



**ROYAL ADDRESS
BY HIS ROYAL HIGHNESS
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'THE NEW SILK ROAD: HISTORY IN THE RE-MAKING'

Human development over the millennia can sometimes be viewed through the prism of a series of grand designs that occurred over time. At different periods they included the emergence of ancient civilisations along mighty rivers; the birth of religions that come to hold sway over millions; the establishment of empires that allowed commerce and culture to flourish; the blazing of new trails over land and water that traversed or circumvented continents; the discovery of “new” lands across vast oceans; and the construction of global institutions and rules.

2. Viewed from this vantage, we are perhaps on the threshold of another grand design, this time emanating from a country that centuries ago also gave us silk, paper and the chemical explosive that goes into fireworks and gunpowder. China has launched what it calls the New Silk Road, sometimes also referred to as One Belt One Road, or the Belt and Road.

3. This expansive transcontinental initiative is clearly a vital part of the economic dimension of President Xi Jinping’s Chinese Dream as well as the Asia Pacific Dream. It is also an integral component of the “community of common destiny” launched earlier by then President Hu Jintao. The initiative will also be vital to the successful pursuit of China’s twin centennial goals of a “moderately well-off” country by 2021, on the 100th anniversary of the Communist Party of China, and a “strong, democratic, civilized, harmonious and modern socialist country” by 2049, the 100th anniversary of the founding of the People’s Republic of China.

4. Like the other grand designs that have come before it, this one too is fraught with many challenges and uncertainties that may abort it at some untimely point or trim it to become a shadow of what it aspires to be. But if the resolve is sustained and the circumstances are propitious, the New Silk Road is set by mid-century to become a colossal infrastructure of roads, railways, pipelines and maritime routes that straddles two continents, Asia and Europe, and lances into another, Africa. In the process it will kindle growth in many remote areas, unlock much latent wealth and stimulate transcontinental trade and cultural exchange to a level not known before.

5. The land route seeks to connect China to the Persian Gulf and the Mediterranean Sea through Central and West Asia as one prong and through Southeast Asia and South Asia as the other. The maritime route conceives of a link between China’s coast and Europe as well as Eastern Africa through the South China Sea and Indian Ocean in one direction and a link with the South Pacific in the other.

6. As we know, this initiative is not beginning from ground zero. On land it is building upon the remnants of the Old Silk Road. This actually comprised several trade routes first built by the Persians, the Macedonians and the Greeks before Han China extended and reinforced the routes for trade with the west until the 15th century, when the Ottoman Turks closed the trade routes. It is also building upon existing infrastructure put in place by other countries since then. On sea China is seeking to build new ports and expand existing port facilities and maritime trade infrastructure on an already thriving maritime route that connects China, Southeast Asia, the Indian sub-continent and Europe and Africa.

7. China’s resolve on making the overland and maritime New Silk Road a reality is manifestly clear. Much political and diplomatic energy has been expended on promoting the initiative at signature international conferences such as the Boao Forum for Asia, and in bilateral as well as multilateral meetings with interested parties and prospective stakeholders, not least here in the United Kingdom and in Europe. To demonstrate political will and vest political weight at the highest levels both President Xi Jinping and Prime Minister Li Keqiang have led more than 20 delegations to Central Asia, Southeast Asia, Europe and Africa. To dispel doubts and confusion regarding the concept the Chinese government issued an elaborate document titled “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road” in March this year.

8. While China welcomes funding and joint participation from all interested parties it has already committed sizeable sums in the initiative. Up to US\$300 billion have been pledged, a Silk Road Fund established, and the Asian Infrastructure Investment Bank (AIIB) as well as the BRICS New Development Bank have been mobilised to finance the project as well.

9. The response to the Belt and Road initiative has been encouraging for Beijing. About 60 countries most relevant to the initiative have signaled their interest and participation, drawn by the substantial economic and connectivity benefits that the Belt and Road promises. The ASEAN countries and the European Union have been among these, and the United Kingdom, which just last month hosted a memorable visit by President Xi Jinping, is among the most responsive.

10. However, China's New Silk Road initiative is coming at a time when the global and Asian order is in a state of flux. The global and regional balance is shifting, and such occasions are fraught with tension and uncertainties as ascending powers seek more space while those at the top are loathe to share their perch or cede their supremacy. The half century of American primacy is giving way to a more diffused economic order where China is set to soon resume its position as the world's largest economy after a lapse of five centuries. China's growing economic weight fueled by two decades of double digit average annual GDP growth is translating into stronger political and strategic influence and greater military capacity. This has raised concerns in the United States, Japan and India especially, although the United States and its many allies in Europe, the Middle East, East Asia and Australasia continue to enjoy overwhelming military power.

