



# MAPPING THE BELT AND ROAD INITIATIVE

REACH, IMPLICATIONS, CONSEQUENCES



EDITORS

HARSH V PANT AND PREMESHA SAHA

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**Attribution:** Harsh V Pant and Premesha Saha (Editors), *Mapping the Belt and Road Initiative: Reach, Implications, Consequences*, February 2021, Observer Research Foundation.

**Observer Research Foundation**

20 Rouse Avenue, Institutional Area

New Delhi 110002

India

[contactus@orfonline.org](mailto:contactus@orfonline.org)

[www.orfonline.org](http://www.orfonline.org)

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**Editing and Production:** Vinia Datinguino Mukherjee

**Design and layout:** Rahil Miya Shaikh

ISBN: 978-93-90494-37-8



<b>INTRODUCTION</b>	5
<i>Harsh V Pant and Premesha Saha</i>	

## SECTION 1

### PIVOTAL GEOGRAPHIES: PROJECTS, PROGRESS, AND THE CHALLENGES

<b>SOUTH ASIA</b>	
CPEC: Building a Path For Pakistan's Financial Ruin	9
<i>Kriti M Shah</i>	
BRI & Afghanistan: Systemic Challenges Impede Integration	13
<i>Shubhangi Pandey</i>	
Bangladesh: Riding the BRI Tide	20
<i>Joyeeta Bhattacharjee</i>	
The BRI Quandary in Nepal and Sri Lanka	24
<i>Sohini Nayak</i>	
<b>SOUTHEAST ASIA AND OCEANIA</b>	
Myanmar and Thailand: A Cautious Approach to the BRI	31
<i>K. Yhome</i>	
Southeast Asia: A Key Link to BRI's Maritime Road	38
<i>Premesha Saha</i>	
Polemic Intersections: The BRI in Australia, New Zealand, and the Pacific Island Countries	45
<i>Pratnashree Basu</i>	
<b>MIDDLE EAST</b>	
Walking the Geopolitical Trapeze Wire	51
<i>Kabir Taneja</i>	
<b>AFRICA</b>	
Counting the Risks and Rewards of the BRI	56
<i>Abhishek Mishra</i>	
<b>CENTRAL ASIA</b>	
China Revives its Ancient Silk Route	63
<i>Ayjaz Wani</i>	
<b>LATIN AMERICA</b>	
The 'Bright Spark' for BRI?	70
<i>Anant Singh Mann and Dipayan Pal</i>	



SECTION 2

**GLOBAL POWERS AND THEIR  
RESPONSES TO THE BRI**

Trump’s Response to the BRI: Jettisoning the ‘America First’ Approach <i>Kashish Parpiani</i>	78
Russia’s Guarded Optimism <i>Nivedita Kapoor</i>	85
Japan’s Response: From Abe to Suga <i>Vindu Mai Chotani</i>	91
The EU’s View on the BRI <i>Sabrina Korreck</i>	97

SECTION 3

**OTHER IMPLICATIONS  
AND ONGOING DEBATES**

China Challenges Western-led Global Economic Governance <i>Aarshi Tirkey</i>	103
The BRI: A White-Elephant in the Making? <i>Ritika Passi</i>	110
Unlocking the Security Dynamics of BRI <i>Kartik Bommakanti and Angad Singh</i>	116
MSR: The Waters Under China’s Belt <i>Gayathri Iyer</i>	120
The ‘Indo-Pacific’ Counter-Narrative <i>Anasua Basu Ray Chaudhury</i>	125
Behind the Curtains of the Health Silk Road <i>Sohini Bose</i>	131

<b>ABOUT THE AUTHORS</b>	137
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# INTRODUCTION

*Harsh V Pant and Premesha Saha*

China's Belt and Road Initiative (BRI), launched in 2013 by President Xi Jinping during official visits to Kazakhstan and Indonesia, is among the world's most ambitious infrastructure projects ever conceived. It is a union of development and investment initiatives that would stretch from East Asia to Europe, and in the process significantly expand China's economic and political influence in these massive regions. The plan, initially named 'One Belt, One Road', is two-pronged: the overland Silk Road Economic Belt, and the Maritime Silk Road. On land, Beijing aims to connect the country's underdeveloped hinterland to Europe through Central Asia; the maritime component will build ports and railways to connect the fast-growing Southeast Asian region to China's southern provinces.

At the time of publishing this report, more than 60 countries—home to nothing less than two-thirds of the world's population—have signed on to BRI projects, or else have indicated an interest. Morgan Stanley has predicted that China's overall expenses over the entire duration of the BRI could reach \$1.2–1.3 trillion by 2027. Two years after Xi announced the initiative, three coordinating government agencies (the National Development and Reform Commission, the Ministry of Foreign Affairs, and the Ministry of Commerce) issued in 2015 the first official blueprint on what was then still called OBOR, the 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road'.

**Figure 1: China's New Silk Road**

Source: NBC News<sup>2</sup>

The infrastructure development plan aims to create a vast network of railways, energy pipelines, highways, and some 50 special economic zones—all of which would expand the international use of Chinese currency, the Renminbi and, thus declared Xi, “break the bottleneck in Asian connectivity.” Viewed from the geopolitical lens, Beijing’s aim, through the BRI, is to strengthen its economic leadership while gaining political leverage over its neighbours and asserting its presence on the global stage. In other words, China’s BRI stands on the pillars of both geopolitical and economic motivations. It runs parallel to China’s growing assertiveness in its bilateral relations, as seen in its increasingly hawkish actions in its immediate region and beyond. At the same time, trade relations with the United States have faced setbacks, thereby pressuring the Chinese government to find new markets for its commodities.

The BRI, however, is not only an *initiative*; it is a *response*: for one, to former US President Barack Obama’s ‘pivot to Asia’; and to the

growing salience of the Indo-Pacific maritime geography as well. In recent years, the Indo-Pacific has become central to the security and foreign policies of countries like the US, Japan, Australia, India, the UK, France, Germany, and the countries of ASEAN. China is working to strengthen global economic links to its western regions, which historically have been neglected. Promoting economic development in the western province of Xinjiang, where the Communist Party of China has waged a brutal campaign of intimidation and violence against the Uighur Muslims, is seen as a priority. So is securing long-term energy supplies from Central Asia and the Middle East.

China has captured the world’s attention by demonstrating the urgency of boosting infrastructure development and transnational connectivity as the next stage of economic globalisation. Other global powers have been forced to respond to China with their own infrastructure and connectivity plans; the demand is high, and China is the first power

to try to fill it. As it does so, Beijing appears to be falling into similar patterns of conflict.

Indeed, the challenges are growing. The story of Sri Lanka, for example, being saddled by the burden of unsustainable debt to China is well-documented. In 2018, former Malaysian President Mahathir Mohamad suspended work on certain BRI ventures in his country over concerns of mounting debts to China. For similar reasons, the government of Myanmar has significantly scaled down the Kyaukpyu port project. In Pakistan, too, the voices against the conditionalities tied to Chinese activities and loans have grown louder. India, for its part, had taken an early stance against the BRI and refused to participate in the inaugural Belt and Road Forum in 2017. It had long emphasised that connectivity projects should respect the participating country's sovereignty and territorial integrity, not create unsustainable debt burden, involve transparent accounting, and create benefits for the local economy.

It is clear that China's ambitions to recreate its ancient Silk Route—massive as they are and couched in grand rhetoric of development and connectivity—are not going to remain unchallenged. China's success will depend on its ability to move beyond the bilateral framework and allow a truly multilateral vision for the project to evolve. Otherwise, the People's Republic can expect to contend with stronger opposition from more countries other than India.

Japan, for instance, along with India have unveiled their own development cooperation with third countries under the banner of the Asia-Africa Growth Corridor. The US, meanwhile, has launched a new development

finance institution, the US International Development Finance Corporation (USIDFC) to compete with the AIIB. And the US and Australia have joined Japan in announcing plans through the Blue Dot Network for an alternative to BRI.

This monograph offers definitive analyses of multiple aspects of the BRI, authored by research scholars of the Strategic Studies Programme of ORF. The first section, 'Pivotal Geographies,' outlines the progress so far of projects under the BRI in the regions of South Asia, Southeast Asia, Oceania, Africa, West Asia, Central Asia and Latin America, and the challenges they face. The second section, 'Global Powers and their Responses to the BRI,' analyses the responses of countries and regions like the United States, Japan, European Union and Russia. The chapters in the last section offer various lenses to view the BRI against: legal, defence and security, and financial viability. Evolving debates on the Maritime Silk Road are discussed in this section as well, along with the Health Silk Road, and the emergence of the Indo-Pacific construct as a counter-narrative to the BRI.

This monograph offers an in-depth analysis of the BRI—perhaps the most widely contested narrative of this scale in contemporary global geopolitics. It aims to generate wider discussions on the subject, in India and beyond. In this era of global politics when Chinese belligerence is heightening alongside its expanding global footprint, India and the world must recognise how the BRI is aiming to reshape the global order in fundamental ways. Such an understanding can serve as an anchor for an appropriate response to the China challenge. This monograph is ORF's endeavour to contribute to this understanding.



SECTION 1

**PIVOTAL  
GEOGRAPHIES:  
PROJECTS, PROGRESS,  
AND THE CHALLENGES**



# CPEC: Building a Path for Pakistan's Financial Ruin

*Kriti M Shah*

Of the multitude of elements comprising the Belt and Road Initiative (BRI), the largest and most ambitious—the centrepiece—is the China-Pakistan-Economic Corridor (CPEC). Indeed, the plans for an economic corridor between Pakistan and China, preceded the BRI idea, with a corridor first being announced in July 2013.<sup>1</sup> The 3,218-kilometre corridor will connect western China to the port-city of Gwadar through a number of highways, railway lines, and pipelines. These projects were later reframed as part of CPEC, which was officially launched two years later in April 2015. The projects aim to spur the growth of a number of industrial zones across the country, supported by energy plants with provincial

capitals serving as nodes for the corridor.<sup>2</sup> At present, the series of Chinese-financed projects total an upward of \$62 billion in aid and investment, with the aim of connecting landlocked Chinese city of Kashgar to the Arabian Sea, thereby providing Beijing with an alternative route for shipping gas and oil, one that bypasses the Strait of Malacca.<sup>3</sup>

Referred to as the flagship BRI component, CPEC projects are underway in the energy sector (which is the largest share of CPEC investment), transportation, infrastructure development, and the creation of special economic zones to help facilitate industrial growth in the country.<sup>4</sup> Table 1 lists the projects under the CPEC banner and their status.<sup>5</sup>

Table 1: BRI projects

Sector	Project	Year	Amount/Loan	Status
Transport	Orange Line Metro Lahore	May-14	1. USD 1.55 billion (Export Import Bank of China) 2. USD 13 million short term financing (Industrial and Commercial Bank of China Limited) 3. USD 300 million (Federal Government of Pakistan)	Under Construction
	New Gwadar International Airport	2018	1. USD 246 million (Chinese Government Grant) 2. USD 17.5 million (Sultanate of Oman)	Planning Phase
	M-5 Motorway (Sukkur- Multan)	Dec-15	1. USD 2.682 billion (concessionary loans from China) 2. USD 298 (Government of Pakistan)	Under Construction
	Karakorum Highway	Jul-05	Thakot-Havelian section: USD 1.3 billion and Phase 2: USD 930 million (Export- Import Bank financed 90% of Phase 1)	Phase 2 completed
	Khuzdar-Basima Road N-30 (110 km)			
Gwadar Port City	Infrastructure Development for Free Zone, Gwadar	2015	China Overseas Port Holding Company (projected cost USD 32 million)	Phase 1 completed in January 2018; Phase 2 under construction
	Gwadar East-Bay Expressway	Jan-15	Projected cost: USD 168 million	Under Construction
Energy	Karot Hydropower Project	2016	Projected cost: USD 2 billion (Financed largely by Export-Import Bank of China and China Development Bank; mix of 20 % equity and 80 % debt)	Under Construction
	Kohala Hydropower Project	2014-2015	Projected cost: USD 2,364 million (China Three Gorges South Asia investment Limited-main sponsor)	Under Construction
	Suki Kinari Hydropower Project	2016	Projected cost: USD 1.8 billion (Loan provided by Export Import Bank of China and Industrial and Commercial Bank of China)	Under Construction
	Sahiwal Coal Power Project, Punjab	2015	Projected cost: USD 1.8 billion	Completed in July 2017
	HUBCO Coal Power Project, Balochistan	2017	Projected cost: USD 1.9 billion	Completed and Operational
	ThalNova Thar Coal Power Project, Sindh		Projected cost: USD 497 million	Under Construction
	Port Qasim Coal Power Plant, Sindh		Projected cost: USD 1.9 billion	Completed
	Quaid-e-Azam Solar Power Park (1000MW), Bahawalpur		Projected cost: USD 520 million (400MW) and 781 (660MW)	Part 1 of 400 MW completed August 2016, 600 MW under construction
	Hydro China Dawood Wind Farm, Thatta		Projected cost: USD 112.65 million	Completed and Operational
	Three Gorges Second and Third Wind Power Project, Thatta		Projected cost: USD 150 million	Completed

Source: <https://www.beltroad-initiative.com/factsheets/>

The successful completion of CPEC projects, within their given timeframe, could give Pakistan the opportunity to accelerate its industrial and economic revival. However, the nature of government institutions in both countries and high levels of corruption make it unlikely that the projects will be completed. An investigative report presented to the Imran Khan government in June 2020, exposed a sordid tale of corruption in the power sector of CPEC, where Chinese companies have enjoyed large profits and Chinese investors have been favoured, under the deals signed by the Islamabad and Beijing governments.<sup>6</sup> The government, not surprisingly, refused to make the report public, lest it affect and test the “all-weather friendship” between the two countries. A number of CPEC analysts hold the view that the corridor comes as a gift to Chinese state-owned enterprises, as they enjoy the benefits and profits of tax relaxation, easy access to financial capital, and assurances of returns from the CPEC projects.<sup>7</sup>

While CPEC remains a strategically-driven endeavour for Beijing, its projects are plagued with a number of security threats at different points in the country. In Balochistan, for one, where the Gwadar port is being built by China, separatist groups such as the Balochistan Liberation Army (BLA) continue to threaten and execute attacks against both the Pakistan army and civilian Chinese workers.<sup>8</sup> Other militant groups operating in the country, including the Tehreek-e-Taliban

Pakistan (TTP) and the Islamic State, often issue public statements against CPEC and the growing Chinese involvement in Pakistan. Their presence in the country is visible across the length of the proposed corridor and therefore continues to threaten ongoing construction activities and future projects. These threats have prompted Pakistan to create a new ‘Special Security Division’ consisting of regular armed forces (such as the army and navy) as well as elements of the Civil Armed Forces, under the Ministry of Interior, to protect projects across the country.<sup>9</sup>

The project also threatens to send Pakistan into a severe financial crisis and debt spiral, as the country does not have the capacity to repay the loans it has taken, and continues to take, from China. According to one media report, Pakistan will end up paying over \$90 billion to China over a span of 30 years against the loan and investment portfolio worth \$50 billion under CPEC.<sup>10</sup> This would further add to Pakistan’s economic woes, with the World Bank projecting a negative -1 percent growth for the country in FY 2020-21.<sup>11</sup> Forced to devalue their currency and repeatedly ask for bailouts from the International Monetary Fund (IMF), Pakistan is facing an economic crisis that threatens the future of CPEC. Pakistan continues to suffer from muddled domestic politics, growing military control, and IMF-imposed austerity that all impact the country’s ability to carry out CPEC projects.

