwanda Corridor. These economic corridors have the following features: i) having a port on the coast of the Indian Ocean, which are to be built into a shipping hub; ii) having railways, highways and other transportation infrastructures, either under construction or planned, connecting the port to the inland; iii) having potential to become an “economic hinterland”. With these three features, they are expected to continuously gather and spread economic elements in a certain geographical area and drive the optimization of the spatial economic structure.^②

Kenya, as the most industrialized country and also the most important trade hub in East Africa, plays a substantial role in driving economic growth in this region. As an important hub for East, Central, West and North Africa, Uganda has huge potential. The construction

① Wang Jinbo. Economic Corridor of the OBOR and Regional Economic Integration: Formation Mechanism and Functional Evolution. Social Sciences Academic Press, Apr. 2016.

② Lu Guangsheng and Deng Han. The Theoretical Origin of Economic Corridors and Its Implications for the Construction of the Bangladesh-China-India-Myanmar Economic Corridor. *South Asian Studies*, 2015 (2).

of the Port of Mombasa, Lamu Port, Mombasa-Nairobi Railway and Nairobi-Malabar Railway will promote regional development and the Kenya - Uganda Corridor is also expected to become a leading economic zone along the coast of East African. Boasting a large natural resource endowment and a vast territory, Tanzania is currently implementing a strategy to promote the coordinated development of its coastal areas and western inland with good prospects. Rwanda, a small country located in the middle of Africa, has been making an active effort to develop its communications and information industries in recent years and has potential to become the center of innovation and information technology in Africa. The construction of the Bagamoyo Port and the Central Line will help promote the development of Tanzania's inland areas with the help of its coastal areas and facilitate the cooperation between Tanzania and Rwanda. The two projects will also promote the development of industries and the transportation network in the African Great Lake region and the formation of mining and manufacturing industrial clusters in East Africa. Ethiopia is one of the fastest growing countries in Africa in recent years. It is expected to become a manufacturing base through industrialization, urbanization and introduction of foreign investment, technology and management resources. Although resource-poor, Djibouti has drawn wide attention from great powers due to its unique geographic and strategic location in Africa. The construction of the Port of Djibouti and the Addis Ababa-Djibouti Railway will open up a new shipping trade route for Ethiopia and drive the development of Djibouti's commerce, logistics and service industries.

As the China-Pakistan Economic Corridor project further advances and the cooperation between China and East African countries deepens, the four economic corridors will become the Indian Ocean Region's emerging processing and manufacturing base. By taking advantage of the maritime transport resources of the Indian Ocean, they can better integrate into the global supply chains by becoming important suppliers for the Middle East and Europe or fueling the development of these regions. With the expansion of China's influence in the above-mentioned areas, China has gained a strategic foothold in the Indian Ocean and the Pacific Ocean, and its role has changed from a beneficiary of international public goods and order to a supplier and thereby enriching

the content of the OBOR Initiative. Therefore, this report also proposes to build an Indian Ocean economic circle by focusing on the four economic corridors.

II. Major Risks and Challenges Facing China in the Development of the Four Economic Corridors

It is true that infrastructure construction, economic and trade cooperation, industrial cooperation and capacity cooperation are important parts of the OBOR Initiative, but a more urgent task at hand is to figure out how to establish the “new model of state-to-state relations” emphasized by the OBOR Initiative. As we all know, after the Second World War, international relations were shaped by the “big stick” policy and contention between major powers, which led to imbalanced international political and economic order as well as a series of economic, social, ethnic, religious, ecological and other issues. A main proposal of the OBOR Initiative is to build win-win relationships between countries with different cultures, beliefs, and systems, and to advocate the principle of achieving shared growth through discussion and collaboration in the design and implementation of projects, policies and systems.^①

However, in the transition of global governance and world order, the possibility of hegemonism and the great power politics to withdraw from the stage of history is unlikely, poverty and underdevelopment will not automatically disappear and resulting conflicts and wars may intensify. More importantly, political turmoils caused by the promotion of unfavorable electoral systems by Western countries in developing countries with immature political, economic, social and cultural conditions, which more often than not led to failure of these countries to achieve policy coherence for development and thus caused them to let development opportunities slip through their fingers time and again. These are some of the common problems faced by above-mentioned

