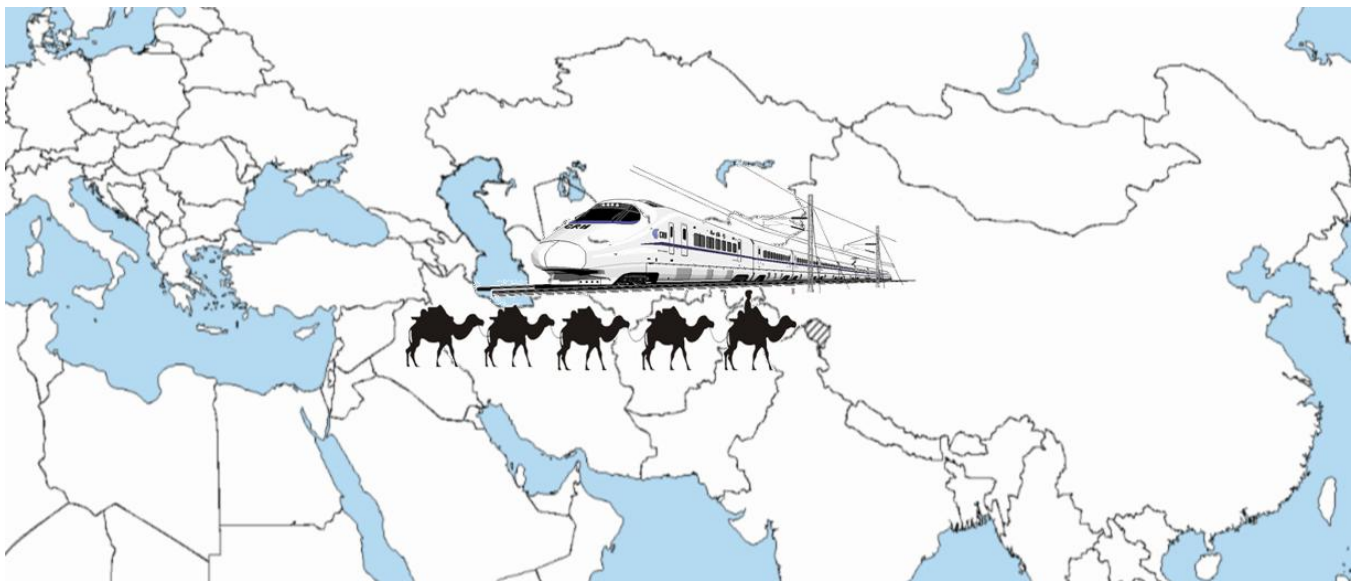


# Silk Road Economic Belt: Prospects and Policy Recommendations

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# **Silk Road Economic Belt: Prospects and Policy Recommendations<sup>1</sup>**

Abstract: The "Silk Road" used to be the arteries of business, ties of cultural exchanges, and corridor of civilization interaction on the Eurasia continent; which, however, was on the wane after the rise of modern maritime transport. In 2013, Chinese President Xi Jinping put forward the proposition of building the "Silk Road Economic Belt" (SREB). In this paper, we argue that the SREB starts from China on the east end of the Eurasia continent, passes through Central Asia, West Asia, South Asia and some other regions via three lines (north line, middle line, and south line), approaches the Caspian, Black Sea, Mediterranean Sea and the Arabian Peninsula, and then arrives in Europe and North Africa on the west end of Eurasia. One end of the SREB is the East Asian - Southeast Asia industrial chain, and the other end connects the developed Europe and the developing Africa. Covering a vast region with population of nearly three billion and economy scale of 23 trillion USD, SREB occupies a pivotal position in terms of the economy, population, as well as natural resources in the world, with huge market potential. SREB will become the artery on land of economic and cultural exchanges connecting Asia, Europe, and Africa. The countries along SREB, on one hand, have a good basis and prospect for cooperation in the aspects of economic, political, cultural, strategic and other areas; but on the other hand, also face significant challenges, like inadequate infrastructure, the complexity of religious and ethnic issues, historical issues, and different institutions. To realize the vision of prospects for cooperation and development, it is urgent for the SREB countries to promote cooperation in the field of economic, finance, education, tourism, and anti-terrorism.

