



## **The New Silk Road – Idea and Concept**

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### **Abstract**

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The concept of the ancient Silk Road that served many Asian and Mediterranean countries during the Han dynasty of China (206 BC – 220 AD) until approximately the fifteenth and seventeenth centuries AD was brought back to life by a professor at Beijing University in October 2012. In September 2013 China's President, Xi Jinping proposed to its neighbors the "Belt and Road (BR)" initiative with the aim of adding over the next 10 years \$2.5 trillion to his country's annual trade with the nations located along the proposed routes.

As of today, the BR initiative, also called the Global Economic Strategy, is comprised of two main components: a) The Silk Road Economic Belt, or SREB, which refers to the Eurasian landmass orientation; and, b) The 21<sup>st</sup> Century Maritime Silk Road, which comprises maritime routes connecting the ASEAN countries.

While major investments along the Maritime Silk Road improve the connectivity, the land bridge, the alternative route between China and Europe, reduces the lead time of goods from around 60 (currently by sea) to 14 days (by land).

The New Silk Road needs to overcome technical and regulatory challenges, such as heterogeneous customs clearance procedures and at least 2 changes of gauge – as China and Europe use the normal standard of 1435 mm while Belarus, Russia, Mongolia and Kazakhstan use the broad gauge of 1520 mm. The new routes require the revamp and enhancement of existing infrastructure, efficient and simplified customs procedures or even the creation of a free-trade corridor, and high performance digital infrastructure and processes.

Major infrastructure funding needs will come from roads, bridges, railways, airports, oil and gas pipelines, power grids, maritime links and internet networks.

Successfully implemented, the future new web of connections – potentially involving an area equal to 55% of the global GDP, 70% of the global population and 75% of the known energy reserves – will have major impact on all dimensions of trade and the economic development of the participating economies. The land bridge promises to transform the geopolitical landscape by incentivizing the establishment of new trade operations, reviving local industries along the route, and creating economic opportunity.

This 'grand idea' of the New Silk Road might have come closer to the tipping point of realization due to the current economic, capital and technological strengths of China.



## About ISPSW

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## About the Authors of this Issue

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Wolfgang Lehmacher is Head of Supply Chain and Transport Industries at The World Economic Forum. He is a global executive, management consultant, entrepreneur and author – expert in the field of supply chain, transportation and logistics. He has been involved in major change initiatives in the courier express parcel industry. During his career he has been heading and supporting country, regional and global innovation, expansion and investment projects, serving Fortune 500 and other leading companies, as well as startups, social enterprises and not-for-profit organisations. He is Member of the Board of Governors, Universal Business School, India's first green business school, Karjat, and member of the Advisory Board of aidha, Singapore, the world's first micro-business school for entrepreneurs at the base of the pyramid.

1980, Lehmacher started his professional career with the German Red Cross, subsequently gaining experience with leading international supply chain solutions providers, e.g. Kuehne & Nagel. He has held senior management positions with TNT from 1991 to 1999, including Country General Manager Switzerland and Head of the Eastern European and Eastern Mediterranean Regions, and with French Groupe La Poste from 1999 to 2010, including, President and Chief Executive Officer, GeoPost Intercontinental and Member of the Board of GeoPost, the express parcel holding of Groupe La Poste. He was partner and managing director (China and India) at the global strategy boutique CVA from 2010 to 2014 and is currently heading the Supply Chain and Transport Industries Group at the World Economic Forum.

During his career Lehmacher has been involved in major initiatives in the Courier Express Parcel (CEP) industry, include the setting up of the German ground services operations of GD Express Worldwide, the country organisation of the consortium of TNT and five major postal organisations (German, French, Dutch, Swedish and Canadian), the management of the German Express Mail Service (EMS) Joint Venture between Deutsche Post and TNT Express Worldwide, the development of TNT Express Worldwide in the Eastern European and Eastern Mediterranean regions, the expansion of the express parcel business of La Poste in Europe, the integration of the European parcel network DPD into the Group's business, and the setting up of the global network and express parcel expansion vehicle of La Poste, driving the group's growth strategy through strategic investments combined with entrepreneurial partnerships and entries into key markets worldwide, such as India, China, South Africa and the United States of America.



Lehmacher is author and co-author of various books, articles, and white papers, mainly in the area of supply chain, transportation, and logistics. He has participated at numerous speaking events, a number of which have been held by the World Economic Forum. These include Transforming Urban Transportation, The Asian Consumer: A Sustainability Champion in the Making? Other notable speaking events include the Global Competitiveness Forum in Riyadh, Boao Forum in China, and INK in association with TED. Lehmacher also shared his knowledge at institutions such as the MIT Centre of Transportation and Logistics.



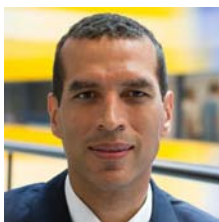
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Victor Padilla-Taylor is Community Lead of Supply Chain and Transport Industries at the World Economic Forum. He is a Master of Advanced Management graduate from Yale University. He also holds an MBA from Pontificia Universidad Catolica de Chile and a Chemical and Industrial Engineering degree. Prior to his selection for the Global Leadership Fellows Programme at the World Economic Forum, he worked with a major trading firm, International Coffee and Fertilizer Co., for more than 10 years, where he focused on optimizing its worldwide procurement and operations.

