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China's Belt and Road Initiative: Context and Response

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Introduction

At this point, one would be hard pressed to find someone that is not familiar with China's One Belt One Road (OBOR) or Belt and Road Initiative (BRI). The origins, history, and significance of President Xi Jinping's ambitious connectivity road map have been covered extensively in the press and scholarly literature and will not be reviewed here.

The specifics of the BRI are much harder to pin down, in part because they are always changing and in part because it is such an amorphous initiative. According to one State Department official, the Belt and Road is less a coherent road map than a series of Chinese firms stumbling over one another to find productive new investments abroad and doing their best to label them "BRI investments" so as to win support from Beijing.

"By mid-2016 President Xi claimed 57 countries were active participants and 30 have formally signed BRI cooperation deals."[i] China claims to have established 75 overseas economic cooperation zones in 35 BRI countries while Chinese enterprises were contracted to build 2,133 overseas infrastructure projects in the first quarter of 2016.[ii]

On the ground the Belt and Road Initiative has not quite matched its lofty ambitions. Of the 68 nations formally participating in the BRI, 27 have "junk" financial ratings and another 14, including Afghanistan, Iran, and Syria do not have ratings at all.[iii] Some analysts believe China risks losing hundreds of billions of dollars and "creating a slew of disgruntled debtor neighbors with landscapes scarred by white-elephant projects."[iv]

Nevertheless, by any objective measurement the scale and scope of the BRI is without historic precedent. Even if a large proportion of proposed investments fail or prove unprofitable, China is already reshaping the economic and geopolitical landscape of the Indo–Pacific and beyond. The

BRI is here to stay and if there was any doubt, President Xi Jinping, who first unveiled the BRI concept in Kazakhstan in 2013, had the initiative enshrined in China's constitution last year.

India Alone

By early 2017 it seemed every country on earth was rushing to get a slice of the BRI pie, with one important exception: India. (Ironically, the Indian port of Kolkata continues to appear as an important waypoint on all BRI maps issued by China.) In a break with its more deferential traditions toward Beijing, Delhi emerged early on as the lone and vocal critic of the BRI.

Even as its neighbors moved to embrace the initiative Delhi refused to send participation to China's Belt and Road Summit in May 2017, publicly and privately airing its numerous concerns about the strategic implications of the BRI.

Some of India's complaints are related to the China–Pakistan Economic Corridor (CPEC), an over $60 billion infrastructure corridor which traverses Indian-claimed territory in Kashmir. When Prime Minister Narendra Modi visited Beijing in 2015 he reportedly "very firmly" explained to President Xi that CPEC "is not acceptable to us."[v] In a thinly veiled jab at Beijing at the 2017 Raisina Dialogue, Modi declared: "connectivity in itself cannot override or undermine the sovereignty of other nations. Only by respecting the sovereignty of countries involved can regional connectivity corridors fulfill their promise and avoid differences and discord."[vi]

Beyond the sovereignty-related concerns tied to CPEC, Delhi's stated reservations related to: (1) the lack of inclusivity and external consultations with the BRI, which Delhi has labeled a "national Chinese initiative"; (2) suspicion of hidden strategic ambitions motivating China's economic investments; (3) concerns over the quality and environmental standards applied to BRI investments; and (4) the possibility that participating nations would fall victim to a Chinese "debt trap," breeding geopolitical subservience.

America's Change of Heart

When it assumed office in early 2017 the Trump Administration assumed the same ambivalent posture toward the BRI adopted by its predecessor. While refusing to endorse the BRI, the Administration sent Matthew Pottinger, Senior Director for Asian Affairs at the National Security Council, to the 2017 Belt and Road Summit in Beijing.

However, signs of a U.S. change of heart on the BRI began to emerge in June 2017. When President Trump hosted Prime Minister Modi for dinner at the White House that month, the joint statement echoed some of India's stated concerns about the BRI. It supported "bolstering regional economic connectivity through the *transparent* development of infrastructure and the use of *responsible debt financing* practices, while ensuring respect for *sovereignty* and *territorial integrity,* the *rule of law,* and the environment."[vii]

Then, in October 2017, just days after returning from a trip to India, U.S. Defense Secretary James Mattis signaled for the first time that the U.S. harbored serious concerns about the BRI. "In a globalized world, there are many belts and many roads, and no one nation should put itself into a position of dictating 'one belt, one road,'" Mattis declared in testimony before the U.S.