## **1. Concept and Overview**

The "Silk Road Economic Belt" (SREB) was first proposed by Chinese President Xi Jinping in a speech delivered at Nazarbayev University on September 7, 2013. President Xi pointed out that "in order to make economic ties closer, mutual cooperation deeper and the space of development broader between Eurasian countries, we can innovate the mode of cooperation and jointly build the "Silk Road Economic Belt" step by step to gradually form overall regional cooperation". To promote the SREB and enlarge

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cooperative between the Eurasian countries, Xi proposed suggestion from five perspectives: first, to strengthen policy communication; second, to improve road connectivity; third, to promote trade facilitation; four, to enhance monetary circulation; and five, to strengthen people-to-people exchanges.

Eurasia is one of the most important domains of human beings, and an important origin of human civilization. Nearly 2,100 years ago, Zhang Qian, an envoy of China's Western Han Dynasty, twice traveled to Central Asia. For thousands of years following this, a trade corridor connecting Eurasia extended and expanded after generations of exploration. Throughout this corridor, business men brought silk, porcelain, tea and other goods produced in the eastern end of Eurasia to Central Asia, West Asia, Europe and North Africa, while in turn, transported spices, jewelries and other products from the West to the East. This corridor was named aptly as the "Silk Road", by which, throughout its long history, people of different races and from different regions and varied cultural backgrounds explored and traded, benefited and learnt from each other, promoting economic and cultural integration and common prosperity. The "Silk Road" became the model for economic and cultural exchanges and integration by all ethnic groups in ancient Eurasian.

It can be said that, before the rise of maritime trade, the Silk Road was an important channel linking Eurasia, and was one of the main channels for international trade. However, after the Industrial Revolution, especially since the beginning of the 20th century, while international trade, international finance, and international personnel exchanges became more frequent as a whole, Eurasian economic and cultural exchanges have stalled, partially due to limitations of the geographical environment, lack of infrastructure construction, early stage of economic development, as well as other factors. As a result, the concept of STEB has very important significance for improving Eurasian land trade and strengthening economic regional economic integration.

In this paper, we argue that the SREB in geographically economic sense starts from China on the east end of the Eurasia continent, passes through Central Asia, West Asia, South Asia and some other regions by three lines (north line, middle line, and south line), approaches the Caspian, Black Sea, Mediterranean Sea and the Arabian Peninsula, and arrives in Europe and North Africa on the west end of Eurasia. Specifically, the three lines of the SREB are as follows:

- "North Line": starting from China, via Kazakhstan, through southern Russia, through Ukraine, the Belarus area, by Poland and other Eastern European countries, and finally reaches Germany, arriving in Western Europe.

- "Middle Line": starting from China, via Kyrgyzstan, Tajikistan, Uzbekistan and other Central Asian countries, by Turkmenistan, and continues along the south shore of the Caspian Sea, finally reaching Europe through Turkey.
- "South Line": starting from China, via Afghanistan, Pakistan, through Iran into the Arabian Peninsula, and then reaches North Africa through Egypt.

What needs to be noted is that the three lines above just include selected major countries in order to outline the SREB. As a concept of economic geography, the scope of the SREB covers not only the above-mentioned countries, but also includes Central Asia, West Asia, South Asia and most countries of the Arabian Peninsula. Moreover, the significant role of promoting regional integration and economic development of SREB spread to a wider area, such as the majority of North Africa and Europe, as well as the East Asian industrial chain including Japan, South Korea and Southeast Asian countries.

