

Russia and the New Silk Road

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On March 30, 2015 the government of China formally unveiled its New Silk Road initiative. For China, the New Silk Road is more than just a slogan. It is an overarching policy framework for re-establishing China's place in the world, directly sponsored by the State Council and directly administered by the National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce. The New Silk Road is 21st century China's new face to the world.

The New Silk Road initiative also goes by label "one belt, one road" because it includes both the Maritime Silk Road and the Silk Road Economic Belt. The Maritime Silk Road targets the littoral countries of Southeast Asia, South Asia, the Middle East, and East Africa. The Silk Road Economic Belt targets the continental countries of Central Asia and Eastern Europe.

But at nearly every point the Maritime Silk Road China comes up against American seapower. China's relations with the major powers of Southeast Asia are contentious, China's relations with India are worse than contentious, and China has no influence whatsoever in the Middle East outside Iran. Only in Africa has China found some traction for its initiatives, and even there it must pay far over the odds for what little influence it gets.

The overland Silk Road Economic Belt also comes up against a major power: Russia. Most of the countries targeted by China for inclusion in the Belt are members or potential future members of the Russian-dominated Eurasian Economic Union (EAEU). The competing Russian and Chinese economic initiatives have the potential to reignite the 400-year contest between Russia and China for influence over the heart of Eurasia.

Can Russia and China cooperate in the development of Asia's interior, instead of competing as they have in the past? The main difference between the 1600s and the 2000s is that these days Russia and China are partners: partners in the Shanghai Cooperation Organisation, partners in the New Development Bank (also known as the "BRICS Bank"), partners in the Asian Infrastructure Investment Bank, and sometimes partners in resistance to American global hegemony.

Most analysts in the West understand Russia-China partnership in terms of this last point only. The Economist describes Russia and China as "best frenemies" united in their opposition to the United States. But as the two largest countries on the Eurasian landmass, sharing a 4000 km border and many more miles of almost-borders separated by small, weak neighbors, it would be odd if Russia and China did not cooperate. If anything, Russia and China would benefit from more cooperation, not less.

But existing economic ties between Russia and China are overwhelmingly focused on natural resources and are overwhelmingly reliant on Chinese state financing. What the Russian economy needs is deeper economic integration with China, not greater dependence on China.

Russia's reliance on Chinese state funding for high-profile development projects is especially odd given the fact that Russia has nearly twice the per capita income of China. At the same time the Chinese government is willing to spend — or at least to promise — enormous amounts of money on projects that are not in themselves economically viable. It may be tactically smart for Russia to take advantage of such profligate disregard for profit, but it is not strategically sound.

The high-profile public investments that China is promoting are in the end little more than jobs programs for Chinese infrastructure companies. The first priority of the New Silk Road is the creation of jobs in China. The Chinese government is eager to fund pipelines and railroads radiating outward from China's impoverished western provinces, but private investment will not follow. And there are serious doubts about the Chinese government's fiscal capacity to keep up its current levels of public investment.

The main driver of East Asia's massive economic growth has been private sector economic integration, not uneconomic public investment. If Russia wants its economy to be more like those of South Korea, Japan, and Taiwan it should promote the participation of Russian companies in Asian cross-border supply chains. Becoming more like Korea or Japan would imply a doubling or tripling of Russian GDP per capita. Becoming more like China would be a big step backward.

Russia and China have been locked in a contest for control over the Asian interior for almost four centuries. The old contest in previous centuries was one of military domination. Thankfully, that era is over. The new contest in the 21st century is one of economic development. Russia is well-placed to succeed in this new era. But to counter China's New Silk Road Russia has to do more than just play the junior partner in Chinese state projects. Russia has to join the Asian economy. That means supporting its private sector in reaching out across borders to integrate Russia into the East Asian economic miracle.