

Newsletter March 2019

## Yidai – Yilu

Peter Achten, Peking

**Everyone is talking about the Silk Road again, and not for the first time in over two thousand years. Globalisation of the past has caught up with globalisation of today.**

China's chief of state, party leader and military chairman Xi Jinping once again startled politicians, diplomats and China pundits of all denominations on his trip to Europe in the middle of March (Italy, France, Monaco) with his "New Silk Road" draft. Ever since the pragmatist Xi launched the Silk Road project in China's own legitimate economic interests in 2013 within the wider context of his "Great Chinese Dream" of a rebirth of the Chinese nation, alarm bells have been ringing from the USA to Europe.

### **BRI**

In connection with the Silk Road, which is over two thousand years old, Xi named his new favourite project the "Belt and Road Initiative"; BRI for short. In Chinese, the initiative is even better defined as "Yidai Yilu", which is "One Band" or "One Belt" and "One Street". This refers to the Silk Roads that have been transporting goods, ideas and diseases over ten thousand kilometres from east to west and from west to east across the European landmass for over two thousand years. China's strategic interest in "Yidai Yilu" is mainly in the energy sector – crude oil, natural gas, coal – and in other natural resources.

### **Globalisation**

Globalisation, for which "Yidai Yilu" is exemplary, is by no means an internet and digital age development, as many assume. A considerable extent had already been achieved with the link between the Middle East, India and Central Asia through the Persian Empire of the 6th century and the Macedonian Empire of Alexander the Great in the 4th century, which were before our time. The emergence of the Silk Road at the end of the 2nd century, which was also long before our time, then really opened up the vast European land mass.

### **The ancient world**

In his epochal work "The Silk Roads: A New History of the World", the British historian Peter Frankopan wrote, "We see globalisation as a modern phenomenon, but two thousand years ago, it was a reality; a fact that provided opportunities, created problems and fuelled technological progress." Frankopan concludes, "The ancient world was a precursor of the world we know today: busy, competitive, efficient and energetic."

## Homo sapiens

However, the very first instance of globalisation began some hundred thousand years ago with the spread of homo sapiens from Africa to the rest of the world. Globalisation was given another boost five hundred years ago by Christopher Columbus and Spanish and Portuguese seafarers. Major acceleration began at the start of the Industrial Revolution 250 years ago. At the start of the 19th century, the horse was still the fastest means of transport, which changed exponentially over the next two centuries with bicycle, rail, telegraph, telephone, motor vehicles, electricity, aircraft, television and finally, the internet and digitalisation.

## Old technology in the modern age

In the midst of the digital hype, it's an interesting fact that two hundred year old technology – rail – continues to drive globalisation. The Trans-Siberian Railway had already been build, and the Gotthard Base Tunnel dug, more than a hundred years ago. Today, the Chinese, as well as Europeans and Americans are already dreaming of a rail link under the Bering Strait from Basel or Moscow or Beijing to Washington D.C. The smaller dream is dreamed about in South Korea, China, Russia and Europe. A railway through North Korea would perfectly complement global supply chains. In contrast to ideas and some services, goods still have to be circulated and distributed analogously even today.

## Baron von Richthofen

The phrase “Silk Road” was not coined by anyone from China. Instead, in the last third of the 19th century – at the height of Western imperialism and colonialism – the German geographer and cartographer Ferdinand Baron von Richthofen coined the term in his monumental, five-volume work “China”. He deliberately used the term “Silk Roads” in the plural and gave it the meaning that it still has today: the Silk Roads onshore, i.e. on the vast European continent and the Silk Roads by sea, i.e. the sea from the East China Sea over to the Indian Ocean and the Mediterranean Sea.

## Seventy countries

The “New Silk Road” envisaged by China comprises sixty percent of the world's population and forty percent of global economic performance. This affects around seventy countries along the trade route. Railways, roads, bridges, tunnels, ports, pipelines, airports, power stations and even universities are to be built or refurbished. From Beijing to Rome, from Laos to Morocco, from Chongqing to Duisburg, from Moscow to Korea, from the Taklamakan desert in China to the steppes of Central Asia and the North African desert, or from Fuzhou to Rotterdam.

