Expert Comment

Beyond China: The return of the Eurasian order

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Beyond China: The return of the Eurasian order

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The transatlantic-dominated world economic system and the liberal world order underpinning it are currently undergoing a transformation so profound it equates to a Copernican revolution.

Ever since the launch of China's One Belt One Road initiative, and even more so after Donald Trump’s election, debate in the West and in Europe no longer questions whether the coming century will be a Chinese one, but only how this reality will affect Europe and the West. According to this reading, China’s rise has led to a global economic and political shift, ending the 500-year dominance of the Western-centred world economic system and the nearly 70-year supremacy of the liberal world order under US leadership.

This fact, perceived as a historic turning point for the West, is indeed a return to a norm. However, this norm is neither the mere re-emergence of China nor the return to a Sino-centric world order. At the heart of the current transformation is the beginning of the resurgence of a Eurasian world economic system and a Eurasian world order. This world system, emerging thanks to the ongoing commercial, infrastructural, and industrial interconnection of the Eurasian mega-continent, is in fact similar to the first globalised world system which existed prior to the rise of Europe in the fifteenth century.

This system was neither Sino-centric nor politically united—except for the short-lived time of Mongol rule—and its fragmented form went beyond the loose and sparse nature of its overland routes. It was equally fragmented geopolitically, being polycentric, economically interconnected, and ramified in terms of infrastructure. Its main actors included both sedentary and nomadic empires as well as private merchants. These empires were not nation-states, sealed-off from one another as in the Westphalian system, but territorially
contiguous spaces, with fluid borders, overlapping spheres of influence, multi-layered sovereignty and incorporating different ideas of order. Beyond these imperial structures, private traders operated through a well-developed network of cities and ports. These formed the central nodes connecting all Eurasian sub regions internally. The osmotic relationship between sedentary empires and Central Asian Khanates was both a guarantor of, and a threat to, the system. However, diffuse and sustained economic growth created a mechanism of supply and demand independent of political conflict.

Bruno Macaes (2018) has recently claimed that the Silk Road was indeed never deeply connected, and that the small volumes of trade between Asia and Europe were only transported via intermediate stations. Current references to the Silk Road are therefore more a case of inventing the past. It is true that no merchant ever travelled the whole route from Asia to Europe. From today’s point of view, however, it is much more interesting that ancient merchants never needed to. Firstly, although the logistics chain was complex and fragmented and the routes dangerous, reloading at intermediate stations was optimised through a well-established practice which had evolved over centuries, while a rudimentary but effective freight insurance system provided some guarantees against theft or the loss of goods.

On the other hand, it should be stressed that Europe was by no means the only final destination. Often, the goods transported along the routes were destined for other regional markets or were part of initial rudimentary forms of intra-industrial trade, as in the case of the trade of raw and processed silk between Parthians and the Han dynasty. As a result, besides Chinese traders, Persian, Southeast Asian, Central Asian, and Arab traders met one another long before Europeans took part in the system.

In fact, the system connected for more regions besides China and Europe, also linking India, Southeast Asia, West Asia, the Middle East, Central Asia, parts of Russia, the Eastern Mediterranean, and Eastern Europe through a network of maritime and continental
routes. These routes were by no means separate, but rather complementary and intersected, providing logistical flexibility. In spite of geographical obstacles, therefore, the Indian Ocean and continental Eurasia were more interconnected than before the fifteenth century and the colonial era.

The integrated Eurasian system never led to political unity, but rather to incoherent and different ideas of order. The system was more unstable than the national territory-based Westphalian order or the legalistic liberal order of the nineteenth and twentieth centuries. But that did not simply imply war, decay, and destruction; nor did it prevent trade and exchange. But it also meant that China was never the system’s sole hegemon.

Today, rule-based and de-spatialised globalisation is increasingly being replaced by a new and fragmented economic regionalism. In this emerging system, centres of power will be defined by increasing infrastructural interconnection and the digitalisation of value and supply chains, which integrate large economic areas and markets, and, again, by competing ideas of order, i.e., by cooperation, integration, competition, and conflict in a fluid and less stable equilibrium. This could be defined by the contradictory formula of hegemonic multipolarity. As more than just nation-states, but as territorially contiguous, multinational powers with quasi-imperial extensions of territory, Russia, China, Iran, Turkey, and India are the emerging stakeholders of this new world order. Nowhere is this process more observable than, once again, their location in the world’s largest contiguous space: Eurasia.

