China’s One Belt, One Road project (OBOR) has attracted much attention since it was first announced in 2013. Since then it has attracted a variety of reactions: the optimists saw it as a godsend promise of economic bonanza; the skeptics have been suspicious as to what intentions really are moving Beijing; others yet have traced parallels with the Marshall plan the United States promoted for the reconstruction of Europe. However, China is not alone in its effort to promote such kind of infrastructural connectivity: Brazil, India, South Korea have also unveiled Silk Road (or similar) initiatives. More broadly, all these projects are taking place amidst a renewed global buzz around infrastructures and logistics.

When viewed against this larger background, OBOR and its peers appear to compose a larger picture that deserves greater analytical attention as they acquire potential theoretical relevance. As Waltz (1979) famously pointed out: “competition produces a tendency toward sameness of the competitors”; that is, toward the imitation of one’s rivals’ successful characteristics. Moreover, if we look back in history, the emergence of leading powers has always witnessed developments in transport connectivity. Imperial powers from Rome, to China and the Genghisid Empire, have all proceeded to build a centripetal network made of roads, railways or postal services. Likewise, overseas or overland colonial empires like Austria-Hungary, Britain, France, Portugal, Russia/USSR, the United States, and even the Venetian Republic before them, thrived on the establishment and patrolling of maritime or land-based communication routes. And what about Germany’s construction of the Berlin-Baghdad railway, which some historians regard as one of the actual causes of World War 1?

From the Waltzian perspective, the great powers are similar because they cannot afford to be functionally differentiated. Ultimately, they must all be able to perform the same tasks necessary to survive in a competitive international system. And so, could this be a manifestation of what Layne (1993) dubbed the “sameness effect”?
In abstract terms, that of rising power is esteemed to be a transitory state destined to give way to that of established great power. Hence, from an analytical perspective, rising powers strategies need to be assessed against the stated goal of these actors of establishing themselves as great powers. This implies an effort to describe what a great power is in the first place, in order to be able to explain the concrete measures that rising powers deploy toward that goal. Hence, as I contend, besides mirroring global transformations under way, examination of global transformations can help us shed light on the more general phenomenon of great powers, and, at a deeper level, the nature of the state. And so, what is a great power?

The literature has tended to regard great powerhood as the possession of particular attributes, with attention being given to a number of factors. The classic view is, of course, that great powers possess superior capabilities, obtained thanks to higher economic growth rates, and measurable primarily in terms of GDP and military expenditures (Morgenthau, Claude, Waltz, etc.). More recent views regard great powers as possessing certain special prerogatives thanks to which they occasionally override the autonomy and independence of lesser states (Contessi 2016: 270). These prerogatives include: a degree of exemption from the “moral, political and legal constraints” of international society (Bisley 2012: 9); the notion that great powers have special responsibilities for the maintenance of international order (Buchovanski 2014; Buchovanski et al 2012; Bull 1977: 200), which they exercise by engaging in “managerialism” (Bisley 2012; Bull 1977: 202); institutional privileges thanks to which they control international organizations (Larson, Paul and Wohforth 2014: 14). Lastly, are spheres of influence in which great powers maintain a predominant role (Welch Larson, Paul and Wohlforth 2014; Bull 1977: 212). Due to such attributes, great powers also enjoy a higher status (Paul et al 2014), that places them on the higher rungs of the international pecking order in terms of prestige and social recognition (Organski).

However, I argue that virtually all of these attributes are ultimately socially constructed categories, and thus somewhat epiphenomenal- a little bit like a symptom is to the ailment. Instead, we need to ask what is the underlying dynamic force that moves great powers from a causal point of view, and what are its historical roots? Answering this question can give us greater analytical leverage, and cast light on a political phenomenon that still raises many puzzles.

In this effort, structural perspectives like hegemonic stability theory (HST), power transition theory (PT), and long peace theories (LPT) are valuable in that they capture the importance of differential growth rates that leads to the emergence of new great powers, and
in arguing that a great power (or, more specifically a hegemon) is the one delivering important benefits to the international system by embodying, to a degree, the functions of world government (Bussman & Oneal 2007: 88). Bussman & Oneal (2007: 91) further argue that great powers engage in “restruct[ing] the system to receive benefits commensurate with their … power”. While this casts light on the paramount dynamic transactional aspect of great power politics, there remains a missing link between economic growth, that transaction, and the challenge rising powers may pose. Why is this the case?

This paper argues that the true marker of great powerhood lies in the nature of sovereignty. In other words, when it comes to great powers, we are in the presence of a particular type of state: one that has reached through its historical evolution a level of strength that it has taken, in one way or another, the performance of key sovereign prerogatives outside its juridical boundaries.

As Tilly famously argued, *ab origine*, state-formation was a competitive process of monopolization of control over a certain territory through the extraction of resources from its population and the guarantee of protection against exploitation by rival enemies. It is through (and for) the performance of these *fonctions régaliens* that the state establishes rules.

This paper contends that this dynamic begins with the formation of a state, but does not always end after a state has been formed. Rather its different paths and trajectories are at the root of fundamental variations between states, including those typically understood in terms of attributes and capabilities. Great powers, from this perspective, are the particular type of state in which the successful domestic management of extraction and protection over time has enabled the accumulation of such economic capabilities and projective resources to result in the replication of that same process outwards.¹

As Layne (1992) argues, the “sameness effect” dictates that these “eligible states” must enter the great power fray if they want to avoid being exploited (i.e. being “extracted”) by incumbent great powers. By implication, rising powers are those whose sovereigns have reached a certain stage in the e/p process domestically, and are compelled to adopting policies that reproduce it abroad.

¹ It is thus that, in their foreign policy, the great powers engage, among other things, in making international rules, creating international institutions, and waging war against those who do not comply. Thus, the foreign policy of the great powers includes the performance of some of the *fonctions régaliens* outside of their territorial boundaries. Though unstated, and with certain differences in nuance, this dual logic has traditionally underpinned dynamic structural theories like HST, PT, Power cycles- as seen above. This logic is here put to the service of a more middle range theory that can help us not only to understand more clearly how great powers behave –something that is often taken for granted- but also to make sense of what rising powers may seek.
As a reminder, state formation hinged on the obliteration of rival claimants and the monopolization of control by a sovereign; therefore, as its continuation by other means, great power politics is inherently competitive, and in other epochs a highly war-prone sphere. However, the historical evolution of the international state system has led to the progressive pacification, and in today’s (post-) Westphalian international system, war is a less viable option. Nonetheless, the logic of competition is still present. Khanna (2016) refers to this new grammar of great power relations as “tug-of-war”. As a result, and as a further manifestation of the “sameness effect”, contemporary rising powers must resort to “social creativity” (Larsen and Schevchenko, 2014) and adopt substitute policy measures to promote the outward extension of their extraction/protection machinery short of war. Some of these ‘creative’ instruments adopted so far have included: institutions (governance and rules); ideology and soft power; monetary policy; aid and patronage.

However, I argue that because of their immaterial nature, the effectiveness of these approaches has limitations, as control is ultimately physical. Thus, more traditional forms of projection short of war remain relevant. This paper contends that Infrastructure connectivity represents a new stage in eligible rising powers external projection of e/p processes while managing the continued need to circumvent the system level constraints.

**From state-formation to “great power-formation”**

A well-known line of argument in the social sciences holds that “governments are in the business of selling protection” (Tilly 1985: 175). Tracing a parallel with racketeering rings, this view argues that they do so in return for taxes that they extract from the societal forces over which they rule. Adopting such perspective, Tilly described state formation as the inward-directed process through which a political master established its hegemonic rule over a constituency for purposes of accessing rents, which he would then use to wage wars to defeat political rivals and uphold his claim to rule over his territory.