Senate. His reservations echoed those of his questioner, Senator Charles Peter, who worried the BRI represented a strategy "to secure China's control over both the continental and maritime interests, in their eventual hope of dominating Eurasia and exploiting natural resources there."[viii]

Weeks later Secretary of State Rex Tillerson solidified America's shift on the BRI, echoing many of the concerns raised by Delhi. BRI investments, he explained in an October 2017 speech, were saddling countries "with enormous levels of debt," while

> too often foreign workers are brought in to execute these infrastructure projects. Financing is structured in a way that makes it very difficult for them to obtain future financing and oftentimes has very subtle triggers…that results in financing default and the conversion of debt to equity. So this is not a structure that supports the future growth of these countries.

Finally, in early 2018, PACOM chief Admiral Harry Harris declared the BRI "is a concerted, strategic endeavor by China to gain a foothold and displace the United States and our allies and partners in the region." He insisted the initiative was putting China "in a position to influence [global] shipping routes" and putting "global chokepoints under pressure."[ix]

Australia Has Second Thoughts

Within days of Mattis' October 2017 testimony, echoes of the U.S. shift on the BRI could be heard in Australia when Frances Adamson, the Secretary of the Department of Foreign Affairs, became the first Australian official to voice reservations about the initiative. "Let's look at the financing arrangements, let's look at the governance arrangements because we know…infrastructure projects can come with very heavy price tags and the repayment of those loans can be absolutely crippling," she warned.[x]

Meanwhile, Australia's 2017 Foreign Policy White Paper noted with concern: "Economic power is also being used for strategic ends. We are already seeing increased competition over regional economic integration, including in the financing of infrastructure projects."[xi]

In 2017 Canberra declined a Chinese offer to formally link the BRI with the Northern Australia Infrastructure facility.[xii] According to the Australian press, government officials were sharply divided over China's offers to join the BRI, with Australian diplomats and security officials expressing major skepticism. As one senior government official told ABC: "We saw very little in additional economic benefit for signing up, but a lot of negative strategic consequences if we accepted Beijing's offer."[xiii]

Finally, in January 2018 Australia's minister for international development warned: "We just don't want to build a road that doesn't go anywhere. We want to ensure that the infrastructure that you do build is actually productive and is actually going to give some economic benefit or some sort of health benefit." China's foreign ministry decried the statement as "full of ignorance and prejudice," encouraging the Australian minister to "engage in self-reflection."[xiv]

Japan

Ironically, while arguably the most active in working to counter the BRI, Japan has been among the initiative's least vocal critics. Prime Minister Shinzo Abe has repeatedly signaled Japan's willingness to "extend cooperation" with the BRI initiative although, importantly, his endorsement is highly conditional.

Tokyo insists cooperation with the BRI depends on it being "in harmony with a free and fair trans-Pacific economic zone."[xv] Meanwhile, infrastructure must be "open to use by all" and be "developed through procurement that is transparent and fair." Moreover, projects must be "economically viable" and "financed by debt that can be repaid."

In contrast with its muted criticism, on the ground Japan has been wielding large sums of overseas development assistance (ODA) to provide alternatives to developing countries seeking large-scale infrastructure projects for years. Japan is already the leading investor in several Southeast Asian countries and its begun wielding its ODA in inventive new ways, including providing Association of Southeast Asian Nations member states with new naval patrol vessels.