Against this backdrop, the One Belt One Road initiative acts primarily as a driver of Chinese economic and foreign policy ambitions. It also acts as a potential catalyst for opening up new markets and creating sub-regional centres of growth in Central Asia, Southwest Asia, Southeast Asia, and Eastern Europe. However, the process of economic connectivity is more likely to be rooted in long-term trends, some of which date back to the years preceding the One Belt One Road initiative. Therefore, the One Belt One Road initiative is not simply a blueprint for China’s hegemony, but rather a strategic response to
domestic and continental structural changes and challenges that go far beyond China itself. This paper will discuss these changes and the actors which, together with but also beyond China, are coalescing to define the re-emerging Eurasian order.

**Before the One Belt One Road initiative: Shifts in the global economy and Eurasia’s re-connection**

In the time between the break-up of the Soviet Union and the economic and financial crisis, the world economy changed dramatically, becoming even more integrated and interconnected. Particularly in the first long decade of the twenty-first century, global trade increased and accelerated, along with widespread and sustained economic growth. For instance, until 2012—with the exception of the crisis years—on average, global trade grew at around twice the rate of the broader economy (World Trade Organization 2014).

In the past four years, sinking oil commodity prices and major political-economic tension in the US, Europe, and China have caused an unprecedented slowdown of both global growth and trade. Indeed, the world economy is still struggling to recover back to its pre-crisis level. Against this backdrop, while general trends point to a more “normal” or “slow” growth in both advanced and developing economies, and the IMF considers this proof of a synchronised “slowdown” (IMF 2016a, 65), developing economies have still kept growing more rapidly than advanced Western economies (WB 2016). Among them, China, India, and Southeast Asia have all grown sustainably and will remain the world’s economic engine for decades to come, with the Middle East and the former Soviet space being increasingly dependent on and linked to economic dynamics in the Asian region (IMF 2016b). In fact, while protectionist trends spread rapidly in both the US and Europe, in a reaction to the perceived negative effects of free trade on their manufacturing and industrial bases, Asian and Eurasian countries seem keen to keep their economies open and still see cross-border
trade as an instrument of development. President Xi’s 2017 Davos speech has shown the paradox of a formally communist and non-Western country emerging as the champion of free trade alongside an increasingly inward looking West (Xi Jinping 2017). While doubts must be expressed about Xi’s intentions, there is no doubt about the far reaching geopolitical and geo-economic implications for the global order, should the One Belt One Road initiative, which China presents as an alternative model of economic development and prosperity based on open markets and free trade, be realised.

Doubtless, the effects of this tectonic shift towards a less Western-centred world economic system are becoming most visible in the vast Eurasian space, where energy producers, new Asian manufacturing powerhouses, and old European advanced economies converge and interact. It is indeed in Eurasia that accelerated growth and trade in the decade before the 2008 financial and economic crisis and the more recent post-crisis slowdown have most clearly shown the increasing correlation and interdependence between affluent Asian markets—China and India—and various Eurasian energy-producing emerging countries (Calder 2012).

However, while China might offer the World a more coherent vision of an interconnected continent, it is doubtful that China alone will have both the resources and the geopolitical leverage to energise and realise its vision alone. In fact, Eurasia itself has been undergoing a process of unprecedented geo-economic transformation, spatial restructuring, and dynamic re-connection since at least the mid-2000s. While largely influenced by ongoing transformation in China, these changes both pre-date China’s grand vision and transcend it. Three major long-term shifts form the basis of Eurasia’s reconnection.

Firstly, the centre of gravity of economic power has shifted towards Asia, which is now increasingly centred on competing amid interconnected geopolitical poles (Kaplan 2012; Richman 2016). Secondly, there has been a massive re-orientation of intra-Eurasian
trade flows towards the Asia Pacific space, matched by an increasingly self-sustaining
dynamic in bilateral trade between Asian and Eurasian developing countries (Pepe 2018).