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# BRI & Afghanistan: Systemic Challenges Impede Integration

*Shubhangi Pandey*

Afghanistan's strategic location at the crossroads of Central Asia and South Asia, has often been touted as a competitive advantage for the war-torn country. Indeed, it has often been argued that 'geography' alone can reverse the cycle of conflict and insecurity in Afghanistan: that its sheer location will transform the country into a regional hub for trade and transit. Afghanistan is also a rich repository of natural resource endowments, which, if leveraged effectively, could spur economic growth and eventually reduce the

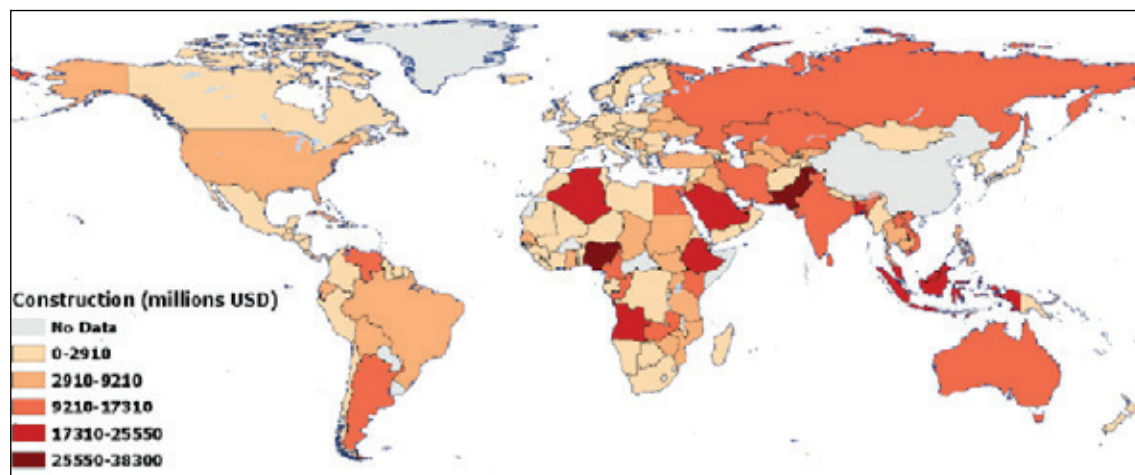
country's dependence on foreign aid. In this context, one of Afghanistan's most pressing governance imperatives, bolstered by the establishment of the Regional Economic Cooperation Conference on Afghanistan (RECCA),<sup>1</sup> is developing domestic infrastructure to foster greater regional connectivity and economic cooperation. This aligns with the founding premise of China's Belt & Road Initiative (BRI), launched by President Xi Jinping in 2013. However, Afghanistan is yet to be comprehensively brought under the ambit of the BRI.

China and Afghanistan had signed a Memorandum of Understanding (MoU) in 2016, agreeing to strengthen cooperation in promoting activities under the BRI.<sup>3</sup> Through the agreement, China pledged investments worth US\$100 million in Afghanistan, a figure that pales in comparison to China's monetary commitments to other players in the neighbourhood, such as Pakistan and the Central Asian states.<sup>4</sup> Thus far, the promise of those investments remains just that – a mere promise, with no indication of when the projects will materialise. China and Afghanistan are connected via various regional connectivity ventures that offer Kabul the opportunity to reap economic benefits—these include the Five Nations Railway Corridor (FNRC) and the Sino-Afghan Special Railway Transportation Project. There remains, however, considerable doubt about

their development and cost-effectiveness. The US\$2-billion FNRC, for example, is expected to run into further implementation delays given China's disappointing track record of handling other such projects in the region. Such delays eventually lead to dramatically increased project costs that make completion financially draining.<sup>5</sup>

Although China deems such projects to be significant components of its economic reconstruction plan for Afghanistan, none of them have yet been substantially linked to the BRI. In fact, most projects undertaken within the Silk Road Economic Belt component of the BRI do not link with Afghanistan, traversing instead through Central Asia and Pakistan. In that sense, Afghanistan remains only a tangential player under the BRI framework.

**Figure 1: Spatial Distribution of Chinese Constructions**



Source: World Bank<sup>6</sup>

An initiative that could prove instrumental in factoring Afghanistan into the larger BRI calculus, is the China-Afghanistan Air Corridor. Launched in 2018, it is an air freight corridor that could boost Afghanistan's pine nut industry, and cater to the huge demand for the commodity in Chinese markets.<sup>7</sup> However, while Chinese companies secured contracts to buy US\$2.2 billion worth of pine nuts over a span of five years from the launch,<sup>8</sup> the arrangement runs the risk of becoming unsustainable, if government subsidies for local traders of pine nuts are lifted. Moreover, the corridor has only been able to fuel moderate growth in pine nut exports from Afghanistan.

Another commonly cited example of China's economic engagement with Afghanistan is the acquisition of a 30-year extraction contract of the Mes Aynak copper mine located in the Afghan province of Logar.<sup>9</sup> In 2008, a consortium of the Chinese Metallurgical Group Corporation (MCC) and the Jiangxi Copper Company Limited (JCL) won the US\$3.4-billion bid to develop the copper field and generate revenues for the Afghan government.<sup>10</sup> However, mining operations have halted since 2015, when the then Mining Minister Daud Shah Saba voiced concerns that the project was "no longer in the interests of the country",<sup>11</sup> given China's mismanagement of the project.

A similar example in the energy sector is that of the China National Petroleum Corporation (CNPC) acquiring a US\$400-million bid in December 2011, to drill three oil fields located in the provinces of Faryab and Sar-i-Pul,

including the Amu Darya basin.<sup>12</sup> Yet again, though, to the disappointment of the Afghan government, China has failed to deliver on its economic commitments to the project, not having made any progress in conducting extraction activities thus far. Such accounts of non-delivery on economic commitments and investments have come to be understood as characteristic of Chinese projects in Afghanistan. Analysts reckon that these projects, to begin with, may be motivated by China's desire to crowd out other stakeholders, rather than a genuine commitment to a mutually beneficial arrangement.

Other than that, the Afghan government encourages private investment in the fibre optic and broadband infrastructure, to enable access to internet services at affordable rates, and facilitate improved digital connectivity, particularly in the rural areas of the country. A significant step in that direction was the 2017 agreement between China and Afghanistan that seeks to link the two countries with a fibre optic line through the mountainous Wakhan Corridor.<sup>13</sup> However, meaningful on-ground investment has yet to be operationalised, even as the agreement sits well with the larger 'Digital Silk Road' element of the BRI and could help Afghanistan realise its aspiration to serve as a data transit route.

Possibly the most viable and talked-about way of integrating Afghanistan with the BRI is to link it with the China Pakistan Economic Corridor (CPEC) – the US\$62-billion flagship BRI project that focuses on large-scale investments in the domains of energy and transport infrastructure.<sup>14</sup> The project

entails the development of Pakistan's Gwadar Port to facilitate easier logistical access to energy markets in Central Asia and West Asia for China, and a 2000-mile-long network of railways and highways to establish effective transit routes, among other projects. Having said that, a number of challenges exist towards the realisation of any such arrangement that attempts to fuse Afghanistan with the larger BRI architecture, particularly the CPEC.

**First**, China indeed does not want to miss the opportunity to capitalise on the prime geographical location of Afghanistan, and its treasury of untapped natural resources estimated to be worth US\$1 trillion, to fuel its own economic ambitions.<sup>15</sup> However, enduring conflict and insecurity in Afghanistan remains the most serious impediment to any kind of economic cooperation with China. Although the ongoing Afghan peace process has provided some hope for a negotiated political settlement of the two-decade of conflict in the country, the security situation on the ground has been deteriorating progressively.

**Second**, prevailing tensions with Pakistan reduce the likelihood of Afghan integration

with CPEC yielding mutually beneficial results in the long-run – especially given China's affinity with Pakistan, which may motivate the prioritisation of Pakistani interests over those of Afghanistan. Compounding the dynamic is the stark difference in Afghanistan's historically friendly ties with India on the one hand, and the longstanding hostility between India and Pakistan, on the other. In 2017, President Ashraf Ghani had expressed unwillingness for Afghanistan to get linked with CPEC projects, unless Pakistan allowed for connectivity access between Afghanistan and India.<sup>16</sup>

**Third**, investing in existing projects such as the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI) and the Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000) rather than in CPEC or the BRI, may prove to be more advantageous for Afghanistan, given that it is already envisioned as a fulcrum within those initiatives.<sup>17</sup> Afghanistan's decision to join CPEC therefore, would be contingent upon a thorough cost-benefit analysis of the project itself, and of existing regional economic partnerships with other countries that could potentially prove far more lucrative.



**Figure 2: The Proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) Pipeline**



Source: Council on Foreign Relations<sup>18</sup>

**Fourth**, China's lack of transparency in financing mechanisms for projects under the BRI has repeatedly been flagged as a serious concern by the international community. It is a phenomenon that is more commonly referred to as China's "debt trap diplomacy", designed to acquire greater political influence in the host country.<sup>19</sup>

Therefore, the progressively worsening security situation in Afghanistan, its huge domestic infrastructure deficit, and politically fragile relations with Pakistan, impede Afghanistan from pursuing potentially

lucrative connectivity projects, especially under the BRI framework. While China maintains that only limited security can be achieved in the absence of infrastructure development-induced economic progress, persisting insecurity remains a formidable roadblock for seamless trade and transit in Afghanistan. Nonetheless, if pursued strategically with a resolve to prioritise Afghan interests over any others', the BRI presents a unique opportunity for Afghanistan to reestablish itself as a hub for regional economic cooperation and exchange.

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# Bangladesh: Riding the BRI Tide

*Joyeeta Bhattacharjee*

China considers Bangladesh to be an important participant in its Belt and Road Initiative (BRI), and has committed to invest around US\$38 billion in the country—the second highest in South Asia, after Pakistan. Bangladesh joined BRI in 2016, during Chinese President Xi Jinping’s visit where China promised to provide lines of credit worth US\$24 billion to Bangladesh.<sup>1</sup> China and Bangladesh’s priorities are connectivity through infrastructure, trade, and people-to-people engagements.<sup>2</sup> Under the BRI, China will be funding projects in Bangladesh in the sectors of transportation (road and rail), power generation, and digital connectivity.

## KEY BRI PROJECTS

**Padma Bridge Rail Link:** Once completed, the project will form an important railway connectivity link between the capital, Dhaka, and the country’s Southwestern region. The project is estimated to cost more than US\$ 3 billion; China has pledged to provide the country a loan of US\$ 2.67 billion. In August 2016, the Bangladesh Railway and China Railway First Group Ltd signed a contract for civil works and railway systems for the project. The work was initiated in 2018 and is scheduled to be implemented by 2024. However, only 28.23 percent of the project has been completed as of November 2020.<sup>3</sup>

Table 1. Key BRI projects in Bangladesh

	Project	China's commitment	Status
1	Padma Bridge Rail Link	US\$2.67 billion	Expected to be implemented by 2024
2	Marine Drive Expressway and Sitakunda-Chittagong-Cox's Bazar Coastal Protection project		The project is not a priority now
3	Karnaphuli Multi-Channel Tunnel Projects	US\$689 million	Work under progress
4	1320 Megawatt Payra coal-fired power plant	Total estimated cost US\$2.48-billion. China is financing 80% of the project	First phase of the project completed in January 2020
5	Chinese Economic and Industrial Zone (CEIZ)	Initially China offered to invest US\$100 million. In June 2020, Bangladesh requested for US\$221 million Chinese assistance for the project	Implementation is delayed
6	Digital connectivity	US\$1 billion	

**Marine Drive Expressway and Sitakunda-Chittagong-Cox's Bazar Coastal Protection:**

The project— estimated to cost around US\$2.8 billion—will connect the key coastal cities of Chittagong and Cox's Bazar. It was put on the back-burner after the Bangladesh government blacklisted the Chinese company selected for implementing the project, after reports of bribery emerged.<sup>4</sup>

**Karnaphuli Multi-Channel Tunnel:** Includes a 3.5-kilometre under-river tunnel that will connect the port with the industrial area of Chittagong. China pledged to provide US\$ 689 million for the project, which was started in December 2017.

**Power plants:** Energy generation is a focus area of the components of the BRI in Bangladesh, and China is funding the construction of coal-fired power plants in the country.<sup>5</sup> The pivotal project is the 1320-Megawatt Payra coal-fired

power plant at Kalapara Upazila in Patuakhali District in Southern Bangladesh. The total cost of the project is US\$ 2.48 billion, of which China is financing 80 percent in the form of loans. The first phase of the project completed in January 2020.

**Chinese Economic and Industrial Zone (CEIZ):** The CEIZ is going to be created at the port city of Chattogram, and it will house Chinese investors. This was proposed by Bangladesh during Prime Minister Sheikh Hasina's visit to China in 2014. The CEIZ is being jointly developed by China Harbour Engineering Company, and the state-owned Bangladesh Economic Zones Authority (Beza). In 2020, Bangladesh requested some US\$ 221 million in Chinese assistance for the economic zone. China has offered to invest US\$ 100 million. However, implementation is getting delayed.

**Digital Connectivity:** China has pledged to provide US\$ 1 billion to Bangladesh for projects that will improve digital connectivity.<sup>6</sup>

### KEY CHALLENGES

Overall, the implementation of BRI projects in Bangladesh has been slow primarily because of delays in China's reimbursement of funds which, in turn are caused by the

complexities in Bangladesh's bureaucratic procedures. There have been instances, as well, when the delays happen because China finds it necessary to ask Bangladesh to resubmit an "ambiguous" proposal. Another issue is corruption: Bangladesh officials have had to blacklist certain Chinese companies after reports emerged of them giving bribes to officials.

