

### Establishment of the AIIB and South Korea's decision to join the AIIB

- Despite the clear and strong opposition from the U.S., China did not stop its efforts to encourage South Korea to join the AIIB
- Since January 2014 when China organized a committee to launch the AIIB, China actively encouraged South Korea through diplomatic channels to join the AIIB, leading to greater U.S. pressure to not join the AIIB
- Preparations for the establishment of the AIIB were stalled due to the opposition of the U.S. and Japan, but related preparations were able to rapidly proceed after UK Chancellor of the Exchequer George Osborne announced on March 12, 2015 the UK's plans to join the AIIB
- After the UK announcement to join the AIIB, Germany, Italy, France successively announced their respective plans to join the AIIB, and Australia which was in a similar situation with South Korea also expressed its plans to join the AIIB. Accordingly, South Korea also announced on March 26 its plans to join the AIIB

#### 4. Linking South Korea's "Eurasia Initiative" with China's "One Belt, One Road Initiative"

### Korean President Park Geun-hye proposed the "Eurasia Initiative" ahead of the ROK-Russia summit on October 18, 2013

- The initiative aimed to realize a Silk Road express that started from Busan and passed through North Korea, Russia, China, Central Asia and Europe
- In summit talks with Russian President Vladimir Putin in November 2013, both leaders shared views on projects to connect the Trans-Korean Railway (TKR) and Trans-Siberian Railway (TSR). Both sides established a memorandum of understanding (MOU) on the Rajin-Khasan logistics project
- Initiative to connect the Trans-China Railway, Trans-Siberian Railway and Trans-Mongolian Railway
- Initiative to reconnect the inter-Korean railway and roads, and connect them with railroads outside the Korean peninsula
- Efforts to launch in 2015 the Eurasia Friendship Express project and a ROK-Central Asia Cooperation Secretariat

### South Korea has shown a proactive attitude on linking South Korea's "Eurasia Initiative" with China's "One Belt, One Road Initiative."

- Logically related to the Park Geun-hye administration's trustpolitik policy and "Northeast Asia Peace and Cooperation Initiative (NAPCI)." Reflects the political will to reduce tensions in inter-Korean relations and relations in Northeast Asia with the approach of expanding economic, logistics and people-to-people exchanges
- The ROK also has the hope to potentially use the AIIB as a channel to secure investment funds related to the economic reform and opening of North Korea

### The biggest obstacle to South Korea's "Eurasia Initiative" is North Korea's inflexible attitude

- The Kim Jong Un regime has demonstrated that it is willing to sacrifice its relations with South Korea and China for the time being to continue its development of nuclear weapons and related means of delivery
- Tensions in Northeast Asia will continue so long as North Korea continues to adopt its nuclear armament strategy, and the stability and momentum needed for North Korea's economic development will remain limited. This serves as a barrier to not only South Korea's development, but also the development of China's three northeastern provinces and Russia's Maritime Province
- During the Cold War, North Korea played the role of checking the U.S. for China. North Korea has strengthened its military capacity and is expected for the time being to maintain its "provocation" strategy, which in effect would be in line with U.S. strategic interests to check China. This could strengthen the U.S. presence in Northeast Asia, and could serve to lead Sino-U.S., ROK-China and ROK-Russia relations into conflict
- This means that North Korean provocations could raise tensions on the Korean peninsula, and undermine ROKG efforts to link its "Eurasia Initiative" with China's "One Belt, One Road Initiative."

# CHINA WATCHING



## China's "One Belt, One Road Initiative" and ROK-China Cooperation: Plan to Link the Initiative with South Korea's "Eurasia Initiative"

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### Suggestions

#### Anticipation of Positive Role by South Korea through Active Participation

- AIIB's dramatic success demonstrates that China's future international influence will further increase. China's "One Belt, One Road Initiative" is a long-term project of a global scale, and even takes into consideration the United States as part of its network. In the short- to mid-term, it is expected that Sino-U.S. conflict and competition on institution-building and norm-setting will become more acute, and it is highly likely that South Korea will be faced with a more burdensome diplomatic and security situation
- South Korea needs to adopt a proactive strategy to join the bandwagon instead of adopting a passive or exclusive approach to China's "One Belt, One Road Initiative" and the Asian Infrastructure Investment Bank (AIIB) project under the principle of contributing to inter-state/inter-regional reconciliation, cooperation, stability, peace and prosperity. South Korea also needs to make efforts to secure the vice presidency within the AIIB
- Differences still remain on the management/governance structure and specific projects of the AIIB. South Korea needs to play an active and positive role within the institution so that the AIIB would become an institution that meets international standards, and also so that the structure will not develop into a confrontational structure between the U.S. and China