However, there is also an outward version of this perspective. This outward dimension is well captured in Frederic Lane’s (1973) study of the Venetian Republic. In this scheme, the Doge charged his merchants an amount to raise armies to defend maritime routes, with his rent accruing from the difference between the cost of maintaining armies and the tributes received from the merchants. In return, the merchants received a “protection rent” deriving from their greater ability to engage in trade relative to their foreign competitors,
whose governments were less efficient in offering protection (Tilly 1985: 176). As this example suggests, this do ut des logic is at the roots of a very close symbiosis between the state and certain important constituencies, and, most notably, their mutual dependency for revenues and protection respectively. As Tilly observes, “state-makers developed a durable interest in promoting the accumulation of capital, sometimes in the guise of direct return to their own enterprises” (Tilly 1985: 172). Likewise, private enterprises developed an interest in strong powerful states that could afford the necessary protection they require to increase their competitiveness vis-à-vis their foreign rivals. In the early modern period, this was protection from pirates, and enemy armies. Today this takes other forms, be it market access, the negotiation of trade agreements, investment protection, or the facilitation of supply chains. For instance, it has been observed that British hegemony was supported primarily by the power of private interests located in Britain and their foreign business allies (Nolt 2015: 118).

With their stake in protection, merchants then have a vested interest in the outwards expansion of the state, as their turnover comes to depend on it. Meanwhile, state-makers (or, when applicable, imperialists) are happy to oblige as it is conducive to sustaining rates of growth, greater returns from tributes, and the synergies they can establish with the merchant classes in the conduct of statecraft. Great powers have powerful domestic constituencies that merely express their preferences with such intensity that they can fashion the interests of the state beyond the borders of the state.2

As Tilly argues, different formalizations of the bargain underlying this mechanism, including, for example, its institutional form, the sovereign’s efficiency, the constituent’s loyalty and so on, can be found to be responsible for variations in the forms of the state, including its territory, population and strength. However, I argue, a further aspect that variations in such configurations can affect, pertains to the institutionalization of sovereignty- intended here not so much in its juridical sense, but in the dynamic sense of the exercise of sovereign prerogatives. As the symbiosis between domestic constituencies and the state grew stronger and deeper, so too did the pressures for the extension of the perimeter of protection.

Through this prism, variations in powerhood (great to middle to small) can be seen as differing external expansions of the extraction/protection phenomenon. This entails that a great power is the cumulative product of a particular modus operandi emerged historically.

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2 See the parallel with Moravscik; See also: Nolt (2015: 29)
out of the relationship and interdependencies between sovereign authority and domestic power centers and their internationalist interests. This modus operandi rests on a hypertrophic reconfiguration of sovereign prerogatives, which must now necessarily overflow outside the state’s territorial boundaries -although not necessarily through the use of violence as the state-making process originally required. Spheres of influence, colonial possessions, empires, and –I argue- infrastructure connectivity, represent different degrees on a spectrum defining efforts to align constellations of tributary states and building stability and order for the purpose of extending the extraction of rents internationally. Rents whose main beneficiaries are important domestic constituencies of the relevant great power.

In this guise, rising powers are states whose sovereigns have successfully managed extraction and protection within their polity to place their countries on a trajectory of economic growth, and are compelled under the new configuration of state-society relations to undergo a transformation resulting in the outwards reproduction of that same process.

Extraction and protection in international politics
Just like in domestic political systems, winners and losers in international politics are organized on the basis of coalitions, with costs and benefits unevenly distributed among participants.

Strategic rents depend on a government’s ability to use the resources of sovereignty to extract surpluses. Extraction is here taken to refer broadly to the appropriation of goods and values coveted by the holder of authority. However, not all governments are equally capable of performing these tasks outside their perimeters, as this requires the ability to exert authority over neighbouring and more distant countries to implement the policies it conceives. Great powers are the particular type of state that has this ability. The extraction of rents from other countries represents for a great power sovereign the foreign operation of the protection business it runs for its productive groups in the agricultural, manufacturing, and services industries, or other special interests. Because this hinges on the de facto exercise of sovereign prerogatives over neighboring and more distant countries, it has the effect of

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3 This being said, a some exceptions may apply in the case of former colonies.
4 “the very logic by which a local lord extended or defended the perimeter within which he monopolized the means of violence, and thereby increased his returns from tribute, continued on a larger scale into the logic of war” Tilly (1985: 172, 185). “the establishment of large perimeters of control within which great lords had checked their rivals sharpened the line between internal and external” (185)
reproducing a hierarchical political order transcending the fragmentation among decentralized and functionally differentiated units. Though military means remain an option, in a largely pacified international system, the process of extraction/protection is under normal circumstances a non-violent, mutually consensual bargain between a great power (or aspiring great power), and smaller powers.

Two are the fundamental rents great powers strive to extract, broadly equating with what is commonly termed “great power privileges”:

*Rights of Access,* which include penetration of foreign markets for natural resources, consumer goods, capital, and equity, including corporations from the perspective of potential mergers and acquisitions.

*Rights of Intervention* are here understood in the broad sense of managerialism, which can be viewed on a spectrum from political influence through bilateral or multilateral means, to support within defense and security alignments, to military interventions. Beneficiaries of rights of intervention are more typically located at the intersection of economic and political interest such as the military-industrial complex and similar actors in the relevant great power.

Because the extraction of rents could not be achieved without a congruous transaction to sanction its legitimacy, great power politics implies a *do ut des.* In other words, this refers to the provision of protection. At its core, protection refers to the satisfaction of clients’ or subjects’ needs by a superordinate provider, and is often presented in the language of “special responsibilities” or “duties” impending upon the great powers. In return, protectors obtain not only access but also the stability its domestic interests desire to conduct their business.

Protection can take different forms ranging from the provision of *private goods* that can help the recipient state meet its economic or security targets -whether real or induced- to the provision of *public goods* on which smaller states rely to execute their own foreign policy. For the great power, the protection given to foreign stakeholders is also an opportunity to satisfy its domestic stakeholders, given that, oftentimes, the material implementation of the goods pledged to a client is executed by companies of the very patron state.

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8 See Waltz

9 Though structural theories focusing on hegemons disagree on whether these are public or private HST and PT, in reality, it doesn’t matter, since both kinds can be used as a form of protection. Protection can come in the form of public or private goods interchangeably, given that the mechanism is the same in both cases.

10 As Tilly (1985: 175) argues, it is not uncommon that just like in the racket business, the holder of authority often resorts to the fabrication of threats, so to create a demand for its protection.
To summarize, the externalization of the extraction/protection mechanism allows great powers extract from other states access and other rents which they can redistribute among their domestic constituencies (as well as appropriate themselves), while offering those states protection in the form of public and /or private goods, which again can function as a channel to redistribute spoils among its own economic operators. This kind of great power politics is generally done at the behest of domestic interests as a result of a bargain whereby governments compensate them internationally for the costs they incur domestically. This mechanism illustrates the extent to which sovereigns and economic operators develop a relationship of mutual dependence. As the key beneficiaries of great power statecraft, the operators acquire a powerful stake in the foreign policy process, which they seek to stir. Meanwhile, the sovereign has an incentive to organize and channel these domestic interests, which in turn it can occasionally deputize in the conduct of foreign policy.

**Infrastructure Connectivity**

To the extent that a state’s affirmation as a great power stems from the ability to factor the dual logic of extraction and protection into its statecraft, control of global infrastructures allows just that. Infrastructures, like only a few other tools, have the virtue of defining the playing field. With an evocative metaphor, Easterling (2014: 14-15) notes that infrastructures represent the “operating system” for which all other “applications” are conceived. Because they can foster the emergence of new constellations of actors, new satellite activities and other ancillary spill-over, they engender entire political economies, and in this way can dictate entire new “rules of the game”.

Infrastructures are the fundamental architecture of global power in the contemporary era. Indeed, almost two decades ago, and noting the influence of global power on the choices affecting transport markets, Strange (1998: 142) already observed that “the concerns of the larger and more powerful states for their own security have set the ground rules for the international transport systems with which lesser states or newcomer states have had to conform”. It is for this reason that:

> some of the most consequential changes to the globalizing world are being written, not in the language of law and diplomacy, but in [that of] these spatial, infrastructural technologies. These stories foreground content to disguise or distract from what the [infrastructure] is actually doing (Easterling 2014: 15).