11. China's New Silk Route initiative is also complicated by another factor: its more assertive stance on the territorial disputes it has with neighbours on sea and to a lesser extent on land as well. This factor co-mingles with the frictions stemming from the power shifts among the major players.

12. The increased friction between a resurgent China and other major powers, especially the United States, is occurring on three critical fronts. The first is at the diplomatic level, where a more empowered China that is seeking to play an active "responsible stakeholder" role is establishing new bilateral strategic partnerships and strengthening existing ones in all continents. This has created concern among the powers who consider certain areas and countries as in their sphere of influence and prompted them to launch competing initiatives. The most obvious examples are the contests for strategic influence in Africa between the United States and China and in Asia and the Pacific Islands between Japan and China.

13. The second front, more significant for its long-term impact, is in the area of international institutions for financial and economic cooperation. Frustrated by the slow pace of reform in the Bretton Woods institutions to more fairly reflect the growing economic clout and stakes of the larger developing countries, China has led them to establish the AIIB, the BRICS New Development Bank and the Silk Road Fund. China in particular has been understandably unhappy with the 3.81 percent of voting rights it has in the International Monetary Fund (IMF) although it accounts for 12.4 percent of world GDP.

14. In contrast to the Bretton Woods institutions which are firmly controlled by the United States in the World Bank, the Europeans in the IMF and Japan in the Asian Development Bank (ADB), China does not reserve for itself such monopolies in the institutions it has established. The 52 participating countries in the AIIB that include India, Russia and Brazil as well as nine leading European countries are indicative of the economic and political weight that China now possesses. The European Union's four largest economies, the United Kingdom, Germany, France and Italy, joined the AIIB despite pressure against doing so by the United States.

15. Beijing, however, is aware of the limits of its power. The financial and investment institutions that China has established are not meant to challenge the post-war global financial order established by the Western powers. The China-led bodies are regional investment vehicles and China continues to be an important member of the Bretton Woods institutions and participates as well in GATT and the WTO. It plays by the global financial rules though it seeks a greater role for the renminbi as an international and swap currency.

16. A rejuvenated China has not stopped at investment institutions in its regional institution-building efforts. Equally important are several China-led regional trade and economic cooperation platforms such as the Regional Comprehensive Economic Partnership (RCEP) and the Shanghai Cooperation Organisation (SCO). Dialogue forums such as the Boao Forum, which seeks to emulate Davos, further attest to China's desire to play a more prominent role on the multilateral stage in furtherance of its foreign policy goals. RCEP is seen as a rival to the Trans-Pacific Partnership Agreement (TPPA) that is being put together by the United States. The two represent very different visions of trade and economic cooperation among nations. China is promoting a more egalitarian, less intrusive and less big business-driven model compared to the TPPA. Countries like Brunei and Singapore however, are participants in both, and Malaysia is weighing to join the TPPA as well.

17. The third and most important front, the one where China is facing the biggest challenges to its quest for regional leadership and the successful execution of the New Silk Road, is the security front. This is the area where China's relative weakness is most apparent and where it has committed some costly strategic errors.

18. China has steadily modernised and enhanced its military capabilities especially in the last two decades to emerge as a credible regional power following steady increases in annual defense spending that have averaged over 10 percent. The budget this year shows an increase of 10.1 percent to US\$145 billion. China is now better able to defend its periphery, assert authority over disputed maritime features and engage in anti-piracy operations off the coast of Africa. China however is just transiting from a focus on "offshore waters defence" to building a capacity for "open seas protection". Its ability to defend even up to the "first island chain" is questionable at present and may be successfully attained only by the 2020's.

19. In the meantime Beijing's recent reclamation and "island building" measures in the South China Sea have solidified its possession of disputed maritime features and control over the surrounding waters, but China's policy of asserting what it considers its rights in both this area as well as in the East China Sea has resulted in some serious setbacks to its security aims and interests. Instead of diminishing the strategic salience of the United States and its allies especially Japan in its near seas, it has expanded as well as entrenched their presence further. At the same time Beijing has alienated some ASEAN members and lost goodwill and trust among some of them. President Xi Jinping's advocacy of a new Asian Security Concept of "common, comprehensive, cooperative and sustainable security" that emphasises "mutual trust, mutual benefit, equality and coordination" has also suffered some loss of credibility. This development has impacted negatively upon the smooth execution of the New Silk Road programme not only in maritime Southeast Asia but in the Indian Ocean as well.