Tokyo successfully outbid China for a multi-billion-dollar port and power plant project in Bangladesh[xvi] only to be itself outbid by China for a multi-billion-dollar high-speed rail contract in Indonesia.[xvii] Tokyo has also grown more active pitching development projects in Central Asia[xviii] and in 2016 Abe pledged $30 billion in public and private support for infrastructure projects in Africa.[xix] In 2018 Abe requested a 10 percent increase for Japan's $6.4 billion annual ODA budget, specifically earmarked for financing infrastructure projects in the Indo–Pacific.[xx]

Europe Coming Along

In January 2018 British Prime Minister Theresa May disappointed Chinese officials when she refused to endorse the BRI on a trip to Beijing. The same month, French President Emmanuel Macron offered a surprising criticism of the BRI during an address to an audience of Chinese academics, students, and businessmen in Beijing. "The ancient Silk Roads were never only Chinese," he declared. By definition, "these roads can only be shared. If they are roads, they cannot be one way. These roads cannot be those of a new hegemony, which would transform those they cross into vassals."[xxi]

At the Munich Security Conference the following month, French Prime Minister Edouard Philippe suggested Europe "cannot leave the rules of the new Silk Road to China." At the same conference, even sharper criticism was offered by outgoing German Foreign Minister Sigmar Gabriel. In a blunt speech he declared:[xxii]

> The initiative for a new Silk Road is not—as some in Germany believe—a sentimental reminder of Marco Polo. Rather, it stands for the attempt to establish a comprehensive system for shaping the world in Chinese interest…. It is no longer just about the economy: China is developing a comprehensive system alternative to the Western one, which, unlike our model, is not based on freedom, democracy and individual human rights…. [W]here the architecture of the liberal order crumbles, others will begin to move their pillars into the building. In the long term the entire building will change. I'm sure in

> the end neither Americans nor Europeans will feel comfortable in this building that is being rebuilt.

Framing the Challenge
In a very short period of time, concerns about the BRI initiative have coalesced among the democratic Quad and further afield. Yet, while they share a general sense of anxiety about the BRI and a growing conviction about the need to respond, there is a lack of cohesion or a common understanding about what specific challenges the BRI is presenting, and what the Quad (and others) should do about it.

As a result, it may be helpful to return to the fundamental question at hand: Why is the Belt and Road troubling to the Quad? At a mundane level, China is providing infrastructure financing, capacity, and expertise to countries that desperately want and need it, in some cases with no other viable alternatives. Why is this a bad thing?

Direct Concerns. I would argue the challenges arising from the BRI can be grouped into two categories. A set of first-order concerns relate directly to the BRI and its immediate implications. They involve concerns over the standards (or lack thereof) that accompany BRI projects and the immediate economic questions surrounding BRI investments, including their sustainability and viability for participating nations.

Standards. The first and most basic set of concerns are arguably the least problematic but most directly linked to the BRI itself. They relate to questions about the environmental and quality-control standards of BRI projects. There is mounting anxiety—and evidence—that Chinese firms rarely meet the standards set by Western financial institutions or construction firms in this regard. As important, negotiations for BRI projects rarely follow Western best practices and are prone to facilitating corruption. There is growing concern that the BRI can and will undermine existing multilateral lending institutions, producing a “race to the bottom” with poor oversight and little accountability.

Who Benefits? As participating nations around the world are beginning to realize, China’s BRI is increasingly often a one-way street: participating nations assume large sums of Chinese debt and pay high rates of interest to Chinese financial institutions to pay Chinese firms to build Chinese projects using Chinese raw materials and Chinese workers whose earnings are cycled back into the Chinese economy. In any large-scale infrastructure projects there are multiple beneficiaries and for many BRI projects the vast majority of them are Chinese.

Debt Traps. If much of the benefit of BRI projects goes to Chinese entities, the costs are all being born by the participating nations. In recent years there have already been countless examples of governments assuming large, potentially unsustainable levels of Chinese debt in order to finance BRI projects, including Venezuela, Sri Lanka, and, increasingly, Pakistan. What is more, as the financial burden becomes unsustainable for participating nations, Beijing has eagerly translated debt to equity, taking ownership stakes in sensitive infrastructure projects.

Strategic Concerns. A second, more troubling set of concerns relate to the strategic implications of the BRI. They extend beyond friction over trade deficits, quality-control standards, or economic displacement, to more fundamental questions about the nature of China's economic statecraft and grand strategy. They are a product of the more assertive Chinese foreign and economic policies that have manifested with greater clarity since 2008. And while they are not a *product* of the BRI, they are being *amplified* by the Chinese initiative.

