China’s Silk Road Economic Belt

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As envisioned by Beijing, the new Silk Road Economic Belt and Maritime routes will comprise two distinct transportation corridors: a land route that connects Xi’an in West China to Duisburg in Germany and Rotterdam in the Netherlands by way of Central Asia, and a sea route that connects South China to North and East Africa by way of Vietnam, Malaysia, Indonesia, Sri Lanka, Myanmar and India. China is prepared to invest hundreds of billions of dollars in making this happen over the course of the next few decades. It is the largest diplomatic and infrastructure effort ever put into place. In the words of President Xi Jinping, it will create the world’s biggest single market.

It is already known that China spends 8.5 percent of its total GDP on infrastructure, the highest percentage in the world. Getting to grips with accessing that in the form of infrastructure projects is an issue right at the top of every major manufacturer and contractor involved in infrastructure development worldwide. In my new book “China’s New Economic Silk Road”, I outline how this can be done, the countries involved, and the problems as well as the opportunities in becoming part of these plans.

This issue of China Briefing outlines the fundamentals of China’s proposed new Silk Road Economic Belt. It begins by highlighting the overland route that encompasses Central Asia, and then details plans behind maritime and overland routes through South-East Asia.

I hope you find this issue a useful primer for your on-going China development knowledge. The Silk Road Economic Belt will affect all businesses operating in China – now is a good time to start thinking about its implications.
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The Great Game Reinvented
By Chris Devonshire-Ellis

The Great Game of bygone times was a near 100 year battle of wits between the British Empire, then at its strongest, and Imperial Russia. At the game’s heart lay the prize of controlling India and parts of China. Taking place between 1813 and 1907, the period shaped in part the Soviet Union, and established trade routes across the Russian, Central Asian, Greater Indian and Chinese territories. Many of these routes, now modernized, are very important highways and rail links today. The new Silk Road Economic Belt has origins in previous diplomatic adventures.

Today, the development of the Eurasian land mass as described by China as part of the Silk Road Economic Belt could also be described as a similar venture. Audacious, yet with the exception of a now retired Great Britain from these adventures, the major players remain the same, but this time led by China. However, Russia has a large say in this as well. It built the Trans-Siberian rail route that connects Moscow to Vladivostok in 1916. That original route - still very much in use today - sprouted multiple spurs running off into Central Asia constructed during the Soviet era to better unite the Union. These routes remain the essential spine of contemporary Chinese ambitions in building overland Eurasian links. China intends to help both fund and build upgrades to existing routes as well as to develop entirely new routes throughout Central Asia.

It should be remembered that China has some of the best contemporary engineering in the world. The Golmud-Lhasa rail route, which linked Tibet by rail for the first time to China’s national rail network, was only completed in 2005. Controversial at the time, it nonetheless provided Chinese engineers with extensive technical knowledge of dealing with tough terrain - permafrost, hard rock, and steep inclines, all under the thin air of the Himalayas at altitude. It is largely this experience that has given China both the technical expertise and confidence to carry out significant engineering works in remote and hard to access areas.

China’s diplomats have also been hard at work to unite neighboring countries in Central Asia and push them to cooperate. For example, a recent agreement between the heads of state of Pakistan, long a China ally, Tajikistan, and Afghanistan will modernize parts of Tajikistan’s rail system to allow more trade between these Central Asian nations and allow China direct rail access from Kashgar, currently the Westernmost rail station in China, through to the oil fields of Iran. Additional plans were signed off for a regional railway designed to link China with Iran via Kyrgyzstan, Tajikistan and Afghanistan at the end of 2014. This railways connection project, agreed upon by representatives of transport ministries and railway departments from the five countries, is expected to start from China’s Kashgar to Afghanistan’s Herat, then run...
through Kyrgyzstan and Tajikistan before finally connecting with the Iranian railway system.

In this manner it can be seen that, while earlier Russian and Soviet infrastructure provided the backbone of the overland routes, China is capable of both clearing diplomatic, technical and financial hurdles when it comes to expanding and developing the infrastructure needed to augment existing routes and upgrade them.

