

## *Chapter 2*

# **Implications of the Belt and Road Initiative for Russia and Greater Eurasia**

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### **Abstract**

Since the idea of Belt and Road came into general debate in 2013 the world has witnessed increased geopolitical tensions and attempts to reformulate and regroup forces from all sides involved into new rebalancing scheme. The ongoing trade conflict by now encompassing technological, ideological and other political areas between the two biggest economies of the world is just one forceful, but still only part of the general turbulent picture, encompassing all areas of human interaction: politics and security, economy and finance, science and technology, people to people contacts and cultural exchange et al. While the world is seeing still another of the Western countries, primarily the USA to retain the status quo as much as possible, other emerging countries see the world as the one that needs to be reshaped to promote equitable, fair and sustainable future for all. BRICS is in fact promoting such a gradual reform for the global order. While at the same time we see some of the strongest from the emerging world, namely China, promoting together with their partners, but also individually the so called community of shared future for mankind and BRI being one of the elements of the comprehensive ideology for change. We do see this concept as remaining quite contested by the epistemic community worldwide and thus it requires another look into the motivations – real and perceived – of China when promoting One Belt One Road, review the realities of the projects already implemented or in progress to assess their influence over the countries involved, look into how this initiative fits into regional and global approaches of other countries and institutions, including those of which China makes vital part of, like SCO and BRICS.

### **Introduction**

The global system of international relations is still trying to recover from the turmoil of the late 20th century: there is yet no new architecture of interstate relations, and the system keeps getting more complex, volatile and unpredictable. There are often not enough instruments for assessing properly prevailing trends or the political and economic

thought, and there is also a lack of imagination on the part of researchers who offer non-standard views that go beyond such trends and concepts.

The dynamic nature of the current changes require both a fundamental analysis of almost simultaneous globalization processes and regionalization and fragmentation of the world order, and an empirical assessment of “building materials” and constantly changing “conditions of work” on the global construction site. The modern world is so multifaceted and multi-layered that it would be impossible to reduce the study of the region at issue to its purely geographic aspects.

Some authors have lately observed a slowdown in the previously expected rapid development of “emerging nations,” the most dynamic of which are located in Asia, particularly China, but it would be wrong to say that the Asia-Pacific region and its key players are losing their positions as the main driver in the development of the global economy (O’Neil, 2018). Regional features require special methods and rules for building local cooperative systems (Acharya, 2016). It would not be possible to mechanically apply the European experience to these processes due to regional specifics. Today another international monster has joined into the game – the pandemics of COVID-19. Earlier hopes of common hardship to unify people and states all over the world (in fact recalling again the Chinese idea of the humanity of common fate that appeared along with the BRI) have shown futile. Instead pandemics have brought a new round of confrontation, flaring and latent conflicts have exacerbated and stakes have risen high.

One important issue that remains and gained if not new blood, but required new approaches at the time of pandemics – is the ability of Belt and Road to successfully integrate (not absorb) on mutually beneficial conditions with other international connectivity projects led by China’s partners, like that of the Russia’s promoted Eurasian economic union integration process. Pandemics have raised a new question of the prospects of the Greater Eurasia Project in this context.

## **The Framework and Variables of Modern Chaos**

The key process in the modern world is the continuing rebalancing of the center of world politics which is shifting from the “senior” developed countries, which for a long time were the core of development and exploited the periphery, and acted as the trend-setter for the entire international political and economic system. The European subsystem is actually falling out of the world political mainstream, and its role in global economic processes is declining. Today only three European countries—Germany, Great Britain,

and France—rank among the world’s top ten economies in terms of purchasing power parity. PricewaterhouseCoopers (RIA Novosti, 2017) expects the situation to keep changing, with the share of the G7 countries in the global GDP shrinking to 20% by the middle of the current century (the U.S. is likely to fall behind not only China but also India in terms of purchasing power parity, and the share of EU countries will drop below 10%). So, one can speak with certainty about the transition from the “centuries of Europe” to the “age of Asia” (Bordachev, 2018).