Nexus Between Economics and Security. "China's strategists do not draw lines separating economic and security objectives," argues former Indian Foreign Secretary Shyam Saran. "Each dimension reinforces the other, even though the economic dimension may sometimes mask the security imperative."[xxiii]

India's opposition to the BRI has been heavily influenced by developments in neighboring Sri Lanka, where the nexus between economics, investment, and Chinese grand strategy has come sharply into focus.

Sri Lanka's relationship with China soared to new heights in the late 2000s under Sinophile President Mahinda Rajapaksa. A wave of high-profile Chinese investments in the Colombo and Hambantota ports in the late 2000s was followed by the abrupt appearance of Chinese submarines at Colombo in 2014, peculiarly timed to coincide with a visit to Sri Lanka by Japanese Prime Minister Shinzo Abe. Notably, the submarine docked not at any of the berths designated for foreign military ships but at the Chinese-operated South Container Terminal, "in violation of protocol."[xxiv]

The following year a Chinese firm was accused of illegally "funding the election campaign of former President Mahinda Rajapaksa" through 11 suspicious financial transactions totaling over $200 million.[xxv] The election saw Rajapaksa unseated by Maithripala Sirisena, whose government put a hold on China's involvement in the Colombo and Hambantota port projects to review the confidential deals signed by Rajapaksa. It found the contract for the Colombo Port City Project had secretly awarded China unrestricted ownership of 88 hectares of land while "the airspace over the Chinese-held area would be exclusively controlled by China."[xxvi]

The Sirisena government attempted to cancel both deals but found itself so indebted to China it had no other choice but to offer "debt-for-equity" swaps, allowing China to assume greater stakes in the port projects in return for debt relief.

Chinese Sharp Power. Within the region and beyond, recent years have witnessed a rising chorus of concerns about the unique ways in which China has begun to wield instruments of power in overtly coercive, punitive, and intrusive ways to induce or enforce alignment with its foreign policy priorities—what some have begun referring to as "sharp power."

One of the early manifestations of this new trend emerged in 2010 when China suspended diplomatic relations with Norway after the Oslo-based Norwegian Nobel Committee granted its prestigious Nobel Peace Prize to the imprisoned Chinese democracy advocate Liu Xiaobo. Beijing immediately suspended trade talks and diplomatic ties were sent into a deep freeze for six years before Norway agreed to issue a joint declaration in December 2016 pledging to respect China's sovereignty, territorial integrity, core interests, and major concerns.[xxvii]

In 2016, China–Singapore ties were abruptly shaken when authorities in Hong Kong impounded nine Singaporean Terrex troop transport vehicles upon their return from a routine military training exercise in Taiwan, widely interpreted as a form of punishment for Singapore's support for the aforementioned United Nations Convention on the Law of the Sea tribunal ruling.[xxviii]

In 2017 South Korea was subjected to a fiercely retributive campaign by Beijing in response to its decision to host a U.S. missile defense system, the Terminal High Altitude Area Defense (THAAD) platform. Beijing "restricted Korean pop culture imports, ordered Chinese travel agencies to halt sales of travel packages to South Korea, blocked importation of Korean cosmetics, and unleashed a series of unofficial economic sanctions."[xxix] Lotte, the South Korean retail supermarket that provided land to the federal government for the deployment of the THAAD system, saw over 80 percent of its 99 stores in China abruptly closed for "fire code violations."[xxx]

The Trump Administration's 2017 National Security Strategy criticized China for "using economic inducements and penalties, influence operations, and implied military threats to persuade other states to heed its political and security agenda." [xxxi] An investigative report by the *Washington Post* the same year highlighted China's "industrial espionage, its demands for forced technology transfer, its use of Chinese state-run media to broadcast pro-Beijing propaganda in the U.S. and its attempts to influence U.S. educational institutions."[xxxii]

Perhaps nowhere have charges of Chinese interference grown louder than in Australia. As Rory Medcalf notes, China is increasingly using "propaganda, political donations, and the mobilization of sub-groups within Australia's Chinese population to urge Canberra to support China's territorial claims in the South China Sea." Writing in the *Australian Financial Review* he laments:[xxxiii]

> This is neither the soft power of free expression nor the hard power of military force. Instead it is the sharp power of intrusive influence, including through the strategic granting then apparent withholding of political funds. The reported Chinese Communist Party efforts to distort Australia's sovereignty go beyond what is acceptable in an even vaguely rules-based global system. It breaches historic norms of states' non-interference in each other's affairs, which China's leaders say they support.

