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The US \$21 Trillion Silk Road Project

TEN ADVANCED MINERAL PROJECTS

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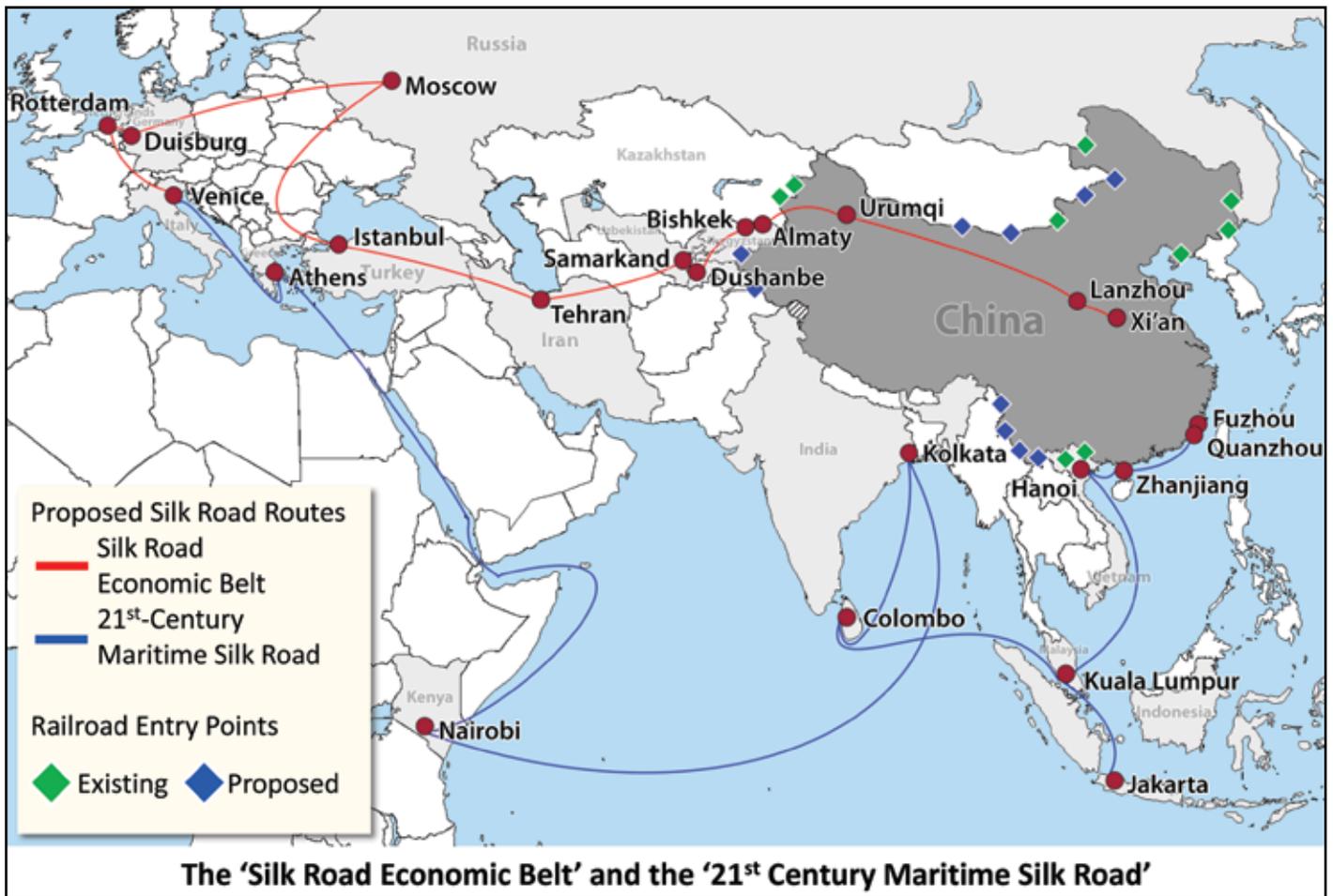
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The 21st Century US \$21 trillion infrastructure project

by Sandy Chim, President & CEO, Century Iron Mines Corp.