Therefore, a state’s position of leadership in the promotion, financing, or coordination of the construction of new infrastructure allows to shape these changes, and reap the underlying key
advantages. Similar advantages would, in other eras be associated with war and conquest, which would elicit a stopping response from the established powers, and therefore significant political and economic costs for the undertaker. Therein lies the “socially creative” value of infrastructures as a tool for both managing and dissimulating extraction and protection practices.

Protection

To the extent that national governments have variable abilities will to produce the goods they require, there will always be a market for protection. Infrastructures are a key area where deficits in skills, capital, or political will have often stood in the way of adequate investments. Therefore, infrastructure financing are a very apt way of providing goods- both public and private.

As far as public goods are concerned, the orchestration of pancontinental and transcontinental connectivity initiatives promises to reconnect countries and territories that are currently fragmented. These projects could then act as multipliers and drastically boost economic growth between and within the regions involved, including autonomously from the direct returns for the initial orchestrator. In fact, the economic literature has found that infrastructures generate positive spillovers for third party users (Gramlich 1994: 1190). To exemplify, a recent historical study of the ancient Silk Road found that much of the trade was actually local and small scale in nature, rather than occurring, as is often assumed, between the two distant continental poles (Hansen 2012). While the ancient Silk Road bears no similarity to modern infrastructure initiatives, this comparison is illustrative of the kind of spillovers that public goods can generate. Among such benefits, infrastructures can significantly boost private investment, employment and economic growth as well as impacting firm decisions about location along their route (Munnell 1990: 24-25).\footnote{Aschauer (1989) found that the stock of public infrastructure as well as the stock of private capital may be a key to explaining the level of national output in the private sector. Similalry, Munnell (1990) found a strong relationship between a nation’s stock of public capital and the level of labour productivity. Nonetheless, Moreno & Lopez-Bazo (2007) note that the findings on the regional effects of infrastructures are inconclusive.}

In a classic study, Leland Jenks (1944) found that the 19th Century railway revolution in the United States represented an unprecedented economic stimulus both directly –through a sustained increase in demand for various factors of production, from land to capital, to labor due to the greater demand for durable goods for construction- and indirectly, and indirectly – by encouraging economic innovation in finance, industrial organization, law, etc. Once in
operation, railroads were a catalyst for increasing returns thanks to the reduction of shipping costs and by permitting an addition to the achievement of economies of scale. As far as private goods, financing of national infrastructure projects, let alone multinational ones, is often a distinct challenge for many states, especially developing countries. However, new connectivity is also crucial to a territory’s integration into global value chains, both as an end market for finished products, and as a destination for offshore productions (see Khanna 2016).

Studies show that financing and grant-making schemes can catalyze the construction of infrastructure domestically (Gramlich 1994: 1191). External support for this kind of programs can significantly alter political economies within a given jurisdiction and ease a number of challenges the relevant government faces in crafting adequate measures to deliver the necessary projects.

As creditor, the rising power sovereign becomes de facto enmeshed in the domestic politics of the client state. Hence, these investments can contribute to reshaping local political economies by fostering new business alliances political coalitions between a great power -and its corporate ‘agents’- and local elites with a stake in continued alignment with that power and its business interests. Additionally, the provision of public and private goods overseas is also a way for the rising power sovereign to cater to the interests of its own domestic constituencies. On one hand it can create business opportunities for its firms; on the other, once the infrastructures are in place, they can help orient the direction of trade flows and set the conditions for use. Today, half of world trade is intra-firm trade meaning that it takes place within single cross border supply chains. This kind of organization of production becomes possible to the extent that connectivity is available. The provision of goods is thus a valuable tool for coopting new allies and maintaining their support and cooperation in building a new status quo under its dominant role.

**Extraction**

To the extent that rising powers have growing economies and rising multinational corporations, they must obtain access to foreign markets on behalf of these economic actors. Because “wealth is a means to power” (Strange 2000: 64), the power of states correlates significantly with that of the multinational corporations to which they are home, and which concur in shaping their national interest in foreign policy. This purports a strong link between the national interest and firms’ demand for protection to their home state.
Whether privately or state-owned, firms constantly need additional markets abroad to offset cyclical fluctuations of domestic markets and amortize their investments, export their goods and excess capital, or purchase raw materials (see: Strange 2000: 61).

However, much of global trade in today’s world consists of intra-firm trade, which means it’s taking place in the context of existing supply chains. In a world where firms compete not so much against one another, but against the respective supply chains they are able to organize around themselves (Anderson & Katz 1998; Bechtel and Jayaram, 1997; Childerhouse et al, 2002; Tan 2001; Vonderembse 2002; Boyer et al, 2005; Ketchen and Guinipero 2004), firms need foreign footholds for purposes of implementing and managing supply chains. To be effective at value creation and capture (Gereffi & Lee 2012), supply chains themselves must have a global scope.12

As argued earlier, outward-directed extraction is nothing else than the protection a sovereign offers to its domestic constituencies. Great powers obtain greater rights of access because (i) they have stronger and more numerous domestic stakeholders requiring protection; (ii) they can extract from the latter the means to back up their efforts to extract rents from other states. Hence, a degree of collusion exists between the state and its merchant class. While firms obtain protection from their headquarter government in their international undertakings, the latter can continue extracting rents from the former. Moreover, private corporations can be deputized for purposes of national security, such as maintaining access to cheap natural resources that the state’s population needs, or transferring assistance to favourable governments (Tarzi 2000: 165). In addition, by engaging in government relations in the host country, corporations can help coopt local elites, in a way consistent with the interests of the sending government.

Thus, rising powers support their rising TNCs whether POEs or SOEs affirm themselves in the global economy by extracting access from smaller countries for the sake of their own enterprises. Moreover, lead firms exercise the greatest power within supply chains shaping the distribution of benefits (Gereffi & Lee 2012). In turn, the dual action of

12 The Council of Supply Chain Management Professionals (CSCMP) defines supply chain management as encompassing “the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities.... Supply Chain Management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high performing business model”. In contrast, logistics management as “that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers’ requirements.” CSCMP defines (CSCMP 2005). This being said, technological innovation appears destined to call into question the transnational dispersion of supply chains in the future (Livesey 2017)
governmental and corporate power contributes to reordering the territorial dimension of international politics hierarchically around the relevant great or rising power. Under these conditions, interdependence easily becomes dependence, as the dominant countries are able to expand and be self-sustaining, while dependent ones can do this only as a reflection of that expansion (Dos Santos 1970).

Infrastructures connecting a country to its geographical neighborhood and beyond can assist these goals by lowering the costs of transborder transport and communication. The promotion of infrastructure investments gives the implementing sovereign precious leverage to obtain ever-greater levels of access for their domestic stakeholders—public or private.

Infrastructures can thus facilitate the goals of accessing new markets for the purpose of increasing trade, obtaining public works contracts for their firms, and laying down the foundations for the organization of supply chains these firms require to compete in the global economy. From this logic, the symbiosis that exists between great powers and their corporate actors, in practice, plays a big role in propelling great power politics.

**China and the One Belt, One Road Initiative**

Following three decades of rapid and sizeable economic growth, by around 2010 Chinese industry had reached overcapacity and its public and private financial sectors had accumulated large amounts of excess capital. This was symptomatic of the exhaustion of the export-led model of industrialization resulting in two parallel and interwoven developments.

(i) The launch of a new season of domestic reforms under President Xi Jinping’s “Chinese Dream”. Implementation of these reforms, the Chinese Communist Party says, will bring about a “new normal” of lower but more solid growth hinged on a more prosperous society of consumers and driven by more advanced value-added industries rather than the labor-intensive ones that have driven growth so far.

(ii) The adoption of the One Belt, One Road initiative to set up a network of overlapping transport routes to bolster trans-continental trade, and centered on:

a. Silk Road Economic Belt as its land-based component made up of a northern and a southern route linking Central China to Europe respectively through Central Asia and the Middle East.
b. Maritime Silk Road- a system of maritime routes from China’s coastal metropoles to Venice across the Indian Ocean and the Suez Canal.