There are also a number of positives that can be taken from this approach. Central Asia has long contained difficult regions to manage. Lawlessness and insurgencies have been the norm for centuries in parts of this region. China’s strategy in its own Western regions has been one of attempting to promote civil order through the creation of wealth, although that has been underpinned by a security presence that occasionally becomes over-zealous and unsympathetic towards local inhabitants. While occasional unrest in Xinjiang garners much media exposure and criticism of the Chinese treatment of the indigenous population, this needs to be balanced. China may have been heavy handed from time to time, but it has brought an element of peace to Xinjiang Province after centuries of warlords and banditry. A strong police presence is not the only key here, however. It is no accident that Urumqi, the Provincial capital of Xinjiang, is now the wealthiest city in Central Asia.

That wealth, and the underlying standard of living it implies, is one major reason that Islamic insurgents from nearby Pakistan and the Northern Territories have been unable to make much impression on China’s own Muslim population. When asked to fight and ‘join the cause’, the vast majority of China’s Muslims will refer to their homes, cars and relatively peaceful lifestyle and reject the alternative, despite accusations of Chinese suppression. It is that wealth creation that holds the key to solving much of Central Asia’s future, and if China can, through the development of trade corridors, export that basic development throughout what can be troubled lands, then the recreation of a new Silk Road within Central Asia may well bring the one thing the region really needs - peace.
Connecting & Developing Chinese Central Asia

By Chris Devonshire-Ellis

While we in the West tend to think of China as being the Eastern end of the ancient Silk Road, in contemporary Russian and Central Asian terms, it is viewed as being central, or if you prefer, literally the “Middle Kingdom”. In a way, it is – Mongolia and Siberia, both Silk Road routes (the Chinese used to trade tea for Siberian furs, crossing the northern Gobi and the Mongolian steppes and mountains to do so) lie to the north of China, while the markets of South-East Asia are to the south. That imagining of China as the “middle section” of the Silk Road goes some way to appreciating the position China now holds in Central Asia and how it is now reaching out to connect with it.

Yet along with infrastructure issues that exist with the Silk Road Economic Belt, there are several political and security concerns that go hand in hand with any attempts to press much needed reform upon Central Asia. The region is fraught with fracture lines caused by radical Islamists, backward economies, regional wars, border disputes and the drugs trade. Yet through political dialogue the region is starting to gain some traction and is moving away from centuries of discord to stability. Key amongst these dialogue platforms has been the Shanghai Cooperation Organization (SCO), whose members, China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan, represent the largest of the Central Asian nations. It is useful to note that observer nations include Afghanistan, India, Iran, Mongolia and Pakistan; Dialogue Partners include Belarus, Sri Lanka and Turkey, and Guests include the trade blocs of ASEAN, the CIS, and Turkmenistan, collectively giving the SCO some real muscle in getting reform into the region.

In addition to the SCO, another important institution is the Eurasian Economic Union, a Moscow backed Free Trade Bloc including Armenia, Belarus, Kazakhstan and Russia, with Kyrgyzstan’s membership soon to be ratified.

The Shanghai Cooperation Organization

With the rise of Asia and the emergence of Central Asia in global economics and politics the role of the Shanghai Cooperation Organization is growing in importance. Founded in 2001 in Shanghai, by the leaders of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, the SCO was originally formed due to growing security concerns in the region, but its role has been extended to encompass economic benefits to member countries as well. India and Pakistan have just become full members of the SCO, while Iran is also expected to participate once sanctions against it are fully lifted. Mongolia is an observer nation. The United States applied for observer status but was denied in 2005, while it is of interest to note that SCO countries (full members and observers) comprise a hefty 25 per cent of Earth’s land area. Although the declaration on the establishment of the Shanghai Cooperation Organization contained a statement that it “is not an alliance directed against other states and regions and it adheres to the principle of openness”, many Western observers believe that one of the original purposes of the SCO
was to serve as a counterbalance to NATO and the United States and in particular to avoid conflicts that would allow the United States to intervene in areas near both Russia and China.

In the recent past SCO member countries have discussed ways to cooperate on issues of security, economics and politics. On the economic front, SCO members have agreed to improve the flow of goods in the region while prioritizing joint energy projects in the oil and gas sector, the exploration of new hydrocarbon reserves, and joint use of water resources. In order to bolster security among member nations, the SCO focuses on eradicating the threats faced from terrorism, separatism, extremism and drug trafficking. As a result, joint military exercises between the member countries play an important part in securing the region. Cultural cooperation also occurs in the SCO framework, with member countries holding art festivals and cultural exhibitions.