## High intensity

Due to new and improved infrastructure, the exchange of goods and therefore the economy of the countries on the Silk Road is to be developed and expanded. Even the ideas and values that have been exchanged on the Silk Road for hundreds of years could be shared again with greater intensity. In contrast to former times, it was possible to efficiently prevent the epidemics spread across the Silk Roads in the 21st century – for example, the devastating effect of the bubonic plague in the 5th and 14th century.

## Highs and lows

The Silk Roads has have having highs and lows since the end of the 2nd century. Depending on the historical constellation, trade either ran smoothly or partially came to a standstill. The exchange of goods and ideas thrived until just before the end of the Western Roman Empire in the fourth century and the Chinese Han dynasty (206 until 220 before our time), then during the Chinese Tang dynasty (618–907), or the Chinese Song dynasty (960–1279) and the Chinese-Mongolian Yuan dynasty (1271–1368). A famous example: the number zero and a refined decimal system reached the West, which came from India and was taught by Arab scholars.

## Lost enlightenment

A little known phenomenon in both West and East Asia and China is the economic and intellectual heyday of a far-reaching Islamic empire between the 8th and 12th century. The influence spanned from today's Kazakhstan to the Mediterranean Sea and from today's Afghanistan to the north-west of present-day Russia. It was an age of scholarship and tolerance, especially religious tolerance. In his book "Lost Enlightenment – Central Asia's Golden Age", the historian S. Frederick Star writes about an age of enlightenment. Note – this was almost a thousand years before the European Age of Enlightenment, which would change the world forever.

## Knowledge transfer

Research was carried out in the fields of medicine, chemistry, pharmacy, biology, mathematics, logic, history, philosophy, and these subjects were also taught. The most famous scholars at the time are almost unknown in the West and in China: Abu Ali al-Husayn Ibn Sina, Abu Rayhan al-Biruni and Abu Abdallah Mohammad al-Khwarazmi. Modern Europe owes a great deal to those scholars for the transfer of knowledge on the Silk Road.

## New age

During the Chinese Ming dynasty (1368–1644), Admiral Zheng He's journeys on the Silk Road by sea were renowned. Seven times in the first half of the 15th century, hundreds of ships with up to 28,000 crew members took to the East China Sea, the South China Sea, the Straits of Malacca and the Indian Ocean, through to the eastern coast of Africa. Christopher Columbus' three ships, and even the Spanish Armada a century later, seem like micro-fleets in comparison. However, following the middle of the 15th century, the emperor had destroyed all the high-quality ships and their blueprints, sealed China off from the sea, and thus from the outside world, and turned to the north to expand the Great Wall, to ward off intrusion by the steppe peoples. One of the steppe peoples – the Manchurians – replaced the Ming dynasty in 1644 and took China and gave the Silk Road a new lease of life.

## Silk

Silk was the most frequently traded commodity when the Silk Roads began. In Rome, Seneca remarked somewhat disparagingly that the soft "almost transparent" cloth was bought and worn in "ever growing quantities" in the Mediterranean region. Soon, silk was not only a coveted commodity, but also a means of payment as well as coins and grains. Luxury silk became one of the most reliable currencies over the centuries.

## Own interests

Today, of course, commercial invoices are settled in hard dollars, Euros, and an increasing number in Chinese Yuan Renminbi as well. The same can be said for investments in the New Silk Road. It is the biggest investment project since the Marshall Plan in Europe in 1948 (900 million dollars), so a very forward-looking positive strategy. The Chinese financing model of around USD 1.1 trillion through to 2030 to 2040 is fed through the Silk Road Fund and the Asian Infrastructure Investment Bank, which is funded by over sixty states, including Switzerland. China discreetly but uncompromisingly ensures that Beijing is in charge. So there are growing voices in Europe and America that allege that the Middle Kingdom has dubious or dishonest intentions. Like America, France, Germany and even Switzerland, China always acts in its own, well-understood, best interests – previously in cooperation with the international community.