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# The BRI Quandary in Nepal and Sri Lanka

*Sohini Nayak*

Nepal's participation in China's ambitious Belt and Road Initiative (BRI) project is understandable,<sup>1</sup> given the support it got from China after its devastating April 2015 earthquake. China committed<sup>2</sup> a massive NPR 56.27 billion (US\$483 million) for Nepal's post-earthquake reconstruction, and another NPR 2.5 billion, (approx. US\$ 21,475,000) to the Nepali Army.<sup>3</sup>

On 12 May 2017, Nepal joined the BRI when then Prime Minister Pushpa Kamal Dahal signed a memorandum of understanding (MoU) with China. The agreement highlighted cooperation in the areas of hydroelectricity and connectivity, and enhancing people-to-people contact. Nepal's Deputy Prime Minister and Minister of Foreign Affairs, Krishna Bahadur Mahara, led a delegation to China to attend the Belt and Road Forum for International

Cooperation in Beijing on 14-15 May 2017.<sup>4</sup> Subsequently, Chinese President Xi Jinping said that "China stands ready to strengthen cooperation with Nepal in infrastructure connectivity, post-disaster reconstruction, trade and investment under the framework of the BRI".<sup>5</sup> Many international observers have called Nepal's decision a step towards its "true globalisation". It can take the opportunities that it will be accorded by China's initiative to revive its ancient silk route<sup>6</sup> – for which it has earmarked a Silk Road Fund of US\$40 billion.<sup>7</sup>

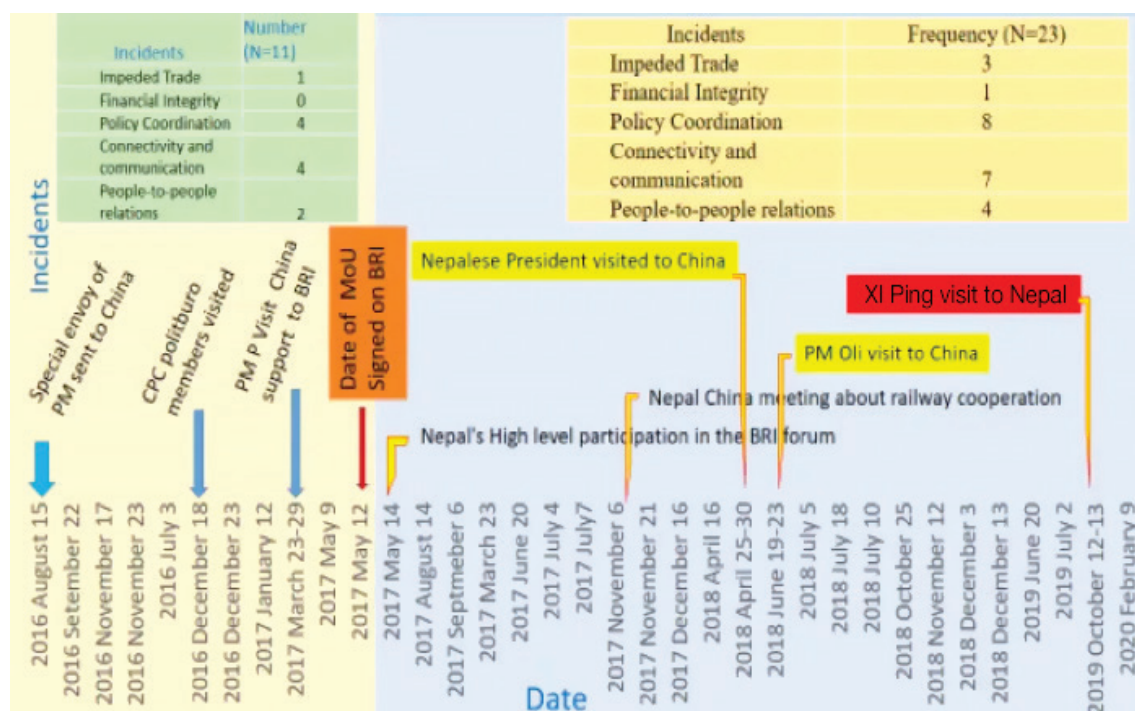
In the last five years, Nepal and China have also signed a Trade and Transit Treaty (in March 2016) and started work on the Nepal-China Trans-Himalayan Multi-Dimensional Connectivity Network – an amalgam of collaborations on energy, transport, and security (conceived at the second Belt and Road Forum for International Cooperation



in April 2019).<sup>8</sup> Though public opinion on joining the BRI is divided within Nepal, there

is hope that it will bring 'bikas' (development) to the country.

**Figure 1. Sino-Nepalese BRI engagement**



Source: Lila Nyaichyai, "The consequences of China's Belt and Road Initiative in Nepal," *Eleventh Column*, 26 July 2020, <https://www.eleventhcolumn.com/2020/07/26/the-consequences-of-chinas-belt-and-road-initiative-in-nepal/>.

Joining the BRI could help Nepal carve out a niche for itself regionally and globally, ending its economic dependence on India, with which it had a recent border dispute.<sup>9</sup> But there is also the fear of landing in a Chinese debt trap. Nepal wants grants from China for its development while China favours providing soft loans. Nepal is already reeling under Chinese debt, following loans taken for projects such as the Pokhara International Airport (NPR 22 billion or approx. US\$ 188,980,000) and the Trishuli 3 Hydropower Project (USD 7.08 billion or approx. US\$

60,817,200).<sup>10</sup> In addition, in 2018-19, Nepal's imports from China increased by 40 percent, while exports to China fell by 30 per cent—this pushed up its trade deficit with China to about US\$12 billion, nearly half of the country's total gross domestic product (GDP).<sup>11</sup> Nepal should carefully evaluate the process of project selection (debt-to-equity ratio), based on rule of law, and have transparent transactions.<sup>12</sup> It must not allow itself to be used by China as a mere transit country for manufactured goods en-route to the huge Indian market.<sup>13</sup>

**Table 1: Select BRI Projects in Nepal**

Project/Purpose	Sector	Year started	Amount/Loan (in US\$)	Status
Nepal-China Eco Industrial Park	All (will house 700 industrial units of all kinds)	2019	64 billion	Under construction (Will consists of 4 phases, each phase taking 3-4 years to complete.)
Pokhara Regional International Airport	Aviation	2013	215.96 million	Under construction (Flights to start from April 2021)
Gautam Buddha International Airport	Aviation	2015	70 million (Joint venture of China's Northwest Civil Aviation Airport Construction Group and Asian Development Bank)	Completed (Flights to start soon)
Bheri-Babai Diversion Multi-purpose Project (BBDMP)	Energy/Infrastructure	2015	107 million (Being built by China Railway No. 2 Engineering Group Co. Ltd.)	Under construction (Likely completion in 2022-23)
Tamor Storage hydroelectricity project (762 MW)	Energy	2020	1.21 billion (54 percent of the project cost to be borne by Power China)	To be completed by 2025
Kyerung-Kathmandu Rail link	Infrastructure	2016	5.5 billion	Proposed (pre-feasibility test conducted)
Kathmandu-Rasulwagadi/Keyrung Road infrastructure and Mailung Syaprubesi Road	Infrastructure	2014	-	Partially operational/ Remaining work in progress
Madan Bhandari University	Education	2018- 2019	370 million (NPR 43 billion)	Bill passed, construction begun
Galchi-Rasulwagadi-Keyrung 400 KB Transmission Line	Energy	2020	-	Under construction, to be completed by 2025
Fukot-Karnali Picking run-of-the-river hydropower project (426 MW)	Energy	2017	-	Operational since 2019
Samakushi-Tokha-Chahare road	Infrastructure	2017	265 million	Operational
Budi-Gandaki hydropower project	Energy	2017	2.5 billion	Being revived
Melamchi Water Supply Project	Drinking water	1998	371 million	Under construction, to be completed by mid-2021
Upper Trishuli 3 A Hydroelectric Project	Energy	2017	61 million (NPR 7.08 billion)	Operational

Source: Author's own, using data from various sources.

For its part, Sri Lanka—seeking an all-weather relationship with China—has been an active participant in the BRI. It hopes to use the BRI to restore its status as one of the centres of Indian Ocean trade with Europe, just as it was in ancient times. Sri Lanka has been helping China create a 21<sup>st</sup> Century Maritime Silk Route with a focus on infrastructural development in Sri Lanka, economic cooperation and technological, cultural and developmental exchanges.<sup>14</sup> Unsurprisingly, Beijing has been the largest source of foreign direct investment (FDI) for Sri Lanka, providing loans for projects like the new Colombo Port Terminal, the Hambantota Port, the first four-lane expressway in the country, a new National Theatre, counterinsurgency equipment, as also US\$14 million in aid. China invested around US\$15 billion in various projects in the country between 2005 and 2017.<sup>15</sup>

Sri Lanka was one of the first countries to embrace the BRI and make it a part of its national development strategy. In 2007, President Mahinda Rajapaksa, on his state visit to China, signed eight bilateral agreements and MoUs with his counterpart.<sup>16</sup> Soon after, the country became a transit hub for China, facilitating its energy imports from the Middle East and mineral imports from Africa.<sup>17</sup> Under

the BRI, Sri Lanka has secured around US\$8 billion of financing. The Chinese government and the China-sponsored Asia Infrastructure Investment Bank (AIIB) have also proposed additional funding of up to US\$32 billion for Sri Lanka's infrastructure projects.<sup>18</sup>

Of late, however, questions have been raised about whether Sri Lanka, whose domestic market is relatively small, is moving towards a BRI debt trap. (Its debt to China in 2020 amounted to around US\$4.8 billion or 6 per cent of its GDP.<sup>19</sup>) The displacement of local workers by both legal and illegal Chinese workers is also an issue.<sup>20</sup> In 2017, Sri Lanka defaulted on its Chinese loans following which Beijing took over the Hambantota Port on a 99-year lease, writing off a Sri Lankan debt of US\$1.1 billion.<sup>21</sup> This has been coupled with criticism regarding environmental damage likely from the projects, a weak institutional system with the lack of policy planning, and some non-performing infrastructural projects.<sup>22</sup>

At present, Sri Lanka has no option but to persist with the BRI, in line with its Vision 2025,<sup>23</sup> given its large infrastructure financing gap, along with its heavy dependence on public sector financing.<sup>24</sup>

**Table 2: Select BRI Projects in Sri Lanka**

Project/Purpose	Sector	Year started	Amount/Loan (in US\$)	Status
Colombo International Financial City	Finance	2014	1.4 billion (1st phase) 13 billion (2nd phase)	Under construction, completion by 2030
Hambantota Port and adjoining industrial estate	Shipping	2008	1.1 billion	Operational
Colombo Port extension	Shipping	2002	1.1 billion	Operational
Mattala Rajapaksha International Airport	Aviation	2009	190 million	Operational
Narochchola Coal power plant	Energy	2006	460 million	Operational
Colombo-Katunayake expressway	Infrastructure	2013	250 million	Operational
Central Expressway	Infrastructure	2016	1.1 billion	Under construction
Moragakhakanda Dam project	Energy	2017	370 million	Operational
Southern Railway project	Infrastructure	2012	278 million	Operational

Source: Compiled by the author from different sources

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# Myanmar and Thailand: A Cautious Approach to the BRI

*K. Yhome*

**A**s China goes into high-gear for the Belt and Road Initiative (BRI), Beijing is seeing the Southeast Asian region as playing a critical role in the progress of the initiative. Geographically, Southeast Asia shares both land and maritime boundaries with China and provides strategic outlet to access the Indian Ocean through Myanmar, which has a long land boundary with China's landlocked southwest Yunnan province. Though Thailand does not have a common land boundary with China, its long coastal lines in the Andaman Sea in the Bay of Bengal as well as in the Gulf of Thailand in the South China Sea are viewed as potential alternative routes to bypass the Strait of Malacca. Both Myanmar and Thailand have joined the Chinese BRI and the projects involve strategic mega-infrastructure construction and industrial parks that are either already existing or are new plans

backed by the Chinese government, private Chinese investments, or a mix of both. This chapter evaluates the progress and challenges of projects under the BRI framework in these two mainland Southeast Asian nations.

## **Projects under BRI Framework**

During the first Chinese Belt and Road Forum (BRF) held in Beijing in May 2017, Myanmar signed a memorandum of understanding (MoU) for cooperation on the BRI. Five months later, China proposed the China-Myanmar Economic Corridor (CMEC) as a flagship project under the BRI framework. In September 2018 an MoU was signed to connect China's Kunming, capital city of Yunnan province, to Mandalay, the second largest city in central Myanmar, and then extending east and west respectively to Yangon, Myanmar's largest city and Kyaukphyu, the

starting point of the already existing oil and gas pipelines to Kunming. A special working group was created under the MoU that was tasked with exploring cooperation in 14 key areas including infrastructure construction, industry capacity and investment, agriculture, border economic cooperation zones, “digital silk road”, and environment.<sup>1</sup>

At the second Chinese BRF in April 2019, Myanmar and China agreed to implement nine “early-harvest infrastructure” projects out of the 30 proposed by China.<sup>2</sup> The two countries signed two MoUs—the China-Myanmar Economic Corridor (CMEC) Cooperation Plan (2019-2030) and the Formulation of the Five-year Development Program for Economic and Trade Cooperation (a 1 billion

yuan, approximately US\$148 million grant) to enhance cooperation in investment and productivity—and an agreement on economic and technology cooperation. Of the nine projects, Myanmar has released details of only the economic cooperation zones in Kachin and Shan states and the US\$ 8.9-billion Muse-Mandalay railway project. In June 2020, Myanmar’s Ministry of Construction unveiled four other projects to be implemented as part of the BRI: the Mandalay-Tigyaing-Muse expressway project; the Kyaukphyu-Naypyidaw highway project; construction of a new bridge over the Salween River in Kunlong; and an outer ring road in Chinshwehaw, both in the Kokang Self-Administered Zone (SAZ) in northern Shan State.<sup>3</sup>

Map 1: China-Myanmar Economic Corridor (CMEC)



Source: *The Myanmar Times*<sup>4</sup>



An International Crisis Group (ICG) report suggests that the list of projects under the BRI scheme in Myanmar are a “mix of existing plans” as well as “new initiatives.”<sup>5</sup> For instance, the report states, existing plans include the Kyaukphyu Special Economic Zone (SEZ) as well as the Muse-Mandalay Railway project, while the new initiatives are the New Yangon City and the new economic cooperation zones on the China-Myanmar border. The report further points out that the CMEC projects are of three different types: those that are “clearly state-backed” including the CMEC scheme, the “clearly private investments” comprising agricultural plantations projects, and those that “fall in a grey zone between state-backed and private, licit and illicit.” Other mega-infrastructure projects including

hydropower, a gas-fired power plant, and an offshore fixed pilot station have also been linked to the BRI scheme.<sup>6</sup>

In the case of Thailand, the Thailand-Chinese high speed rail project—part of China’s planned network of rail links across Southeast Asia that would eventually connect Kunming with Singapore—is directly linked to the BRI and considered a flagship programme. This Bangkok-Nong Khai rail route will connect Bangkok to Nong Khai in Northeastern Thailand which then enters Laos, and finally to China. The project is divided into two phases: the first phase spans 252 km from Bangkok to Nakhon Ratchasima, and the second runs 355 km from Nakhon Ratchasima to Nong Khai, a northeastern border province adjacent to Laos.