The initial energy-driven trade interaction between the Persian Gulf and Northeast
Asia has begun to catalyse a much larger, truly continental, process. This increasingly
involves a rising number of regional and continental players, from Russia to Kazakhstan,
from Turkey and Iran to India. With many Eurasian energy producers—mostly Russia,
Central Asia, and the Gulf—pivoting towards the affluent Asian energy markets, the re-
emergence of long-dormant inner-Asian connections is now expanding well beyond energy
flows and increasingly includes trade in final and industrial/intra-industrial goods (Calder
2012; Pepe 2018).

Indeed, trade between developing Asia and the rest of Eurasia has grown
disproportionately rapidly compared to trade with Europe and the EU. The EU is still the
single biggest destination for developing Asia’s exports. However, merchandise exports to
the Middle East, Iran, Turkey, Central Asia, and Russia have increased dramatically. With
China taking the lion’s share of Asia’s exports, Asia’s combined exports to the less-
connected areas of former Soviet Eurasia, the Middle East, and Africa already accounted
for about 15 percent of its total merchandising trade in 2012, the year before the One Belt
One Road initiative was launched. Notwithstanding the economic slowdown of recent years,
this trend continued during the period 2013-2015, as WTO export statistics confirm (WTO
2015, 7).

Meanwhile, Russia has lost its pre-eminent economic role in the former Soviet space
to China. These two effects, combined, might have a major impact on Eurasia’s geo-
economic configuration, which is becoming less Euro and Russian-centric as its centre of
gravity moves south and eastwards (Pepe 2018).

Finally, a third shift has taken place in the economic geography of supply and value
chains. The spread of global and regional value chains in developing countries has led these
countries to participate more in complex manufacturing processes, moving from simply assembling to more advanced production processes (United Nations Conference on Trade and Development 2015, 10-11). While this process has been particularly pronounced in Asia, specifically in China, and more marginal in Africa or in Central Asia, the geographic proximity of energy rich countries, new centres of manufacturing, and future final markets (Economist Intelligence Unit 2016) concentrated in a contiguous geographic space that encompasses both continental and maritime Eurasia, points to a structural shift in trade paths. Moreover, accelerated processes of industrial clustering and the urbanisation of rural areas in hinterland Eurasian regions like China’s central and western provinces has made this process more diffused and less dependent on coastal areas (Pepe 2018, 305-340).

More recently, partially as a long-term consequence of the 2008 global economic and financial crisis, three further structural trends have added to and modified this general picture. Firstly, the structural level shows a trend towards a stronger re-regionalisation and re-nationalisation of power and trade dynamics, with free trade agreements and economic integration initiatives relegated to bilateral, regional, and continental levels emerging as the main drivers of a world of macro-regional trade blocs (Regional Comprehensive Free Trade Agreements; the Eurasian Economic Union; the One Belt One Road initiative).

The powerful forces unleashed by the first stage of accelerated globalisation and the consequences of the 2008 financial and economic crisis are, paradoxically, leading to a geo-economic fragmentation of the world economy into macro-regions (Charrel 2015). With the global economy still unevenly dependent on Asia’s growth, protectionist trends emerging across the globe and an ongoing trade conflict between China, the United States, and Europe, a process of re-aggregation of economic and commercial dynamics is taking place at a continental and regional level. Hence, sub-regional, intra-regional, and continental trade ties are gaining relevance above more global trade paths.
Furthermore, at the trans-national/trans-regional level, a trend towards the
digitalisation of production processes and logistics (Internet of Things), embraced for
instance by both Germany and China in Eurasia, will radically transform global value chains
and intensify the process of re-regionalisation of industrial and manufacturing production
processes and of access to final markets. This will directly affect the way less connected
regions like Central Asia or Central and Eastern Europe integrate into regional and global
value and supply chains.

