

THE RISE AND FALL OF AMERICA'S NEW SILK ROAD STRATEGY

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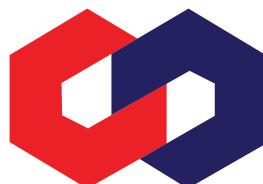
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*OUR REACH IS GLOBAL.
THE FOCUS IS AFRICA!*

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1.0 Introduction

ON THE EVE OF BEIJING'S MAY 2017 SUMMIT on its New Silk Road strategy and plans, historians may well ask how China was able to turn the tables on America in Eurasia. Just six years ago, Eurasian strategists were bullish on America's New Silk Road strategy and plans. That perception was punctuated by U.S. Secretary of State Hillary Clinton's "New Silk Road" speech on 20 July 2011 in Chennai, India.

Back then, China was on the sidelines. In contrast, General Dave Petraeus and his tiger team at the U.S. Central Command (CENTCOM) were front and center, creating an inclusive New Silk Road strategy with plans for infrastructure that would go through Afghanistan and turn enemies into friends and aid into trade. And all of this would promote shared prosperity and collective security.

But behind the scenes, policy was starting to change. General Petraeus left CENTCOM and became the commander of the International Security Assistance Force (ISAF) in July 2010. General James Mattis replaced Petraeus and was the CENTCOM Commander from August 2010 until March of 2013. General Mattis felt the U.S. State Department should run the New Silk Road. So by 2013 Mattis had zeroed out the funding for the New Silk Road tiger team at CENTCOM. China turned the tables on America by filling this gap with its own version of the New Silk Road which it called "One Belt, One Road." In contrast to America surrendering its New Silk Road strategy, Beijing was serious. China committed itself to a \$1.4 trillion New Silk Road plan. To finance this commitment, Beijing created a New Silk Road Bank and an Asian Infrastructure Investment Bank.

How was China so successful in turning the tables on America? And why is America so reluctant to actually implement its version of the New Silk Road plan? The short answer is China understands how to connect economics and security in its foreign policy. In contrast, American foreign policy keeps economics and security in separate silos. For the most part, America tries to solve conflicts in the world militarily. The Iranian nuclear agreement was an exception – but now the Trump foreign policy team wants to throw that away as well.

2.0 Rise and Fall of U.S. New Silk Road

ONCE EVERY BLUE MOON and almost by mistake someone like a George Marshall or a Dave Petraeus would come along and connect the economic and military dots at a high level. Unfortunately, the economic/security connection is not institutionalized. So when Dave Petraeus leaves the picture, foreign policy problems once again become militarized and America looks for hammers to pound nails. In short, too many American strategists don't understand the importance of connecting economics and security.

Take Afghanistan for instance. President Obama announces in 2011 that the lion share of the 150,000 U.S. troops will come home, leaving only about 10-15% of the troops behind. A simultaneous and proportional 10-15% reduction of about 130,000 military contracts would also happen. U.S. military doctrine says civilians will take the lead in follow on stabilization and reconstruction operations, as the U.S. did successfully in Germany after World War II. But Hans Binnendijk and Stuart Johnson correctly argue that there is now a widening gap between the scale down of combat operations and the start of stabilization and reconstruction operations.

Bad things happen in this gap. So when President Obama announced the U.S. drawdown in Afghanistan, the U.S. Treasury did a study that predicted how much of a negative impact would occur to the overall Afghan economy once 85-90% of the war economy went away. The best case scenario would be a 13% cut in Afghan GDP. That equates to the U.S. Great Depression. The worst case scenario would be a 41% cut in Afghan GDP. Either way, jobless numbers soar.

So what happens militarily if nothing is done to fill this gap between combat power and stabilization and reconstruction? In East Timor, violence rose when UN peacekeepers played cut

and run with no serious stabilization and reconstruction afterwards. But in Iraq, at least there is oil production separate from the war zones, even if low oil prices recently reduced profit margins.

In Afghanistan, the good news is there is lots of potential wealth. In fact, the U.S. Geological Survey says there is a trillion dollars of potential mineral wealth. Unfortunately, Afghanistan is struggling to turn this potential wealth into actual wealth. Former MIT Professor Walt Rostow would say that Afghanistan lacks preconditions for economic takeoff.

If land-locked Afghanistan had good infrastructure, it could still have market access. But Afghan infrastructure has been largely destroyed because of continuous wars. In this regard, only 7% of the roads are paved. Therefore, this inadequate infrastructure equates to poor market access. When it rains the roads turn to mud or flood. So there is little incentive to increase production.

In essence, therefore, Afghanistan faces a double whammy. On the cyclical side, the war economy is collapsing. On the structural side, it struggles with inadequate infrastructure and poor market access. Together, Afghanistan is facing depression economics. That's why it needs a Keynesian economic strategy to fill the gap in aggregate demand (or at least to soften the blow).