Promoting Alternatives

With concerns about the BRI mounting among the Quad, there's growing consensus among the Indo–Pacific democracies on the need to do *something*. The idea of promoting a new vision for regional infrastructure and connectivity that would serve as an alternative, if not competitor, to the BRI is not novel. As noted, Japan has been actively wielding large sums of ODA to provide options to developing countries seeking large-scale infrastructure projects for years.

Indeed, Japan is already the dominant player in regional infrastructure investment, although China is gradually closing the gap. Since the turn of the century Japan's infrastructure investments in Southeast Asia totaled $230 billion as compared to China's $155 billion, according to Singapore-based BMI Research.[xxxiv] In 2017 the Japan International Cooperation Agency offered its largest-ever yen loan in a successful attempt to outbid China for a multi-billion-dollar port and power plant project in Bangladesh.[xxxv] In 2016 Abe pledged $30 billion in public and private support for infrastructure projects in Africa.[xxxvi]

In September 2015 Delhi, Tokyo, and Washington endorsed the creation of a new expert-level group to "identify collaborative efforts that can help strengthen regional connectivity" at a meeting of the IJU trilateral.[xxxvii] In Tokyo the following November Modi and Abe proposed a new initiative "combining the human, financial and technological resources of the two countries to advance [regional infrastructure connectivity] including through Japanese ODA projects."[xxxviii]

Since then, Japan and India have articulated and sought to merge new regional connectivity initiatives, including India's "Asia–Africa Growth Corridor," and Japan's "Expanded Partnership for Quality Infrastructure," which Tokyo announced in 2016 would receive $200 billion in financing for global infrastructure projects. In 2017 Tokyo and Delhi inaugurated a new India–Japan Act East Forum, "marrying India's Act East Policy with Japan's Free and Open Indo-Pacific strategy."[xxxix]

For its part, the Trump Administration has begun exploring ways to become more proactive in promoting regional infrastructure and connectivity initiatives in partnership with Japan. In October 2017 Secretary Tillerson revealed the U.S. had begun "a quiet conversation" with America's partners about how to "create alternative financing mechanisms" that would offer a choice to countries eager for investment but wary of the terms and conditions attached to BRI projects.

The following month the U.S. Overseas Private Investment Corporation (OPIC) signed a Memorandum of Understanding with the Japan Bank for International Cooperation and Nippon Export and Investment Insurance to "offer high-quality United States-Japan infrastructure investment alternatives in the Indo-Pacific region."[xl] Around the same time the U.S. and Japan launched a new Strategic Energy Partnership "to promote universal access to affordable and reliable energy" across the Indo–Pacific.

Meanwhile, the U.S. Trade and Development Agency and Japan's Ministry of Economy, Trade, and Industry have reached agreement to "help bring high-quality energy infrastructure solutions to the Indo-Pacific region." It is designed to "demonstrate the high-quality value proposition that U.S. and Japanese companies excel at in infrastructure development."

Finally, during the first meeting of the revived Quad last November, the four sides reportedly discussed a plan "to have the Asian Development Bank and the World Bank increase their funding for infrastructure, rather than create a new international financial institution."[xli]

Challenges Ahead

The Trump Administration is actively conducting an inter-agency review process to explore ways to better support sustainable infrastructure investments in the Indo–Pacific in conjunction with U.S. partners in ways that align with its Free and Open Indo–Pacific strategy.

Yet, there are challenges ahead, from domestic political hurdles to institutional capacity constraints. The first set of challenges are bureaucratic. As one State Department employee recently confided, various branches of the U.S. government are increasingly aligned on the need to do *something* in this space but they are finding difficulty reaching consensus on the appropriate mechanisms for doing so. The process is further slowed by the fact there are "different equities and perspectives in different offices."

The second set of constraints relates to resources: the U.S. government has few allocated to promoting infrastructure development abroad and in the current political environment it will prove challenging to find substantial new appropriations for such an endeavor.

