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<http://www.counterpunch.org/2017/05/17/china-widens-its-silk-road-to-the-world/print/>

China Widens its Silk Road to the World

By Pepe Escobar
May 17, 2017

Let's cut to the chase. China's new 'Silk Road' initiative is the only large-scale, multilateral development project that the 21st century has seen so far.

There is no counter-offer from the West.

Which is why the two-day Belt and Road Forum for International Cooperation, starting this Sunday in Beijing, is being set up as a game-changer for the global economy. Here the initiative looks likely to switch to Mark II mode, accelerating into what President Xi Jinping dubbed, at Davos in January, "inclusive globalization."

The big ideas behind this grand Chinese plan, however, are still getting lost in translation. At first this trans-Asian trade expressway was billed as One Belt, One Road (OBOR), a literal translation from the Chinese *yi dai yi lu*. Now it's the Belt and Road Initiative (BRI), but that still does not really fly in the West, even when China has tried adding a piece of soft power spin, as in its attempts to sell the Belt and Road to English-speaking children:

I have been covering the New Silk Roads since they were first announced in 2013. The idea started at the Commerce Ministry and then developed as a natural extension of the Go West campaign – focused on developing western Xinjiang Province – launched in 1999. The

Commerce Ministry now insists OBOR/BRI is a global plan and not just tied to the Xi Jinping presidency.

The summit will attempt to portray how its ambitious trade concept has become a multilateral “win-win” shared vision that connects all of Eurasia. Or, to put it more simply, Globalization Mark II.

It’s enlightening to examine the pronouncements made by some of China’s top analysts. Wang Huiyao, president of the independent Center for China and Globalization, says this is the “the new engine of globalization.”

Shen Digli, from the Institute of International Studies at Shanghai’s Fudan University, stresses an “an inter-connectivity initiative on a global scale.”

Wang Yiwei, from the Center of European Studies at Renmin University, is convinced this could be as important as the creation of the European Union.

And Shin Yinhong, from the Center of American Studies at Renmin University, points out, crucially, that OBOR/BRI would not work if it were merely a geopolitical gamble.

Geopolitics as geo-economics

As much as this will act as a boost to economies from Bangladesh to Egypt and Myanmar to Tajikistan, it is also a far-reaching economic/free trade/investment plan that will open up markets for Chinese technology and merchandise. And with this comes priceless geopolitical reach for China.

In parallel to this connectivity extravaganza, arguably spanning 65 nations, 60% of the world’s population and a third of global economic output, China will accumulate extra capital from Central Asia to the Middle East. It will also polish its status as leader of the developing world, allowing it to once again try and reignite the 120-nation Non-Aligned Movement (NAM).

Representatives from more than a hundred nations will converge in Beijing and most of them are from NAM. Of course we will have Vladimir Putin, representing the Russia-China strategic partnership (BRICS, SCO) that spans everything from energy to infrastructure projects (including the future Trans-Siberian high-speed rail). But, crucially, we will also have Pakistani Prime Minister Nawaz Sharif and Turkish president Recep Tayyip Erdoğan, leaders of two key hubs of OBOR/BRI.

Most of the West still needs a weatherman to see which way the wind is blowing. And a lot of Western media revel in dismissing OBOR/BRI as a conspiracy, a “scheme”, or a Chinese attempt to “encircle” Eurasia. Only one G7 leader will be in Beijing; Italian Prime Minister Paolo Gentiloni, who is very keen to investigate symbiotic links between Italy’s Industry 4.0 program and China’s Made in China 2025 manufacturing initiative.

Angela Merkel might have turned down her invitation but it doesn't really matter as German industrialists are all for OBOR/BRI.

And the Trump administration is starting to wake up to the action following Trump-Xi at Mar-A-Lago. The US delegation will be led by Matt Pottinger, Special Assistant to the President and senior director for East Asia at the National Security Council.

And India? The US\$62 billion China-Pakistan Economic Corridor (CPEC), one of the highlights of OBOR/BRI, and enthusiastically lauded by Pakistani officials, runs partly through Kashmir. Diplomacy, not trade, would better advance Indian interests. But the reality is the Narendra Modi administration – which has accused China of trying to “undermine the sovereignty of other nations” – is obsessed that the real Chinese agenda is to strategically control the Indian Ocean. So no India in Beijing.

Have yuan, will travel

The New Silk Road comes with a crossfire of numbers. No one knows for sure the true value of projects already signed along the overland belt and across the Maritime Silk Road, but numbers are said to already be as high as US\$300 billion. Most of these projects will be developed well into the next decade.

Ratings agency Fitch quotes US\$900 billion in projects planned or already happening. Speculation is rife that OBOR/BRI may need as much as US\$5 trillion up to 2022. According to the Asian Development Bank (ADB), Asia will need a mind-boggling US\$26 trillion for infrastructure projects up to 2030.

The Silk Road Fund, set up at the end of 2014, for the moment relies on just US\$40 billion – a mix of foreign exchange reserves and input from the China Development Bank and Export-Import Bank of China. It has invested US\$6 billion in 15 projects so far, plus US\$2 billion to fund projects in Kazakhstan.

The Asian Infrastructure Investment Bank (AIIB), with 70 member-nations, went online in January 2016 with capital of US\$100 billion, but disbursed less than US\$2 billion last year.

The New Development Bank (NDB), the BRICS bank, is bound to step up soon, after it got a AAA rating from Chinese credit agencies.

China has belonged to the European Bank for Reconstruction and Development (EBRD) since 2015; that's the European financing leg for OBOR/BRI. It's also linked to a fund in Luxembourg and another one in Riga, Latvia.

So the key issue for OBOR/BRI remains how to come up with low-cost funding in global capital markets. That will be a top discussion topic at the summit. Zhou Xiaochun, governor of the People's Bank of China, has already laid down the law; “governments” – including the Chinese government – simply cannot pay for all that's needed for OBOR/BRI.

So everyone will have to rush to capital markets; set up their own OBOR/BRI-related financial mechanisms; and, crucially, do business in local currencies. That is shorthand for using, most of all, China's currency. So if you are hitting the New Silk Roads, don't forget your yuan.