One end of the SREB is the East Asian - Southeast Asia industrial chain, and the other end connects the developed Europe and the developing Africa. Even by the narrow-definition estimates, the SREB covers a population of 2.175 billion, accounting for 30.87% of the world's total population. It is also related to an economic scale of about 16 trillion U.S. dollars, accounting for 22.1 % of world total. By the broad-definition estimates, the SREB covers a population of approximately 30 million, and relates to an economy of approximately \$23 trillion USD, with huge market potential.

Table 1: Overview of selected countries in the SREB

	GDP (billion USD, current)	GDP, PPP (current international \$)	GDP per capita (billion USD, current)	GDP per capita, PPP (current international \$)	Population (million)
Afghanistan	20.50	46.55	687.25	1560.67	29.82
Belarus	63.27	145.05	6685.02	15326.50	9.46
China	8227.10	12268.60	6091.01	9083.20	1350.70
Egypt, Arab Rep.	262.83	533.91	3256.02	6614.23	80.72
Germany	3428.13	3377.53	41862.71	41244.75	81.89
Iran, Islamic Rep.	-	-	-	-	76.42
Kazakhstan	203.52	229.57	12116.15	13666.84	16.80
Kyrgyz Republic	6.47	13.23	1159.93	2370.33	5.58
Pakistan	225.14	491.14	1256.66	2741.37	179.16
Poland	489.80	854.19	12707.85	22162.19	38.54
Russian Federation	2014.77	3373.16	14037.02	23500.96	143.53
Tajikistan	6.97	17.55	870.54	2191.86	8.01
Turkey	789.26	1357.73	10666.06	18348.47	74.00

Turkmenistan	35.16	53.86	6797.73	10411.45	5.17
Ukraine	176.31	332.74	3866.99	7298.10	45.59
Uzbekistan	51.11	105.20	1716.53	3532.83	29.78

Data source: WDI; CCWE.

## 2. Basis for Cooperation

### 2.1 Economic Ties

Even according to the narrow-definition, countries along the SREB bear a significant share of world international trade and cross-border capital flows. They accounts for 23.9% of the world's total exports of goods and services, 22.1% of world's imports of goods and services, and 25.7% of FDI inflows.

Table 2: exports, imports, and FDI of selected countries along SREB.

	Exports of goods and services (billion USD, current)	Exports of goods and services (% of GDP)	Imports of goods and services (billion USD, current)	Imports of goods and services (% of GDP)	Foreign direct investment, net inflows (billion USD, current)	Foreign direct investment, net inflows (% of GDP)
Afghanistan	1.13	5.52	8.03	39.16	0.09	0.46
Belarus	51.65	81.64	48.78	77.11	1.46	2.31
China	2248.38	27.33	2016.53	24.51	253.48	3.08
Egypt, Arab Rep.	45.81	17.43	67.93	25.85	2.80	1.06
Germany	1775.56	51.79	1572.54	45.87	27.22	0.79
Iran, Islamic Rep.	-	-	-	-	4.87	-
Kazakhstan	96.88	47.60	61.73	30.33	15.12	7.43
Kyrgyz Republic	3.20	49.46	6.46	99.70	0.37	5.75
Pakistan	27.76	12.33	45.62	20.26	0.85	0.38
Poland	226.07	46.16	224.54	45.84	6.70	1.37
Russian Federation	593.11	29.44	446.09	22.14	50.66	2.51
Tajikistan	1.27	18.23	4.49	64.46	0.20	2.84
Turkey	208.69	26.44	249.05	31.55	12.52	1.59
Turkmenistan	25.76	73.26	15.61	44.39	3.16	8.98
Ukraine	89.77	50.92	104.54	59.29	7.83	4.44
Uzbekistan	14.25	27.88	15.23	29.80	1.09	2.14

Data source: WDI; CCWE.