A decision taken by the Central Committee of the Chinese Communist Party in November 2013 clarifies how much these two initiatives are intertwined, and OBOR represents a key plank in the country’s broader reform process (CLM 44, p. 3). A point that the Chinese Ministry of foreign affairs further reinforced on multiple occasions between 2013 and 2014.13

Thus, OBOR clearly represents the main overarching policy and institutional framework bridging Beijing’s domestic and foreign policy priorities, together with the enunciation of an articulated set of tools to achieve them.14 As such it is not farfetched to call it China’s new grand strategy. Even though Chinese leaders have hushed to deny that OBOR is “a tool of geopolitics” (FM Wang Yi), and prefer to emphasize its inclusive, market-oriented and non-rival character as upheld by the 2013 Third Plenum, many observers have been inclined to reading more exquisitely geopolitical rather than economic goals into it. It should be noted that the initiative is very recent and it still has little to show by way of concrete measures implemented. Nonetheless, an overall framework is beginning to take shape that can allow us to make certain inferences as to the goals that drive it. The argument I want to examine here is that as an instance of a transcontinental infrastructure project, OBOR is conceived as a tool to extract coveted values on behalf of Chinese economic actors from partner states.

**Extraction**

Extraction is aimed at securing one particular type of value: access defined in terms of market access for excess goods and capitals- the public works market in partner states; as well as, the acquisition of foreign firms by Chinese ones, or the localization of subsidiaries of Chinese firms abroad.

As Xu Shanda, a Chinese economist and Former Deputy Director of the State Administration of Taxation, OBOR should help absorb this overcapacity to foreign markets

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and stimulate overseas demand for Chinese goods.\textsuperscript{15} Access to foreign public works markets can allow Beijing to spend its overcapacity, especially for in its heavy industry. China is the largest steel and cement producer in the world, but most of the factories have run with excess capacities in the last couple of years due to weakening global demand. For example, in 2012, China’s production-to-capacity ratio in iron and steel, cement, aluminum, sheet glass and shipbuilding were 72 per cent, 73.7 per cent, 71.9 per cent, 73.1 per cent and 75 per cent respectively.\textsuperscript{16} China’s steel sector idle capacity alone is double that of America’s steel production, with iron, cement, aluminum, glass, coal, shipbuilding, solar panels, and other industries all facing similarly slumping demand and profit losses.\textsuperscript{17} This state of affairs has determined dips in profits, and the accumulation of debt for many companies. On the other hand, however, the larger corporations have accumulated excess capital that they cannot reinvest. In 2014 China became a net capital exporter with a volume of $120 bln,\textsuperscript{18} and observers expected an outpour of US$1.25 trillion in Overseas Direct Investments (ODI) over the decade 2015-25.\textsuperscript{19}

Although governmental channels whether bilateral or multilateral will inject a great deal of money, Hong Kong financial companies estimate that private capital markets will have a large role to play, with important opportunities for the banking industry. Hong Kong’s Financial Services Development Council anticipates OBOR to generate transactions for US$ 780 billion a year for the Special Autonomous Region. By the end of 2013, Hong Kong accounted for 57.1\% of China’s outward investment stock, with the cumulative value standing at US$377.1 billion.\textsuperscript{20}

Significantly, investors already include a large number of private enterprises including private equity firms, banks, and private investment companies, in addition to the China Investment Corporation and other government financial investment arms. The insurance sector alone is expected to play a big role in the future. Although the Chinese regulator (CIRC) allows a ceiling of 15\% for overseas investments, these currently stand at a

\textsuperscript{15} Shanda, see also: Pravakar Sahoo. OBOR: will it reboot the Chinese economy? World Commerce Review; https://www.csis.org/analysis/building-china’s-“one-belt-one-road”
\textsuperscript{16} (Vice Minister of Overseas Chinese) Ha Yafey, China’s overcapacity crisis can spur growth through overseas expansion”, SCMP, 7 January 2014.
\textsuperscript{17} Jiayi Zhou, Karl Hall damping, and Guoyi Han. The Trouble With China’s “One Belt One Road” Strategy. The Diplomat, 26 June 2015.
\textsuperscript{18} This was a 10\% growth on 2013 figure of $108 bln. Ministry of Commerce, 21 January 2015, http://www.mofcom.gov.cn/xwfbh/20150121.shtml
\textsuperscript{20} Mak, Liz. “Hong Kong banking on a big role in financing China’s One Belt, One Road plan linking Asia to Europe and the Middle East”. South China Morning Post, 19 January 2016, https://globalconnections.hsbc.com/hong-kong/en/articles/one-belt-one-road-initiative-implications-hong-kong..
mere 1 percent, but insurance companies will have as much as US$3.23 trillion worth of premiums by 2020.\textsuperscript{21} Infrastructures like road, railways, ports and airports, communication systems like fibre optic lines and mobile towers, as well as real estate, are among the earmarked sectors for these investors. The Bank of China (Hong Kong) has already opened some 50 new branches across the OBOR region, including through mergers and acquisitions (M&A), and has set a target to generate lending for US$20 billion.\textsuperscript{22} Chinese banks also joined together to set up the Maritime Silk Road Fund Management Center, a private entity that will pour additional capitals into OBOR ventures.\textsuperscript{23}

In the past, Chinese authorities have shown a propensity for linked loans, where Beijing included stipulations in funding agreements, such as the requirement that Chinese companies execute the projects. Although market criteria and the solid participation of the private sector in OBOR may alter this pattern, as most of the funding will come from China or institutions supported by China, we can expect the similar stipulations to find their way into these agreements. Observers note that in return for infrastructure investments, Chinese firms will bargain preferential fiscal concessions, not only vis-à-vis firms from other countries but also against domestic ones in target markets. Such concessions will reduce China’s cost of doing business in such countries, thereby boosting the competitiveness of Chinese products.\textsuperscript{24}

In the meantime, ‘high-speed rail diplomacy’ has been emerging as a diplomatic tool, offering packages that include dedicated credits and equity capital, supply of advanced equipment, and construction services, both in developing and developed countries.\textsuperscript{25} In preparation, the two largest Chinese rolling stock companies merged into a much larger company with the goal of facing global markets.

Public works are not just an end in itself, but are meant to ease the entry of Chinese goods into regional markets, and facilitate the setting up of integrated supply chains. Here there are two key trends going on in the Chinese corporate sector.

On one hand, a drive to acquire high-end capabilities as Chinese companies strive to move up in the global value chain. To this end, the Chinese government is attempting to provide an opening for such companies by helping them access foreign markets for Mergers

\textsuperscript{21} KPMG, p 21
\textsuperscript{22} Mak, Liz. “Hong Kong banking on a big role in financing China’s One Belt, One Road plan linking Asia to Europe and the Middle East”. \textit{South China Morning Post}, 19 January 2016.
\textsuperscript{23} KPMG, p. 17
\textsuperscript{24} Pravakar Sahoo. “OBOR: will it reboot the Chinese economy?” \textit{World Commerce Review}
\textsuperscript{25} KPMG, p. 16
& Acquisition (M&A),\textsuperscript{26} especially in the West, where they can obtain technologies, Research and Development capabilities, and global brands. Significantly, private companies accounted for 41 percent of Chinese outbound M&A in 2014 (by value), against 31 percent in 2013 and only 10 percent in 2010. Of the top 10 outbound M&A deals in 2014, POEs accounted for five, compared to only one in 2010.\textsuperscript{27} While in the early 2000’s Chinese firms were investing almost exclusively in the natural resources businesses, they are now increasingly making strides in value-added sectors like technology, high-end manufacturing, real estate, as well as food and agribusiness. In the latter sector, China has virtually endless need for agricultural imports, while the refinement of taste that comes with gentrification has spurred demand for more refined merchandise. As a result Chinese firms have been buying up European food makers. For example, in 2012, Bright Food (Group) Co., Ltd purchased 60 percent of Weetabix Ltd. Eastern Europe will be a privileged target for similar operations by Chinese companies in coming years, as suggested by Chinese Premier Li Keqiang on occasion of the November 2015 “16+1” Meeting convened in Suzhou, with transportation and among the key sectors identified.\textsuperscript{28}