Finally, at a domestic level, following low oil prices, the transformation process in
China, and slowing economic dynamics across Eurasia, a trend towards economic
modernisation and diversification of major Eurasian economies—both in manufacturing Asia
(China) and in energy-producing countries—is forcing developing Eurasian economies to
re-think the future of their economic models. Certainly, both advanced and developing
economies are still suffering from the consequences of the 2008 financial and economic
crisis, and future challenges and risks to emerging Eurasian and energy-producing countries
will still arise from global financial and economic developments. Conversely, the advanced
Western economies, both in Europe and in the US, still show high levels of technological,
financial, and economic development and crucial political-military assets. However, with the
West unable to act as new propeller for global growth and dramatically divided (OECD 2016,
1), the future of emerging Eurasian countries like those in Central Asia, like Iran, or even
Russia, and the modernisation and diversification of their economies, might very well
increasingly depend on their strengthening of ties at a continental and regional level with the
dynamic economies of developing Asia, China, India, and Southeast Asia (OECD 2015).
The One Belt One Road initiative and beyond: The rise of the rest

Against this backdrop, the logic behind the One Belt One Road initiative is both complex and multi-layered. It can indeed be essentially defined as a proactive response from Chinese leaders to both long-term and short-term domestic and external changes. Accordingly, it encompasses at least three dimensions: domestic macro-economic; geo-economic; and geopolitical. In terms of domestic macro-economic changes, when Xi launched the initiative, China’s growth was already slowing down in comparison with the two years which followed the 2008 crisis (World Bank 2017). Thanks to the heavy 600 billion US Dollar stimulus package which the government approved a few months after the Lehmann shock (The Economist 2008), the country proved able to recover rapidly compared to the West (Kroeber 2016). However, the overcapacities generated by the stimulus packages in heavy industries, particularly in the steel and concrete industry, the huge liquidity accumulated in the banking sector, and the plan to adjust to changing global economic conditions by switching from an investment-led to a consumer-led economic model are considered the “hidden” reason for the One Belt One Road initiative (Lin 2015). Hence, the perceived symbol of China’s increasingly self-conscious global role is seen by many as a functional instrument to soak up production, liquidity, and investment overcapacity, by exporting it abroad. While all these reasons may hold true, the largest amount of investment from the stimulus package targeted much needed expansions in the transportation sector, which was already receiving consistent amounts of money before 2008. With the aim of closing the infrastructural and industrial gap between coastal and inland regions, transport infrastructure connections had become paramount for China’s model of growth in the previous decade. Rising labour costs on the coast, the need for an urbanising of rural areas, and for keeping land prices high, was matched by business-friendly politics and the attraction of FDI in high-tech manufacturing in internal areas. This has led to the rapid development of central city-regions like Chengdu Chongqing, which is now spreading into remote western cities like
Urumqi and Kashgar. (Deutsche Bank Research 2016). The development of a vast high-speed and conventional rail network has been, hence, not simply driven by macro-economic cyclical needs, but by the changing economic geography of the country. The emergence of new centres of growth inside China has increased the rationale for cross-border trans-regional connections. This domestic transformation has had, in exchange, unintended geo-economic and geopolitical implications. For the first time, China has been able to plan the creation of alternative continental routes to lessen its dependence on the sea-lines crossing through the Malacca Strait, one of the most crowded and vital choke-points for international energy and manufacturing trade. Meanwhile, the streamlining of logistics services along already existing corridors across the entire continent has become crucial to both increasing ties with Europe and further accelerating diversification from Europe to new final markets “on route” (National Development and Reform Commission 2016). The continental dimension of this initiative, even though quite vague in its formulation and potentially ambiguous as to the hegemonic claims which might lurk behind it, has almost accidentally become the first step towards a possible post-Western global order for which China is probably not yet ready.

That said, taking a look at the rapidly evolving and complex infrastructure map of Eurasia, the boom of different rail and intermodal corridor projects which partially overlap the Chinese-prioritised corridors was never limited to China and started well before the One Belt One Road initiative. At national levels, expansions or modernisations of domestic transport networks, specifically rail and logistics, even though to a much less extent than in China, have taken place in different key Eurasian countries on route to Europe and the Middle East since the second half of the 2000s, along with the formulation of domestic and foreign policy strategies aimed at capitalising on China’s economic developments.

With the end of the economic boom that was driven by the long period of high oil prices, and the slowdown of Asian and Chinese economies, the development of trans-border
connectivity and domestic transport infrastructure and logistics is hence closely interwoven with the need for diversification, modernisation, and/or transformation of the economic model of each Eurasian country, beyond China.