Joining the Pacific and Atlantic Oceans on the Eurasian
Continent, the Silk Road Economic Belt will be the
cornerstone of the next commodity super-cycle.



Sources: Xinhua (Silk Road routes); United Nations (rail entry points).

CORNERSTONE OF THE NEXT SUPER-CYCLE

With the October 2014 launch of the Asian Infrastructure Investment Bank (AIIB) in Beijing, (and a capital of US \$50 billion), China laid the cornerstone for the next commodity Super-Cycle. This may even be an understatement. The development marks the beginning of the realization of an ambition estimated at US \$ 21 trillion to re-establish the trade routes (both by land and sea) that connected the civilizations and peoples between East and West across the Eurasian continent for thousands of years. This, truly the best of both worlds, is not just 'pie in the sky', but the significant upgrading of an existing land road and navigable sea lane.

The project behind the creation of the AIIB is targeted at some of the poorest regions in the world, with huge potential for industrialization and the urbanization of a very large population eager to come out of poverty. For geopolitical and geographical reasons (many countries are landlocked), some of them have been left out of modernity thus far. The creation of modern infrastructure, linking the continent, offers them tremendous access to trade and resources from much larger markets for the development of these economies. No wonder 21 countries, representing a total population of 3.67 billion (only part of the total population of the continent), have eagerly joined the AIIB, with more to come.

With an industrializing and urbanizing China as the engine of growth on the Asian end in the east and a slowly recovering European Union as an existing global economic powerhouse in the west, the foundation of a continent-wide massive economic system is well in place. The economic, social and cultural possibilities of the majority of humanity on earth today can be seen in its millennia of history.

The US \$50 billion is only an initial

capitalization. The AIIB's wealthier founding countries have much deeper pockets. China, for example, has about US \$4 trillion in its foreign exchange reserve and is looking for alternative investment instruments to the US treasury, which has accumulated some nicely appreciated value recently. The total deposits of this high-saving economy were close to US \$18 trillion by the end of 2013. Countries of either size or wealth such as India, Indonesia, Singapore

and Qatar are also key players. The financing of this multi-trillion-dollar project by further capitalization of the AIIB and other sources of funding is highly probable.

Though Australia has not joined, for understandable geopolitical considerations of its current government, its former Prime Minister Kevin Rudd said, "...I support it, and I support the Asian Infrastructure (Investment) Bank, because Asia can do infrastructure efficiently, and it needs

more infrastructure.”

On March 12, 2015, the UK announced its plans to join AIIB as a founding member with the objectives of “ensuring the success of the initiative and...unlocking the potential benefits for the wider global economy”. It is the first G7 country to do so, even against an open attack by the White House in the international media for its decision.

THE PROJECT: WHAT IS IT ALL ABOUT?

The project is an infrastructure initiative introduced by China aimed at reviving and unblocking the bottleneck in the intercontinental connection between Europe and Asia. It is a two-pronged project: land and sea. The land prong is described officially as the ‘Silk Road Economic Belt,’ which covers a stretch of land along the ancient Silk Road Trade Route from China through Central Asia to Europe (see map) on the Eurasian land mass. It is about building comprehensive systems of roads, railways and airports to make the movement of people and cargo possible, efficient and economical.

The sea prong, called ‘the 21st Century Maritime Silk Road’, starts from the east coast of China and travels through the Malacca Strait, Indian Ocean, Red Sea and eventually the Mediterranean in Europe. It involves the building of port infrastructure along this maritime Silk Road,

providing modern terminal facilities along the way and covering certain countries of South Asia, the Middle East and part of east Africa.

It is estimated that there are some 5 billion people living on the vast Eurasian continent, representing close to 70% of the total world population, with millennia of civilization behind them. Historically, the ancient Silk Road made trade and commerce possible across the continent and economies thrived along the way. But with the advent of modern times, the road has been disappearing and these economies have lost their prosperity for various reasons. With the emergence of China as the second largest economy and the largest manufacturer in the world, the critical mass now exists to make the link between Europe and Asia once again profitable and desirable. The project is envisioned to fulfill that mandate.