**The Strategic Importance of Urumqi & Kashgar**

Xinjiang is key to China’s thrust West, and has been developed considerably over the past decade. Of the numerous cities in the region, two have developed as China’s main links into Central Asia: Urumqi and Kashgar.

In 2013, Xinjiang’s total import and export was US$15 billion, however most of this produce exited China via the far off eastern seaboard Port of Tianjin. Just US$1.5 billion was exported through Xinjiang’s Western borders, which is not considered adequate by Xinjiang’s provincial government. To rebalance this infrastructural bottleneck, more emphasis is being placed on Xinjiang’s trade with Central Asia, and this has profound implications for the future development of the region’s two most prominent cities.

**Urumqi**

Located on the eastern frontier of Central Asia, Urumqi is the capital of Xinjiang Uyghur Autonomous Region. Urumqi, which means “beautiful pasture” in Mongolian, is also the most remote city from any sea in the world. Despite this the city thrived as a trading hub along the Silk Road during the Tang and Ming dynasties. Today, with its large coal reserves, strong transportation networks, and a burgeoning consumer class, the
China has grown to become the center of industry, retail and commerce in Western China, as well as the regional trade hub for Central Asia.

In 2013, Urumqi’s GDP reached RMB38.65 billion, showing a 17.5 percent increase over the previous year, and it has consistently been towards the higher end of GDP growth over the past five years, spurred mainly by infrastructure development and construction. Urumqi has also gained a lot from China’s “Go West” policy which promotes growth and investment away from the country’s wealthier coastal regions. Strategically, Urumqi is also important to the nation’s growth because it sits on one of China’s largest coal fields, with estimated reserves of 10 billion tons. The city hosts the annual China-Eurasia Expo, which increases economic activity and strategic ties in the region.

From 2006-2013, GDP per capita has increased from RMB33,900 to RMB61,493, while the rapid growth of disposable household income is driving demand for consumer goods. The booming retail industry is a result of a shifting demand from basic necessities and general merchandise to more trendy, medium or higher grade products. Besides local residents, Urumqi’s prime transportation networks make the city the ideal shopping destination for all of Xinjiang Province, and increasingly from other Central Asian cities as well.

Due to its relatively remote location, and China’s aim to better integrate with Central Asia, Urumqi has built up strong infrastructure and transportation networks. It serves as the transportation hub of Xinjiang Province as well as Central Asia, sharing borders with eight countries.

**Rail:** Urumqi Railway Station provides trains to Kashgar in the south, Kazakhstan and Europe to the west, and Beijing to the east. The Beijing and Lanxin Lines form part of the Trans-Eurasian Continental Railway, which continues from Urumqi through the Alataw Pass (located on the Kazakhstan border) to Rotterdam in the Netherlands. Construction of a high-speed rail line connecting Urumqi with Xining and Lanzhou was opened and fully operational at the end of December 2014.

**Air:** Urumqi’s Diwopu Airport provides international flights to Almaty, Ashgabad, Astana, Bishkek, Dubai, Dushanbe, Islamabad, Istanbul, Kabul, Khujand, Sharjah, Shymkent, Seoul, Tbilisi, Tehran, Novosibirsk, Osaka, Osh and Tashkent, in addition to all major Chinese and regional cities. It is China’s 18th busiest airport.

**Road:** Urumqi is connected via three main national highways. No. 216 runs through Xinjiang Province; No. 312 connects to Shanghai, and No. 314 runs to the Pakistani border. Highway 314 is part of the Asian Highway Network AH14 which connects Urumqi with Novosibirsk in South-West Siberia, and extends across Pakistan to Karachi.

**Development Zones:** A priority target of Beijing’s “Go West” policy, Urumqi has benefited from two development zones that have helped shape its competitive edge in industry and trade.

**Urumqi Economic and Technological Development Zone** (Urumqi ETDZ) enjoys a prime location located within 10 kilometers of Urumqi’s downtown area, railway station, highways and airport, and also contains an export processing zone. Major industries are machinery, power transmission equipment, new energy, biopharmaceuticals, food and beverages, chemicals, and plastics.

The **Urumqi High-tech Industrial Development Zone** (Urumqi HIDZ) was established in 1992. In 2011, the zone was merged with Xinshi District for a combined land area of 263 kilometers. Major industries include information technology, biopharmaceuticals, new materials, new energy, petrochemicals, unique resources processing, and machinery.