### **Evolution of the BRI**

Although China’s economic development has somewhat slowed down since the previous decade, it is still showing one of the highest growth rates in the world, achieving 6.9% in 2017 (of all the G7 countries the highest growth rate of 3% has been reported only in Canada, which is half of China’s indicator). If we count in the pandemic influence, here again, while we saw all the countries suffering from the lock down and other relevant economic consequences, often compared to 2008 – 2009 crisis and surpassing its graveness, China comes out as one of the few that are still expected to remain in the positive spectrum of GDP growth (1.2% according to IMF estimates, neighboring only with India with its 1.9% figure). Otherwise we see the forecast of the most serious turndown of the past 100 years: USA expected to fall by 5.9%, Japan – 5.2%, Germany – 7.0%, Russia – 5.5% to name but a few from the list.

China, which for a long time preferred to keep a low profile and effectively used the “leading from behind” formula, gradually changed the region’s configuration as its own possibilities increased. Unlike the United States’ much touted “pivot to Asia” and its own version of the Silk Route for Central Asia, China consistently used multilateral initiatives and formats to consolidate its own positions in relations with its neighbors and partners in other regions. At the 18th Congress of its Communist Party in 2012, China set the task of developing diplomatic theory and innovative practices for promoting the so-called “Chinese dream.” Two years later, in 2014, China publicly dropped Deng Xiaoping’s concept in favor of foreign policy activism. Since then the country has made great headway not only in developing its own theory of international relations and global governance, but also in leading “the reform of the global governance system with the concepts of fairness and justice” (Rudd, 2018). China’s call for building a community of common destiny, made at the memorable 19th party congress, is also quite interesting. Some researchers believe that there is a link between the improved economic position of

China and its more active diplomatic efforts, which, in turn, strengthen the country's national identity (Liu, 2018).

For the sake of justice it should be said that China has not clearly opted for the role of global hegemon, and there is a certain lack of coordination in its intellectual and political establishment (see Pu, 2017 for details). On the one hand, this is a tactical trick used by the Chinese leadership to test both external and internal reactions before taking real steps to realize the so-called “Chinese dream.” On the other hand, such debates among Chinese and foreign researchers and practitioners expose a deep shift in their vision for the future of the world. Whether it is “triumphalistic” statements by Hu Angang, the director of Center for China Studies at the Tsinghua University, that China has already outdone the United States as the world's number one economic and technological power, or his opponents' strong reaction to these statements, who even urged the university to dismiss him (Huang, 2018); or it is “national revival” meaning efforts to regain the international status China once held during the Tang dynasty, gradually catch up with the current leader, the U.S., and achieve a bipolar equilibrium (Yan, 2014; Yan, 2016); or it is the absence of any plans to seize global leadership (Shambaugh, 2013)—all these views reflect both certainty about the most beneficial “positioning” for the future of China and speculation as to whether there will be a hierarchical world order with a new leader (or a return of the bipolar system) or a milder system without clearly defined centers or certain strong states' hegemonic aspirations (Kupchan, 2012). But in assessing the current situation we will be focusing not so much on the Chinese leaders' executive statements and debates among leading Chinese researchers about the future of the country as on practical foreign policy steps China has taken over the past several years.

China is the only BRICS country to have started using the national currency for payments with both other BRICS partners and a couple dozen other countries. While supporting the discussion on the modification of the existing international currency system, China is making its own moves in that direction as it gains stronger positions and no longer needs collective support. In 2016 this helped not only increase (albeit unevenly) the share of developing economies in the IMF quota and come close to having collective veto power, but also include the yuan in the IMF's SDR basket. This redistribution was supposed to continue last year to favor economic development leaders, but the process stalled and it was decided at the IMFC 40th Meeting last October to consider quota review in December 2023 instead.

