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A Series of OBOR by Silk Road Academy

The Construction and Development of Asia and Africa Economic Circle under the Belt and Road Perspective

| Ma Wencheng, Zhi Yuchen, Wang Saifeiye



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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.



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

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Introduction

In 2013, during the visit to Central Asia and Southeast Asia, Chinese President Xi Jinping proposed the initiative to jointly build the Silk Road Economic Belt and the 21st Century Maritime Silk Road (hereinafter referred to as the “Belt and Road Initiative”), which has attracted much international attention.

In March 2015, the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs and the Ministry of Commerce jointly issued the Vision and Actions for Promoting the Joint Construction of the Silk Road Economic Belt and the 21st Century Maritime Silk Road (hereinafter referred to as the “Vision and Action”), laying down the principle of “mutual negotiation, joint development and sharing” and the cooperation content of “policy coordination, facilities connectivity, impeded trade, financial integration and people-to-people bond”, and suggesting the idea of building six economic corridors, including the Eurasia Bridge, China-Mongolia-Russia economic corridor, China-West Asia-Central Asia economic corridor, China-Indochina Peninsular, China-Pakistan and Bangladesh-China-India-Myanmar economic corridors.

Meanwhile, since the opening of the Forum on China-Africa Cooperation (FOCAC) in 2000, China and Africa have made remarkable progress in cooperation, setting an example for South-South cooperation. At the FOCAC Johannesburg Summit in 2015, China proposed to consolidate “five pillars” and launched “10 major China-Africa cooperation programs”. The China-Africa relationship has been elevated to “comprehensive strategic partnership”, indicating a bright future for cooperation between them.

It's been three years since the Belt and Road Initiative first came out, and its progress and fruits have beaten our expectations. But as the construction of the six economic corridors advances, the political risk, investment risk, terrorist threat and geopolitical risk in countries along the Belt and Road have been increasingly revealed. In particular, Central Asia and South Asia are the two most troubled regions.

Confronted with the risks and challenges, we shall not only continue to push ahead the implementation of the Belt and Road Initiative, but also to conduct macro analysis and come up with suggestions for the next step. The key is to break the territorial concept of "Central Asia, South Asia and Africa", etc., and bring forth coordinating plans and approaches under the Belt and Road Initiative. It should be noted that the Belt and Road construction meets practices of China-Africa cooperation halfway and has produced sound effects in eastern and western coasts of the Indian Ocean, laying down the foundation for Asia-Africa connectivity under the Belt and Road Initiative.

Considering that, in this report, after systematically sorting out the current political and economic development status in Central Asia, South Asia and eastern coastal areas in Africa and their cooperation with China, we make suggestions on how to reconstruct the Asian-African Economic Circles under the Belt and Road Initiative in response to major risks and challenges, in order to provide some more general approaches and solutions for reference.

One

The construction of six economic corridors under the Belt and Road Initiative means to promote connectivity between countries and regions and on top of that, launch economic, technological, investment and trade cooperation. Hence, all the six economic corridors exist within a certain geographical sphere and their construction and development will be heavily affected by local political and economic characteristics. In this report, we use the concept of "economic circle" to better identify the development characteristics in Central Asia, South Asia and eastern coastal areas in Africa and based on that, conduct relevant research and

analysis.

In this report, an economic circle refers to the combination of economic organizations' physical production and distribution within a certain geographical scope, a geographical industrial circle with certain inner connection formed based on local natural resources, economic and technological conditions and macro governance. Accordingly, we identify three major economic circles under the Belt and Road Initiative according to the situation of regional powers and the regional geopolitical situation in Central Asia, South Asia and eastern coastal areas in Africa.

First, the Greater Central Asia Economic Circle, includes Russia, Iran, Turkmenistan, Uzbekistan, Kyrgyzstan, Tajikistan, Kazakhstan, Afghanistan and Pakistan. Second, the Indian Ocean Economic Circle led by the China-Pakistan Economic Corridor covers Pakistan, Ethiopia, Djibouti, Uganda, Kenya, Rwanda and Tanzania. Third, the Bay of Bengal Economic Circle covers India, Maldives, Sri Lanka, Bangladesh, Myanmar and Indonesia.

The above economic circles are divided according to three principles. First, the real influence of regional powers, such as Russia, Iran and India, etc., shall be taken into full account. Second, the economic circle shall be helpful for regional power balance, which means that it should be able to maintain balance between major powers or major economic belts so that China can have diplomatic and economic and trade cooperation space within it. Third, it shall help solve major problems and avoid major international conflicts. For example, because of the existing conflict between India and Pakistan, the two should join two separate economic circles.