① Li Yongquan. One Belt, One Road - A Concept of Cooperation beyond Power Game. In Li Yongquan and Wang Xiaoquan (Eds), *Report on the Implementation of the “One Belt, One Road” Initiative*. Social Sciences Academic Press, Jul. 2016.

regions. Each country also has its unique problems. Whether the concepts of the OBOR Initiative can address these problems properly is an important practical question China and relevant parties need to answer. Therefore, the discussion in this report is not restricted to economic and trade cooperation. Instead, it elaborates on problems and challenges China may encounter by considering economic, industrial and other factors in combination with politics, political parties, political scene, security, etc., with a view to provide more targeted policy recommendations. Overall, major risks faced by the four major economic corridors include:

i) Risk of war, conflict and terrorism. This risk is especially problematic to the China-Pakistan Economic Corridor. It is also faced by the Ethiopia-Djibouti Corridor, Yemen and Somalia, which are adjacent to Kenya, and Burundi and Congo, which are adjacent to Uganda, Rwanda and Tanzania. War and security risk not only means loss of life and property, but also significantly undercuts investor confidence and cause social problems such as the refugee crisis. ii) Risk of political instability. In the above-mentioned countries and regions, including Kenya, Ethiopia and Pakistan, election is an important factor that could create political turmoil. Meanwhile, leaders' overstay in power may also give rise to political turmoil. Take Uganda and Congo (DRC) for example. iii) Inadequate infrastructure and immature conditions for industrial cooperation. This is also a common problem in aforementioned countries and regions. Underdeveloped transport and power infrastructure is especially problematic and has hindered industrial development. This report will list out key cooperation projects between China and the above countries in an attempt to identify differences between regions and countries. iv) Intervention by Western countries. Western intervention could come in both political and economic forms. For example, the United States's anti-terrorism action in South Asia may fuel Pakistan's internal conflicts and cause the deterioration of its security environment, thereby affecting the construction of the China-Pakistan Economic Corridor. Another example is competition coming from Japan in relation to the Port of Mombasa and other key projects, as part of its effort to undercut China's influence in Kenya and other East African countries.

By combining political analysis with economic analysis, this report

argues that China should attach great importance to the opportunities and challenges in the Indian Ocean Region when advancing the OBOR Initiative. In addition to promoting economic and trade cooperation, China should also strengthen its ability to lead and coordinate with other countries when it comes to international strategies, rules, policies, systems, etc. and provide more public goods for the international community.

III. Structure of the Report

In view of the significance of the China-Pakistan Economic Corridor (CPEC) to the OBOR Initiative, the first chapter of this report analyzes the security environment, transportation infrastructure, power infrastructure, industrialization and other aspects of CPEC. It elaborates on the history and characteristics of the Pakistani Taliban, the Baloch National Movement, the Islamic State and other organizations and provides a whole picture of the security situation in the country. This chapter also analyzes the progress of related major projects and technical, economic, and security risks faced by the corridor.

Chapter II provides a systematic analysis of the Kenya-Uganda Economic Corridor (KUEC). First, it analyzes China's strategic goals concerning KUEC, related infrastructure, industrialization and other cooperation projects, risks of internal political turmoil in Kenya and Uganda, the influence of Western countries in the two countries, competition from Japan and the negative impact of the situation in Somalia and Somalia and South Sudan.

Chapter III examines the political and economic situation of the Ethiopia-Djibouti Economic Corridor (EDEC). It focuses on studying development opportunities created by the Addis Ababa-Djibouti Railway, the development strategy of the industrial belt along the railway, and China's deployment of naval power in Djibouti. The focus of risk analysis in this report is on the ethnic clash in Ethiopia and its impact on the country's political scene, the tension between Eritrea and Ethiopia as well as the negative effects of changes in the security environment in Yemen, Somalia and South Sudan on this region.