On the other hand, a drive for localization of production facilities of Chinese firms directly in overseas markets. This is a required step on their path to becoming truly multinational and a growing condition for accessing foreign markets. According to Li Ziguo, Deputy Director of the One Belt and One Road Studies Center at the Ministry of Foreign Affairs Institute for International Studies, OBOR will facilitate “transferring strongpoint industries from the eastern to the central and western regions and to countries on our periphery”. Moreover, it can contribute to enhancing Asia’s status in the global value chain. (CLM 47: 5). In addition, as Chinese companies expand internationally, particularly in OBOR countries, demand for diverse financial and back office services will rise providing thousands of jobs for China’s skilled workforce.\textsuperscript{29}

In both cases, they will need links and connectivity along the supply chains linking the overseas operations to the mainland. Over the medium to long term, the initiative could help entrench Sino-centric patterns of trade, investment, and infrastructure, boosting cross-

\textsuperscript{26} Sahoo
\textsuperscript{27} Ibidem, p. 13, 15
\textsuperscript{28} Rolland, Nadège. “Europe’s cooperation with China under ‘Belt and Road’ is not business as usual”. 7 March 2016
\textsuperscript{29} Ibid
border trade and financial flows in Eurasia. This would strengthen China’s importance as an economic partner for its neighbors and enhance Beijing’s diplomatic leverage in the region.30

Protection

The ability to extract values depends on the ability to provide protection, by adequately satisfying other states’ needs. As chairwoman of the Foreign Affairs Committee of China’s National People’s Congress Fu Ying, stated “the Chinese dream can’t be realized without a good external environment and in return the Chinese dream will add to peace and prosperity of the region and the world.”31 As a result, Beijing is enhancing the strategic use of economic carrots as part of its diplomatic toolkit to induce governments in Asia (and beyond) to pursue greater cooperation.32 Consistently, Foreign Minister Wang Yi acknowledged that “sometimes we should even emphasize moral obligation and neglect the profits; we should absolutely never solely seek profits and haggle over the gains” (CLM 44: 12).

In other words, Beijing must be able to generate prosperity for the constituencies it is seeking to engage, something Chinese planners seem to be aware of. As Vice-Minister of Foreign Affairs He Yafei put it: “China will share her developmental dividends with other developing nations for common prosperity. To succeed, China needs to take a co-ordinated, innovative and co-operative approach leading to a synergy of common interests for the countries concerned.”33 To strengthen this point, Chinese leaders have used expressions emphasizing that OBOR shall be “a chorus comprising all countries along the routes, not a solo for China itself”; and “not a Chinese matter, but a joint undertaking of all countries concerned” (CLM 47: 6–7). In the words of Ambassador Liu, the concept is “an offer of a ride on China’s economic express train. It is a public product for the good of the whole world.” (CLM 47: 10).

Indeed, the initiative has the merit of filling a gap in infrastructure requirements that the Asian Development Bank estimated to stand at some $8 trillion for the period 2010–2020 (The Straits Times, 2015).

The State Oceanic Administration estimates a 44 percent increase in Chinese ODI from US$240 million to US$9.27 billion in the same decade.34 Chinese ODI to OBOR countries in the first 11 months of 2015 grew by 35 percent relative to the previous year,
amounting to USD14.01 billion, with Indonesia, Kazakhstan, Laos, Russia and Singapore among the top destinations.\textsuperscript{35} Lending by the China EXIMBANK in 2015 was up by 46 percent to some USD80 billion, financing more than 1,000 transport, electricity, resources, telecommunication and industrial park projects in 49 countries.\textsuperscript{36} In the third quarter of 2015, projects in OBOR countries absorbed 90 percent of China’s overseas lending, for a total of 17 out of 19 government loans.\textsuperscript{37}

For example, in August 2015, China and Pakistan on Wednesday signed 20 cooperation agreements, worth some USD1.6 billion, toward implementation of the China-Pakistan Economic Corridor (CPEC), a major project in the Belt and Road Initiative.\textsuperscript{38} In late 2015, China and Thailand launched an 845 km railway project linking Bangkok to the northeastern city of Nong Khai near the Laos border. This line will be connected to the China-Laos railway becoming a component of a Pan-Asia railway network under OBOR.\textsuperscript{39} In the same year, the Bank of China turned to the Singapore bond market to raise USD 3.55 billion funds via a multi-currency bond, issued in US dollars, euros, renminbi and Singapore dollars, to support the “One Belt, One Road” initiative.\textsuperscript{40} In April 2016, China’s COSCO Shipping Corporation Limited reached a USD 418 million deal with the Greek government to purchase a 67 percent stake in the Port of the Piraeus, the third in the Med, according to Lloyd’s List. Under the deal, COSCO will invest some USD 398.9 million over the next decade to bring the Port’s handling capacity to some 6.3 million TEU/per year by 2020, which would make it the busiest port in the Mediterranean.\textsuperscript{41}

The British shipping industry has already identified potential opportunities,\textsuperscript{42} and Australia, Azerbaijan, Cambodia, Georgia, Kazakhstan, Russia, Romania,\textsuperscript{43} Sri Lanka,\textsuperscript{44} among other countries have expressed a strong interest.

\textsuperscript{35}“China Exim Bank boosts lending to Belt and Road projects”. \textit{Xinhua}, 4 January 2016.
\textsuperscript{36}“China Exim Bank boosts lending to Belt and Road projects”, \textit{Xinhua}, 4 January 2016.
\textsuperscript{37}https://www.eastwestbank.com/ReachFurther/News/Article/New-Opportunities-In-Chinas-One-Belt-One-Road-Initiative
\textsuperscript{38}“China and Pakistan sign cooperation agreements worth over 10 billion yuan”. \textit{English.news.cn}, 12 August 2015
\textsuperscript{39}“China Focus: Asian businessmen treading on China’s “belt and road”. \textit{Xinhua}, 24 March 2016.
\textsuperscript{40}“China to widen its economic influence by “One Belt, One Road”. \textit{HSBC Global Connections}, 5 October 2015.
\textsuperscript{41}“Spotlight: COSCO’s acquisition of Greek Piraeus Port to further contribute to local economy”, \textit{Xinhua}, 9 April 2016, http://news.xinhuanet.com/english/2016-02/11/c_135089988.htm
\textsuperscript{43}Marcela Ganea. “Romania welcomes Belt and Road Initiative: officials”. \textit{Xinhua}, 2016-03-30
Moreover, according to Chinese planners China’s plan to develop an interconnected economic area through OBOR could generate an additional US$2.5 trillion in trade over the course of the next decade.\(^{45}\) According to the State Oceanic Administration, China’s trade with countries along the Maritime Silk Road grew by an average of 18.2 percent annually over the 2006-16 decade, accounting for 20 percent of the country’s total foreign trade volume compared to 14.6 percent ten years ago. In 2015 alone, Ministry of Commerce figures indicated trade between China and overall “Belt and Road” countries of USD995 billion, about a quarter of the national trade volume.\(^{46}\)

**South Korea’s Eurasian Initiative**

South Korea launched its Eurasia Initiative on occasion of the International Conference on Global Cooperation in the Era of Eurasia held in Seoul in October 2013, shortly after China unveiled its Belt initiative. Its stated goal is to build “a single continent connected by logistics and energy networks” with the prospective goal of setting up a single market from the Pacific to the Atlantic. The centerpiece of the Eurasia Initiative are transport and energy networks premised on a continental railway running from Busan to Europe across Russia, as well as oil and gas pipelines and electric power grids stretching from Russia’s Eastern Siberia and the Far East to South Korea across North Korea (MOFA 2015).

From an economic point of view, the one between South Korea and the countries of Eurasia is a perfect match. South Korea is poor in resources, while it has capital, technology, and know-how. Eurasian states from Russia to Central Asia are rich in natural resources but need to diversify their dependence on a single source of capital whether it be the West, Russia, or China (Robertson, Jeffrey. Seoul’s Middle-Power Turn in Samarkand. The Diplomat, July 8, 2014). Moreover, there is a significant Korean diaspora in the post-Soviet space dating back to the mid-19th Century.