There are political hurdles as well, including from within the conservative movement. Many conservatives are opposed to the idea of using U.S. taxpayer money to finance infrastructure development abroad. Others have long-standing hostility toward the few existing U.S. institutions like OPIC and the Ex–Im Bank that might be best positioned to contribute to such an initiative.

Finally, the U.S. government has not been a major player in the infrastructure development arena for some time, and lacks the tools and institutional mechanisms to compete with China. Some critics argue the U.S. will *never* be in a position to compete with China on connectivity and argue it is better to join the BRI and try to shape it from the inside.

Proposals

Promote Transparency. In discussing ways the U.S. government can become more actively involved in mitigating the negative consequences of China's BRI there is near universal agreement that promoting greater transparency is among the "lowest-hanging fruit"—not least because it cost-free to the U.S. taxpayer and is not opposed by any political or interest groups.

The U.S. and the Quad can and should become more active in helping countries to evaluate project proposals, as well as educating governments (and their publics) on the potentially negative effects of the BRI, the scope of the monetary and non-monetary costs that can accompany Chinese investments, the long-term profitability of BRI projects, and the life-cycle costs and debt risks, among others. The U.S. government (and others) might consider stationing officers in relevant embassies with the expertise and mandate to provide such advice and expertise.

The Extractive Industries Transparency Initiative (EITI) offers a template that might be helpful in this regard. It represents a global standard "for the good governance of oil, gas and mineral resources," ensuring transparency and accountability about how natural resources are governed, how the rights are issued, how the resources are monetized, and how they benefit the country's citizens.

In some cases, the deals Chinese firms have signed with participating governments have been made in secret, carrying provisions that many find unacceptable when the details are eventually publicized. Helping countries to evaluate these proposals with professional standards, as well as pointing them toward potential alternatives, is a service the U.S. government has the capability and expertise to provide at a low cost.

Overall, the U.S. needs better strategic messaging not just about the costs of the BRI but about what the U.S. is doing well. After all, the cumulative stock of U.S. foreign direct investment worldwide far exceeds China's, and America's track record is far superior, if rarely publicized.

Financing. To date, the debate about America becoming more involved in development financing abroad has centered around the Overseas Private Investment Corporation (OPIC). However, in President Trump's 2019 budget request he has proposed "consolidat[ing] development finance agencies and functions, such USAID's Development Credit Authority (DCA) and the Overseas Private Investment Corporation (OPIC), into a single Development Finance Institution (DFI) with more modern and effective tools and reforms to protect taxpayer dollars."

It argues: "A modernized, better aligned DFI will serve as a core tool of U.S. national security to promote U.S. influence in developing markets, while supporting economic growth as part of a long-term strategy to build self-reliance and transition countries off of foreign assistance."

The DFI will "encourage but not displace private sector investment in frontier markets by deploying development finance selectively in partnership with private capital through shared risk models." It will "employ tools and authorities to further these objectives, such as loans and guarantees, political risk and expropriation insurance, project-specific feasibility studies, and other tools as authorized."

If the DFI proposal survives and is enacted it could provide a powerful new tool for the U.S. government to become more actively involved in development finance. The U.S., India, Japan, and Australia should begin preliminary discussions on how this new institution could be leveraged most effectively to advance their shared goals vis-à-vis the Free and Open Indo–Pacific.

Consolidation. While the U.S., India, and Japan are increasingly in alignment on the principles of the Free and Open Indo–Pacific strategy, there are several overlapping initiatives currently underway, including India's Project Mausam and its "Security and Growth for All in the Region (SAGAR), Japan's Partnership for Quality Infrastructure, and the Indo-Japan Asia-Africa Growth Corridor (AAGC), to name but a few.

The Indo–Pacific democracies would be well-served by consolidating and unifying these visions and initiatives in ways that play to the relative strengths of the three parties while leaving open the door to collaboration with sympathetic external partners.

Other Items to Consider.

- Establish a central coordinating office within the White House or National Security Council to lead and guide interagency efforts.
- Consider requesting Congress—or the U.S.–China Economic Security and Review Commission (USCC)—provide an annual report on China's Belt and Road Initiative. The DOD's annual report on Chinese military power would serve as a potential template.

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