Parallel to the massive investments in China’s transportation and rail network, there have been similar attempts by key countries like Russia, Iran, Turkey, Kazakhstan, India and Japan, to develop own concepts and set up their own strategies for domestic, regional, and continental reconnection. All these countries—under different conditions—are aiming to follow the Chinese example in order to either reorient their own domestic transport networks towards Asia, exploit the transit potential of goods from and to China and Asia, use this external development to industrialise, modernise, and diversify their economies, or, like as with India and Japan, to offer an alternative model of economic development and cooperation across Eurasia, directly competing with the Chinese initiative.

As a consequence, the strategies and the functional roles of the main Eurasian actors have changed dramatically. China has provided the major impetus during the first stage of this development. With its economic power, together with its market and route diversification strategy, the country is the main catalyst of Eurasia’s re-connection. However, Beijing will not be able to realise this vision without the active and willing participation of other Eurasian partners, whilst other Eurasian countries will not realise their ambitions without relying on one another.

Specifically, Russia, while clearly at an advantage due to its territorial extension along the northern Eurasian route and due to its status as a major regional player, is constrained by its structural economic weakness and chronic dysfunctionality, as well as by its geographic location as a northern Eurasian power with scarce access to the southern Eurasian belt. Thus, Moscow cannot act as the sole integrating force, as the internal weakness and external challenges faced by the EEU testify. Against this backdrop, new regional and continental players are entering the Eurasian geo-economic equation, most of
them located in the southern belt of the continent and stretching from Southeast Asia to West Asia and the Middle East, across both the Indian Ocean-Pacific Ocean nexus and the continental plateau.

Here, in central Eurasia, Kazakhstan, Uzbekistan, and Azerbaijan are emerging as overland trade hubs, attempting to diversify their access to world markets and to diversify their economies by emerging as continental by-passes. In maritime Eurasia, along the Indian Ocean-Pacific Ocean nexus, India and Japan are re-focusing their foreign and domestic investment strategies towards the transportation sector, aiming to re-synchronise their economies with continental trends. Meanwhile in West Asia and in the Middle East, Turkey and Iran, two gateway spaces facing the disintegration of the regional order, are willing—indeed, forced—to enter the Eurasian transport and trade equation, albeit with somewhat different agendas.

Ankara´s disrupted relations with the West are being increasingly rebalanced by a renewed axis with both Iran and Russia to redefine the regional order. After years of regional isolation, Ankara has regained strategic momentum. Deepening regional and continental trade and transport ties with China and other Eurasian powers remain at the core of Turkey´s rebalancing act.

Iran, by contrast, which had re-entered the Eurasian equation as fully-fledged member of the international community after a decade of isolation, is again confronted with a US sanctions regime. This time, however, the axis constituted by both Russia and China on one hand and Europe on the other hand seems firmly set on keeping the door open for Tehran. Under these circumstances, Iran is eager to fully exploit its geographic position and its geo-economic assets to open up and deepening trade relations with Europe, China, India, and Asia. Should Europe, however, fail to save the Iran deal, this will only strengthen Iran´s Eurasian trajectory, as the recent free trade agreement with the Eurasian Economic Union and the deepening transport ties with China testify. All this will probably also increase
competition between Ankara and Tehran over regional hegemony but will only deepen their Eurasian drift.

Against this backdrop, the effect of structural long-term transformation, the Chinese initiative, and the convergence of other similar plans in countries like Russia, Kazakhstan, Turkey, and Iran will presumably accelerate spill-over effects on other in-between spaces similar to Central Asia or Eastern Europe and long considered peripheral to global and continental trade. These regions are now emerging as part of a common interconnected space of co-development which has the potential to reconnect the Indian Ocean and the Pacific Ocean with continental Eurasia, with the main drivers being a belt of countries with double access to both open oceans and deep hinterlands, stretching from South Asia to the Middle East.

**Conclusion: Towards a Eurasian world order**

The geo-economic structure of Eurasia is changing rapidly. A shift in the centre of gravity of the world economy towards Asia and China, rising intra-Eurasian trade flows, and changes in the economic geography of value and supply chains have decisively advanced the reconnection of the Eurasian space. As old legacies weaken, new trade relationships and transport linkages develop and Eurasian regions and sub-regions long considered peripheral are now becoming central bridging spaces. China’s Belt and Road initiative has catalysed much attention and China is the undisputed driver behind the latest attempt to deepen intracontinental ties. However, this paper has shown that mutual interdependencies began to rise before China’s plan was unveiled. Different visions for the reconnection of Eurasia have emerged besides China’s, and all, including Beijing’s plan, are more a response to long term trends than short-term policy measures.