20. ASEAN continues to maintain close relations with China fully aware of the powerful strategic reasons for doing so, but its hitherto mild tone on the disputes in the South China Sea and China's actions in the area has hardened. All the Southeast Asian claimants as well as Indonesia have increased their defence budgets and are acquiring more naval and maritime surveillance and patrol assets. Vietnam and the Philippines have been the most vocal. Acutely conscious of its very modest maritime defence capabilities, Manila has restored defence ties with the United States in a new Enhanced Defence Cooperation Agreement. It has also taken the unprecedented step of filing a case against the Chinese position in the South China Sea with the United Nation's Permanent Court of Arbitration.

21. Japan has reacted by making a radical change to its post-war defence policy. It has adopted a more antagonistic stance towards China, boosted defence spending, re-interpreted its Constitution to allow for military operations overseas including with the United States, reinforced defence ties with the United States and other allies, aligned itself with "democratic states" and strengthened its strategic focus on Southeast Asia. Tokyo has taken an openly confrontational position against China on the territorial disputes in the region, and provided patrol vessels and other assistance for maritime defence to the Philippines, Vietnam and Indonesia.

22. Beijing's actions have also enabled the United States to pivot even more firmly into the region. Its perceived role as security provider has received a boost in the region generally and in Japan, the Philippines and Vietnam especially as nations hedge against a China that is seen as acting as a bully. US defence cooperation with several countries, most notably the Philippines and Japan, has increased. The Guidelines for United States-Japan Defense Cooperation was revised in May this year to provide for closer cooperation against perceived threats to security, including to any threat to the disputed Senkaku Islands.

23. China's New Silk Road ventures in the Indian sub-continent have also spurred India to raise its strategic profile in the Indian Ocean and East Asia in response. India supports the BRICS Development Bank and has joined as founding member of the AIIB with the second largest number of shares after China, but views with concern China's activities around it. The China-Pakistan Economic Corridor project that provides China access to the Pakistani port of Gwadar and runs through Azad Kashmir, a territory disputed with India; an infrastructure-building project that could compromise the status of Arunachal Pradesh that is claimed by China; and China's New Silk Road projects in Sri Lanka and the Maldives, have made India more wary of what it considers "strategic encirclement".

24. In response India has launched Project Mausam which targets the same maritime routes as those of the Maritime Silk Road from East Africa to Southeast Asia. New Delhi has also pursued its Look East and Act East policies with greater vigour, resuming oil exploration off Vietnam's coast, establishing dialogue forums with the Pacific Islands, upgrading strategic and defence ties with Japan and Australia, and holding naval exercises with the United States and Japan under the umbrella of Exercise Malabar.

25. Russia is the other party that sees a likely threat from the China-led New Silk Road initiative to what it regards as its sphere of influence in the former Soviet Republics of Central Asia. In particular it had apprehensions that the initiative and the resulting increase in China's strategic presence in the region would undermine the Russia-led Eurasian Economic Union (EEU). After initial hesitation, however, Moscow declared that the EEU is ready to cooperate with the One Belt One Road project to create a "joint economic space" in Eurasia. Moscow appears to have conceded that, while China may play a more prominent role in economic matters, Russia will continue to provide the hard security for the region through the Collective Security Treaty Organisation.

26. It has, therefore, not been smooth sailing for Beijing's grand transcontinental design. There are other not insignificant risks and challenges that it confronts as well. For an initiative that has to be sustained for the better part of four decades for completion, it must survive leadership successions even for a country noted for the long tenure of some of its leaders. Political stability and sustained economic growth will have to be a constant too. Taiwan is still unfinished business. Unrest in the western provinces will need to be kept in check if not resolved. Accidental incidents in the South China Sea, especially between China and the United States, could lead to unpredictable and unintended consequences. The situation in some Central Asian states could turn volatile, and their commitment to the New Silk Road initiative become unsteady and intermittent. Pakistan continues to suffer serious political and security problems. The Belt is vulnerable to terrorist attacks and criminal elements at various points. The world's only superpower and its third largest economy do not support the initiative and attempt to discourage others from participating in it. The list of challenges and risks goes on...

27. But I think China has existential as well as other powerful reasons to put its full weight behind the initiative and see to its success. Beijing sees its increasingly vital maritime trade routes as not fully secure in the near seas, where it has been the most vulnerable in the last century. The choke point in the Malacca Straits is a lingering worry. Despite

the recent fall, China has still by far the world's largest foreign exchange reserves, totaling US\$3.5 trillion in September. China also has excess manufacturing capacity which the country's economic planners think can be put to good productive use overseas through cooperation agreements. The IMF estimated the country's capacity utilisation at only 60 percent in 2012. China's western provinces could do with more infrastructure development and connectivity with Central Asian economies to boost employment, trade and growth. China and the developing world would also be well served by financial and investment institutions that are more equitable and less weighted to the interests of the developed North. And the prospect of reviving the old Silk routes on land and at sea, when China was greatest, continues to stir the imagination.