RAILWAYS ARE STILL TRANSFORMING THE WORLD

Railway historian, Christian Wolmar, claims that railways “were the most important invention of the second millennium.” The invention of the steam engine and the subsequent railways in Great Britain made the Industrial Revolution possible and railways extended it to the rest of the world. The continental railways linking

the Atlantic and Pacific Oceans in Canada and the United States preceded the rapid economic development of North America. The same trajectory of railways (or infrastructure for that matter) and economic development will repeat itself again when the same two oceans, Pacific and Atlantic, are connected, but this time on the Eurasian continent.

However, Eurasian development will differ in one important aspect from the North American experience: its population density over a large land mass has made high-speed rail travel an indisputably superior mode of transportation than aviation, particularly in the context of modern airport security. Europe has been hugely successful with high-speed railways.

The recent Chinese experience with massive, state-of-the-art high-speed railways has been another success, both in execution and in usage. China’s 16,000 km of high-speed rails is far longer than any other country and is larger than the entire EU network, according to China Railway Corp. Having both the east and the west ends of the Eurasian continent already built with such sophisticated networks, the long-term development prospects of a continent-wide high-speed rail connection is looking closer to reality.

REALITY CHECK: JOINING THE DOTS

Rebuilding history across a continent that is home to the majority of humanity sounds very ambitious. However, looking at the milestones achieved over the last few years, including the inauguration of the AIIB, the project’s progress appears solid and certain.

By way of example, in December of 2014, some 80 containers of consumer goods were shipped by train from Yiwu (a city close to Shanghai) China to Madrid, Spain, changing gauges a few times, crossing some 13,000 km while checking through multiple national borders in between on the existing old network. The cargo nevertheless arrived at its destination 15 days earlier and more cheaply than by the conventional sea route. In addition, since 2013, electronic goods have been shipped over land from Chengdu, China (where two-thirds of the



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world's iPads and 20% of its computers are manufactured), to Lodz, Poland.

THE VAST POTENTIAL FOR COMMODITIES

Since the beginning of the International Financial Crisis (IFC) in 2008/9, we have seen the huge impact on the commodities market of China's US \$600 billion stimulus program. A very substantial part of the program was rail-related construction. It translated into an unprecedented surge in demand for iron and other commodities that sent the commodities markets to its peaks and benefited mining companies around the world with record earnings in 2011. It is quite possible to calculate how much more impact this US \$21 trillion project will have over the coming decades.

This time around, the project is not in response to a crisis like the IFC, but it has a clear mission of building the infrastructure conditions for developing countries to industrialize and urbanize for better living standards. The member countries will have their say in shaping how this project will benefit the participants. The accumulated solid experience of building infrastructure such as the railway network in China can be transferred across to the effective execution of the project.

The project is often compared with the US \$13 billion (or US \$160 billion in today's dollars) Marshall Plan which contributed to the successful rebuilding of industrialized Europe and Japan after the Second World War. The US \$50 billion initial capitalization of AIIB is already about a third of the size of the Marshall Plan. However, the Asian cost of construction will be lower, because there is an abundant supply of local cheap labour from developing countries there, and Asia is one of the lowest-cost railway builders in the world. The project budget simply goes further than in the advanced economies.

However, the much grander scale of impact from this project will be seen when the US \$21 trillion vision is systematically executed over time, with the clear leadership of China, driving a recent successful model of economic development with both the capital and technical capability

of mega-scale projects over extreme terrain and weather conditions. The long-term commodity demands during the initial decades of building the project and the proliferation of subsequent urbanization and post-urbanization will be enormous over the long term. The retreat of institutions from the mining sector and the resulting lack of capital and project development will aggravate the normal shortage when the market recovers. There are tremendous opportunities for mining projects which are well-capitalized and developed in tandem with this project.

There is much to reflect on in our own history of the Canadian resource and mining sector. As an unintended beneficiary of the Marshall Plan, even the Canadian iron ore industry and particularly in the Labrador Trough, located far from the rebuilding economies, benefited for decades from the rebuilding of Europe. There is no reason why Canada's iron ore industry and many other sectors in this resource-rich country, should not benefit in turn from this project and its almost unimaginable scale. ■