Map 2. – Thailand-China High Speed Railway Project



Source: CGTN<sup>7</sup>

The other mega-project that is discussed in the context of BRI cooperation is the Eastern Economic Corridor (EEC)—designed to develop three Thai coastal provinces of Chachoengsao, Chonburi and Rayong into a high-value-added industrial zone.<sup>8</sup> Thailand and China signed an MoU in 2018 to promote the BRI and build the EEC.<sup>9</sup> The already existing Thai-Chinese Rayong Industrial Zone located at the ECC—jointly developed by Holley Group (China) and Amata Group (Thailand) for Chinese investors—apparently has been attracting more investment from Chinese enterprises since the launch of the BRI. Another plan that often comes up in the context of BRI is the proposed “Thai Bridge” route. In March 2020, for the first time, a non-partisan proposal to study the project was discussed in the country’s National Assembly. In its editorial, Bangkok Post observed that “it is the right time” to revisit the project and appreciated that “MPs from both political sides supporting the move” in the context of the BRI.<sup>10</sup>

### **BRI Projects: Status and Challenges**

Projects under the BRI cooperation in Myanmar and Thailand have been slow and often marked with delays due to protracted negotiations. In the case of Myanmar, several dormant or delayed mega-infrastructure projects received a boost during Chinese President Xi Jinping’s visit to Myanmar in early 2020. Xi called for “both sides to deepen result-oriented Belt and Road cooperation and move from the conceptual stage to concrete planning and implementation of building the CMEC.”<sup>11</sup> During the high-profile visit, the two sides signed a concession agreement and a shareholders’ agreement on the Kyaukphyu deep-sea port project,

thus incorporating a joint venture to carry out construction and operation. Earlier, in November 2018, the Myanmar government and China International Trust and Investment Corporation (CITIC) Consortium signed a framework agreement for the development of Kyaukphyu SEZ in Rakhine State after three years of negotiations since the CITIC group won the tender. The development of deep-sea port project was scaled down from US\$ 7.3 billion to US\$ 1.3 billion. In mid-2020, reports quoting Myanmar’s Deputy Minister of Commerce Aung Htoo indicated that the construction of the first phase of the deep-sea port was expected after the completion of economic and social impact assessments.<sup>12</sup> The CITIC company reportedly initiated a bidding process to conduct an environment impact assessment (EIA) after Myanmar’s environmental protection ministry determined its requirement for the project.<sup>13</sup>

Myanmar and China also signed a document to mark the handing over of a feasibility study by China on the Mandalay-Tigyaing-Muse Expressway and Kyaukphyu-Naypyidaw Highway projects during Xi’s visit. An MoU to conduct the study was earlier signed in March 2018. The China-Myanmar high-speed railway project, abandoned in 2014, was revived when the two countries signed an MoU in October 2018 to conduct a feasibility study of a railway line project.<sup>14</sup> Furthermore, a project implementation agreement of the new 4.2-km-long bridge located at Kunlong was signed during Xi’s visit. Earlier, a letter agreeing to implement the project was signed in March 2018. In July 2018, Myanmar approved two economic cooperation zones along the Myanmar-China border: one in Kachin State and a second in Shan State. The agreement to establish the border trade zones

as part of the BRI was reached in 2016 and an MoU was signed to set up a China-Myanmar Border Economic Cooperation Zone in 2017. Similarly, during Xi's visit, Myanmar's Ministry of Construction signed an MoU with China Harbour Engineering Company Ltd to conduct a feasibility study for the Watalone tunnel project in Shan State. According to media reports, while preparations for implementation of the bridge project are underway, discussion on implementation of the tunnel project has yet to begin.<sup>15</sup> In September 2020, Chinese leader Yang Jiechi, a member of the Political Bureau of the Communist Party of China (CPC)'s Central Committee, visited Naypyidaw and again urged Myanmar to implement agreements reached under the BRI framework.<sup>16</sup>

Though negotiations on the Thailand-Chinese railway project started in 2014, they were stalled by disagreements over design and funding as well as technical assistance. In fact, in 2016, Thailand decided to fund its \$5.32-billion portion of the project by itself, instead of depending on Chinese financing because of high interest rates. Construction of the first phase of the project, the 155-mile line linking Bangkok to Nakhon Ratchasima, began in December 2017.<sup>17</sup> Progress has been slow and in late 2020 the Thai government injected an additional fund of \$378 million to boost the project.<sup>18</sup> Originally scheduled for completion in 2023, the project is now expected to be finished in 2025. In October 2020, during the visit to Bangkok of Chinese foreign minister Wang Yi, the two countries again discussed promoting connectivity

through the "Thailand-China High-speed Railway Project and between the Eastern Economic Corridor (EEC) and Guangdong-Hong Kong-Macao Greater Bay Area (GBA) to support" the BRI and to develop the EEC as "a production and logistical hub linking the Pacific and Indian Oceans through the proposed "Thai Bridge" across the Gulf of Thailand, currently under study."<sup>19</sup>

The implementation of BRI projects in Myanmar and Thailand has been affected by various factors including concerns over potential for incurring unsustainable debt, adverse environmental impacts, and geopolitical balancing. Naypyidaw and Bangkok are both entering into agreements with China only after they are satisfied that the deals are in their countries' interest. With more projects announced under the BRI programme in recent years, particularly in Myanmar, concerns remain high and a cautious approach continue to guide these Southeast Asian countries towards the BRI projects. With growing concerns and criticisms against Chinese investments, it is likely that BRI projects will continue to be marked by slow progress, particularly in Myanmar.<sup>20</sup> In the context of the COVID-19 crisis, government of Chinese and Myanmar officials have expressed confidence that the pandemic would not negatively affect the BRI projects. There remain concerns, however, that the Myanmar government might proceed with the projects in an attempt to revive the economy—it will be doing so without adequately assessing the risks.

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# Southeast Asia: A Key Link to BRI's Maritime Road

*Premesha Saha*

The countries of ASEAN (the Association of Southeast Asian Nations) are central to China's Belt and Road Initiative (BRI), given their geographic proximity, infrastructure needs, and emerging markets. In particular, the region is a key link in the BRI's Maritime Silk Road (MSR), which aims to connect China's coast to South Asia, West Asia, and Europe through the South China Sea and Indian Ocean.<sup>1</sup> Furthermore, BRI's infrastructure investments are focused on six economic corridors that encompass a large energy- and resource-rich part of the world. One of those corridors is the China-Indochina Peninsula Economic Corridor that spans Vietnam, Thailand, Lao People's Democratic Republic, Cambodia, Myanmar, and Malaysia—six of ASEAN's 10 member countries.<sup>2</sup>

Overall, ASEAN is the world's sixth-largest economy with a total GDP of more than US\$ 2.5 trillion. Economies across the region are growing steadily at an average annual rate of 5 percent. To sustain this growth, the region must meet its growing infrastructure needs, estimated to be worth US\$ 2.8 trillion from 2016 to 2030.<sup>3</sup>

China's trade with the region has rapidly increased from US\$ 8 billion in 1991 to US\$ 472.2 billion in 2015, and reaching nearly US\$ 600 billion in 2019. By 2020, China had been ASEAN's largest trade partner for seven years.<sup>4</sup> Today Chinese firms are involved in building new railways, roads, and ports across the region.<sup>5</sup> For example, China has invested in the East Coast Rail Link (ECRL) in Malaysia, JAVA High-Speed Rail in Indonesia, Sino-Thai Railway in Thailand, Kyaukpyu Deep

Sea Port and Myitsone Dam in Myanmar, Lower Se San 2 Dam in Cambodia, and a Special Economic Zone in Vietnam.<sup>6</sup>

### BRI Projects in Southeast Asia

Southeast Asia is considered critical to China's BRI for various reasons. For instance, Chinese leaders have reiterated that Southeast Asia has become a priority in China's neighbourhood diplomacy and that China is committed to building "a closer China-ASEAN Community of Shared Destiny."<sup>7</sup> Southeast Asia is considered to be the "frontline" of China's Maritime Silk Road, where most of the Southeast Asian countries are situated either around the South China Sea or the Indian Ocean. China has always regarded Southeast Asia as a strategically crucial region in its neighbourhood because of the various multilateral mechanisms that the

ten ASEAN states have been able to form with other countries, such as the ASEAN Plus Three, East Asia Summit (EAS), and ASEAN Regional Forum (ARF). China, especially its south-western provinces, could benefit from the connectivity projects linking the Southeast Asian countries.<sup>8</sup>

BRI projects in ASEAN countries amount to more than US\$ 739 billion.<sup>9</sup> Indonesia is the top recipient so far, with BRI investment amounting to US\$ 171 billion, followed by Vietnam (US\$ 152 billion), Cambodia (US\$ 104 billion), Malaysia (US\$ 98.5 billion), Singapore (US\$ 70.1 billion), Laos (US\$ 48 billion), Brunei (US\$ 36 billion), Myanmar (US\$ 27.2 billion), Thailand (US\$ 24 billion) and the Philippines (US\$ 9.4 billion).<sup>10</sup> Table 1 shows the biggest BRI projects in select ASEAN countries.

**Table 1: BRI Projects in Select Southeast Asian Countries**

Project Name/ Chinese Entity	Type	Year	Country of investment	Cost (in US\$)
Vientiane-Boten	Railway	2015	Lao PDR	5.8bn
Cirebon-Kroya	Railway	2017	Indonesia	105mn
NR 55	Road	2015	Cambodia	133mn
East Coast Rail Link	Railway	2017	Malaysia	13.47bn
Gemas Johor Bharu Double Tracking	Railway	2016	Malaysia	2.18bn
Melaka Gateway	Port	2014	Malaysia	1.96bn
Muara Terminal	Port, refinery JV	NA	Brunei	3.4bn
National Highway No. 5	Road	2013	Cambodia	160mn
Phnom Penh- Sihanoukville Expressway	Road	2017	Cambodia	1.9bn
Preah Vihear-Kaoh Kong Railway	Railway	2013	Cambodia	9.6bn

KA Purukcahu– Bangkuang Railway, Central Kalimantan (PPP)	Railway	2018	Indonesia	5.3bn
National Road 214	Road	Completed	Cambodia	117mn
Sumsel 5 Power Plant	Power	Completed	Indonesia	318mn
Jakarta–Bandung	Railway	2016	Indonesia	5.5bn
Morowali Industrial Park	Industrial Steel and Power	NA	Indonesia	1.6bn
Nam Ou Hydro	Power	NA	Lao PDR	2.8bn
Phongxaly–Yunnan	Road	NA	Lao PDR	910mn
Kuala Lumpur–Kota Bahru Rail (Construction)	Railway	2017	Malaysia	14.3bn
Vanke, Hopu, Hillhouse, Bank of China	Logistics	2017	Singapore	9,060,000,000
China General Nuclear	Energy	2015	Malaysia	5,960,000,000
Zhejiang Hengyi	Energy (Oil)	2013	Brunei	3,440,000,000
China Railway Engineering	Railway	2017	Indonesia	3,190,000,000
Power China (EPC for 500 Mega Watt AWA Pumped Hydro and Storage Project)	Energy	2017	Philippines	1bn
CIC Capital (10-20% of Equis Energy (Solar/Wind))	Energy	2017	Singapore	0.5-1bn
Lower Se San 2 Dam	Hydropower	Began in 2014 and completed in 2018	Cambodia	781.52mn
Kuala Tanjung Port	Port	2014 (The first phase of construction of Kuala Tanjung Multi-Purpose Terminal was complete in 2018. The fourth phase will see the construction of a hub port)	Indonesia	NA

Sources: 1. CIMB ASEAN Research Institute and LSE Report on China's Belt and Road and Southeast Asia,<sup>11</sup> OECD Special Report on China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape,<sup>12</sup> <https://www.beltroad-initiative.com/projects/>



## Responses of the ASEAN countries

The ASEAN countries have over the years become economically dependent on Chinese investments. In the early 2000s, China and ASEAN countries signed a free trade agreement, the first such FTA in the region. Besides preferential loans, Beijing also offered the following: (a) RMB 3 billion (US\$ 440 million) China-ASEAN Maritime Cooperation Fund; (b) RMB 50 million (US\$ 7.35 million) for disaster prevention and relief cooperation; (c) RMB 200 million (US\$ 29.4 million) for the Asia Regional Cooperation Fund; (d) US\$ 3 billion for China-ASEAN Investment Cooperation Fund; and (e) US\$ 10 billion special loan for China-ASEAN infrastructure development. These investments have helped enhance China's political influence in the region.<sup>13</sup> Analysts therefore believe that Southeast Asia may "bandwagon for profit" with China.<sup>14</sup> At the 6th East Asia Summit Foreign Ministers' Meeting in 2016, the ASEAN ministers welcomed China's BRI. They encouraged synergising the BRI with ASEAN's development strategy during the 16th ASEAN Economic Ministers (AEM)-Ministry of Commerce of China (MOFCOM) Consultations in 2017.<sup>15</sup>

To be sure, the BRI is not a brand-new policy initiative for Southeast Asia. After all, China and ASEAN states have had extensive economic cooperation in the past decades. Although such economic and trade cooperation projects in Southeast Asia were launched far ahead of the BRI, they are now treated as BRI achievements. Some examples are the Sino-Malaysian Kuantan Industrial Park, Longjiang Industrial Park (Vietnam), and Sino-Vietnamese (Shenzhen-Haiphong) Economic and Trade Cooperation Zone.<sup>16</sup>

ASEAN has no common policy on the BRI. The ten member countries have endorsed the BRI bilaterally with China in the form of their respective Memorandums of Understanding (MOU).<sup>17</sup> The project appears to have the strongest appeal for ASEAN's low-income members, such as Laos, Cambodia and Myanmar. Indeed, China's investments in BRI projects will provide an avenue for ASEAN states to overcome their infrastructure challenges, which impede both short-term and long-term economic growth. At the same time, however, given the relatively small size of these three economies and the sheer value of funds China is lending to them, there are significant concerns over indebtedness.<sup>18</sup> For example, Laos, which has recently seen its overall debt burden balloon to above 60 percent of GDP, will have difficulty paying off its 20-percent share of a US\$6-billion (equal to nearly half the country's GDP) rail line being built between its capital Vientiane and Kunming in Southern China.<sup>19</sup>

Other countries such as Vietnam and Singapore, while receptive to Chinese investments and projects under the BRI banner, continue to harbour reservations. Vietnam, for example, is in dire need of infrastructure investments. The country's positioning on the BRI, however, is made complicated by the political, economic, and strategic relationship between the two countries in the context of their dispute in the South China Sea.<sup>20</sup> Vietnamese analysts Van Hoa Vu, Jenn-Jaw Soong, and Khac Nghia Nguyen have noted, "Vietnam's perceptions on the BRI have varied across the various social spectra. Vietnam's strategies toward China's BRI are a mixture of seemingly contradictory policies, which show either

their support (bandwagoning strategy) or denial (balancing strategy) or both, simultaneously. Its hedging strategy toward BRI is a flexible hedging combination of both bandwagoning and balancing strategies.”<sup>21</sup>