South Korea has domestically strong economic interests, which have always played a central role in the socio-economic development of the country. These groups, *chaebols*, are the main beneficiaries and partners for the Eurasian Initiative, and the Initiative clearly has the interests of the Chaebols at heart. A cursory look at the structure of imports/exports reveals that the main trades between Korea and Eurasian countries center on the exchange of commodities such as oil and gas for plastic manufactures, consumer goods, electronics, cars, and heavy machinery (Fumagalli 2016). It is not too hard to sight the interests of the likes of LG, Lotte, LS Group, Hyundai, POSCO, Samsung, SK Group, etc.

<table>
<thead>
<tr>
<th>Main imports and exports (2012)</th>
<th>Imports from Korea (item; %)</th>
<th>Exports to Korea (item; %)</th>
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\(^{45}\) https://www.eastwestbank.com/ReachFurther/News/Article/New-Opportunities-In-Chinas-One-Belt-One-Road-Initiative

<table>
<thead>
<tr>
<th>Country</th>
<th>Product</th>
<th>Quantity</th>
<th>Capital/tech/know-how</th>
<th>Central Asian economies need</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>Cars</td>
<td>11</td>
<td>Titanium</td>
<td>29</td>
</tr>
<tr>
<td>Vehicle parts</td>
<td></td>
<td>9</td>
<td>Ferroalloys</td>
<td>27</td>
</tr>
<tr>
<td>Broadcasting accessories</td>
<td></td>
<td>13</td>
<td>Raw aluminum</td>
<td>17</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>Refined copper</td>
<td>8</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>Cars</td>
<td>14</td>
<td>Refined petroleum</td>
<td>45</td>
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<tr>
<td>Trucks</td>
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<td>12</td>
<td>Nuts</td>
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<td>Fabric</td>
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<tr>
<td>Tajikistan</td>
<td>Cars</td>
<td>37</td>
<td>Raw aluminum</td>
<td>50</td>
</tr>
<tr>
<td>Trucks</td>
<td></td>
<td>14</td>
<td>Tanned sheep and goat hides</td>
<td>23</td>
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<tr>
<td>Large construction vehicles</td>
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<td>13</td>
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<td></td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>Cars</td>
<td>27</td>
<td>Integrated circuits</td>
<td>54</td>
</tr>
<tr>
<td>Buses</td>
<td></td>
<td>10</td>
<td>Cotton</td>
<td>35</td>
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<td>LCVs</td>
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<tr>
<td>Uzbekistan</td>
<td>Vehicle parts</td>
<td>43</td>
<td>Fertilizers</td>
<td>27</td>
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<tr>
<td>Cars</td>
<td></td>
<td>11</td>
<td>Radioactive chemicals</td>
<td>15</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Cotton</td>
<td>21</td>
</tr>
</tbody>
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Adapted from Fumagalli (2016)

At the same time, the Eurasian Initiative is also synergetic with the Chaebol system, which is well suited to “deliver the capital and tech/know-how that the Central Asian economies need.” The structure of the chaebols is appealing in the Eurasian region, where these large industrial conglomerates can offer multiple services across business sectors. The chaebols are fundamental players, because they can handle most aspects of the business transaction, from capital, to financing, construction, and export development (Calder & Kim, 2008). To exemplify the collusion, the Korea Trade-Investment Promotion Agency (KOTRA) launched a commission for business in Central Eurasia on March 13 to assist in Korean companies. The commission brings together the Ministry of Strategy and Finance, the Ministry of Trade, Industry and Energy, along with 50 public entities and companies like the Korea Eximbank or the Korea International Trade Association.47

From this perspective, President Park's emphasis on logistics and energy infrastructure represents a correct reading of the situation on the ground (Fumagalli 2016), and recognizes the fact that sustainable economic growth at home requires to develop cooperation with the states of Eurasia, a region whose influence in the world is increasing.48

The transport component aims to set up continental inter-modal transportation and logistics systems. It rests on the restoration of the Trans-Korean Railways and its further connection to the Russian and Chinese networks, particularly the Trans-Siberian (TSR), Trans-Chinese (TCR) and Trans-Mongolian railroads (TMR) to transport freight from Asia to Europe. A Eurasia Express (SRX) train shuttling across the continent from Busan to Europe would then allow cutting shipping times from 45 to 15 days. A further dimension of the transport component is the development of Arctic shipping routes building networks with Nordic and other coastal countries in the Arctic Sea.

48 Asmolov, Konstantin. “The Eurasian initiative by the President of South Korea.” New Eastern Outlook, 28 August 2014.
The energy component involves efforts to improve the energy connectivity between Korea and Eurasia, centered on electric grids, oil and gas pipelines. A joint study is being conducted by the private sector to assess the feasibility of linking the electrical grids of Korea and Russia.

The ICT component has two main pillars. One is the Trans-Eurasia Information Network: an international collaboration project for encouraging joint research on cutting-edge technologies such as ICT and bio-engineering between Asian and European countries with applications in tele-medicine, e-learning, research on grain varieties, earth/ocean/energy exploration, disaster research and training programs for engineers. The second is the Eurasia Geospatial Information developed with Kazakhstan, Kyrgyzstan, Mongolia and Uzbekistan to strengthen the links between the sub-regions of Eurasia with a view to increase the development of social infrastructure. 49

Seoul’s Eurasian Initiative is only the latest incarnation of an idea that has deeper roots: its predecessors in the new millennium include the ‘Comprehensive Central Asia Initiative’ introduced by President Roh Moo-hyun (2003-2008) and the New Asia Initiative put forward by President Lee Myung-bak (2008-2013), both of which aimed to advanced economic relations with Russia and Central Asia. In this sense, it is mostly a new and comprehensive package for a number of preexisting and ongoing initiatives. Moreover, in the early 1990’s South Korea cofounded the UNDP-sponsored Greater Tumen Initiative with China, Mongolia, North Korea, and Russia. Seoul has also reached several related agreements since the late 1990’s.50 However, the idea of linking together the Trans-Korean and the Trans-Siberian railways was first mooted in the late 19th Century, only to be shelved after the 1905 Russia-Japan War51 and the other vicissitudes of what Hobsbawm (1995) called the “short 20th Century”.

As the above overview indicates, South Korea’s vision of economic integration with the Eurasian space is premised on the collaboration of the countries in the region. The most crucial is North Korea which is the South’s inescapable conduit to the wider continent: even though geographically contiguous, Seoul is geopolitically cut off from the rest of the landmass. For this reason, Seoul is moving in from a position of weakness given that its Eurasian aspirations are, in the first place, beholden to Pyongyang’s good will.52 To be sure, discussions on the Trans-Korean project have been hampered by bargaining deadlocks with the North.53 Hence, the policy is also an expansion

50 They include: ROK – China railway cooperation agreement (1998); ROK – Russia railway cooperation agreement (2001); ROK – Russia Transportation Cooperation Committee (2001-02); ROK-DPRK-Russia tripartite conference of the supreme representative (2004); ROK-DPRK-Russia Railway Ministerial Meeting (2006); Eurasia Initiative and ROK – Russia Summit Talk (2013). Chang-Nam Ko, Present Status of Trans-Korean Railways and plan for connection with Trans-Siberian Railway
52 To advance the Eurasia Initiative, Seoul needs to unleash countervailing “markets and non-geopolitical forces at subnational and transnational levels of the international system” that could lead to a de facto reformed economy.
and internationalization of its Nordpolitik. The second one is Russia, whose Far East is also central to the Eurasian Initiative as the geographical connector in a terrestrial system spanning South Korea, North Korea, Russia and China through Central Asia and from there reaching further into Europe. Moscow especially is shaping up as a crucial potential partner for Seoul and its Nordpolitik in light of two key agreements it has reached with Pyongyang: the USD 25 billion Pobeda (victory) project for the modernization of the North’s railroads in exchange for access to rare earth metals, gold, coal, and titanium; and the USD 20-30 billion restoration of the its electric grid. Moreover, it is uncertain whether Moon Jae-in and successors will continue to carry out the initiative following the removal of Park, with whom the policy is associated.

