

QUAD-PLUS Dialogue



Analyses of BRI and Alternative Strategies: The Case of Taiwan's New Southbound Policy

Szu-chien Hsu, President, Taiwan Foundation for Democracy

**Quad Plus Dialogue,
Tokyo, Japan
March 4–6, 2018**

The biggest challenges to the Belt and Road Initiative (BRI) are twofold: time and money. If the Chinese government cannot find ample investment for all the projects, the longer it prolongs, the more likely the BRI will run into major problems. Currently, without Western financial help, China does not have the capacity to finance all the projects by itself. Such an analysis constitutes the foundation for the strategies that this paper discovers. This paper proposes four major general strategies: (1) trapping China; (2) forming a renegotiating partnership; (3) providing parallel alternatives; and (4) providing non-parallel alternatives.

Trapping China

First, since China is not able to finish all the projects by itself and will inevitably need help from the West, one immediate strategy is just to wait until China runs into pitfalls and problems, if it does not adjust its current extravagant style. The more China will need to increase the costs or to prolong the time frame to finish the projects, the more likely that China will come to ask the Western financial institutions to help finance their investment. This needs not to be achieved by the third-party countries. Usually more public awareness of the host country will have that kind of effect. Therefore, research and study on the potential negative impact of China's BRI projects should be encouraged, better in cooperation with institutions in those host countries. This strategy is particularly applicable to those countries where the risks are high and opportunities are low for the BRI projects.

Forming a Renegotiating Partnership

Second, when China comes to the Western financial institutions for aid, there is the opportunity for the second strategy, which is forming a renegotiating partnership. The goal of this strategy is not only to dilute China's ownership of the BRI projects, but also to change the rules of the BRI to conform to the existing international norms. The supportive investment from the Western financial institutions should be coupled with conditions to change the governance mechanisms of these projects. The contract should be open to international competition; the management and financial reports should be made more transparent and accountable; and the loan to the host country should be reasonable. This strategy is more applicable to those countries where the risks are high and opportunities are also high for the BRI projects.

Providing Parallel and Non-Parallel Alternatives

In the case that China is improving its approach of the BRI and is successful in managing all kinds of pitfalls and challenges, the West should develop more proactive strategies. The third and the fourth strategies fall into this category. Strategy three is the one that is made public recently by initiating parallel infrastructure construction plans for those countries along the One Belt One Road regions. What matters is not the fact that this plan is "parallel" to the BRI, but that it provides an "alternative" model of development that really benefits the host countries instead of only benefiting the constructing companies and the government behind them. So the "parallel alternative" construction plan should emphasize the following aspects: first, the projects should be more based on the real needs of the local society instead what the constructors want; second, the construction should not be monopolized by few or certain companies and should be open for transparent open-market competition; third, the construction should try to increase local employment and include local construction teams; fourth, if possible, the construction should also nurture local manufacturing partners so the host country would not become dependent in management or maintenance afterwards.

The fourth strategy is also an alternative one but not "parallel." In other words, the BRI put more emphasis on infrastructure and creates the effect of dependence on China. This strategy aims at helping to build, connect, partner, and integrate the local agricultural, industrial, or service sectors with the investment countries. This strategy also emphasizes cooperation and collaboration with non-state sectors, mainly the private sector and the people-to-people connections. The projects in this strategy should aim to foster small and medium enterprises to grow and increase trade based

on manufacturing between the host developing countries and the more advanced countries. This strategy stresses helping the local economies become more self-sustainable and more connected to a wider international market so that they will not fall into the track of seeking patronage of an authoritarian large country like China.

Taiwan's New Southbound Policy can fit in the third and the fourth strategies. First, Taiwan's high-speed rail is probably the only large-scale export of Japan's Shikansen. More importantly, Taiwan has developed its own indigenous local manufacturers for railway parts, which, of course, is cheaper than the Japanese-made ones. If Japan is constructing a new high-speed rail in South or Southeast Asian countries, Taiwan can help the Japanese overseas construction to price down the bidding, and also help the host country develop their indigenous parts production industry. Not only can both Japan and Taiwan benefit from such cooperation, the host country can also benefit by being included in the production chain. This is a case of developing a win-win-win model of co-development, a much superior model in contrast with the China-dominated BRI model.

There are also other possibilities of cooperation on non-infrastructure projects. For example, Taiwan can work with Australia on disaster rescue training programs as Taiwan has a largest disaster rescue training center in the region.