Urumqi’s geographic location offers it unique benefits as a place for investment. Accessible transport networks have guided its transformation into Western China’s premier commercial and business center. With one of China’s largest coal fields, Urumqi is also an industrial hotspot. Traditionally, foreign investment into the region has been focused on food processing, mining, wholesale and retail, accommodation and services. Urumqi will continue to thrive in these industries, in addition to emerging growth in high value-added industries including energy and logistics. The National Development and Reform Commission (NDRC) and the Ministry of Commerce have listed a number of priority industries for investment in...
Xinjiang, including within the oil and gas areas, agriculture, and natural medicines. The Silk Road Economic Belt, and improving the trade capabilities of Urumqi to reach out into Central Asian markets, is a key cornerstone of central government policy. Creating and improving domestic wealth is seen as an antidote to local Uyghur unrest.

Kashgar
Kashgar, the ancient Southern Silk Road trading town in China’s far West, is the subject of feasibility studies to extend the Chinese rail system south and west to link up with rail networks in Pakistan and Bishkek, the capital of Kyrgyzstan. Sited on the Western edge of the Taklimakan desert, and sandwiched between the huge Tian Shan and Pamir mountain ranges, Kashgar already hosts the largest outdoor market in the world – every Sunday, when over 150,000 Central Asian traders descend on the city to deal in everything from Camels and Yaks to silk carpets and rare medicinal plants. Kashgar’s history dates back over 2,000 years, and during this time it has always been a trading center, seeing Chinese goods heading into Central Asia and vice versa. Geographically strategic, it is situated at the junction of routes from the Oxus valley, as well as old trade routes arriving from Khokand, Samarkand, Almaty, Aksu, Khotan and Gilgit in Pakistan. Kashgar has been noted from very early times as a political and commercial center. An oasis, it is where both the northern and southern Silk Road routes from China around the Taklimakan Desert converge. It is also almost directly north of Taxkorgan, through which traffic passed from the ancient Buddhist kingdom of Gandhara in what is now Pakistan, and Jalalabad in eastern Afghanistan. Taxkorgan remains the entry/exit point for travelers and trucks traveling between China and Pakistan.

About 200 kilometers west of Kashgar, just past the present border with Kyrgyzstan, the main Silk Road route crossed into the head of the Alai Valley from where relatively easy routes led southwest to Balkh or northwest to Ferghana. The present main road now travels northwest through the Torugut Pass and onto Bishkek. Both the routes to Pakistan and to Bishkek are currently supported by bus connections. However, as travellers that have experienced the famous Karokoram Highway will know, the mountains are highly unstable and prone to landslides. The highway has several full time teams of construction workers along its length at all times making repairs. It is also a dangerous route with steep drops and frequent accidents.

The central government has announced feasibility studies to look at the possibility of extending the Kashgar rail spur (it is already the westernmost rail station in China) south into Pakistan and west to Bishkek. Pakistan has already announced plans to extend its current railway network in Peshawar to Gilgit, while Bishkek is already on the Kyrgyz network with regular trains to other regional capitals such as Almaty (Kazakhstan), which is already linked to Urumqi, and onto Moscow. Should the proposals prove workable, implementing them will link Kashgar directly to rail networks and markets across Pakistan, across the huge expanse and cities of Central Asia and onto Iran, and would immediately boost the town’s trade and prosperity. The technology required to engineer such routes however, especially the southern spur to Gilgit, is daunting. These are some of the most spectacular and highest mountain ranges in the world, not to mention incredibly difficult to secure; much of the rock is subject to permafrost and is composed of easy to crack shale composites.

However, having completed the Xining-Lhasa railway under equally difficult conditions, Chinese engineers are now world leaders at building feasible railways in high altitude and difficult mountainous conditions. The proposals to develop the region, often beset by ethnic and religious conflicts, fit with the Chinese government’s plans to offset regional poverty by increasing wealth. As Islamic fundamentalists tend to exploit poverty in order to win converts to their cause, China—which faces such challenges on its Western borders and especially in the Kashgar region—is increasingly working with its regional neighbors. The common perception is that overseeing the re-establishment and redevelopment of centuries old trade routes is key to the creation of regional security, and peace through trade, across Central Asia. Kashgar meanwhile has already cemented its desire to re-establish itself as a Central Asian hub and provide more than a weekly market for sheep and donkeys – it has taken the lead amongst Central Asian cities and is now host to the Central Asian Trade Fair each June, which is the equivalent of Guangzhou Trade Fair.
Economic Disparity

When it comes to pan-China observations concerning the wealth gap between the rich eastern seaboard and Western China, Xinjiang often appears low on the list. However, that is not an entirely fair comparison. When compared to the nearby Central Asian cities with whom it shares trade and infrastructure links, Xinjiang and its cities come out rather well. In fact Urumqi and Kashgar are amongst the wealthiest cities in the entire Central Asian region.