Singapore was initially hesitant and did not attend the first BRI Forum in 2017. However, after the visit of Prime Minister Lee Hsien Loong to China in 2018, Singapore has re-emerged as a valuable partner for China in three areas: as a financing hub, a source for third-country partnerships, and an arbitration hub for the BRI.<sup>22</sup>

In the past two years, Malaysia, and to a lesser extent the Philippines and Indonesia, have demonstrated the most cautious attitude towards the BRI.<sup>23</sup> According to scholars like Tirta Nugraha Mursitama and Yi Ying, both belonging to the Faculty of Humanities Bina Nusantara University in Jakarta, “Indonesia has demonstrated its ability to navigate by implementing hedging strategy rather than bandwagoning toward China.”<sup>24</sup> The Jakarta-Bandung high-speed railway project is, however, hobbled by various issues including funding and land acquisition. According to an article published in December 2020 in

the *Jakarta Post*, “construction of the widely anticipated Jakarta-Bandung high-speed railway has reached 63.9 percent, amid delays due to the pandemic.”<sup>25</sup> The project is now estimated to be completed in the second half of 2021—a two-year delay from its original target. In general, Indonesia favours a business-to-business structure for its BRI deals, rather than government-to-government loans.<sup>26</sup> Malaysia in 2017 signed a series of MSR agreements with China. In 2018 under the then Mahathir administration, many prominent BRI projects worth \$ 22 billion were cancelled,<sup>27</sup> including the East Coast Rail Link (ECRL), two pipeline projects—i.e., the Multi Product Pipeline (MPP) and the Trans-Sabah Gas Pipeline, and the Kuala Lumpur–Singapore high-speed railway connection. Mahathir would later announce in 2019 his full support for the initiative.<sup>28</sup>

Given the growing trade imbalance in favour of China, there are rising concerns in Southeast Asia over China’s economic leverage in the region. There is wariness that economic dependence on China may affect the domestic economies, and more importantly, these countries’ independence and sovereignty.<sup>29</sup>

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# Polemic Intersections: The BRI in Australia, New Zealand, and the Pacific Island Countries

*Pratnashree Basu*

**I**nfrastucture projects, especially those which build physical linkages, are crucial to enhancing global commerce and contact. The end of the Cold War and the advent of a multi-polar world, with aspirational countries seeking to prosper and connect, have provided the bedrock for increasing connectivity. Numerous initiatives are being taken across the world to build land and sea links to strengthen bilateral and multilateral ties through trade and socio-cultural networks. The efforts are being either led or supported by regional or sub-regional groupings or global institutions.

The Belt and Road Initiative (BRI) is arguably the most expansive of these initiatives. Launched by China in 2013, the trillion-dollar BRI spans land and maritime spaces designed to link China with the entire Eurasian continent, Africa, the Americas, and Oceania via rail and road links and maritime routes. Official Chinese documents and statements

claim the BRI will facilitate trade, with every member country gaining from it.

Prima facie, the BRI may appear a promising venture. Opinion on it is sharply polarised, however, leading to geopolitical tensions and strategic coalitions either supporting or opposing it. Whatever its drivers, the BRI is hardly the benign framework it claims to be. This analysis will look at the dynamics of the BRI with reference to Australia, New Zealand, and the Pacific Island Countries. Forming Oceania, this region can be seen as a large island within the bigger BRI framework where the focus is on the development of maritime infrastructure links, trade and cultural links, tourism, and collaboration on climate change resilience and sustainable practices.

## **Turbulence Down Under**

Australia once shared a close relationship with China. In recent years, however, it has

become increasingly cautious about China’s extensive business presence on its soil. Canberra has become one of the most vocal in the Pacific to caution against the questionable nature of Beijing’s engagements and influence in the region. There are also rifts within the Australian government between some who favour the BRI and others who perceive it as a dangerous propaganda initiative.<sup>1</sup> Indeed, the state of Victoria entered into an agreement with China without the knowledge or support of the federal government. The agreement also invited censure from the US which warned that it could impact the Five Eyes intelligence-sharing partnership<sup>2</sup> of the US with Australia.

Relations between Canberra and Beijing have also been going downhill over issues<sup>3</sup> apart from participation in the BRI –trade; restrictions on foreign investment; Australia banning rollout of the Chinese company Huawei’s 5G mobile infrastructure in the

country citing security concerns; China imposing tariffs on Australian barley and beef imports; Australia condemning of the new national security law China passed in Hong Kong in mid-2020; and its criticism of China’s handling of the COVID-19 pandemic.

So far, Australia has not signed any BRI-related memorandum with China, barring the infrastructure development projects listed in Table 1. However, it did sign an MoU with Beijing<sup>4</sup> under its previous administration,<sup>a</sup> allowing Australian companies to cooperate with Chinese ones in building infrastructure projects in third countries. This cooperation can include BRI projects too. Australia has defended the MoU, saying it is in line with the country’s efforts to help develop infrastructure in other countries, with the rider<sup>5</sup> that such cooperation would be given only if finances were transparent, corruption-free and without untenable debt burdens.

**Table 1: BRI Projects in Australia**

Name	Funds invested by China	Location	Status
Australia Legend Theme Park	\$600-800 million	Gold Coast, Nerang,	To be completed by 2020.
Haughton Solar Farm	-	Queensland	Completed
Big Build Pipeline Project	\$70 billion	Victoria	Talks in progress
Development of Whitsunday Island	-	Whitsunday, Queensland	Plans presented in 2018
South Molle Island	-	Queensland	
Keppel Cove Resort	-	Queensland	Not yet complete.
Laguna Quays development	\$2 billion	Whitsunday, Queensland	Phase 1 started in 2016; to be completed in ten years.
Sheraton Mirage	\$43 million	Port Douglas, Queensland	Completed

Source: Author’s own compilation

<sup>a</sup> This was in May 2017 under Prime Minister Malcolm Turnbull

### **Calm before the Storm in the Pacific**

Political ties between Beijing and the PICs have been improving with many of these islands choosing to accept the one-China principle and downgrading diplomatic ties with Taiwan.<sup>6</sup> The reconfiguration comes in the wake of a perceived economic and more importantly climate change related estrangement of these countries from the US and to an extent from the rest of the world. Their difficult economic geography has driven the Pacific Island Countries (PICs) to forge deeper ties with Beijing which has been quick to fill the apparent void with a steady flow of developmental aid to them, to the extent that most of these islands now view China as a more dependable country for resources and finances than the US.

Given the primary aim of the BRI of establishing connectivity and requisite infrastructure, the PICs are not the most obvious partners. They are among the countries most at risk of incurring debts they may not be able to repay. To offset this risk potential, the PICs need to create and maintain robust and transparent communication links with Beijing on details of infrastructure, trade and tourism collaborations, and enter into tailored plans for projects in priority sectors<sup>7</sup> such as combating climate change, tourism, agriculture, health, and fisheries to promote their sustainable development goals (SDGs). Beijing is also looking to develop cultural relations with the PICs and has initiated Chinese language courses<sup>8</sup> via the PIC language-

teaching programme among its citizens, to generate interest in travel and work in the PICs among them, and add to the already significant Chinese diaspora in the region.

Relations between the PICs and China, however, are not entirely smooth, as seen from the Solomon Islands' Malaita Province accepting COVID-19 assistance from Taiwan.<sup>9</sup> It drew Beijing's ire and complicated the relationship of the Solomon Islands' central government with the Malaita provincial government. Earlier in 2019, Tuvalu had turned down China's offers<sup>10</sup> to build artificial islands which would help it cope with rising sea levels, choosing instead to guarantee its support for Taiwan, reversing an earlier policy. China's growing involvement in the South Pacific is a major cause of geostrategic concern not only for the US but also for Australia, both of which are closely monitoring developments and stepping up grants and capital flows to the islands in a counterbalancing bid.

### **Recalibrations in the Land of the Long White Cloud**

New Zealand is always keen to be part of regional groupings and signalled its interest in the BRI early on, being the first Western country to sign up.<sup>11</sup> While there is some ambiguity about the scope of the partnership<sup>12</sup> that Wellington would be involved in with China, issues such as climate change, New Zealand's expertise in regulatory frameworks, and a possible connectivity link between China and South America via New Zealand

**Table 2: BRI Projects in the Pacific Island Countries**

Name	Funds invested by China	Country and location	Present status
Stinson Parade Bridge	\$30 million	Suva, Fiji	Completed
Vatuwaqa Bridge		Suva, Fiji	Completed
Civic Centre Auditorium	\$20 million	Suva, Fiji	Completed
Sports facility, Marist Brothers High School.	\$16 million	Carew St, Suva, Fiji	Completed
Upgradation of International Convention Centre	\$ 27 million*	Port Moresby, Papua New Guinea	Completed
Agricultural Industrial Park project	\$600 million	Korofeigu in the Eastern Highlands and Highlands Agriculture Training Institute in the Western Highlands, PNG	No progress stated
Economic road project	\$3.5 billion	Port Moresby, Eastern Highlands Province	Phase one is due to be completed in 2022 and the final phase in 2027.
Goroka water supply upgradation	\$32 million	Eastern Highlands Province, PNG	-
Pohnpei State Government complex	\$10 million	Pohnpei, Micronesia	Agreement signed
Agricultural Pilot farm		Madolenihmw, Micronesia	-
Pohnpei Secondary Road and Bridge	\$50 million	Pohnpei, Micronesia	To be completed by Dec 25, 2020
New Chuuk State Office Buildings Complex	\$10 million	Chuuk, Micronesia	Completed
National Convention Center	-	Port vila, Vanuatu	Completed
Six-lane highway project-Independence Boulevard	\$16 million	Port Moresby, Papua New Guinea	Completed
Maintenance projects in Kiribati	\$4.2 million	Kiribati	-

Source: Author's own compilation



appear to be potential areas of cooperation. Nonetheless, opinion in New Zealand is also politically divided over the elements of the BRI. Through 2018 and 2019, there were reports<sup>13</sup> of Chinese espionage and resulting national security concerns in New

Zealand; criticism of Chinese lending in the Pacific, and a ban on Huawei from setting up its 5G infrastructure in the country. The two countries are yet to formulate a plan of cooperation but will hold further discussions after the pandemic subsides.

**Table 3: BRI Projects in New Zealand**

Name	Funds invested by China	Country and location	Present status
Kerepehi cheese factory	-	Kerepehi	Completed

*Source: Author's own compilation*

**Political Ebbs and Flows and the Future of the BRI in the Pacific**

It is often said that China's biggest advantage in wooing countries to join the BRI is its deep pockets, which often match and at times even outstrip alternative sources of financing infrastructure that a country is presented with. In fact, Beijing's greatest advantage is its capacity to recognise opportunities congruent to its interests, and act earlier than most other countries. This gives it an incredible amount of

leverage and enables it to build the foundation it seeks before the other country even comprehends the deleterious effects of the deals it has entered into or take any measures to offset their impact. This is precisely why there is circumspection about the BRI in the Oceanic countries.

Going forward, the involvement of Australia, New Zealand, and the PICs in the BRI will depend on political negotiations, where caution, cost, and attested benefits are to be weighed.

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# BRI in the Middle East: Walking the Geopolitical Trapeze Wire

*Kabir Taneja*

In January 2016, China released a white paper on the path it hoped to take to strengthen its strategic and economic relations with the Middle East and North Africa (MENA)—its first white paper on the region. The white paper is one of two key policy documents on Beijing’s long-term approach in the region: the 2015 paper, ‘Vision and Actions on Jointly Building Silk-Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road’, offers a broad economic, trade and investment vision from China; and the 2016 white paper, ‘China’s Arab Policy Paper’,<sup>1</sup> provides a blueprint of how Beijing aims to approach the critical geography. Both carefully navigate the precarious political minefield that is the Middle East. Seen together, the two documents promote economic upliftment and prosperity as a common goal, with hardly any direct mention of security cooperation amidst the historical

baggage of Western external military presence in the region.

In 2004, the China–Arab States Cooperation Forum (CASCF) was set up to promote trade and investments between the two regions. The platform is motivated largely by China’s voracious appetite for energy, specifically hydrocarbons, which it needs to fuel its economic growth. Within the CASCF, more than ten different mechanisms are operational, around which China hopes to market programmes such as the Silk Road Economic Belt (SREB) and the 21st Century Maritime Silk Road Initiative (MSRI), the two fundamental components of the Belt and Road Initiative (BRI). Energy is the nucleus of these outreach programmes. The ninth ministerial of the CASCF in July 2020, held digitally due to the COVID-19 pandemic, was co-chaired by China and Jordan.<sup>3</sup>

The MSRI is the BRI's pivotal project for the Middle East. With the region's land borders being home to some of the world's most volatile geopolitical conflicts, the maritime space offers scope for trade, by using bilateral projects via pin-point locations such as ports. The priority countries identified by China are Saudi Arabia, UAE, Iran and Egypt. This is understandable, as these states can cater to interests such as energy and safe movement of oil, through the Strait of Hormuz where both UAE and Iran are key actors, to the Red Sea, where Saudi Arabia and Egypt share the security of the waterways.<sup>4</sup>

President Xi Jinping's first visit to the Middle East in 2016—originally planned for 2015 but cancelled due to the Yemen war—was a force multiplier for his BRI vision. That visit to both Saudi Arabia and Iran (along with Egypt), two warring poles of power in the region, allowed Xi to pitch for impressive economic projects amidst a receding US and a general shift of the global economy from the West to the East. Later in 2018, Xi also visited the UAE amidst much fanfare; there, energy specifically oil, once again took centrestage. China is already UAE's top trading partner and is well on its way to becoming the same for many Middle Eastern economies.

**Table 1. China's strategic cooperation agreements in Middle East and North Africa (MENA)**

Country	China's Comprehensive Strategic Partnership (CSP) and Strategic Partnership (SP) agreements in MENA	Year Signed
Algeria	CSP	2014
Djibouti	SP	2017
Egypt	CSP	2014
Iran	CSP	2016
Iraq	SP	2015
Jordan	SP	2015
Kuwait	SP	2018
Oman	SP	2018
Morocco	SP	2016
Qatar	SP	2014
Saudi Arabia	CSP	2016
UAE	CSP	2018
Turkey	SP	2010

Source: Atlantic Council<sup>5</sup>

Since 2014, Beijing has signed a slew of strategic agreements in the region, ranging from Morocco in the north Atlantic to the tiny yet gas-rich Qatar, right in the middle of the volatile Persian Gulf. Beijing has divided its engagements in two parts: it signed ‘Strategic Partnerships (SP)’ with some, and with others, ‘Comprehensive Strategic Partnerships (CSP)’. The first CSP was signed with Algeria in 2014, a relatively risk-free endeavour. The other CSP partners of China include Saudi Arabia, UAE, Iran and Egypt, all of whom Xi has visited. As of 2018, out of the top 15 oil suppliers to China, seven were from the MENA region.