China's growing confidence was clearly underscored by President Xi Jinping's initiative announced publicly in Astana, Kazakhstan, in September 2013. It revealed

Beijing's global ambitions to create the Silk Road Economic Belt, which was later complemented with its maritime component (Maritime Silk Road of the 21st century), and the two made up the One Belt, One Road project, as well as with the supporting financial institutions—the Asian Infrastructure Investment Bank and the Silk Road Fund launched in October 2014. Despite the declared “Eurasian” context of the project, it largely transcends its boundaries to include other continents as well, thus leaving no doubt about China's leadership aspirations. Attempts to bring under control all the building blocks needed for both asserting China's status as a land power and advancing its ambitions to become a major maritime power essentially mean its claim to the next level of global development “from within,” in contrast to the American geopolitical leadership “from the outside.” Eventually, this may put the “aging hegemon” in the subordinated position, which is largely the real reason (not Trump's personality) for the current structural conflict between the two super powers.

### **New Realities: Challenge or Opportunity**

Nevertheless let's see here what are the debates ongoing in Russia and perception of “Belt and Road” initiative. One of the features is seeing it through geopolitical lens – understanding that vagueness of BRI as a concept as opposed to narrowly logistical infrastructure move leads to evaluation of the Chinese foreign policy as a whole within the framework of Belt and Road. It takes to analyze Chinese initiative not only through economic lens, but also political and military control of the area, social, humanitarian and cultural aspects of its influence. As suggested by a number of experts “a new geopolitical reality which requires an optimal reaction from Russia as a great power.”

Prevailing view would be of B&R being a response to the western behavior and ability to use Russian and Chinese relations to counterbalance the U.S. aggressive behavior. But clearly B&R alone cannot perform its function in Russia's view – common stance and merging of both countries' existing integration plans in a mutually beneficially manner. That is why it is seen as important to use previously established mechanisms, like SCO and Eurasian Economic Union to enhance this idea and bringing in “integration of integrations” and ultimate Greater Eurasia Initiative. In fact, a comprehensive overview of different opinions is presented in the study of established Russian sinologists A. Gabuev and I. Zuenko (Gabuev and Zuenko, 2018).

Among reasons to see mutual interest in Belt and Road and Greater Eurasia Concept experts often name that while China presents the strongest economic core within this

architecture, Russia has the role to play as security provider in the B&R area as well as offering its own experiences in such areas as security of consumption, health and life, yet not being the strong sides of Chinese development model. Although interestingly the current pandemics has rather revealed further the comprehensive nature of the BRI, including in the area of health governance, as opposed to commonly viewed approaches. We can refer back to 2017, at that time rather little noticed international event organized by China and supported by the World Health Organization (WHO) of the Silk Road of Health. It is back then that we saw all-encompassing intentions to act as a leader and main health governance provider globally – area quite not directly connected to hard construction of infrastructure or economic turnover. Another limitation to this concept could be ever growing own Chinese military potential to grant this role solely to the Russian partner.

Integration of integrations idea came later, however at the start of this Chinese initiative, and especially after signature 2014, when Russia faced western pressure as a result of Crimea, there were more hopes on enhanced economic profits from bilateral cooperation within the framework of Belt and Road. Nevertheless, mode of such investments as seen from the experience of the other countries, offers serious limitations and are not immediately beneficial within the equal partnership. Among such reasons one would name the tied loans offered by the Chinese government within the BRI or obligation to use Chinese managing company that would be in control of all the construction activities. Such conditions are not seen as beneficial for the recipient economy to become unquestionably involved in such projects.

By now we have total of 138 countries and 30 international organizations signing agreements with China on the Belt and Road Initiative, but at the same time, while the pandemics in a way, as acknowledged by observers, have brought some extra opportunities to further development of this initiative, reservations or rethinking of modes of involvements became the feature of BRI process. Just a few examples to mention of the fate and national governments' further approaches in Sri Lanka and Greece. The so called “debt trap” has already led to last year's decision of Malaysia to withdraw from a number of already signed deals; Romania eventually refused construction of two atomic reactors unsure of ways to pay back; Montenegro's external debt reaches 80% of GDP with loans taken – those examples could continue.

If we look at successful cases of launched cooperation under the umbrella of BRI and EEU coupling, we'd name energy projects of Yamal – LNG and cooperation in the Arctic. But overall investment is not significant and incomparable to the level of political engagement of both countries. According to Director of the Institute of Far Eastern

Studies A. Maslov, the volume of accumulated investments to Russia are equal to annual flows of Chinese investments to Europe.