Padilla-Taylor has held positions in marketing and sales and has ample experience in performing analyses and research to support new infrastructure investments across diverse verticals in Latin America such as agriculture, chemicals, textiles and machinery. He has managed international, multi-level vendor and customer relationships at the C-level during the execution of numerous cross-border contracts and tenders between public and private parties. He has also designed numerous cost models and simulation tools for the use of corporate and functional managers and has teamed up with IT specialists to deploy multiple, company-wide ERP platforms running non-standard business configurations.

He was captain for the National Basketball Team of Guatemala, musician, drama director and blogger. His passion in life is project management and he has deep interest in the field of sustainability.

At the World Economic Forum, he engages with industry leaders to shape the supply chain and transport industry agenda to improve the work of supply chain operators, supply chain services providers and transportation and logistics companies through innovation, risk assessment and specific project and task force management.



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## Analysis

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The ancient Silk Road is the generally accepted term for the large network of trade routes that served an enormous portion of Asia and many Mediterranean countries during the Han dynasty of China (206 BC – 220 AD) until approximately the fifteenth and seventeenth centuries AD (Waugh). These extensive lines of commercial and cultural exchange helped China diffuse its knowledge across Eurasia, and established for humanity “the first route joining the Eastern and Western worlds” (UNESCO, 2003).

This multi-regional concept was brought back to life more recently, when in October 2012, a professor at Beijing University urged China to re-open its commercial routes with the West in what he envisioned as the “three new silk roads”: One to Southeast Asia, one to South Asia and another to Central Asia (Bondaz, 2015). Months later in September 2013 (Cohen, 2015), perhaps in response to the decline of the Chinese exports, China’s President, Xi Jinping proposed to its neighbors the “Belt and Road (BR)” initiative with the aim of adding over the next 10 years \$2.5 trillion to his country’s annual trade with the nations sitting along the proposed routes (Knowler, Investment floods into China’s One Belt, One Road strategy, 2015).

The plans for this renewed and ambitious idea - potentially involving an area equal to 55% of the global GDP, 70% of the global population and 75% of the known energy reserves – could prepare the largest and fastest growing economy of the world for a grandiose celebration of the 100<sup>th</sup> anniversary of People’s Republic of China in 2049 (Cohen, 2015).

### *The Belt and Road initiative*

Not much is known about the details of this large scale project. In fact, the first think-tank to report on the BR initiative after President Xi Jinping’s announcement in 2013, was Renmin University in June 2014 (Cohen, 2015). The official Action Plan was not released until March 2015 (Kratz, 2015). Yet, it is already known that in 2013, after Chinese government officials travelled through the region in search of partners, several agreements around the initiative were announced between China, Russia, Kazakhstan and Belarus. (Cohen, 2015) (Knowler, Countries along New Silk Road await Chinese money train, 2015).

As of today, the BR initiative, also called the Global Economic Strategy, is comprised of two main components: a) The Silk Road Economic Belt, or SREB, which refers to the Eurasian landmass orientation; and, b) The 21<sup>st</sup> Century Maritime Silk Road, which comprises maritime routes connecting the ASEAN countries. Previously launched regional projects seem to have been absorbed by the BR initiative; for example, the China-Pakistan and the Bangladesh-China-India-Myanmar Economic Corridors (Cohen, 2015). And there are also mentions and discussions of additional undertakings such as an “Arctic Silk Road” and a “Korean Silk Road” (Kratz, 2015).

### *How this initiative will transform the global landscape*

The future of this new web of connections in Eurasia is difficult to project, but will no doubt have a major impact on all dimensions of trade. As a preview of this impact, we are witnessing that companies like Hewlett Packard are already taking advantage of the infrastructural improvements to connect the European market with factories in China. So the company – as well as other peers – is dispatching trains to Europe on a weekly basis (Bradsher, 2013) and is creating the opportunity to load empty containers returning to China with luxury cars and other desired goods in the South (TheEconomist, Hardly an Oasis, 2014). This alternative land route

### Some BR initiative numbers

- China attracted \$3.67 billion in BR-related foreign investments during the first semester of 2015 (Zheng Xin, 2015).
- 70 cooperative zones (industrial parks, etc.) are planned around the land bridge which will create approximately 200,000 jobs (Xinhua, 2015).
- The 700-meter Yuxinou train (the “China Train”): Route from Chong-qing, China, to Duisburg, Germany: 11,000 kilometers and 16 days (RAILPAGE, 2014) (CNN, 2013) departing three times a week (Bradsher, 2013) with a maximum capacity of 100 FEU (one FEU is equivalent to one 40-foot container) (DB\_Schenker, 2012). Insulated and refrigerated containers integrated with diesel generators are needed to keep optimum temperature and minimize seasonal traffic fluctuations in winter time (RAILPAGE, 2014).
- Train route from Zhengzhou, China to Hamburg, Germany: 10,214 kilo-meters and 15 days after transiting 14 stations (RAILPAGE, 2014) and 20 days faster than by sea (IMET, 2015). The 51-car freight service runs monthly with a cost that is 70% less than air freight (RAILPAGE, 2014).
- Trains require at least 2 changes of gauge as China and Europe use the normal standard of 1435 mm while than Belarus, Russia, Mongolia and Kazakhstan use the broad gauge of 1520 mm (DB\_Schenker, 2012).