Beyond the Arab Gulf, Beijing has not been left behind with either Iran or Israel. Between the Saudi–UAE bloc, Iran and Israel, the three constitute the poles of power in the region that China must balance itself between. This offers a much more challenging outlook for the BRI designs, as illustrated more recently by the

widely circulated reports on an impending deal between China and Iran. The agreement, which as per some estimates could be valued at \$400 billion over a 25-year period, is expected to give Beijing unprecedented access to the sanctions-embattled country’s vast oil and gas reserves.<sup>6</sup> Perhaps Iran is where China’s BRI ambitions may become more unabashedly visible, with Chinese money busy with upgrading the country’s rickety railway systems and Chinese entrepreneurs looking to knit together industry and economics between Iran and Central Asia.<sup>7</sup> However, successful access to Iran may also give Beijing unparalleled entry to the region’s reconstruction economy which includes, by association, access to crumbling yet bountiful oil reserves. To colour this argument further, Iraq was the third largest oil supplier to China in 2019,<sup>8</sup> and with the US announcing significant withdrawal of troops and interests, Beijing emerges as a natural economic partner for Baghdad.

**Figure 1: An outlook of China’s BRI initiative**



Source: ECFR<sup>9</sup>

Meanwhile, arguably the outlier for the moment remains Israel, as it manages its relations with the US which is critical to its security in the region. Despite the recent rapprochement between the UAE and Israel—both agreeing to normalise diplomatic and economic relations—the Israeli government would like to increase its economic ties with China. China, for its part, is keen to include Israel’s vibrant hi-tech industry as part of its BRI design. Indeed, the US has been instrumental in keeping Israel away from China. For instance, in 1999, US pressure scuttled Israel’s commitment to sell China military hardware in the form of the Phalcon early warning system, despite Beijing having already paid for it in advance.<sup>10</sup> China has built more muscle since, and today the story is different. Israeli Prime Minister Benjamin Netanyahu has made two working/state visits to China in the past decade, once in 2013, and a second in 2017.

Despite the push, BRI as a project did not feature by name in most of the post- and pre-visit statements, yet deep economic ties—the founding blocks of the BRI—were still initiated between the two states.<sup>11</sup> Within a year of the second visit, in 2018, China had become Israel’s second largest trade partner. An impending trade deal between the two could see China becoming the largest trading partner of Israel, and this would be achieved despite military sales.<sup>12</sup> While Israel at the moment is not an overt part of the BRI designs, China’s large inroads in the country’s technology industry and the eventuality of it becoming the largest trading partner could force the Jewish state to make some hard choices in the coming days.

Another mechanism that China uses to expand its reach in the region is via the multilateral Asian Infrastructure Investment Bank (AIIB), whose members include Saudi Arabia, Qatar, UAE, Oman and Jordan, Iran and Turkey. For example, the strategically important port Duqm, in Oman, is home to investments of over \$10 billion via the AIIB to build port terminals. While China prefers bilateral trade engagements, entities such as the AIIB also burnish Beijing’s reputation, especially amidst negative perceptions around what analysts call its much-debated ‘debt trap diplomacy’.<sup>13</sup>

Finally, BRI’s implementation in the Middle East would be a massive undertaking for China. Any such inter-regional design would require Beijing to also invest heavily in security, which as history shows is more than often a downward spiral for any international power. As scholar Mordezai Chaziza has highlighted, there are multiple factors that make BRI a massive challenge in the Middle East: corruption, weak rule of law, monarchical monopolies on economies, low regional economic integration, and already low success rates of bilateral projects with China in the region.<sup>15</sup> It would require a herculean push by Beijing in all aspects, polity, economy and security, if it intends to gain any level of regional BRI-led integration. Despite the large numbers and infrastructure projects it envisions in the Middle East, China remains overall ill-equipped to turn its ambitions into reality in this geography.

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# Counting the Risks and Rewards of the BRI

*Abhishek Mishra*

**A**t the time of writing, 45 out of 54 African countries and the African Union have joined China's Belt and Road Initiative (BRI). Of these, over 40 have signed their respective memorandums of understanding (MoU) or some other form of agreement on the initiative.<sup>1</sup>

There are several reasons why the leaders of many African countries find the BRI to be an attractive, alternative model of development. First, BRI's emphasis on trans-continental infrastructural development of railways, highways, aviation, and port connectivity dovetails with Africa's top priorities under Agenda 2063. Second, the strategic location of countries such as Kenya, Tanzania, and Somalia on the shores of the Indian Ocean, along with Djibouti and Ethiopia along the Mediterranean Sea, makes them natural

partners and nodes to connect Africa, Asia, and Europe.

Third, there is a lack of streamlined and efficient transport routes within the African continent, and BRI could potentially fill the gap. A significant percentage of Africa's road network is unpaved, which constraints movement of people, impedes commerce, and adds to transportation costs. Such infrastructure deficiencies suppress Africa's regional and international trade, in turn causing the further isolation of African countries from global value chains.<sup>2</sup> Therefore, the need of African countries to improve regional connectivity and integrate domestically, aligns with the pronounced objectives of the BRI.

A fourth reason is that the BRI, through China Development Bank, Export-Import



Bank of China, Bank of China, and other state-owned banks, provide African countries with an alternative source of financing to fill the continent's infrastructure gap as opposed to traditional funders such as the International Monetary Fund (IMF) and World Bank. Increasingly, African countries prefer China's funding model which lends credit on commercial and more flexible terms, rather than the constricting conditionalities attached to IMF loans. In addition, the entire process of BRI's project implementation is quicker than other options and is not hobbled by bureaucratic hurdles or social regulations.

Lastly, African BRI participant countries can benefit immensely from enhanced trade, employment, and job creation. The BRI provides a critical opportunity for African countries to address trade imbalances and deficits vis-à-vis China.

### Key trends

BRI projects in African countries are heterogenous and have no apparent geographical pattern of spread or correlation with forms of governance.<sup>3</sup> Beijing's initial investments under BRI were directed towards East African countries primarily for two reasons – connection to the Indian Ocean, and the fact that the East African region is considered a central part of the BRI transport corridors. However, China's infrastructure lending has since become more diversified and spread across the continent; increasingly, the projects are concentrating in Western and Southern Africa.

China's lending practices are also not correlated with governance indicators such as political stability, rule of law, and civil

liberties. It finances both authoritarian and democratic governments across Africa. Table 1 shows, for example, that the highest recipients of Chinese loans include Ethiopia, Kenya, and Uganda in East Africa, DRC and ROC in Central Africa, Angola in Southern Africa, and Guinea in West Africa. All these countries are diverse in terms of their performance on governance indicators, as well as their external debt profiles.

Chinese investments under BRI in Africa has also been pragmatic: it has concentrated in countries that perform well on logistics indicators. Physical infrastructure is not only about hard connectivity to markets, but also includes customs clearance, trade facilitation measures, and logistical efficiency. According to the World Bank's 2018 Logistics Performance Index, countries such as South Africa, Cote D'Ivoire, Egypt, Kenya, Benin, Mauritius, Djibouti, Uganda, Ghana, Morocco, Nigeria, Zambia, and ROC have performed well and have reasonably good trade environments.<sup>4</sup> This bodes well because China's infrastructure investments in such countries should have a high return. Overall, this highlights the positive correlation between satisfactory logistics performance and Chinese infrastructure financing in African countries.

### Criticisms

Various advanced industrial economies have levelled criticisms against the BRI: that the program lacks transparency on the details of the amounts of loan offered and how contractors are chosen, and that it serves to facilitate China's export of its authoritarian model of governance. Critics have also noted that the projects have inadequate

environmental and social safeguards, and that the terms for the commercial loans are bringing a new round of debt crises among the participating countries.<sup>5</sup> This has led to acquisitions of a new form of neo-colonialism with Chinese characteristics.<sup>6</sup>

In addition, there are criticisms of unjust and unfair labour practices in African countries, along with allegations of corruption and bureaucratic redtape. These factors have led to significant pushback against certain Chinese-funded projects and, in a few instances, cancellation altogether. These include the proposed Mamamah airport in Sierra Leone (October 2018), Lamu coal-fired plant in Kenya (June 2019), disputes over the setting up of a fishmeal factory in Gambia (June 2019), fear of debt-trap and dominance of Chinese contractors in Zambia, and the cancellation of Bagamoyo port project in Tanzania (June 2019).

The primary allegation is that infrastructure projects under BRI tend to turn into ‘white elephants’:<sup>7</sup> too large, expensive, unviable, not well-planned, and out of proportion with their value and usefulness.<sup>8</sup> The assumption that every infrastructure project unlocks economic transformation, creates jobs, and fits into African countries’ national development plans may be untrue. For example, expressways help ease traffic congestion and reduce transit times, but they do not increase productive capacities nor generate long-term economic goals.<sup>9</sup> These infrastructures only serve to make the life of urban dwellers easier; for

example, the Kampala-Entebbe expressway in Uganda.

In addition, many BRI projects in Africa are regional in nature, but are negotiated bilaterally at the national level. Examples include the Standard Gauge Railway, which aims to link the port of Mombasa through Nairobi, then on to Uganda and beyond, and the Addis Ababa-Djibouti Railway. While there may be good reasons to negotiate bilaterally in the interest of fast-tracking the projects, any one of them that is regional in nature merits joint negotiations.

In the post-pandemic world, African countries will increasingly demand improvements in healthcare infrastructure, research facilities, and hospitals. This is where China, through the Health Silk Road, will get an opportunity to access newer markets in African countries for its healthcare systems and technology through research in biomedical technology, synthetic biology, offering diagnostic tools, pharmaceuticals, tele-medicine, and sharing details of its contact-tracing applications. China will also look to build 5G communication networks through Huawei and ZTE in various African countries as it has subsidised connectivity in the continent. China can build a telecommunications infrastructure at a price and pace that cannot be matched by the “Five-Eyes” alliance. Without any viable alternative from the West, African countries will increasingly turn to China.

**Table 1: China's Loans to Africa (2005-2018)**

Year	Total Amount Loaned (in US\$bn)	Number of Loans	Top Recipient Country	Top Recipient Sector
2005	\$1.6bn	60	Angola (\$1.0bn)	Power
2006	\$5.0bn	64	Ethiopia (\$1.9bn)	Communication
2007	\$5.6bn	69	Angola (\$3.2bn)	Transport
2008	\$4.0bn	54	DRC (\$943mn)	Power
2009	\$6.7bn	58	Sudan (\$1.9bn)	Transport
2010	\$6.6bn	52	Angola (\$2.6bn)	Other Social
2011	\$10.0bn	94	Angola (\$3.8bn)	Transport
2012	\$11.9bn	76	ROC (\$1.7bn)	Transport
2013	\$16.6bn	72	Ethiopia (\$5.9bn)	Transport
2014	\$12.3bn	46	Kenya (\$3.7bn)	Transport
2015	\$11.5bn	61	Uganda (\$2.1bn)	Power
2016	\$29.4bn	147	Angola (\$19.3bn)	Mining
2017	\$14.2bn	58	Angola (\$3.8bn)	Power
2018	\$8.9bn	48	Guinea (\$1.4bn)	Power

Source: Compiled by author from Deborah Brautigam et.al., (2020), "Chinese Loans to Africa Database" Washington, DC: China Africa Research Initiative

**Table 2: Select BRI Projects in African countries (Transport, Power, Communication and Water)**

Country	Project/Purpose	Sector	Year	Amount/ Loan (in US \$ million and billion)	Status
Uganda	Karuma hydroelectric power project (600 MW); 400kV Karuma-Kawanda; 400kV Karuma-Olwiyo; & 80km Karuma-Lira Transmission Lines	Power	2015	\$1445mn	Under Construction, expected date is 30 November, 2020
Djibouti	Doraleh Multipurpose Port, Damerjog Livestock Port	Transport	2016	\$344mn	Opened in 2017
Zimbabwe	Robert Gabriel Mugabe International Airport expansion	Transport	2018	\$153mn	Under construction, expected date is 2021-end
Sudan	Khartoum-Port Sudan Railway	Transport	2014	China investing \$1.1bn out of total \$1.5bn	Operational
Angola	Benguela Railway	Transport	2006-2014	\$1.83bn	Operational
Nigeria	Nigerian Communications Satellite (NICOMSAT)	Communication	2006	\$200mn	Operational
Nigeria	Abuja-Kaduna Rail Line	Transport	2014	\$876mn	Operational
Nigeria	Abuja Light Rail Project	Transport	2012	\$500mn	Total 2 Lines of which 1 Line is Operational since 2018
Ethiopia	Addis Ababa Light Rail	Transport	2015	\$475mn	Operational
Nigeria	Lagos-Ibadan Railway	Transport	2020	\$1.53bn	Under Construction
Nigeria	Lagos-Calabar Coastal Railway Project	Transport	2016	\$12bn	Operational
Cameroon	Kribi Port Project, Phase I and II	Transport	Phase I (2011) and Phase II (2016)	\$423mn for Phase I and \$525mn for Phase II	Phase I completed, Phase II under way
Cameroon	Yaounde-Douala Highway, Phase I	Transport	2012	\$483mn	Under Construction, expected date is 2020
Kenya	Mombasa-Nairobi SGR, Phase I and Nairobi-Malaba SGR, Phase II	Transport	2014-2015	\$3600mn for Phase I and \$1500mn for Phase II	Operational
Uganda	Kampala-Entebbe Express Highway	Transport	2011	\$350mn	Operational
Cameroon	Memvèele Hydropower Project (211MW)	Power	2012	\$541mn	Construction finished, nearly operational
Cote D'Ivoire	Soubre Hydropower Project (275MW)	Power	2013	\$500mn	Operational
Cote D'Ivoire	Abidjan Port Expansion	Transport	2014	\$793mn	Completed in April 2020

Mozambique	Maputo-Katembe Bridge	Transport	2012	\$686mn	Operational
Senegal	Thies-Touba Toll Highway	Transport	2015	\$689mn	Under Construction
Tanzania	Mnazi Bay to Dar es Salaam – Mtwara Province Gas Pipeline	Power	2012	\$919mn	Operational
Zambia	Kafue Gorge Lower Hydropower Project (750MW)	Power	2017	\$1500mn	Under Construction
Zambia	Lusaka International Airport Expansion	Transport	2014	\$360mn	Project almost completed in January 2020
South Africa	Medupi Coal Power Plant Expansion	Power	2018	\$900mn	Under Construction
Angola	Caculo Cabaca Hydropower Project (2171MW) and Transmission Lines	Power	2016	\$4100mn	Under Construction, expected date is 2022
Guinea	Souapiti Hydropower Project (450MW)	Power	2018	\$599mn	Will be operational in September 2020
Ethiopia and Djibouti	Addis Ababa Djibouti Railway	Transport	2018	\$3400mn	Operational
Tanzania	Abedi Amani Karume International Airport in Zanzibar	Transport	2013	\$73.85mn	Operational
Kenya	Garissa Solar Power Project (50MW)	Power	2016	\$138mn	Operational
Kenya	Karimenu Dam Water Supply Project	Water	2017	\$229mn	Under Construction, expected date is 2022
Djibouti	Djibouti-Ethiopia Water Pipeline	Water	2013	\$322mn	Operational
Tanzania	National ICT Backbone Project (NICTBB) Phase I, II and III	Communication	2008, 2010 and 2013	\$77mn for Phase I, \$106mn for Phase II, and \$94mn for Phase III	Operational till Phase III, Phase IV and Phase V is underway
Morocco	Noor Ouarzazate Solar Power Plant Phase II (200MW)	Power	2018	\$150mn	Operational
Ghana	Western Corridor Gas Infrastructure Project, Jubilee Oil Field	Power	2013	\$850mn	Operational
Cote D'Ivoire	National Power Grid Upgrade Project	Power	2015	\$776mn	Operational

Source: Compiled by author from Deborah Brautigam et.al., (2020), "Chinese Loans to Africa Database" Washington, DC: China Africa Research Initiative, Johns Hopkins University School of Advanced International Studies; and Belt and Road Initiative Projects Portal, accessed on 14 July 2020

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# China Revives its Ancient Silk Route

*Ayjaz Wani*

**T**he collapse of the Soviet Union in 1991 gave birth to the five Central Asian countries—Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, and Uzbekistan—which together made up most of the ancient Silk Route. Richly endowed with natural resources, these newly formed nations became the strategically vital link—the “heartland”—connecting Asia and Europe. Commenting on their tactical location, geographer Halford Mackinder noted, “He who controls the heartland controls the world”<sup>a</sup>—in this case, China.