#### Expansion of the "One Belt, One Road Initiative" to Northeast Asia and Connection with the "Eurasia Initiative"

- The development plan of the "One Belt, One Road Initiative" currently does not put much emphasis on the Northeast Asia region
  - » It is expected that China could reduce its expected value of South Korea, and direct its policy towards reducing the influence of the Korean peninsula factor by improving its relations with North Korea
  - » If China's relative attention towards the Korean peninsula decreases, the relative potential for North Korea to carry out a provocation would increase
  - » South Korea and China both need to jointly cooperate in connection with China's strategy to develop the three northeastern provinces. South Korea and China also need to increase efforts to explore ways of increasing cooperation while decreasing the influence of the North Korea factor
- In the current situation, it would be difficult to realize the ROK government's hope (and, at the same time, justification for joining the AIIB) to utilize the AIIB in developing the North Korean economy and promoting economic cooperation with the northern part of the NEA region. Prospects that inter-Korean relations will improve are low. The South Korean position does not need to be negative regarding China-DPRK contact and the improvement of China-DPRK relations. South Korea needs to make efforts to reduce the influence of the North Korea factor and strengthen ROK-China communication

#### Active Consideration of Launching a ROK-China Train Ferry Connection Project

- Recommendation to actively consider launching a ROK-China train ferry connection project as a new alternative to link the "Eurasia Initiative" and "One Belt, One Road Initiative."
- » This would strengthen the connection between China's "One Belt, One Road Initiative" and South Korea, and would also provide room for the initiative to expand into the Northeast Asia region, while minimizing the North Korea factor. This would also serve as a strategic card to indirectly pressure North Korea to abandon its nuclear development activities and join the new trend of development

ROK-China Train Ferry Connection Project

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1. China’s New Identity in the Xi Jinping Era and Emergence of the “One Belt, One Road Initiative”

Change in the Identity of Chinese Diplomacy

- Chinese diplomacy is currently undergoing a paradigm shift. The “One Belt, One Road Initiative” is at the center of this shift
- Among the various factors of this change, the change in China’s identity is an important factor. China’s mainstream strategic thinking has shifted from seeing China as the “largest developing country in the world” to a “developing power.” In light of this shift, China has developed and is implementing a mid- to long-term ‘grand national strategy.’
- China is also shifting its identity from a “continental-power” to a “continental and maritime power”. It’s “One Belt, One Road Initiative” encompasses the continent and sea
- China no longer sees itself as a regional power in Northeast Asia, but aspires to become a “hub country in Eurasia” or “central state” through the “One Belt, One Road Initiative” and sees the world as part of its strategic space

Entering a New Phase of Sino-U.S. Competition

- Since launching its “Rebalance to Asia” strategy in 2011, the United States has sought to establish a new southern trilateral alliance (U.S., Japan, and Australia) or “security diamond” partnership (U.S., Japan, Australia, and India), as well as realize a “New Silk Road Initiative” that connects Turkmenistan, Afghanistan, Pakistan and India
- Japan has actively responded to such developments in U.S. policy, and has adopted measures to consolidate the U.S.-Japan alliance. Japanese intentions, however, are rather complex and could be seen as a hedging strategy that focuses on containing China
- China, on the other hand, has proposed establishing a new Asia security plan and a new international organization such as the Asian Infrastructure Investment Bank (AIIB) that excludes the U.S. Such developments reflect that Sino-U.S. relations are entering a new stage of turbulence, and that the Sino-U.S. conflict in the area of international norm-setting will come earlier than expected
- Chinese President Xi Jinping appears to have been successful in dispelling U.S. concerns and establishing positive U.S.-China relations during his summit meeting with U.S. President Barack Obama in November 2014 on the sidelines of the APEC summit
- China appears to have established the policy direction of gradually responding and managing issues related to the East, proactively advancing to the West, expanding new areas into the South, and strengthening cooperation with the North. The year 2015 appears to be an important turning point

2. Development of China’s “March West” Strategy

The core of China’s new “March West” strategy is the implementation of its “One Belt, One Road Initiative” and the establishment of the Asian Infrastructure Investment Bank (AIIB).

- There is still debate on whether China is pursuing a well-organized “March West” strategy. China has described the plan as an initiative rather than a strategy based on its lesson from the controversy related to the terms of “peaceful rise” and “a new type of great power relations.”