It should be noted that this report intends to provide practical policy recommendations and thus might differ from some academic views or classification methods.

Two

As we all know, politics has huge influence over and sometimes even plays a decisive role in international economic and trade cooperation. This report differs from others because: first it's not limited to economic

and trade cooperation, but focuses on the impact of geopolitics on international economic and trade cooperation; second, it's not limited to the traditional geopolitical concept; third, it proposes development suggestions based on the summary of the development situation in Belt and Road regions.

For one thing, the role of regional powers in regional economic and trade cooperation is valued. Regional powers play a big role in regional economic integration, regional cooperation mechanism and international relations. Though Russia and Iran are not viewed as Central Asian countries by the traditional standard, they have significant historical, religious, political and economic influence on Central Asia, so including them into the Greater Central Asia Economic Circle can better reflect the development situation in the region and formulate corresponding policies. Likewise, though India views Maldives, Sri Lanka and Bangladesh as South Asian countries and Myanmar and Indonesia as Southeast Asian countries, it won't affect India's influence in the Bay of Bengal Economic Circle.

For another, the "balance of power" principle is respected while defining each economic circle. Economic circles are formed to better advance the Belt and Road Initiative, so the balance of power in each of them will allow China to play a bigger role in it. In the Greater Central Asia Economic Circle, Russia, Iran and the United States can form a complicated balance structure with the five Central Asian countries, Pakistan and Afghanistan. In the Indian Ocean Economic Circle, the China-Pakistan Economic Corridor forms a balance structure with the Ethiopia-Djibouti, Uganda-Kenya and Rwanda-Tanzania Economic Corridors. The inclusion of Indonesia in the Bay of Bengal Economic Circle is to better check the power of India.

Last but not the least, particular efforts are made to solve real problems. When serious international conflicts arise in an economic circle, China would be at a loss while formulating policies for it (such as policies for establishing platforms and consultation, coordination and joint development mechanisms). As significant as their conflict is, if India and Pakistan are included into the same economic circle, it would be impossible to formulate any effective policy. But by including Pakistan and Afghanistan into the Greater Central Asia Economic Circle,

we can better coordinate resources to solve the Afghanistan issue. And the reason for excluding Pakistan from the Bay of Bengal Economic Circle is to avoid the failure of the South Asian Association for Regional Cooperation (SAARC).

Three

This book consists of four chapters.

In Chapter I “Regional Powers and Hot Issues in the Greater Central Asia Economic Circle”, we first analyze Russia’s main strategic targets in Central Asia and the means it has taken to realize them, then we trace Iran’s expanding presence in Gulf states and Central Asia after signing the nuclear deal, and probe into the security issue in Afghanistan and Pakistan. On top of that, we propose development suggestions in light of China’s analysis of the strategic goals in this region.

In Chapter II “Constructing the Indian Ocean Economic Circle with the Four Economic Corridors as Pillars”, we first analyze the development situation in and major challenges faced by the China-Pakistan Economic Corridor, and give a systematic introduction to major programs and the future development direction of the Corridor. Then we take a look at China’s achievements and challenges in Ethiopia-Djibouti, Uganda-Kenya and Rwanda-Tanzania Economic Corridors. On top of that, we make suggestions on how to construct the Indian Ocean Economic Circle with the four Economic Corridors as pillars.

In Chapter III “Promoting the Integration of the Bay of Bengal Economic Circle”, we first look at major challenges to the Bay of Bengal region in advancing regional integration, and then probe deep into India’s influence in this region. We also reflect on the, we difficulties to the development of the Bangladesh-China-India-Myanmar Economic Corridor, point out the fundamental cause, and based on that, we make suggestions on how to facilitate the development of the Corridor by accelerating the integration of the Bay of Bengal Economic Circle.

In Chapter IV “Conclusions and Suggestions”, we summarize major international relations and regional hot issues that we must deal with in order to extend the Belt and Road Initiative westward, and offer our

advice.

Given the limits of the authors' knowledge and capabilities, mistakes and errors are inevitable. Please don't hesitate to share with us your comments.

Written by the authors on the eve of the Spring Festival of 2017

Chapter I

Regional Powers and Hot Issues in the Greater Central Asia Economic Circle

To the west of Xinjiang lie countries like Russia, the five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan), Iran, Afghanistan and Pakistan. They are all crucial to the Belt and Road Initiative since they not only constitute a key passageway for the Belt and the Road, but also carry significant importance for China's territory and border security, energy security and international capacity cooperation. In fact, from a broader perspective, we'll see that for historical and geopolitical reasons, they are the battlefield for the power play between China, the United States and Russia and also a hotbed for all sorts of complicated religious, national, resource and territorial conflicts.

