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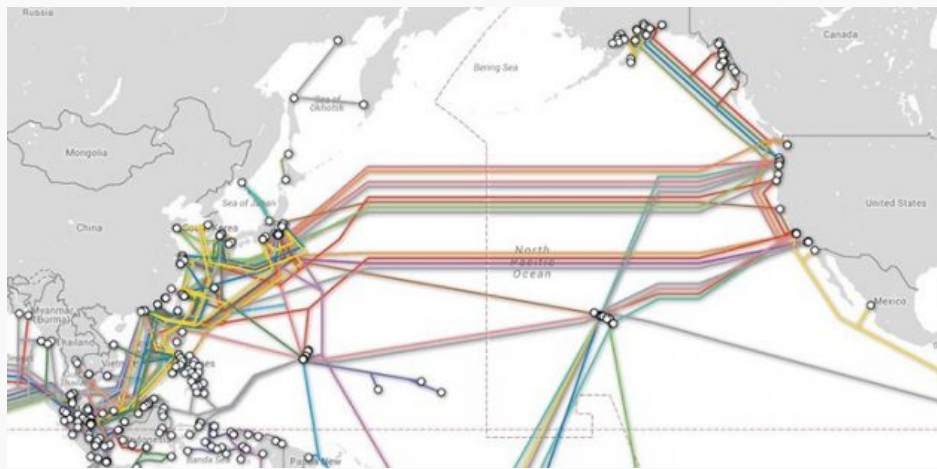
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Belt and Road's Future Lies in California

analysis

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Map of undersea fiber-optic cables connecting Asia and North America. Image courtesy of [TeleGeography](#).

The enshrining of the Belt and Road Initiative (BRI) in China's constitution in October 2017 ensures that it will guide vast swaths of Chinese foreign policy for decades to come. In essence, BRI connects sunset industries plagued by [overcapacity](#) (steel, construction, heavy engineering) to low- and middle-income countries in Central Asia and Eastern Europe.

But while BRI looks west, China's real growth centers, like Shanghai's Pudong, Shenzhen's [Huaqiangbei](#), and Beijing's [Zhongguancun](#), are looking east—to California.

To the West, Declining Industries

BRI looks great on a map, but on the ground it is much less impressive. One of BRI's shining gems is the Khorgos Gateway in Kazakhstan. Though reputed to be the [biggest dry port](#) in the world, it is essentially just a transshipment facility. It [consists of](#) little more than three 41-ton gantry cranes that are used to bridge the standard-gauge railways of China and the broad-gauge railways of the former Soviet Union.

Through Khorgos Gateway and other crossings, China plans to run [4000 trains](#) to Europe in 2018. That may sound like a lot, but it's roughly

equivalent to **one day's** traffic at the Port of Shanghai. China's other western border crossings are even more forlorn.

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The Karakoram Highway linking China and Pakistan, **reputed to cost** US\$55 billion, is a **landslide-prone** two-lane road that is closed **in the winter**. The Andijan-Osh-Irkeshtam railway from China through Central Asia has been stuck in the planning stages **since 1997**.

To the East, the Rise of Tech Giants

Compare Khorgos Gateway's drab **free trade zone** with Shanghai's flashy Pudong skyline, and the contrast between the Eurasian hinterland and China's developed east coast couldn't be clearer. More than exports, skyscrapers, and wealth, that gap is about the structure of the economy.

The companies driving technological innovation and economic growth today are the online **netware** companies of eastern China. Netware is a loose category of technologies that includes social networks, online marketplaces, e-payment providers, ride-hailing services, and even computer games.

After the state-owned oil giant Sinopec, China's two **most profitable** non-financial companies are Tencent ("China's Facebook") and Alibaba ("China's Amazon"). Tencent runs the **ubiquitous** WeChat social network, in addition to several other online services. Alibaba's Taobao and Tmall e-commerce sites are respectively the number one and number two online marketplaces **in the world**.

These netware champions, and others like them, are not only leaders in their own areas, but also in emerging technologies like virtual reality and artificial intelligence. And they all have three things in common: they leverage online network effects, they are built on American models, and they actually make money.

Unlike hardware companies such as Lenovo, Huawei, and ZTE, which operate in fiercely competitive sectors driven by individual unit sales, China's netware giants don't generate profits from selling their products. They make money by helping people sell to each other.

Calichina: China's Deep Connections with California

The idea of generating money from connecting people and businesses online is at the heart of Silicon Valley's success. Though we still call it "Silicon" Valley, it's hard to find any hardware in California these days. Apple may design its phones in Cupertino, but it **doesn't manufacture** any. Apple **makes its money** by plugging users into an online services ecosystem based around iTunes and the App Store.

Whether they are Chinese or American, all netware companies are built on American operating platforms.

Now eastern China is going the same way. Apple's iPhones, once made in coastal Shenzhen, are now mostly [made in Zhengzhou](#), the capital of the poor inland province of Henan. China's [Huawei](#) and [ZTE](#) have also moved production inland. China's Silicon Valleys, like California's, are now filling up with social networks, online marketplaces, e-payment providers, and sharing apps.

All of these business models were pioneered on the west coast of the U.S., then imported in China. Baidu's CEO Robin Li worked at Silicon Valley search engine pioneer Infoseek [before co-founding](#) Baidu in 2000. Jack Ma founded Alibaba in 2000 with Silicon Valley [venture capital](#), then expanded it by merging it with Yahoo!'s China operations. Tencent was founded in 1999 as a clone of AOL's ICQ service. They've all come a long way since those early days, but their close connections with Silicon Valley remain.

Whether they are Chinese or American, all netware companies are built on American operating platforms (Android, iOS, Windows, or macOS). Whatever language they sell in, they are all programmed in American languages (Java, JavaScript, Perl, PHP, Python, and SQL). And wherever they are based, their underlying business models, though developed in China, were first imagined in America.

If China is going to be one of the leading global technological centers of the 21st century (and all indications are that it will be), its companies will have to climb netware value chains that [connect them](#) to Silicon Valley, Seattle, and other American technology hubs. The [Calichina](#) technological ecosystem that links leading companies on both sides of the Pacific Ocean is the key to their shared economic future.

China's Real Growth Centers Look East, Not West

We are used to thinking of Europe as the heart of "the Western world," a group of developed countries with technologically advanced economies. But look at the emerging economy of the 21st century, and there's hardly a European company in sight. The most profitable (and most valuable) technology companies in the world are all based around the Pacific, and they're all netware companies.

Eurasia just doesn't matter for China the way California does.

Europe hardly figures into the business models of China's netware champions, except perhaps as a rich but declining consumer market. They don't operate on European platforms and they don't follow European models. And their eventual European operations will be built around local European fulfillment centers, not serviced via rail from western China.

Eurasia just doesn't matter for China the way California does. BRI may be important for China's old-fashioned exporters of cheap consumer goods who benefit from [heavily subsidized](#) overland transport. And it may be important for the state-owned heavy industries [that build](#) the physical infrastructure of places like Khorgos Gateway. But it is largely irrelevant for

the industries that China is depending on to lead its future economy.

China is pushing hard to develop 21st-century technologies like artificial intelligence, big data, blockchain, virtual reality, and the Internet of Things. All of these put it in direct competition with American companies, but also embed it in a shared technological ecosystem with the U.S. So forget romantic notions of reopening the Silk Roads connecting China to the West. The real transnational integration story of the 21st century is Calichina.

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