Suffering prolonged political instability and severe economic stress, the five fledgling Central Asian states became fertile ground for China to further its parochial geoeconomic, political and security agenda. Most of the Central Asian regimes remained authoritarian after their countries’ independence, plagued by weak governmental institutions and shared political, ideological and economic legacies with the former Soviet Union. Consequently, multilateral lending agencies of the global south were reluctant to support their failing economies. Utilising this opportunity, the CCP provided all-out support to the nations

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<sup>a</sup> According to Mackinder, the “world-island” was made up of Europe, Asia and Africa. The world-island was the largest of the three regions, accounting for two-thirds of the earth’s terrestrial surface, and has the largest concentration of global natural resources. Mackinder argues that the heartland of the world-island, which includes Central Asian river basins (of the Volga, Yenisey, Amu Darya, Syr Darya) and two seas (the Caspian and the Aral), served as pivots for geopolitical transformations within the world island.

and helped the party leadership forge close bonds with the ruling elites. In the process, China not only exploited their rich natural resources, such as gas, oil and uranium, to diversify its energy mix, but also found a large ready market for the export of Chinese-manufactured commodities in its immediate neighbourhood.

After 1991, leaders of Central Asian states responded positively to Beijing's assertiveness in the region for their parochial interests. The CCP, under the pretext of extending support to state sovereignty as well as abiding by the principle of non-interference in domestic matters, made steady inroads, weakening the social, political and economic challenges to the authoritarian regimes in the region. Over the years, this has led to increased Chinese influence over the geostrategically and geoeconomically crucial Central Asian republics.<sup>1</sup> Using the existing political and economic problems of the region as a lever, China pursued its expansionist agenda and resolved its longstanding border disputes with Kazakhstan, Kyrgyzstan and Tajikistan in 1994, 1996 and 2002, respectively. Furthermore, China forced Kazakhstan, Kyrgyzstan and Tajikistan to cede 22 percent, 32 percent and 3.5 percent, respectively, of the land of its total claim.<sup>2</sup>

China was interested in the region for another reason: to secure its restive province of Xinjiang from separatism, by suppressing dissent within its borders as well as any anti-China support from Central Asia. The people of Central Asia share strong historical, cultural and political ties with the indigenous people of Xinjiang.<sup>3</sup> Many Central Asian Republics have also witnessed protests against

the atrocities committed by the CCP on the native Uyghur population of Xinjiang.<sup>4</sup> The rising anti-China and pro-Uyghur sentiments in Central Asia have remained a cause for grave concern for the CCP, exacerbated by the growing influence of radical terror forces from the Afghanistan-Pakistan region in Central Asia as well as Xinjiang.<sup>5</sup> To prevent the volatile situation from erupting, the CCP has subjected the ethnic Uyghur population as well as all the Kazaks, Uzbeks and Kyrgyz nationals living in Xinjiang to cultural onslaught and technological surveillance.<sup>6</sup>

### **The Belt and Road Initiative in Central Asia**

Given its strategic location, Central Asia is crucial to Beijing's Silk Road Economic Belt (SREB) initiative, a key component of the BRI. The BRI aims to revive the ancient Silk Route in Central Asia through massive infrastructure investments in roads, rail links, bridges, pipelines, and commercial networks—to be built by Chinese companies using China's funds, and to be eventually operated by Chinese citizens. Moreover, the region is rich in hydrocarbon resources and its ancient overland route gives access to Europe. In 2013, Chinese President Xi Jinping unveiled the One Belt One Road (later rechristened BRI) initiative in Kazakhstan, calling upon all Central Asian countries to embrace the initiative as an “innovative cooperation mode” and to collaborate with China in setting up “an economic belt along the Silk Road.”<sup>7</sup> Jinping called the initiative a “golden opportunity” for the development of these countries. Emphasising the value of the region for the BRI, he quoted an ancient Chinese proverb: “A close neighbour is more valuable than a distant relative.”<sup>8</sup>



After the inception of the BRI, many projects involving Central Asian countries and Beijing were signed in the fields of oil and gas pipelines, rail and road connectivity, trade promotion, industrial development, and mineral production. These are mostly or partially financed by the China-led Asian Infrastructure Investment Bank (AIIB), China Development Bank, Export-Import Bank of China, or the New Silk Road Fund.

As of 2019, the number of China's BRI and bilateral projects in Central Asia was 261 (See Table 1). Of the bilateral projects, 102 are with Kazakhstan, 46 with Kyrgyzstan, 44 with Tajikistan, 43 with Uzbekistan, and 26 with Turkmenistan.<sup>9</sup> Further, China aims to establish land connectivity to Europe via Central Asia through 48 multilateral projects and 126 strategic projects under the BRI.<sup>10</sup>

**Table 1: China's Bilateral and Multilateral Projects in Central Asia**

Country	Total by country		Road and Infrastructure		Energy connectivity		Trade and industrial development	
	Bilateral	Multilateral	Bilateral	Multilateral	Bilateral	Multilateral	Bilateral	Multilateral
Kazakhstan	100	2	13	1	20	0	60	1
Kyrgyzstan	41	5	8	3	5	0	16	1
Tajikistan	35	9	8	8	6	1	17	0
Uzbekistan	38	5	2	3	0	1	16	1
Turkmenistan	23	3	2	3	4	0	12	0
<b>Total</b>	<b>237</b>	<b>24</b>	<b>33</b>	<b>18</b>	<b>46</b>	<b>2</b>	<b>127</b>	<b>3</b>

Source: Farkhod Aminjonov, et. al., "BRI in Central Asia: Overview of Chinese Projects."<sup>11</sup>

With the BRI, Beijing has become the leading foreign investor in the region. However, much of its investment is channelled into projects that serve Chinese interests over those of the Central Asian republics. Thus, projects aimed at rail and road connectivity, energy connectivity through oil and gas pipelines, and hydrocarbon exploration and processing have received substantially more investments than

those involving industrial development and agriculture and food processing (See Table 2). Key railway projects completed under the BRI include the Pro-Angren line in Uzbekistan and the 900-km Uzen-Bereket-Gorgan that connects Kazakhstan, Turkmenistan and Iran. The China-Kyrgyzstan-Uzbekistan highway and the Khorgos dry port on China-Kazakhstan border are already operational.<sup>12</sup>

These infrastructure projects opened the markets of Central Asia to Chinese goods, and China–Central Asia trade doubled to almost US\$40 billion between 2007 and 2018.<sup>13</sup>

Thus, the BRI investments in the region were largely geared towards fulfilling the economic needs of Beijing, without providing direct benefits to the partner country. By investing most of the BRI funds in such projects (See Table 2), China has gained a free hand to exploit the region's existing markets as well as the rich hydrocarbon and uranium reserves. The 3,666-km-long Central Asia–China gas pipeline, which starts from Gedaim in

Uzbekistan/Turkmenistan and offloads gas at Xinjiang, was completed at an estimated cost of US\$ 7.3 billion.<sup>14</sup> In 2017, China's gas imports increased to 36.2 bcm via this pipeline. Similarly, the China-Kazakhstan crude pipeline—passing through a 1,500-km desert area, 340 km of marshes, 830 km of area that experiences some of the world's strongest overland wind currents—was completed in 2009. In 2012, it allowed the production of 12 million tonnes of crude oil, and the capacity doubled to 24 million tonnes in 2018. Moreover, Beijing has purchased most of the stakes in hydrocarbon and uranium explorations in the region.<sup>15</sup>

**Table 2: Total Investment of Chinese Projects in Central Asia (US\$ millions)**

Country	Rail & road connectivity	Energy connectivity	Industry	Agriculture & food	Hydrocarbon exploration & processing
Kazakhstan	14,539	18,849	10,545	1,049	37,778
Turkmenistan	1,402	9,410	NA	NA	1,403
Tajikistan	4,515	4,516	679	342	465
Kyrgyzstan	1,773	2,713	150	31	676
Uzbekistan	1,269	205	923	28	2,209
<b>Total</b>	<b>23,499</b>	<b>35,693</b>	<b>12,299</b>	<b>1,451</b>	<b>55,159</b>

Source: Farkhod Aminjonov, et. al., "BRI in Central Asia: Overview of Chinese Projects."<sup>16</sup>

### Challenges to the BRI

The BRI projects in Central Asia are marred by corruption, lack of transparency, debt issues with some countries, the larger Uyghur problem, and protests against China. Almost 30 percent of the investments in Central Asia are lost in graft.<sup>17</sup> In 2019, former prime

ministers of Kyrgyzstan, Sapar Isakov and Jantoro Satybaldiev, were convicted and imprisoned for corruption.<sup>18</sup> In 2013, China's Tebian Electricity Apparatus won a US\$385-million contract to refurbish the Bishkek power plant without an open tender, through a loan from the Export-Import Bank of China. Kyrgyz officials alleged that

they were forced to agree to the bank's terms due to the lack of financing options.<sup>19</sup> While Kazakhstan, Uzbekistan and Turkmenistan have sustained the BRI debts through the return of hydrocarbons and Uranium exports to Beijing, Kyrgyzstan and Tajikistan have succumbed to China's debt trap. The two nations owe China an estimated US\$1.4 billion and US\$1.38 billion in loans, respectively—a fact that Beijing has used to force them to transfer to China greater control over their BRI assets. Already, it has acquired ownership of a lucrative gold mine in Tajikistan.<sup>20</sup>

The influx of Chinese workers for these infrastructure projects have minimised the opportunities for the local people. The increased Chinese Han influx has led to violent protests in the region. In August 2019,

more than 500 villagers in Kyrgyzstan entered a mine operated by a Chinese company and injured 20 Han workers.<sup>21</sup> Furthermore, over the last three-and-a-half years, there have been reports of a heightening of the ill-treatment of Uyghurs and other ethnic groups in Xinjiang. More than 1.5 million of them have been sent to concentration camps, called “Re-education Camps.”<sup>22</sup> While the Central Asian countries have officially refrained from commenting on the issue, there have been mass civilian protests in the region. In some countries, the authoritarian regimes have arrested prominent activists to muffle the protests and prevent violence.<sup>23</sup> However, the steadily growing anti-China sentiments amongst the people of the region pose a serious challenge to the future of the BRI in Central Asia.

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# The 'Bright Spark' for the BRI?

*Anant Singh Mann and Dipayan Pal*

In the first few years since it was conceived in 2013, the Belt and Road Initiative (BRI) did not include Latin America. This changed in January 2018, when the Chinese Foreign Minister announced plans to extend the initiative to the region, at a meeting with the Community of Latin American and Caribbean States.<sup>1</sup>

Today, China is the second-largest trading partner and the third-largest investor in

the Latin American and Caribbean (LAC) region—now considered by some analysts to be the “bright spark”<sup>2</sup> for Chinese investment. Trade between China and the LAC amounted to US\$ 307.4 billion in 2019, increasing 19 percent from 2018.<sup>3</sup> Over the next decade, China plans to invest US\$ 250 billion in the region.<sup>4</sup> In the last decade, several projects have been undertaken under the BRI (See Table 1).

**Table 1: Select Belt and Road Initiative (BRI) Projects in Latin American Countries (US\$ Million)**

Country	Project/Purpose	Year Initiated	Funds Allocated	Status
Ecuador <sup>5</sup>	Rebuilding of Eloy Alfaro International Airport in Manta	2018	US\$20.7 million	Expected 2020
Venezuela <sup>6</sup>	La Cabrera thermoelectric plant	2014	US\$604 million	Completed
Guyana <sup>7</sup>	Expansion of Cheddi Jagan International Airport	2013	US\$130 million	Completed
Bolivia <sup>8</sup>	El Sillar double track project	2015	US\$426 million	In Progress

Bolivia <sup>9</sup>	Rositas hydroelectric plant in Santa Cruz	2016	US\$1,000 million	Expected 2024
Bolivia <sup>10</sup>	El Mutún Steel contract	2016	US\$396 million	Expected 2021
Panama <sup>11</sup>	Design and construction of Fourth Bridge over Panama Canal	2018	US\$1,420 million	Expected 2022
Argentina <sup>12</sup>	Jujuy 500-MV Solar Photovoltaic complex	2017	US\$340 million	In Progress
Argentina <sup>13</sup>	Railway modernisation contract	2018	US\$1,000 million	Expected 2025
Argentina <sup>14</sup>	1000-MW PWR Type Hualong One	2019	US\$8,500 million	In Progress
Peru <sup>15</sup>	Construction of Mega port in Chancay	2019	US\$3,000 million	Expected 2021
Peru <sup>16</sup>	Las Bamber Copper Mine	2012	US\$6,960 million	Completed in 2015

### The BRI in the LAC Region: An Overview

As of 2020, seven Latin American nations have signed the BRI cooperation agreements with China: Ecuador, Venezuela, Guyana, Suriname, Bolivia, Chile and Uruguay.