With these inherent vulnerabilities and limitations, it appears that, rather than a project with a life of its own, the Eurasian Initiative amounts more to Korea’s interface with other powers’ similar initiatives, like China’s “One Belt and One Road”, the European New Silk Road Initiatives, Russia’s Vision of Eurasian Integration, Turkey’s “Silk Road Project”, the US’s New Silk Road, and so forth.

**Extraction**

As an official MFA brochure states, the Eurasian initiative is “a cooperation initiative and a grand national strategy … to achieve sustainable prosperity and peace in Eurasia, which, we hope, will lead to a vast community of Eurasian economies that encompasses Asia and Europe”.

As Taehwan Kim of the Korean Diplomatic Academy has argued, access to the Eurasian economy has an obvious domestic rationale. As such, the initiative truly aims at the cooptation of external resources for the achievement of a number of key Korean national interests, along three axes as captured in its main slogan: “One Continent, Creative Continent, Peaceful continent” resonating with some of Korea’s key priorities. This is to be achieved through: first, an integrated transport and energy network that will help to export goods to consumer markets in the West faster than the seaborne alternative. Opening up access to the vast Eurasian markets can instill new momentum to the sluggish South Korean economy to stimulate advances into an innovation-driven economic growth (Vorontsov?). Overland shipping costs between South Korea to Europe would be slashed by over 30 percent, according to some estimates: a huge boon to South Korean exports (Kwon 2014). As former President Park said: “If trade barriers are gradually taken down and Eurasia becomes a free trade zone” it could become “a gigantic market like the European Union”. She further specified that a “gigantic single market could be created if the negotiations on the Korea-China-Japan free trade agreement are accelerated, and linked to trade agreements that cover within and outside Eurasia such as the RCEP and TPP.” In this context, the creation of transport and energy networks in the Eurasian region can serve not

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54 “We may use Eurasian countries as leverage to convince North Korea– where the line of Eurasia Prosperity is severed – to connect the Eurasian line to North Korea by force (Vorontsov 2015). However, the DPRK has leverage on Seoul. For example, OSJD admission blocked (Yonhap, 2015-06-04); Initial associate membership: (Choson Ilbo 2014-3-24).

55 Asan Forum


57 MOFA 2015, italics added
only to reduce logistics costs and stimulate global trade, but also to stabilize the prices of raw materials, contributing to the efficiency of global supply chains.\textsuperscript{58} Moreover, the Initiative resonates with President Park’s domestic priority of making Korea’s economy a “creative economy.”\textsuperscript{59} Second, as an “energy poor country with an energy intensive economy, Korea is forced to import the vast majority of its energy resources” (Evans, 2012). Thus ensuring stable energy supplies has become an overriding concern for Seoul (Fumagalli 2016). Seoul needs to overcome its energy dependence, a vulnerability that had also driven Lee Myung-bak’s ill-fated “Resource Diplomacy”. Consideration of this dimension is necessary to make sense of the Eurasia Initiative as well. It is thus that President Park urged to “connect energy infrastructure, such as power networks, gas and oil pipelines in the region, and push for Eurasian energy cooperation in a win-win situation, such as jointly developing shale gas in China and oil and gas in East Siberia”.\textsuperscript{60} However, Central Asia also has a fundamental place therein.

On the Russian front, Korean President Park Geun-hye and Russian President Vladimir Putin agreed during a 2013 summit in Seoul to create two investment funds each worth $500 million, with the joint participation of the Korea Investment Corporation and the Russian Direct Investment Fund. The pair also agreed on a joint innovation project in the Skolkovo Technopolis (an innovation park near Moscow), and on South Korea’s participation in the creation of shipbuilding industries in the Russian Far East.\textsuperscript{61} Thus, Central Asia has also been an area of focus, with Uzbekistan taking center stage as Seoul’s leading partner. Bilateral trade here stands at more than $2 billion and ODI is estimated at some $8 billion (Yonhap, June 17).

For example, during the 2014 Korean-Uzbekistan bilateral summit in Tashkent, the LS Group signed a $500 million strategic alliance agreement to sell tractors, auto parts, industrial materials and electric and telecommunications infrastructure to Uzbekistani companies (Business Korea, June 26). The two governments also signed framework agreements to establish an Economic Development Cooperation Fund covering the period 2014–2017, and for South Korea to provide grant-type aid to Uzbekistan. In return, Uzbekistan committed to creating a benign environment for foreign investment (Weitz 2014).\textsuperscript{62} In a joint media session with then Uzbek President Karimov, Park voiced “hope that our two countries will go hand in hand and jointly implement the Eurasia Initiative in detail” (Yonhap, June 17). Before that, Seoul partnered with Uzbekistan in the construction of the Navoyi Transport Hub, the largest logistical center in Central Asia with annual capacity of 100,000 tons, inaugurated in August 2010, managed and operated by Korean Air. In 2015, a delegation from the Korea Exim Bank visited to study supply chain opportunities on behalf of Korean investor offered by the

\textsuperscript{58} http://www.korea herald.com/view.php?ud=20131018000620
\textsuperscript{59} Taehwan Kim, “Beyond Geopolitics: South Korea’s Eurasia Initiative as a New Nord-Politik”. The Asan Forum, 16 February 2015.
\textsuperscript{60} Strokhan, Sergey, South Korea ‘knocking at Eurasian door’, \textit{RT}, 24 June 2014.
\textsuperscript{61} Kong, Kanga. “South Korea, Russia to Create $500 Million Joint Investment Fund.” \textit{Wall Street Journal}, November 13, 2013.
\textsuperscript{62} Moreover, Uzbekistan expressed its support for South Korea’s foreign policy agenda, such as the “Korean Peninsula trust process” and the “Northeast Asia peace and cooperation vision.”
international airport, and one year later, a team of Samsung Representatives went to inspect handling facilities available at the cargo terminal.\textsuperscript{63}

In 2014, Seoul also concluded an MOU with Kazakhstan to facilitate South Korean participation in the modernization of that country’s railways.\textsuperscript{64} Shortly after, the Korea Railway Association announced that South Korean manufacturers, which had already been involved in the construction of the Almaty subway, are now ready to participate in new investment projects in Kazakhstan.\textsuperscript{65} South Korea and Kazakhstan drew up a bilateral action plan to facilitate transfers and cooperation between PPP institutions in the two countries and develop ideas on institutional improvements to benefit the environment for PPPs. The two sides, moreover, expect positive synergies between South Korea’s Eurasian Initiative and Kazakhstan’s Nurly Zhol project of infrastructure modernization and interconnection with other projects.

The idea of a natural gas pipeline from Russia has been mooted repeatedly, but the project received renewed attention with the plans for a Eurasian Initiative. However, in the words of Gazprom deputy CEO Alexander Medvedev, this project has so far proven “economically attractive but politically infeasible”.\textsuperscript{66} The Seoul based newspaper Chosun Ilbo had reported that the North was probably demanding exaggeratedly high transit fees.\textsuperscript{67} Other opportunities that have been discussed include cooperation in the production of liquefied natural gas (LNG) and the integration of Korean and Russian electricity grids. In Uzbekistan, South Korean companies are working on intention to lay a pipeline a pipeline for the Surgil gas field near the Aral Sea and a combined cycle power plant in Talimaran, 440 km southwest of Tashkent (Business Korea, June 19). South Korea also signed a $300 million contract to build a 100-megawatt solar power plant in Samarkand. The Korea International Cooperation Agency will provide $250 million for investment in additional projects related to the plant, hoping to pave the way for the contract for a 4-gigawatt solar power plant to be built in Uzbekistan by 2030 (Yonhap, June 20).\textsuperscript{68}

But a key focus of Park’s visit was to secure South Korean participation in constructing a natural gas processing plant (Yonhap, June 20). The $2.66bn contract was awarded to a consortium headed by Hyundai Engineering in February 2015.\textsuperscript{69} and a $4 billion natural gas development project in Uzbekistan’s Bukhara region, where a consortium of Uzbekistani and Russian firms are developing the Kandym gas field. The field is estimated to hold 150–180

\textsuperscript{63}http://www.navoi-airport.com
\textsuperscript{64}Ospanova, Rufiya. “Kazakhstan, South Korea Expand Economic Ties.” Astana Times, 23 June 2014. The country’s president also declared full support for the Eurasian Initiative. See: “Kazakhstan fully supports South Korea’s Eurasia initiative – Nazarbayev.” Kazinform, 19 June 2014.
\textsuperscript{65}South Korea readies to invest in Kazakhstan’s infrastructure projects. RailProfessional.com
\textsuperscript{66}Leo Byrne, “Gazprom exec says N.Korean gas pipeline unlikely.” NK News, June 17th, 2015.
\textsuperscript{67}N.Korea Demands ‘Rip-off Fee’ for Gas Pipeline. Chosunilbo, 4 October 2012.
billion cubic meters of gas, of which 8 billion cubic meters is expected to be processed annually through this project (Yonhap, June 20). (Weitz 2014) In 2013 Hyundai secured a $3.2bn contract to build a gas-to-liquids (GTL) plant in the country for state Uzbekneftegaz that was due for completion in 2017. Korea Hydro & Nuclear Power reaffirmed plans to increase uranium purchases from the Navoi Mining and Metallurgical Complex. Korea Hydro & Nuclear Power confirmed plans to buy more uranium from Navoi Mining and Metallurgical Combine (CA-News, June 24).