Indeed, at least since the outbreak of the crisis in 2008, Eurasia has been growing closer together in terms of economic, trade, and security policy, so that a functional division
into separate regions is just as out of date as an exclusive focus on the strategies of individual major powers such as China or Russia. The redefinition of Eurasia is in fact a trans-regional phenomenon, along both the east-west and north-south axes.

Three upcoming geo-economic and geopolitical megatrends will doubtless define the re-emergence of a Eurasian order: Firstly, the shortening of supply and value chains resulting from the digitalisation of logistics and production chains, which is becoming increasingly important at the regional level, is leading to the emergence of new growth poles in Eurasia; Secondly, the emergence of new centres of economic power, especially along the southern belt of Eurasia, is fostering increased interconnectedness with and through continental Eurasia; And thirdly, the increasing geopolitical competition between different integration initiatives and powers in Eurasia will never lead to a coherent political unification but there is increasingly little solace to be taken from this for the West, which appears increasingly marginalised.

The effects of the first two trends are already evident in an increasing concentration of middle classes, manufacturing, and industrial clusters not only in the hinterland regions of China but also in countries such as Turkey, Iran, and India. In these countries, historically shaped by a marine geography and a coastal-driven economy, coastal and hinterland regions are slowly but increasingly converging. However, this development is also dramatically changing the functional role and economic orientation of continental countries and regions. As a result, isolated countries such as those of the post-Soviet area have become interlinked transitional spaces in a polycentric system. Central Asia, for example, is turning from an isolated centre of the continent into a networked periphery of the Indo-Pacific.

The third geopolitical trend is that China is no longer the sole driver of this process. Initiatives such as Russia’s EEU, India’s Go-West, Japan’s Infrastructure Initiative, Kazakhstan’s Nurly Zhol, and Turkey’s own One Belt One Road concept complement the
Chinese initiative and explicitly compete with it. While these countries, along with China, will become additional drivers of Eurasian integration, this will also increase conflicts and tensions over access to transition areas such as Central and Eastern Europe, the Middle East, Central Asia, and Southeast Asia. It is no coincidence that these regions are already centres of political instability or are characterised by a disintegration of regional structures.

Just as in the era before the rise of Europe, in this remerging Eurasian order, cooperation and competition, instability and trade integration are not mutually exclusive but are parallel realities. This constellation is not only new to Europe and the West, but is also more fluid, unstable, and dangerous, as it lacks a legal framework and a commitment to shared values. Meanwhile, while the transatlantic relationship displays significant rifts, the United States, deeply and negatively affected by a process which could see Washington further insulated from Eurasia, is itself rapidly adapting and reacting to this new reality. Washington is accelerating the redefinition of its priorities in Eurasia and vis-à-vis China in the framework of the new Indo-Pacific strategic posture, which will be officially presented after the summer of 2018. Accordingly, the United States seems content to engage in the creation of competing sub-regional orders with potential territorial access denial in the connecting space of these two Oceans, as is already anticipated in the latest US National Security Strategy (National Security Strategy 2017). Apparently, the US will use a mix of traditional maritime geopolitical assets—deep-water naval supremacy and military patrolling of sea trade lines—and more innovative elements of reinforced regional defence cooperation. This cooperation pivots around Japan, Australia, and India and aims to seal off the Indo-Pacific from China´s influence but also, in the long-term, to prevent maritime Eurasia´s reconnection. While this strategy is complex in terms of realisation, strategically reactive, and narrowly focused on the sole maritime dimension, it shows how the combined effect of the rise of China, the transformation across Eurasia, and the emergence of other
self-confident Eurasian powers, both on the continent and on the coastal shores, has deeply tested the strategic reactive capacity of the United States.

Against this backdrop, Germany and Europe themselves need a smart, flexible, and differentiated Eurasia strategy. This has to include but also go beyond Russia and China and proactively connect, both in terms of infrastructure and economics, with both Central Asia and the countries of the southern Eurasian belt, from Turkey and Iran to India and Japan.
References