China’s “One Belt, One Road Initiative” could be interpreted as China’s 21st century grand national strategy

- China has changed its past view that it would not be helpful for China’s national interest as a developing country to draw up a ‘grand national strategy.’ In the Xi Jinping era, China has showed the will to draw up and manage a more proactive ‘grand national strategy.’
- Before the “One Belt, One Road Initiative” was launched, China was involved in a wide range of maritime disputes with its neighbors, and was faced with concerns related to the “threat of China” as China’s conflict with its neighbors increased
- From an economic perspective when China is entering a new stage in its economic development strategy, the initiative is anticipated to serve as an exit for Chinese foreign exchange reserves which amount to USD 4 trillion, help relocate excess production facilities, and provide a new economic growth engine

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proactively advancing to the West

- Reflection of the need and will to promote the development of the economically backward western region, where it is difficult to secure investment for infrastructure
- Expectations to promote domestic political and social stability
- From a diplomatic perspective, the initiative would provide the opportunity to strengthen China’s relations with neighboring countries, as well as establishing a network with Europe, Africa and South America so that China could play the role as a hub. Expansion of China’s influence on its western neighbors including Central Asia; the initiative would also strengthen China’s counter-terrorism cooperation efforts with these countries
- From a strategic perspective, the initiative could help diversify China’s energy supply routes and move away from using U.S.-controlled maritime routes. The initiative will also serve as an opportunity to present an alternative to the U.S.-led international order and serve as an exit from related pressure

China’s Silk Road (One Belt, One Road) Initiative was formally launched in 2013, and could be divided into the overland Silk Road Economic Belt and the Maritime Silk Road

- The overland Silk Road Economic Belt uses international routes, and is based on central cities that connect the Silk Road. The plan aims to establish economic and trade-related industrial zones as cooperation platforms, and establish the following three international economic cooperation corridors: China-Mongolia-Russia, China-Central Asia-West Asia, and China-Central and South Asia
- The Maritime Silk Road aims to jointly establish a safe and efficient transportation route that uses main ports as key points. The direction of the plan is based on the two maritime routes (China-Myanmar-Bangladesh-India-Pakistan-Arabian Sea-African coastline and China-South China Sea-South Pacific) that are part of the “pearl necklace” strategy
- It is interesting to note that the initiative does not include details related to the Northeast Asia region

The initiative presents the following five key projects: policy communication, infrastructure connectivity, trade creation, finance of funds, and communication with the people

- It is interesting to note the strategic aspect of the initiative, which reflects China’s intention to expand its political influence by utilizing its economic and cultural strengths

three international economic cooperation corridors

the two maritime routes

It is interesting to note that the initiative does not include details related to the Northeast Asia region

3. Establishment of the Asian Infrastructure Investment Bank (AIIB)

The establishment of the AIIB reflects Chinese efforts to establish the financial mechanism to independently fund its Silk Road Initiative after it failed to modify the existing international financial order such as the Asian Development Bank (ADB) and International Monetary Fund (IMF)

- In the early stage of the plan, China had proposed a China-centered and exclusive financial mechanism, but the AIIB is now moving towards changing into a multilateral and more open financial mechanism that is based on international standards
- It is expected that the 57 founding members of the AIIB will gather to complete the launch of the AIIB by the end of 2015. The founding members have reached agreement on the division of shares and the management/governance structure of the AIIB
- The total amount of investment will be USD 100 billion, and the voting rights have been distributed as follows: China (26.06 percent), India (7.51 percent), Russia (5.93 percent), Germany (4.15 percent), South Korea (3.50 percent), Australia (3.46 percent), France (3.19 percent) and Indonesia (3.17 percent)
- It appears that Chinese former Vice Finance Minister Jin Lique will become the President of the AIIB. The bank will be launched as a non-resident organization with a Board of Governors that will serve as the highest decision-making body, a Board of Directors that will be tasked with determining investment projects, and some executive staff including the Vice President
- Main policy decisions would require a majority of 75 percent of votes, thus allowing China to exercise de facto veto power
- South Korea holds the fourth largest voting rights in the region, but does not hold the necessary 4.5 percent of voting rights to become a member of the governing board

It would be overstated to evaluate the establishment of this new financial mechanism as signifying the end of the existing financial order led by the U.S., United Kingdom and Japan. But the establishment of the AIIB could be seen as a turning point that declared the psychological end of the existing financial order that was seen as the most stable mechanism

- It is expected that the internationalization of the Renminbi will be accelerated, and the influence of China in the global arena will further increase. However, it is too early to evaluate whether the AIIB is a success