This is set to continue. Two developments are directing wealth into Xinjiang; the increasing cost of production in southern and eastern China, and the increasing viability and trade with Central Asia. Of Xinjiang’s trade, transported regional cargo totals about 669 million tons to date, of which just 73 million are moved via rail. A massive 596 million tons are transported across Central Asia’s highways, as anyone who visits Urumqi’s Haulage Depot will appreciate. Gaily painted trucks still have their destinations written on them: Almaty, Bishkek, Kabul, Samarkand. The Urumqi and Kashgar – Central Asia routes have excellent transit potential, but improving and developing a Central Asian rail network will be key to really boosting this trade.

Meanwhile, the production of relatively cheap goods can be expected to grow in Xinjiang, especially for clothing, footwear and plastics, supported by the drive of cheaper manufacturing costs compared to elsewhere in China and the opening up of Central Asian markets. This can be expected to develop into the production of household appliances, A/V equipment, and eventually onto auto components, as long as the whole transport system can be better integrated and regional industrial development and workforce competencies improved.

As I have mentioned earlier, the security issues surrounding Xinjiang for the Chinese government, coupled with nearby problems in Afghanistan and Pakistan, are a priority for both China and regional Central Asian governments to deal with. The Silk Road Economic Belt, supported by institutions such as the Shanghai Cooperation Organization, is key to overcoming these issues. In this manner, the development and integration of Xinjiang into Central Asia and the spreading and development of both infrastructure and the nascent wealth creation that should be expected to develop with that, may be of rather more strategic importance to China and its neighbors than the opening up of doorways to the European Union.

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Connecting China with South-East Asia
By Chris Devonshire-Ellis

The Trans-Asia Railway (TAR) is an existing project, part of which is referred to as the “Kunming-Singapore Railway”. The concept has been around since the British and French colonial eras, but was revived in October 2006 when 18 Asian and Eurasian countries signed the Trans-Asian Railway Network Agreement, which identifies the Kunming-Singapore Railway as one of the Trans Asian Railways.

The proposed network consists of three main routes from Kunming, a central route from China to Bangkok via Laos, an eastern route via Vietnam and Cambodia; and a western route via Myanmar.

The southern half of the network from Bangkok to Singapore has long been operational, although a high-speed line is now in the process of being developed through Malaysia from Singapore north to Kuala Lumpur. To give an indication of the improvements this would entail, the current journey time on conventional rail from Kuala Lumpur to Singapore is six hours. The high-speed line under construction will reduce this to 90 minutes. Connections between Malaysia and Bangkok are, however, proving problematic.

Construction of the sections connecting China with Vietnam and Laos are underway. Work on sections in Myanmar were set to begin in early 2011 with Chinese assistance, but have been delayed due to financing issues and a cooling of Myanmar’s diplomatic relations with China.

Collectively, the basic plans to link China, using Kunming as a rail hub connecting the Chinese national network with the rest of South-East Asia, are well underway and soon to become a reality. In fact it is already possible to travel from Singapore through to Kunming should one wish to do so and change at various points. The China-Singapore link currently requires more administrative integration and intra-ASEAN and ASEAN-China discussions concerning immigration and customs clearance, but these are in the process of being dealt with through the various treaty protocols that have already been agreed. While delays may be expected to the western route due to engineering difficulties.
and financing issues in the mountainous regions of Myanmar, the basic premise of a direct line from Kunming to Singapore does appear increasingly feasible and can be expected to eventually become a reality. When completed, other branch routes involving the western parts of ASEAN can be expected to follow.

The Eastern Route - China-Vietnam-Cambodia

Singapore has been connected with Kuala Lumpur, and originally all the way through to Hong Kong, since British colonial days. In fact the Clock Tower at Tsimshatsui in Hong Kong denotes the end of the so-called Orient Express and marks the original location of the Kowloon Station in the early days of the Kowloon-Canton Railway (KCR). Contemporary rail journeys from Singapore to KL, a 300km route, currently take 6 hours, or 8 hours for freight. The proposed high-speed rail may operate four times hourly with one non-stop service and one that will stop in four Malaysian states.