## Claim to power?

Since China's chief of state and party leader Xi Jinping launched the BRI Initiative in 2013, concerns have been growing in the West. The questions are: Does China want to expand its global claim to power? Will China become a global power with the New Silk Road? Or as it was worded by Spiegel Online two years ago, "It's about China's glory and influence – in other words, geopolitics." When Italy became the first G7 country to sign a Memorandum of Understanding with China, newspaper headlines gloomily read, "Italy – China's Gateway to Europe?"

## No gifts

So far, it is clear that Chinese construction, steel and transport companies are getting the lion's share of public tenders for Silk Road projects. At best, local companies have limited opportunities; international companies barely get a look-in. It comes down to the fact that China does not create new jobs in the countries concerned; Chinese construction workers do the work. China's loans are not gifts. They're not even loans with soft conditions. Instead, they are loans with standard market interest rates, or even slightly higher interest rates.

## White elephant

It is for this reason that the international community – Europe in particular – is calling for transparent public tenders with environmental and social requirements, and transparent financing. For many states along the New Silk Road, debt risk is especially high. Sri Lanka learnt this by way of example with the deep-sea port of Hambatota, which resulted China having to be granted a licence for 99 years because the debt could no longer be serviced. Even Sri Lanka's international Mattala airport is a white elephant.

## Debt trap

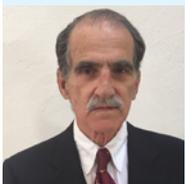
Malaysia has called off a high-speed train project for the time being due to excessively high costs. Even Pakistan, a close friend of China, has called off the construction of a dam. Vietnam didn't even engage in discussions regarding a high-speed railway between Hanoi and Ho Chi Minh City (Saigon). The debt trap is already a threat, from Pakistan, Djibouti and Kyrgyzstan through to Laos, the Maldives, Montenegro and Tajikistan, to Mozambique, Laos and Papua New Guinea.

**“European naivety”**

Europeans welcomed the New Silk Road in principle during Chinese President Xi Jinping’s visit, but had some crucial caveats. French President Emmanuel Macron: “The age of European naivety is over”. In Europe’s view, China is an economic competitor in search of technological leadership. The European Union (EU) now views China as a “system rival”, criticising unfair competition practices and calling for equal market access in China, as well as transparent public tenders in China and on the New Silk Road, as is customary for China in Europe.

**“Not servile”**

Even Swiss politicians have joined in on the Silk Road hype and have been boldly demanding a “China strategy” across all areas of expertise. In the Freiburg newspaper “La Liberté”, the Swiss Ambassador to Beijing, Jean-Jacques de Dardel, stated he had already negotiated the tariff diplomatically, “We will not be servile to China. We want to try to influence China based on our values, insights and our comparative advantages.”

**Peter Achten (1939) studied history and economics in Bern, Berlin, Paris and London.**

He started as a local editor in Basel and was a correspondent in Spain, Latin America, the USA and Asia. From 1975 to '86 he worked as anchorman, producer and at last as deputy editor in chief of information. Today Peter Achten works as Asia correspondent for domestic and foreign radio stations, newspapers and websites. He lives in Beijing and Estavayer-le-Lac. Peter Achten advises Portas Capital and its clients on economic and political issues of the regions of China and Southeast Asia.

**Disclaimer**

This publication is prepared solely for the internal use and information needs of Portas Capital Ltd. It is not intended as advertising nor as an offer to purchase or sell securities of any kind. Although the information provided here originates from a reliable source, no claim is made regarding its accuracy or completeness, nor should it be understood as such. Portas Capital Ltd. assumes no liability either for indirect losses arising from the use of this document or its contents.