Johns Hopkins Professor Fred Starr has advocated a New Silk Road for decades. His concept is transcontinental in scope and runs from China to Europe via Central and South Asia. But the U.S. government had not pushed very hard for it in the past. If the U.S. government was going to support it, conventional wisdom says the U.S. State Department is the logical place to do it. And the Policy Planning Council at STATE is the logical office at STATE to develop policy.

With this in mind, Michael Gfoeller, Political Advisor at CENTCOM and I (CENTCOM's Chief Economist back then) flew from Tampa to Washington D.C. and met with the Policy Planning Council at STATE. Unfortunately, the folks there wanted no part of it. Richard Holbrooke, the Special Representative for Afghanistan and Pakistan (SRAP), wanted no part of it either.

*SINCE NOBODY ELSE IN WASHINGTON
WANTED TO DEVELOP POLICY FOR A
NEW SILK ROAD EITHER, GENERAL
PETRAEUS SIGNED OFF ON CENTCOM
DOING POLICY FORMULATION FOR A
NEW SILK ROAD TO CLOSE THE GAP IN
AGGREGATE DEMAND. WE CREATED
“TIGER TEAM” TO PLAN.*

We developed about 20 hard and soft infrastructure projects. Our hard infrastructure included transport, mining, energy and telecom projects. Transport included completing the Afghan Ring Road completion, the Afghan North-South Road Corridor, the Afghan East-West Road Corridor, the Kabul-Jalalabad-Peshawar Expressway, finishing the Salang Tunnel, the Northern Rail Corridor and commercial aviation. Mining included the Aynak Copper Mine and the Hajigak Iron Ore Mine. Energy included the Turkmenistan, Afghanistan, Pakistan and India (TAPI) gas pipeline, the Central Asia-South Asia Electricity Project (CASA 1000) and the Sheberghan Gas Fired Thermal Power Facility. The Fiber Optic Ring would be the telecom project.

3.0 China's New Silk Road

THE NEW SILK ROAD TIGER TEAM MEMBERS at CENTCOM may have felt partially vindicated when Beijing announced in 2013 that it would initiate their own version of the New Silk Road. The good news is that China is serious.

China is committed to spending \$1.4 trillion on this project. China has already allocated \$40 billion for the New Silk Road Bank and \$100 billion for the Asian Infrastructure Investment Bank.

The bad news is that much of China's New Silk Road goes around Afghanistan. CENTCOM's idea was to build infrastructure through Afghanistan, which in turn would strengthen the Afghan economy and foster transcontinental shared security. In any event, when America ill-advisedly dropped the New Silk Road ball, China happily picked it up and ran with it.

4.0 Promising Benefits for Africa

CHINA'S NEW SILK ROAD CONSISTS OF A NEW ECONOMIC BELT OF CONNECTIVE INFRASTRUCTURE WESTWARD into Eurasia and a new maritime “road” connecting Asia not only with Europe but also with Africa. A critical African node for China is Djibouti, where China is building a naval base, which should be completed in 2017. China also financed reconstructing a railway that links Djibouti to Addis Ababa in Ethiopia. In January 2017, Africa's first electric transnational train made its inaugural 446-mile journey from Djibouti toward Addis Ababa. To engage Africa in the New Silk Road, China's Foreign Minister Wang Yi also paid a visit in January 2017 to other selected African countries, including Madagascar, Zambia, Tanzania, Congo and Nigeria.

Dmitry Bokarev notes that Madagascar is the first major African country one would encounter on the way from China to Africa and has promising potential for a valuable New Silk Road destination. While Madagascar's economy is rather poorly developed, participation in China's New Silk Road could raise it to the ranks of an important regional trade and transport hub.

The Chinese foreign minister also visited Zambia, a landlocked country whose trade has been sluggish because it had no access to seaports in the past.

However, China financed the construction of a railway connecting Zambia with Tanzania, a coastal country Wang Yi also visited. The Chinese foreign minister focused most of his time in Tanzania on the construction of seaport-rail connections. There are good chances that this Madagascar-Tanzania-Zambia axis may well become the starting point for the African leg of China's New Silk Road.

Following his successful African trip, the Chinese foreign minister spoke at China's National People's Congress on 8 March 2017. He said China and Africa had a common destiny and said China would never stop supporting Africa. China would fulfill all of its promises made at the Johannesburg Summit held on the sidelines of China-Africa Cooperation Forum in December 2015. The parties there adopted an Action Plan for 2016-18. Africa should feel good. China is committed to investing \$60 billion in the economic development of Africa and implementing a number of railway and port construction projects consistent with its New Silk Road leg in Africa. 



Source: Peter Cai, Understanding China's Belt & Road Initiative, Lowy Institute, 22 March 2017