Japan, China, and South Korea have all shown interest in bidding for tenders related to the proposed Malaysia-Singapore high-speed rail link. The project was originally announced in September 2010 and if completed will connect Singapore and Johor Bahru to Kuala Lumpur. Official agreement between the two countries was made in February 2013 to complete the project with the target date of 2020. Japanese company JR Central have expressed interest: they operate the world’s busiest bullet train line and are looking for overseas customers for their magnetic-levitation technology. Japan has also been looking to invest more in ASEAN countries.

China is also interested in building the high-speed rail link. Premier Li Keqiang showed interest during meetings in the 2014 Beijing APEC Summit. This comes during growing efforts by China to export its rail technology to many countries around the world.

Most recently South Korea has shown it is keen to bid on the project. A South Korean delegation expressed interest in a meeting with Malaysia’s Lang Public Transport Commission. The project is seen as a possible plus for South Korea’s creative economy. South Korea’s approved investments in Malaysia’s manufacturing sector already amount to US$1.7 billion.

The Malaysian government sees this as an opportunity to spur development and investment in the smaller cities along the rail line. Another initiative being explored to go along with the rail link is a single border checkpoint with the Singaporean and Malaysian Customs, Immigration and Quarantine complexes sited at one location. This single border checkpoint exists between France and Britain, and between Germany and Poland, but it will be the first in South-East Asia. Although countries are expressing interest in the project, there are some indications that Kuala Lumpur and Singapore may miss a 2020 deadline even after using government land as much as possible to avoid property acquisition disputes. The Land Public Transport Commission Chairman Syed Hamid Albar has said the project may take six to seven years to complete once construction starts in 2016. The project may cost as much as 40 billion ringgit (US$12.2 billion). There could also be difficulties in financing the project in the future as Malaysia wants to cut its fiscal gap and requires a balanced budget by 2020. To reduce costs, parts of the rail link may be built on elevated platforms and portions of it underground to minimize land acquisition disputes. In the end the project will likely be a private-public one, with the link being built by private contractors that have government infrastructural support. Companies from France, Germany, China, South Korea, and Japan have
shown interest in contributing, and rolling stock may be welcome from the EU. However, the most likely contributors will be from China or Japan.

**Rail & Human Rights**

The proposed connections from China to South-East Asia look impressive on paper, and when viewed on the Chinese side. It is certainly true that as a One-Party State, China has been able to push through some remarkable infrastructure developments that may not be so easy to accomplish in more democratic nations, where the enshrinement of individual rights over that of Government interests may interfere with such progress. It is also true that China, at least when looked at from purely an infrastructure development perspective, appears to have become a world leader. Unfortunately it is not always easy to separate China’s infrastructure from human rights. What can be viewed as an improvement on one hand can also be viewed as human rights infringements over local residents on the other. The building of the railway to Lhasa is an apt case in point. That project was considered erroneous by many at the time. Chinese statements deflected that, stating that it would connect Tibetan commerce to the Chinese markets and benefit the Tibetan economy. Detractors pointed to the increase of Han Chinese in an ethnically Tibetan area, and the suppression of the local Buddhist culture. In fact, what has happened is both an influx of Chinese, and an improvement in Tibetan commercial prospects. A handful of Tibetan companies are now listed on the Stock Exchange in Shenzhen, while Tibet’s GDP has increased. Yet along with that has been civil unrest. It is hard to disassociate the two, yet it remains an anomaly that the Dalai Lama’s criticism of the Lhasa railway comes from Dharamsala, which is equipped with both rail and airport. The Chinese issue therefore becomes not the construction of infrastructure, and the commercial benefits this brings, but the softer side of Chinese intentions – is this also to be used as a de facto colonial development tool? It is a question yet to be adequately addressed by Beijing.

What cannot be refuted concerning the development of the Lhasa railway is that Chinese engineers learned a huge amount concerning the construction of rail and roads across immensely difficult terrain, varying from perma-frost to tunnelling through extensive mountain ranges. This has led to Chinese rail engineers being in a world class of their own, experience that allows them alone to take on extraordinary projects that would defeat many other nations’ technical know-how. And it is indeed beyond its borders that China is experiencing difficulty in seeing its long term views of the South-East Asian region develop.