between two major economic regions reduces the lead time of goods delivered from 60 days by sea to 14 days by land. The Eurasian Union of customs offices started operating in January 2015 and have improved the transit times of trucks and trains in the region. Once the BR projects arrive to their advanced stages, this will probably only improve. It is projected that trains from Chongqing in China to Duisburg in Germany, via Kazakhstan, Russia, Belarus and Poland, will take only 10 days after transiting 10,800 kilometers or 6,700 miles (TheEconomist, *Hardly an Oasis*, 2014). In total, the web of pathways already in place will be revamped with the construction of an additional 69,400 kilometers, or 43,000 miles, of brand new high-speed rail tracks (Wang, 2015) that will open suppliers from all around the world to no less than 66% of the world’s middle class that, according to the Development Center of the Organization for Economic Cooperation and Development, will have its residence in China by 2030 (Escobar, 2015).

### *Financial backing for BR’s infrastructure*

In order to support this initiative and to anchor its vision in Eurasia, a large amount of funding will be needed. The report from the Asian Development Bank (ADB) in 2009 underlined the funding requirement for the region: \$8 trillion between 2010 and 2020, of which 68% would be needed in new infrastructure capacity (TheEconomist, *The infrastructure gap*, 2015). The major infrastructure funding needs of the BR initiative are in respect to roads, bridges, railways, airports, oil and gas pipelines, power grids, maritime links and internet networks (Knowler, *Investment floods into China’s One Belt, One Road strategy*, 2015). Therefore, China, known for its huge infrastructure building capacities, has bowed to put the needed financial support behind the initiative. Among the commitments already announced by China’s government for this outreach are: a) \$50 billion to the new Asian Infrastructure Investment Bank (AIIB), launched in 2014; b) \$10 billion to the BRICS-led New Development Bank, launched also in 2014; and, c) \$40 billion to the Central Asia-focused Silk Road Fund, launched in February of 2015 (Cohen, 2015), for a total of \$100 billion. However, some sources claim that the total support from the government is of \$160, \$300 and even \$900 billion, after considering a recent announcement of the China Development Bank (Knowler, *Countries along New Silk Road await Chinese money train*, 2015) (Cohen, 2015) (He Yini, 2015). In addition, after committing \$100 billion to projects related to BR, the soon to be set up ‘Maritime Silk Road Bank’ has



hinted that private capital is also flowing to the initiative (Kratz, 2015).

It remains unclear whether there could be a possible double-counting of committed funds because of the many previously launched projects that are re-launching under the BR initiative. However, it seems that the sheer size of this project will mobilize a large pool of resources into an area with urgent needs of development. And China seems to be ready to take a highly supportive role in this challenge.

### ***The Promise of the New Era of Collaboration***

The benefits of the entrepreneurial spirit of the BR initiative are numerous: Starting with the establishment of new trade operations which will see Chinese exports coupled with the foreign imports that its enormous market needs and following with the possibility of reviving still less-efficient or non-existing local industries, the BR initiative promises to transform the economic and geopolitical landscape of the participants in this New Silk Road. With BR, China promises to promote the construction of a “community of common destiny” (Xi Jinping, 2015) where peace, cooperation, openness, inclusiveness and benefit sharing (An Lu, 2015) will improve the performance of existent supply chains and trade, while also increasing food security in the region (Cohen, 2015). This ‘grand idea’, not possible in the past due to the lack of capital and infrastructure to support it, has now come to the tipping point of realization due to the current economic, capital and technological strengths of the largest and fastest growing economy of the world (An Lu, 2015).

When the world asked China to live up to the size and impact of its market in the world, the new generation of Chinese leaders responded energetically to this call. Yet, it will be important to monitor the needed accompaniment and dynamism of the private sector to this project. Only with a strong platform of smart and effective public-private partnerships will the potential fear towards rising superpowers disappear. The constructive outreach of the initiative-taking participants in the New Silk road will be rewarded with the needed appreciation and support. Surely over-relying on state-owned enterprises to push forward this project could produce under-utilized infrastructure. And this is why this resurrected and promising idea needs to equip itself of free-market and fair solutions where a robust dialogue between multiple stakeholders can create efficiency, high performance and an integral execution which in turn will ease the geopolitical concerns that a project of this scope might produce.

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**Remarks:** Opinions expressed in this contribution are those of the authors.

A short version of this analysis was firstly published in [The Financial Times](#).



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