On the whole, this region can be divided into three parts. First, via the Eurasian Economic Union (EAEU) and Collective Security Treaty Organization (CSTO) and by other means, Russia has exerted strong economic, energy and security impact on the five Central Asian countries, which deserves our serious attention. Second, because of the changes of the international situation in recent years, Iran, geographically a Middle East country, will try to extend its presence into Central Asia, and in particular, it already has huge impact to Tajikistan, Afghanistan and Pakistan. Third, among Afghanistan, Pakistan and Tajikistan, though the first two are traditionally viewed as South Asian countries, actually they have closer ties with Greater Central Asia, and all of them are under

serious attacks from “three forces”: the terrorists, ethnic separatists and religious extremists, which pose the most direct and pressing threat to China. Considering that, we suggest including all the above countries and regions into the Greater Central Asia Economic Circle. We will look at the situation of the above three parts one by one and make corresponding policy recommendations.

I. Russia’s Influence in the Region Is Too Big to Be Underestimated

The five Central Asian countries are a strategic hinterland and an energy and raw materials base for former Soviet Union. Taking control of them means the possible power penetration into Iran and Middle East in the west, Afghanistan and Pakistan in the east and South Asia in the south. After the collapse of the Soviet Union, there was a short interregnum in Central Asia, but before long the United States and Russia started to augment their presence in the region. For Russia, Central Asia is a geopolitical block with strategic importance, so taking control of it is a key step to expand Russia’s development space in the post-Soviet Union age and a major strategy to connect Europe and Asia and safeguard its national security and interests.

i. Russia’s strategic goals in Central Asia

Following the Cold War, Russia found its geopolitical space in the west compressed sharply, compared with that of former Soviet Union. First, it lost the strategic buffer zone that has developed after years of expansion. Second, it lost many estuaries to the Baltic and Black Sea. Third, it lost control over natural resources on the continental shelf of the Caspian Sea area. For Russia, its strategic political, security and economic goals in Central Asia are as follows.

First, to prevent the U.S. from expanding in Central Asia. Soon after the end of the Cold War, the U.S. started to promote democracy by means of economic aid, economic and trade and energy cooperation in Central Asia to prevent Russia from dominating the region. In the late 1990s, the U.S. started to expand its influence in Central Asia,

marked by its declaration of Central Asia as its strategic interest zone in 1997.^① From then on, the U.S. increased its penetration into the region by recruiting Uzbekistan into NATO Partnership for Peace, propelling Turkmenistan to sign oil and gas pipeline agreements with other countries in the Caspian Sea area, and funding anti-terrorist operations. After the 9-11 Incident, the U.S. stepped up efforts to expand its influence in the region: it used the military base in Uzbekistan and set up the Manas air force base in Kyrgyzstan to provide strategic support for its war in Afghanistan and cemented its tie with Central Asian countries through diplomacy and overseas aid. After the end of the Afghanistan war, the U.S. pulled out some of its forces but still viewed Central Asia as strategic priority. In October 2015, the U.S. State of Secretary Kerry visited the five Central Asian countries and held the “C5+1” meeting with the foreign ministers of the five countries in Samarkand, trying to sustain and expand its influence by fostering partnerships, providing military aid and assisting in major engineering construction projects.^②

Russia is deeply aware that the five Central Asian countries are, to a varying extent, playing the diplomatic policy of “check and balance” between Russia and the United States, and their biggest motive is security and energy development; and that once the U.S. takes control over Central Asia, it will definitely pose huge pressure on Russia’s geopolitical space. Though the newly elected U.S. administration’s policy for Central Asia hasn’t taken shape completely, considering the strategic position and considerable oil and gas reserves in Central Asia as well as its important role in the U.S. global anti-terrorism strategy, the U.S. government won’t give up expanding in or penetrating into the region. As a result, Russia sees the U.S. power in Central Asia as a great threat to its national core interests and will surely continue to build up its own influence in the region by military, diplomatic and economic means.

Second, to take control of oil and gas resources in Central Asia.

Among the five Central Asian countries, Kazakhstan and Turkmenistan are the richest in oil and gas resources: Kazakhstan boasts about five billion

① Wan Guang. The U.S.’ New Central Asia Strategy. Contemporary International Relations. Issue No.11, 1997, pp14.

② Su Chang. Uzbekistan. The Development Report of Central Asian Countries 2016. Edited by Sun Li and Wu Hongwei. Social Science Academic Press. June 2016, pp362.