In terms of India, China has routes in mind that bisect Myanmar from Yunnan Province at Ruili, running West and exiting at the Kyaukphyu on the Bay of Bengal. This route effectively follows an existing oil pipeline, so some infrastructure is already in place. A more direct route to India would again exit China at Ruili, then head North-East across Myanmar and enter India at Ledo. At present this area is both difficult in terms of terrain and also in terms of military conflict between government forces and breakaway factions currently fighting in Northern Myanmar.

Improving infrastructure between China and India is however a priority for both nations. China’s demographic dividend is coming to a close as its workers age, reduce in numbers and become increasingly expensive. Indian workers are growing in number and are young (the average age is 24). The CCP needs to keep an increasingly wealthy yet demanding domestic Chinese population happy; sourcing everyday manufactured items from India at inexpensive prices remains a target. For India too, China is a massive potential market. The China-India trade corridor as part of the new Silk Road will be one of its most dynamic components.

<table>
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<tr>
<th>Country</th>
<th>Length (km)</th>
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<tbody>
<tr>
<td>India</td>
<td>64,460</td>
<td>24,891</td>
</tr>
<tr>
<td>Cambodia</td>
<td>612</td>
<td>No</td>
</tr>
<tr>
<td>Laos</td>
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<td>No</td>
</tr>
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<td>Malaysia</td>
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<td>No</td>
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<tr>
<td>Thailand</td>
<td>4,070</td>
<td>Limited</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2,600</td>
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Silk Road Conclusions & The Impact on China

By Chris Devonshire-Ellis

Rather than being one specific project, President Xi’s “Silk Road Economic Belt” is really a catch-all phrase to describe a multitude of developments taking place across Eurasia, South-East Asia and to the African coast. In this regard it is similar to the Great Wall of China - a collection of then separate regional walls that were later linked together. It is pertinent to note that the Wall’s earliest portions were actually constructed 700 years before the birth of Christ. Emperor Qin, often credited as the ‘mastermind’ behind the wall’s creation, didn’t get around to tinkering with it until 500 years after the first sections had originally been built. Even he wasn’t the final Emperor to have a say; much of what is currently standing dates from the Ming Dynasty - just a few hundred years old. The key words that really describe the Great Wall are that it was rebuilt, maintained, and enhanced over the centuries. The Silk Road Economic Belt fits exactly into that same category.

However, President Xi’s vision has a different set of issues to overcome that weren’t faced by the Chinese Emperors of yesteryear. While the Great Wall was built to protect Chinese Sovereign territory, the Silk Road Economic Belt requires the assistance of other nations to get it built and truly operational. This will require immense diplomatic efforts, the pacification of neighbors and the alleviation of fears concerning the might of the Chinese manufacturing industry impacting upon more fragile nearby economies.

It is salient to note that China’s political instability in the mid-late 1980s, an event that culminated in the Tiananmen incident, was also borne out of an energy crisis. Deng Xiaoping’s discovery that China’s oil reserves were at an all-time low with just two weeks of operating stock left was a huge wake up call for reform, and arguably spearheaded the entire movement of pushing China into becoming the global power it is today. China then was on the point of collapse and at a very real risk of yet another revolution. It is a lesson well learned by the Communist Party. They view their hold on power as being intrinsically linked to securing energy supplies. In fact the entire justification for the complete Silk Road Economic Belt project has its apex in the need to maintain the leadership of the CCP. The fact that it is a long-term project that will provide return on investment in stages over the years is also a benefit, as it assists with keeping China’s growth targets on schedule and thus additionally impacts on other areas of importance in national reform. This includes an overhaul of the social insurance and welfare system as a priority.

With institutions (fully described and detailed in my book) such as the Asian Infrastructure Investment Bank, the Silk Road Fund and the Silk Road Gold Fund already having attracted hundreds of billions of dollars in committed foreign investment and international government interest, the question of how foreign investors can participate in this adventure will be the acid test of how much of an infrastructure bonanza - or not - the Silk Road Economic Belt will ultimately be.
Dezan Shira & Associates, in conjunction with the Schneider Group, are the only professional services firms to jointly offer market research, legal and tax advisory services to multinational companies across the complete Silk Road Region.

We can provide market research, notice of infrastructure projects, local project establishment, tax advisory and professional support services across China, Russia, Central Asia, India and South-East Asia.

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