Economies covered by the SREB also have a highly complementary industrial structure and resource endowment. There are economies in the very early stage of industrialization, like Tajikistan, Kyrgyzstan, Pakistan, and Afghanistan, in which agriculture accounts for over 20% of their total GDP. There are also typical manufacturing economies like Germany and China. As for endowment, many of the countries are rich in oil, gas, or mineral resources, while some others have scarce supply of natural resources.

Table 3: industrial structure of selected countries along SREB.

	Industry, value added (% of GDP)	Services, etc., value added (% of GDP)	Agriculture, value added (% of GDP)
Afghanistan	21.84	53.55	24.61
Belarus	44.36	45.90	9.74
China	45.31	44.60	10.09
Egypt, Arab Rep.	39.22	46.31	14.47
Kazakhstan	39.50	55.84	4.67
Kyrgyz Republic	25.96	53.85	20.19
Pakistan	22.02	53.56	24.43
Russian Federation	36.00	60.13	3.87
Tajikistan	25.91	47.61	26.48
Turkey	27.04	63.88	9.08
Turkmenistan	48.44	37.01	14.55
Ukraine	29.82	60.93	9.25
Uzbekistan	32.39	48.69	18.92

Data source: WDI; CCWE.

## 2.2 Transportation

The transportation infrastructure of the Silk Road Economic Belt includes railways, roads, air transportation and pipelines, etc. After several decades of development, it has formed a comprehensive, three-dimensional traffic network.

### 2.2.1 Railway

In the north line of Silk Road, railways through China, Kazakhstan, Russia, Belarus, Poland and Germany can constitute a route connecting Europe and Asia. This route is known as the 2nd Eurasia Land Bridge.

In the middle line of Silk Road, railways of China, Kazakhstan, Uzbekistan, Turkmenistan, Iran, and Turkey can be connected, and joint the European rail system through Turkey. This route can also connect Europe and Asia.

Because of Middle East and North Africa's weak railway infrastructure, the south line has not formed a railway network.



Figure1: Silk Road Economic Belt railway network

Source: [www.mapsofworld.com](http://www.mapsofworld.com).

### 2.2.2 Roads

The highway transportation of Eurasia is very convenient. Asian highway network (AH) and International E-road network composed of national highways of countries in Asia and Europe can realize rapid road transport of countries in Silk Road Economic Belt.

Kazakhstan and Turkey are two important transportation junctions in the north line and middle line. In Kazakhstan, the Europe's E40 can be connected and in Turkey, E80, E90, etc. can be connected.

In the south line, Egypt can connect Middle East and North Africa.





Figure 2: Asian highway network



Figure 3: International E Road Network

### 2.2.3 Airline and Pipelines

The aviation industry of the Silk Road Economic Belt is relatively developed, there are flights between major cities. Regional aviation centers include Beijing, Shanghai (China), Almaty (Kazakhstan), Dubai (United Arab Emirates), Moscow (Russia), Frankfurt (Germany).

In Silk Road Economic Belt, Russia, Central Asia and Middle East are rich in oil and gas resources, and the pipeline transportation is highly developed. Russia, Middle East and Europe have established dense oil and gas pipeline network. Besides, there are several multinational oil and gas pipelines in the Silk Road Economic Belt.

Table 4: Pipeline on SREB

NAME	LENGTH (km)	TYPE
Caspian Pipeline (Kazakhstan-Russia)	1580	Petroleum
Baku-Tbilisi-Ceyhan Pipeline	1768	Petroleum
China-Kazakhstan Oil Pipeline	3088	Petroleum
Blue Stream (Russia-Turkey Pipeline)	1213	Natural Gas
Arab Gas Pipeline	1200	Natural Gas
Central Asia-China Gas Pipeline	1833	Natural Gas

Source: CCWE.