Three main areas, where Russia saw initial interest in finding cooperative schemes with Chinese BRI were concentrated around new logistical infrastructure links between Europe and dynamic Asia. But to look into the earlier proclaimed as flagship project of the BRI and EEU coupling – the Moscow – Kazan highway – it is still under consideration due to different approaches to the realization and other relevant details.

Second part could be attributed to attracting new investments into new digital technologies development – vital part for any country to be among frontrunners of the 4th Industrial Revolution. Although this particular much talked about technological cooperation area is gradually gaining more ground in the bilateral cooperation scheme, probably not as much because of the initial BRI and EEU coupling, but rather due to new limitations placed by American sanctions on Huawei global activities.

And last but not the least, engaging China into Russia's remote territories development, mainly talking about the Russian Far East and also Russian Arctic.

While expectations continue to remain high of the coupling of those two projects and this remains the cornerstone of the Russia's foreign policy, with the symptomatic speech of the Russian President Putin at the 2<sup>nd</sup> International "One Belt, One Road" Forum in Beijing last April, one would see a certain gap between political intentions and claims of both leaders and practical engagement on a horizontal level.

Also, a range of experts also remain in the realm of discussing BRI as a potential threat to Russia's interests. Those range from general fears of bypassing Russia with higher intensity of projects in neighboring countries to low efficiency or uneven investment policies further contributing to different speed of Russian regions development, e.g. lower interest in the Far East with just 6.5 million people and constricted market volume as opposed to already rich and flourishing Moscow cluster.

Thus, those different sides of the medal and yet the roadmap of coupling in the making lead to delays in agreed projects or further search of the common ground to strike this balance between Russia's quest for generous Chinese investments into high-tech and maximum localization of launched production, on the one hand, and Chinese needs to employ its excess production capacity and workforce.

The problem is that practically all projects involving China appear to be unbeneficial due to both imaginary and real risks. So despite the political background and existing agreements, Russia's participation in the "Belt and Road" initiative has so far produced quite modest economic results.

## **Multilateral Approach to the BRI**

While BRICS is not directly supporting this particular B&R initiative, partly due to the fact that the two countries are less directly involved in the immediate activities, but also India, making part of Eurasia, remains rather cautious about all integration initiatives led by China, thus we recently saw New Delhi opting out of the RCEP. Although it could be said that some of the projects clearly feed into B&R and even Greater Eurasia. Those are the NDB activities with almost 16 billion USD of already approved projects in all the five countries, not to count in COVID19 emergency fund offered by NDB to all those from the BRICS, asking for such boost, but also proliferation of the Bank to all 5 regional offices in 2020. Other initiative would include discussion of SWIFT alternatives, ongoing talk of using national currencies within the BRICS, the modernized BRICS Economic Partnership strategy for 2020 – 2025 to cover areas of trade and investment, sustainable development, and specifically digital economy. In fact, the huge economic and social block of the BRICS discussions offer member countries, (primarily India, but remembering Bolsonaro initial stance, one wouldn't limit those fears to just one country) cautious of falling into direct dependence of the giant Chinese economy and not willing to be associated with Chinese led initiatives like BRI, to nevertheless reap the benefits of such cooperation using all the instruments and options offered by BRI and further deepened by much needed real coupling of BRI and EEU.

## **Conclusion**

Thus we see that the initial Belt and Road concept, probably underestimated at its initial stages have by now moved into the centerstage of political and economic discussions. Attitudes range from outright rejection, like with the USA or India, and Washington enhancing its initial “Pivot to Asia” policy to outright confrontational policies across all areas to contain China - to growing caution on potential impacts on national sovereign choices, like in some European countries, not only those traditionally attributed to the Western Europe, despite the 17+1 process, or some Southeast European countries - further to attempts to equilibrate close trustworthy political partnership with economic equally beneficial and long-term collaboration, as is the case for Russia - to further smaller countries finding themselves in between the big game play of the great powers of today and trying to enjoy benefits from as many sides as possible when possible.



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