28. Despite some of the inherent challenges and problems, I am convinced that it is in the best interests of Southeast Asia and Europe that are at opposite ends of the route, to not only welcome the New Silk Road initiative, but to participate in it. It is to up the countries of both regions acting individually as well as through ASEAN and the European Union to ensure that participation is for mutual benefit on mutually acceptable terms and they are not at risk of being swamped by large state-owned enterprises from China.

29. In this regard, aware of the doubts and concerns that have been expressed, Chinese leaders and their government have repeatedly stressed that New Silk Road projects would be the outcome of joint consultation for mutual benefit and coordinated with national and regional development plans. In Beijing's words, the initiative "accommodates the interests and concerns of all parties involved, and seeks a conjunction of interests and the "biggest common denominator" for cooperation so as to give full play to the wisdom and creativity, strengths and potentials, of all parties".

30. In the case of Southeast Asia, the New Silk Road initiative can help remedy its substantial infrastructure deficit and facilitate the building of a robust ASEAN Economic Community. Beijing has already pledged to contribute to the Master Plan on ASEAN Connectivity that was adopted in 2010. In 2014 it pledged to provide US\$20 billion in loans for regional infrastructure development in addition to the US\$3 billion for the China-ASEAN Cooperation Fund. China has also declared its support for Indonesia's plan to transform itself into a "global maritime fulcrum" and "maritime axis". A US\$20 billion loan facility to help spur the Indonesian economy and infrastructure development has been signed by the China Development Bank with Indonesian state-owned enterprises. Malaysia's support for the Maritime Silk Road is incorporated in the Malaysia-China Joint Communiqué that was signed on the occasion of the 40th Anniversary of diplomatic relations between the two countries last year. China is also involved in the development of the Kuantan port and in the joint development of the Malaysia-China Kuantan Industrial Park by consortiums from both countries.

31. I am inclined to think that ASEAN will not allow the differences over the management of disputes in the South China Sea to get in the way of collaboration on New Silk Road projects. Nevertheless I will not be surprised if ASEAN steadfastly upholds the need for disputes to be managed and resolved in accordance with the principles of international law and pursues the expeditious conclusion of a Code of Conduct in the South China Sea. I am confident, too, that while ASEAN recognises the legitimate right of all members to take necessary measures to ensure their security, the region will not fall prey as it did before to major power conflict. A Zone of Peace, Freedom and Neutrality attuned to the conditions of the twenty-first century remains utterly relevant given the big power contests taking place in East Asia, Southeast Asia and the Indian Ocean.

32. As I noted earlier, Europe like ASEAN has responded constructively to the New Silk Road idea though the opportunities and challenges fall unevenly on individual states. Greece in its present economic difficulties, for instance may see more benefit than the Netherlands whose Rotterdam port is already thriving, and Eastern Europe may be more in need of investment in infrastructure than the more developed Western half, but investment opportunities are open to all. The EU economy is not in the best shape and it needs more investment funds and investment opportunities in infrastructure-thin areas of new growth that lie along the overland Silk Belt. As estimated by the Asian Development Bank, fast-growing Asia needs infrastructure investment to the tune of US\$8.22 trillion in the present decade. Europe is also China's largest trading partner, and the New Silk Road objectives are in harmony with the EU-China 2020 Strategic Agenda for Cooperation. Meeting at the EU-China Summit in Brussels in June this year on the 40th Anniversary of diplomatic relations between Europe and China, leaders from both sides committed to exploit synergies from Europe's Investment Plan and the New Silk Road proposed by China.

33. If China is able to manage its territorial disputes with neighbours more astutely and less robustly, pursues mutual accommodation with other rising powers like India for common purpose, and continues to privilege the economic instrument over the military in its foreign policy, I am confident we will indeed see a new dawn for Asia in which the rest of the world can participate and share. In this regard, it is some comfort to note that the ports and port facilities that are to be built along the maritime Road are commercial and not naval in nature. China is wisely employing its investment resources mainly on wealth-creating economic development initiatives and not on depleting and wasteful hegemonic military designs.

34. With some 60 countries accounting for two-thirds of the global population and almost 40 percent of the world's GDP involved in jointly planning, constructing and benefiting from the New Silk Road enterprise under the collaborative stewardship of what will soon be the world's largest economy, I believe we could be witnessing history in the re-making.

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