Economic benefits brought by transportation can be summarized as three points: shorten transport time, increased trade volume and improved communication. The railway network of Silk Road Economic Belt is relatively complete. Compared to maritime transportation, railway transportation can shorten transport time. Compared to air transportation, the cost of railway is much lower. For instance, the rail route linking the southwestern Chinese city of Chongqing with Duisburg, Germany, Yu'Xin'Ou (Chongqing-Xinjiang-Europe) Railway, can shorten 20 days from China to Europe compared to maritime transportation.<sup>2</sup> As the logistics cost of this route keeping falling, its competitive advantage will continue to rise.

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<sup>2</sup> China Daily. 2011-07-02.

### 3. Challenges

Although the prospects for cooperation in the Silk Road Economic Belt can be anticipated, it still faces a lot of challenges involving international and domestic, political and economic, and ethnic and religious aspects. Only by taking positive, reasonable and proper measures can the vision of construction of the Silk Road Economic Belt be achieved. Specifically, the challenges of building a Silk Road economic belt are mainly reflected in the following four aspects.

**First, infrastructure construction is in a serious shortage.**

Above, we described the countries covered by the north line, the middle line and the south line of the Silk Road Economic Belt. Most parts covered by North line are located in Eastern and Western Europe, with the exception of Kazakhstan, these areas have higher development and better infrastructure, for example, freight railroad has been opened from China to Western Europe. The regions covered by the middle Line and south line include Central Asia, West Asia, North Africa and other places. These regions are characterized with a poor natural environment, complex terrain conditions and low levels of development. It will be very difficult to build railways, highways and other infrastructure connecting these countries. These objective conditions will be largely hindered the process of building a Silk Road Economic Belt and reduce the economic welfare of the entire Economic Belt.

**Second, complex religious and ethnic issues, active terrorism and extremism.**

The Central Asia, West Asia, North Africa and other regions covered by the Silk Road Economic Belt are some cradles of ancient civilization, where a variety of religious such as Islam and Christianity were born. These regions are faced with complex religious and ethnic issues. Local conflicts break out frequently because of competing for land and resources between different religions, different factions in a same religion, different races and nations, making these areas more volatile in social environment, and it also hinders the economic development of these regions and the cooperation and win-win situation of the Silk Road Economic Belt. Complex religious and ethnic issues also make these

regions become social cancer stronghold of terrorism and extremism, which seriously threatens to the peace and development in these regions and other parts of the world.

**Third, many historical problems that still exist, big differences in the state system.**

The region covered by the north line of the Silk Road Economic Belt experienced an upheaval of Eastern Europe and the collapse of the Soviet Union, making these countries' economic grow still slowly. For areas covered by the middle and south lines, Historical problem such as the Palestinian-Israeli conflict, the Gulf War, the war in Iraq have not been settled completely and even accompanied by serious sequelae. Meanwhile, the Silk Road Economic Belt covers three continents including Asia, Europe and Africa, there are great differences in the level of economic development, social system, religion and culture between these countries. If we cannot face up to and respect these differences and seek appropriate forms of cooperation, the prospect of the Silk Road Economic Belt will be discounted.

**Fourth, it may impact the strategic interests of the traditional geopolitics.**

Vast areas of Silk Road Economic Belt are located in the three continents border areas accompanied by a key strategic position and huge reserves of oil and gas resources. The proposal of building Silk Road economic belt will inevitably cause vigilance of traditional powers in this area. It needs to be made clear the Silk Road Economic Belt aims to promote the economic development and achieve mutual benefit and win-win results along the Road, and thus dispel suspicion and enhance mutual trust are of particularly importance.

#### **4. Policy Implications**

To construct the Silk Road Economic Belt, we need to have bold innovation, pragmatic cooperation, seek common ground while putting aside differences, and the pursuit of mutual benefit and win-win situations. In general, we should conduct the construction by starting from easy to difficult, from the near to the distant, and focus on the economy before culture. In particular, countries along the SREB should have more comprehensive cooperation with each other in perspectives of economic, finance, education, tourism and other fields like anti-terrorism.