With Kazakhstan, massive investment and cooperation existed prior to Eurasian Initiative. South Korea already obtains more than 30 percent of its uranium from Kazakhstan, which is the world’s largest exporter (Korea International Trade Association statistics, kita.org). In recent years, small- and middle-sized Korean companies have entered Kazakhstan’s market. They are supporting the implementation of the Kazakhstan-2030 social and economic development program and the Kazakhstan-2050 development strategy with their cutting-edge technologies (Interfax, February 8). The firms conduct local training, imparting skills to Kazakhstani workers, while promoting the export of their joint products to global markets. Meanwhile, major ROK companies are also entering Kazakhstan’s service sector. For example, South Korean banks are establishing branches in Kazakhstan, from which they hope to enter neighboring countries’ markets as well. The Joint Action Plan in healthcare for 2012–2015 also envisages growing cooperation between ROK and Kazakhstani medical service providers (BNews.kz, November 14, 2012). Thanks to their complementary economies, Kazakhstan and South Korea have been progressively expanding their economic cooperation, and this trend is certain to continue while Kazakhstan modernizes and develops further.

In 2014, Park became the first South Korean President to visit Turkmenistan since diplomatic relations were set up in 1992, though South Korean businesses already have investments there for more than $5 billion (CA-News, June 2). These contracts include preliminary agreements for a $2.5 billion gas-to-liquids refinery that would convert natural gas to liquid fuels such as kerosene and diesel, with an annual capacity of 600,000 tons and a $1.5 billion chemical plant in the Seydi District of Lebap Province to make polyvinyl chloride and sodium hydrate (Reuters, June 20). Moreover, a deal allowing South Koreans to sell $7.75 billion worth of products manufactured by jointly owned chemical processing and desulfurization plants (Yonhap, June 20).

**Protection**

It should be acknowledged that as a middle power with multiple domestic challenges, Korea does not have sufficient means to satisfy the needs of all other states, and in some cases, such as China or Russia, these are actually more powerful and wealthy.

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While it does engage in financing and investment in infrastructures in other countries along the route, Korea tends to emphasize cooperation, partnerships and networks as a way of producing joint goods, as opposed to posing as a provider of public goods. For this reason, Seoul calls for the participation of the countries in the region in collaborative multilateral economic projects in the spheres of logistics and transport, energy, science and technology. Another solution Seoul has adopted is to promote win-win cooperation, which may include “in-kind repayments”.

Nonetheless, as the MOFA (2015: 18-9) brochure indicates: “We are committed to bringing shared prosperity to both Asia”. Much of this revolves around the goal of promoting “a creative continent”. To do this, Seoul intends to both building an institutional base for cooperation with key nations in Eurasia, including establishing the Korea-Central Asia Cooperation Secretariat, and also to develop a “Knowledge Sharing Program” with Eurasian nations, in a variety of areas, including industry, trade, transportation, infrastructure, etc.

On the other hand, Seoul has resorted to provide private goods within limits. A key component in this regard is capital. Since the announcement of the Eurasian Initiative, Seoul has signed multibillion-dollar contracts in Kazakhstan, Turkmenistan, Uzbekistan (Vorontsov 2015), positioning itself as a key source of FDI (Robertson 2014). In Russia, the South Korean president has expressed her wish to support the creation of an innovative economy (Vorontsov 2015). The Korea International Cooperation Agency KOICA will provide $250 million worth of investment into the solar power plant-related projects. The South Koreans hope the project’s success will enable Seoul to retain a leading role in building Uzbekistan’s four-gigawatt solar power plant by 2030 (Robertson).

But the main beneficiary has been the DPRK. As of August 2014, Seoul had proposed 96 new inter-Korean projects with the assistance of the Unification Ministry, including support for the North Korean fishing industry, restoration of ecological systems, normalization of operations at the Kaesong Industrial Complex, and other key enterprises. Moreover, the Unification Ministry decided to consider supporting investments into the North’s transportation network, underscoring Seoul’s commitment to Park’s Eurasia Initiative (Kwon 2014).

Seoul has invested primarily on the densification of linkages with the North and refurbishing of Inter-Korean rail links with the DPRK, which is, of course, its main stepping stone for further continental penetration. After completing the Gyongui and the East Coast line in 2006, Seoul sought to restore the Kyongwon railway that once connected Seoul with the city of Wonsan in today’s North Korea, which has not been in service since the division but is the shortest link to the Trans-Siberian Railway. The project has been valued at US$ 115 million to be allocated from the Inter-Korean Cooperation Fund. The portion from Seoul to Baekmagoji in the Demilitarized Zone (DMZ) was inaugurated in August 2014 and work on the 9.3 km section from Baekmagoji to Weoljeong-ri, between the Civilian Control Line and the Military Demarcation Line (MDL) began in July 2015. The construction was expected to

73 See Asan Forum
74 “Park to push ‘Eurasia Initiative’, discuss North Korea with Putin” The Korea Herald, November 11, 2013.
finish in late 2017. However, South Korea suspended the restoration project in June 2016, although Jeong said: “The restoration project itself has not been canceled” (Hankyoreh 2016).

In addition, up until March 2016, Seoul had been seeking to buy a stake in the Rajin-Khasan Railway project. The Korean Government started negotiating the acquisition of a share in the RasonKonTrans joint venture between Russia and North Korea by a consortium of Korean companies comprising Posco, Hyundai Merchant Marine Company, and Korea Railroad Corporation (KORAIL). This began after Russian President Vladimir Putin’s one-day visit to Seoul in November 2013. The consortium had been seeking to acquire up to half of Russian Railways’ 70% stake, and as insiders like to underscore, this is a purely private undertaking, and it was decided that if government officials were included it could have a negative impact, and the government accepted this position (Daily NK 2014-2-14).

The joint venture operates Asia’s most northerly all-year ice-free port of Rajin in North Korea and the 54 km railway from there to the Russian city of Khasan, which was completed in 2014 with an investment of $340 million (WSJ 2014-2-6). The first trial run arrived in South Korea in December 2014, carrying 40,500 tons of Russian coal on a Chinese-flagged ship. Two additional trial runs were carried out between 2014 and 2015 (Koreatimes 2016-03-09), until Seoul pulled out of the trilateral railway venture on March 8, 2016, following UNSC sanctions approved March 2, 2016.

Although the coal traded through RasonKonTrans would be destined for thermal power generators in the steelmaking industry of South Korea, and, according to a ministry official, would cut long-term shipping costs by 10-15 percent, the project is mostly symbolic (Yonhap 2015-04-14). In fact, POSCO already imports some 2 million tons of Russian coal every year from the port of Vladivostok (Yonhap 2014-11-21). However, a spokesman for the Russian Railways said North Korea receives 30% of the usage fee for about 50 kilometers of railroad from the Russian border to Rajin. The trilateral cooperation project would therefore give the cash-strapped North a stable source of revenue cash (WSJ 2014-11-28).

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79 Asan Forum (IFES 2014-12-01)