**First, making maximum use of the advantages of industrially complementary countries and expanding the amount of trade between countries along the SREB.**

Countries along the Silk Road Economic Belt are highly industrially complementary to each other and have different comparative advantages, which means that there is a lot of space to promote cooperation. As with the north line countries like Germany, which is the representative of the Western Europe, there should be strengthened cooperation in the field of high and new technology; And with the center and south line, like some Central and West Asian countries, there should be strengthened cooperation in the field of energy. Only by strengthening the cooperation in a variety of industries, the trade volume and personnel exchanges among countries in the Economic Belt should be further expanded. In addition, the Economic Belt is very rich in resources such as geology and geomorphology, natural scenery and ancient site remains. The development of tourism industry along the north, middle and south lines of the Silk Road economic belt should be sped up to attract the tourists from the countries of SREB and other parts of the world, and thus to increase the national income and improve the international image.

**Second, providing more bank loans to less developed countries, and helping to build more infrastructure.**

As is well known, countries along the Silk Road Economic Belt are mostly less developed, and they have very simple industrial structure, so that they cannot survive international economic fluctuations, especially under the circumstance that the U.S. has given up the “QE” which will lead to gradual tightening of global liquidity and international funds will return to the US. Countries with sufficient foreign exchange reserve can give a hand to these countries to avoid financial risks through mortgage. At the same time, international organizations like the World Bank and Asia Development Bank can also play their role of sharing the risk. What comes first when helping those less developed countries is infrastructure construction, such as road, railway, network and pipelines. Well developed countries can provide funding, experts, and technology. In particular, Premier Li Keqiang’s idea of “high-speed-railway diplomacy” also applies well to this wide connected land area, because the advanced high-speed railway can soon bring these economies together. Complete infrastructures not only benefit their own economic development, but also benefit the construction of the Silk Road Economic Belt.

**Third, establish a regional policy bank and promote financial cooperation.**

Countries along the Silk Road Economic Belt can establish a regional policy bank, which will serve as the facility of mutual guarantees and financing, monetary cooperation and financial supervision in the Economic Belt. It can also enhance the member countries' ability to endure economic volatility. When countries in the zone are faced with financial crises, the regional policy bank can provide them with capital and policy assistance to protect the countries from the risks of an economic recession. Member countries within the economic zone would be able to initiate monetary cooperation such as currency swaps to promote healthier and steadier economic development.

**Fourth, strengthening people-to-people exchanges and communications between countries along the SREB.**

The education and communication effect of people from different countries will promote their mutual understanding and trust, especially among young students and leading cadres. On one hand, countries with developed high education should attract more young students from the Silk Road Economic Belt by providing more opportunities for admission and scholarship. All courses taught in English and even international departments in some universities will contribute to international students' adaption to the local environment. A typical example is the Schwarzman Scholars program at Tsinghua University. On the other hand, public management schools and business schools in famous universities can also carry out more favored policies toward government officials and business administrators in the Silk Road Economic Belt to attract them come for training and education, and encourage them to interact and communicate with local government officials and business administrators in order to gain a better understanding of varied national conditions and cultures.

**Fifth, promote anti-terrorism cooperation and crack down on terrorism.**

Terrorism is the enemy of all the governments and people around the world. The economic development, people's lives and safety under peaceful conditions in the Central and Western Asia regions covered by the Silk Road Economic Belt, have long been threatened by terrorism and extremism. It is time for the countries in the Economic Belt to join together in anti-terrorism cooperation and information sharing to fight against the

violence of the terrorists. This is the only way to create a supportive environment to facilitate the member countries' peace and cooperation.

The Silk Road Economic Belt is a brand-new concept established by President Xi Jinping, which advocates for higher and broader perspectives and differs from any other regional cooperation concept previously seen. The Economic Belt's coverage ranges from Asia, Africa to Europe in fields including economics, finance, education, anti-terrorism. The prospects for the Silk Road Economic Belt are promising as long as every member facilitates pragmatic cooperation, active innovation and jointly responds to challenges.

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