**Ecuador:** Under the BRI, several large-scale infrastructure projects have been carried out in the northern provinces of Esmeraldas and Manabi in Ecuador. Some of the major projects include the reconstruction of the Eloy Alfaro International Airport in Manta, Manabi's second-largest city; the erection of two bridges in the province; and the construction of the Quininde-Las Golondrinas Highway, which connects Esmeraldas with the neighbouring Imbabura province.<sup>17</sup>

**Venezuela:** China has a "comprehensive strategic partnership" with Venezuela, e.g. joint ventures in oil fields; the La Cabrera thermoelectric plant, currently fully operational; and the El Vigía power plant, which is partially operational.<sup>18</sup> Several other BRI projects have failed, such as the

abandoned rice processing plant in Delta Amacuro, which was supposed to be the largest in Latin America. It has loaned upwards of US\$67 billion to the Venezuelan government.<sup>19</sup>

**Guyana:** Guyana and China have signed massive infrastructure deals as part of the BRI, including the China Harbour Engineering Company's US\$150-million expansion of the Cheddi Jagan International Airport and a US\$500-million contract for the China Railway First Group to build a hydroelectric plant at Amalia Falls.<sup>20</sup> Another US\$37.6-million agreement has been signed to boost Guyana's broadband capabilities covering several sectors, to be executed by Huawei.<sup>21</sup> China is making plans to build a road linking the southern Guyanese town of Lethem outside Georgetown to Brazil.

**Suriname:** China and Suriname have signed several BRI MoUs on "enhanced cooperation in the fields of infrastructure construction, agriculture, forestry, fishing, law enforcement, human resources and public health."<sup>22</sup>

**Bolivia:** In Bolivia, the BRI projects include the construction of roads and bridges, such as the 306-m long Parapeti Bridgem El Sillar (a stretch on the highway from Santa Cruz to Cochabamba), the Rurrenabaque–Riberalta road in the Amazon, and the El Espino to Boyuibe in the Chaco. Other projects include the Mutún steel plant and the joint exploitation of lithium in the southern salt flats of Bolivia.<sup>23</sup>

**Chile:** In Chile, an underwater fibre-optic network has been planned, aimed at linking China and Chile to boost interconnectivity, trade, investment, as well as scientific and cultural exchanges between the two continents.<sup>24</sup> Additionally, a public–private partnership has been formed to build the first high-speed rail line in the region.<sup>25</sup>

**Panama:** In late 2018, the Government of Panama awarded two Chinese companies a contract worth US\$1.5 billion, for the construction of a fourth bridge over the Panama Canal.<sup>26</sup>

**Uruguay:** In Uruguay, the BRI's focus is mainly on agricultural cooperation in the fishing, food processing, and logistics industries.<sup>27</sup>

**Argentina:** Several major infrastructure projects have been undertaken under the BRI in Argentina, including two nuclear plants and a US\$2.5-billion upgrade of its main cargo rail network.<sup>28</sup>

**Peru:** The BRI in Peru is aimed at reviving the inter-oceanic railroad with Brazil and Bolivia (estimated at U\$60 billion).<sup>29</sup> Other projects include the construction of mega ports in Chancay and Ilo.<sup>30</sup> Being the second-largest foreign investor in the mining sector, China

now owns the Las Bambas copper mine in Toromocho and the Marcona iron ore mine.<sup>31</sup>

Currently, there is a significant shortage of infrastructure investment in Latin America, particularly in the area of bolstering export-oriented connectivity by developing the internal markets. The BRI can fill this gap by investing in infrastructure and connectivity within the region, thereby helping Latin American countries enter various local, regional and international value chains. In terms of trade, BRI offers an integration of markets, which is essential for the region. Such investments can fuel new preferences, demands, and niche market opportunities. However, strategic and innovative thinking is vital for achieving long-term goals of local and regional development, strengthening domestic markets, and reducing poverty in the region.

By 2018, Chinese investments in Latin America comprised over one-tenth of its total outbound investments.<sup>32</sup> Moreover, China has emerged as the largest creditor in Latin America over the last decade.<sup>33</sup> However, such investments have environmental, social and governance concerns. In Argentina, the construction of a hydroelectric dam in Santa Cruz commenced without an environmental impact assessment and was ultimately halted by the Supreme Court due to environmental concerns. Sinopec's oil refinery project in Moín (Costa Rica) has faced similar institutional obstacles, slowing down the progress of the project. These projects also faced stiff public opposition. For example, the Rositas Hydropower Project in Bolivia<sup>34</sup> has been delayed indefinitely due to opposition from local communities over land displacement



and food security. In Mexico, a high-speed railway project deal was cancelled due to corruption allegations.<sup>35</sup> Venezuela is showing signs of having fallen into the so-called Chinese debt trap, provoking discontent among the public.

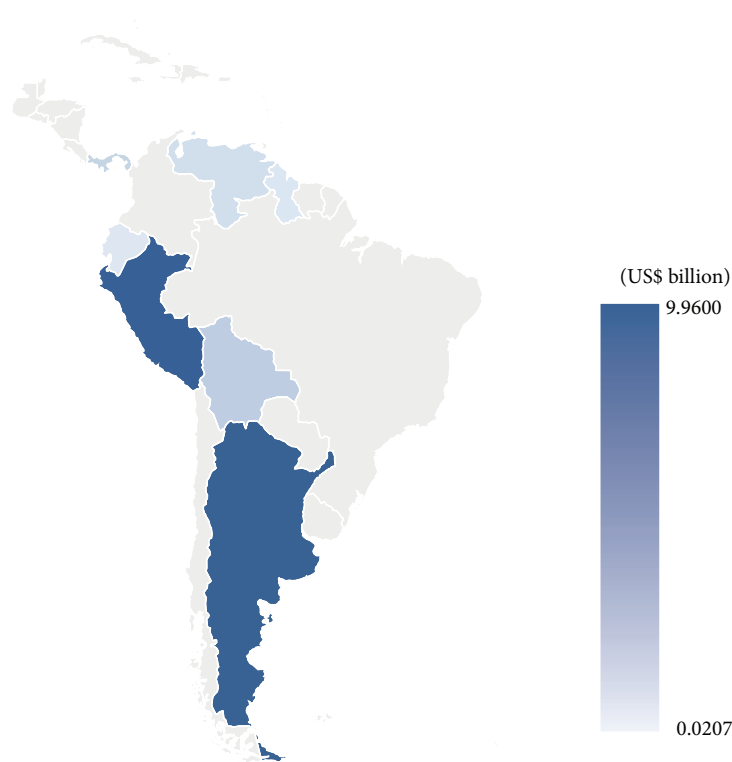
### The Future of the BRI in the LAC Region

Brazil, Argentina, Mexico and Colombia—the four largest economies in Latin America and accounting for about 70 percent of the region's GDP—are yet to sign BRI agreements. At the same time, these four nations have comprehensive bilateral cooperation

agreements with China and are host to multiple Chinese infrastructure projects. This raises an important question as to which projects can be classified as “BRI projects.” Álvaro Méndez, co-founder of the LSE Global South Unit, asks, “Not even China knows exactly what BRI is. Many things that already existed before BRI are being framed under it.”<sup>36</sup>

Over the last few years, there has been a noticeable decline in the funds allotted to Latin America under the BRI. A 2019 research conducted by the Boston University and the Inter-American Dialogue found

Map of Latin America Representing Figures from Table 1



Source: Author's own

that China's two main banks responsible for overseas development financing—the China Development Bank and the Import-Export Bank of China—had rolled back loans to Latin America.<sup>37</sup> Several environmental, social and governance concerns plague the initiative, resulting in both institutional and public impediments to project completion. In the recent past, projects have been criticised not only for their non-compliance to environmental standards but also for the human rights violations that have allegedly accompanied their implementation.

Other projects in the region are being stalled indefinitely for various reasons. For example, in the Lithium sector in Chile, most of the BRI projects have been halted and significant investments have been cancelled.<sup>38</sup> There were fewer infrastructural projects signed in 2020,

and no new formal agreements have been made with the Latin American nations.

In the foreseeable future, China will perhaps not invest in large infrastructure and energy projects in Latin American countries. However, the COVID-19 crisis has opened new areas of cooperation in the form of the rejuvenated Health Silk Road (HSR) and the Digital Silk Road (DSR).<sup>39</sup> Under HSR, Latin American countries have received donations and medical supplies from China. In the second half of 2020, digital technologies inspired by China were increasingly utilised to combat the pandemic. Latin American nations are especially interested in the deployment of 5G technology, with the presence of companies such as ZTE and Huawei steadily increasing across the region.

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SECTION 2

**GLOBAL POWERS  
AND THEIR  
RESPONSES TO  
THE BRI**

# Trump's Response to the BRI: Jettisoning the 'America First' Approach

*Kashish Parpiani*

Under the ambit of America's "great power competition" with China,<sup>1</sup> former US President Donald Trump honed a constructive record in the Indo-Pacific. To begin with, his administration defined America's vision for the region by calling for a "free and open Indo-Pacific."<sup>2</sup> Contrary to his 'America First' worldview's abhorrence for an activist US foreign policy, Trump even defined the US' aim: to shape the region as "a place where sovereign and independent nations, with diverse cultures and many different dreams, can all prosper side-by-side, and thrive in freedom and in peace."<sup>3</sup>

Moreover, in projecting that vision to be in marked contrast with Chinese propositions, the Trump administration criticised the Belt and Road Initiative's (BRI) funding of regional infrastructure projects. It called the BRI "a

made in China, made for China" initiative,<sup>4</sup> and alleged that China was employing "debt diplomacy" to further its strategic aims.<sup>5</sup> In his 2018 speech on the administration's policy on China, Vice President Mike Pence warned that the country's takeover of Sri Lanka's Hambantota port will lead to its conversion into "a forward military base for China's growing blue-water navy."<sup>6</sup> Subsequently, then-Secretary of State Mike Pompeo said that Chinese "bribe-fueled debt-trap diplomacy undermines good governance and threatens to upend the free-market economic model."<sup>7</sup>

In arguing that the US offered "a better option" over BRI's propositions, Pence noted, "We [the US] don't drown our partners in a sea of debt. We don't coerce or compromise your independence. The United States deals openly, fairly. We do not offer a constricting

belt or a one-way road. When you partner with us, we partner with you, and we all prosper.”<sup>8</sup> Consequently, under the “economic pillar” of its Indo-Pacific strategy, the Trump administration announced its approach to be wedded to “anti-corruption, fiscal transparency, democracy assistance, youth development, media freedom, and protecting fundamental freedoms and human rights.”<sup>9</sup>

### **Embracing Nation-building Abroad**

Ahead of the 2016 election, Trump rallied against the US “rebuilding” other nations, and instead pledged to invest in US infrastructure.<sup>10</sup> Upon assuming office, this ‘America First’ focus included a proposal for a 28-percent budget cut in diplomacy and foreign aid,<sup>11</sup> and advocated for folding the US Agency for International Development (USAID) into the Department of State.<sup>12</sup> This invited corrective measures from the US Congress,<sup>13</sup> wherein the Hill proactively shaped the Trump administration’s approach towards the US’ economic vision for the Indo-Pacific region. For instance, Pompeo’s Indo-Pacific Business Forum (IPBF), launched in 2018<sup>14</sup> and committing US\$113 million to seed the regional digital economy, energy, and infrastructure projects,<sup>15</sup> had been deemed to barely “scratch the surface of the financing needs” of the region.<sup>16</sup>

Amidst doubts over America’s response to China’s trillion-dollar BRI, the US Congress passed the Asia Reassurance Initiative Act<sup>17</sup> (ARIA) to reiterate the US’ “continued commitment to the region.”<sup>18</sup> The Act authorised over US\$1.5 billion towards “trade capacity building and facilitation activities in the region.” Furthermore, with the passage of the Better Utilization of Investments Leading to

Development (BUILD) Act, 2018,<sup>19</sup> Congress mandated the executive branch to set up the US International Development Finance Corporation (DFC), via “consolidating and expanding existing US government development finance functions,”<sup>20</sup> which had until then been under the purview of the Overseas Private Investment Corporation (OPIC). This proved to be a turnaround on Trump’s nativism, since his budget cuts had proposed gutting the OPIC, which dates back to 1971 as the US’ “lending facility to encourage American companies to invest in developing countries.”<sup>21</sup> The DFC was accorded a budget of US\$60 billion, doubling OPIC’s capacity of US\$29 billion.<sup>22</sup> In aiming to generate US\$12 billion in investments over five years, the DFC sought to advance US influence by “incentivizing private investment as an alternative to a state-directed investment model.”<sup>23</sup> Moreover, in contrast to OPIC, it incorporated upgrades such as<sup>24</sup> an authority to issue limited equity investments, increased authorisation period of seven years (over OPIC’s yearly authorisations), and independent oversight and risk management avenues with its own Inspector General (as opposed to falling under the USAID’s jurisdiction).

To be sure, the Trump administration’s enhanced focus on confronting China was crucial in the US belatedly recognising “development aid” as a tool against Beijing’s regional machinations. For instance, under the Obama administration’s prioritisation of US aid to “elevate civilian power alongside military power as equal pillars of US foreign policy,”<sup>25</sup> an attempt to reinvigorate the OPIC had failed. Under Trump, however, the rising anti-China sentiment helped push the agenda through. On the BUILD Act, Sen.

Chris Coons (D-DE) said, “It is basically the same proposal we had under the Obama administration. We rebranded to focus it on China.”<sup>26</sup>

Along with the Congressional initiatives, the Trump administration, too, gave a fillip to US development finance. For instance, it pushed for the reinvigoration of the US Export-Import (EXIM) Bank, after Trump’s Director of the National Economic Council Larry Kudlow termed it “a financial tool and a national security weapon” against China.<sup>27</sup> EXIM had been non-functional since 2015, leaving the US without an active export credit agency and China surpassing it as the “top trading partner for more than two-thirds of the world’s nations.”<sup>28</sup> Subsequently, in 2019, the US Senate approved three new board members to grant EXIM the quorum required “to approve financing or loan guarantees larger than \$10 million.”<sup>29</sup> The Trump administration embraced such actions, fuelled not only by its “great power competition” with China<sup>30</sup> but also by Trump’s 2016 pledge to revitalise manufacturing jobs in the industrial mid-West. Reinvigorating EXIM, for instance, cleared US export deals worth nearly US\$ 40 billion, which were estimated to support 230,000 jobs.<sup>31</sup> This dampening of the ‘America First’ worldview, albeit at times with Congressional intervention, also curbed Trump’s penchant for deriding multilateralism.

### **Dampening Unilateralist Impulses**

Three days after being sworn into office, Trump withdrew from the Trans-Pacific Partnership (TPP)—the Obama administration’s signature free-trade agreement comprising 12 Pacific-rim

countries.<sup>32</sup> While Trump’s rationale stemmed from his populist critique of the agreement being a “disaster” for the American worker,<sup>33</sup> from a foreign policy standpoint, Trump’s move was tantamount to ceding an opportunity to confront China with the cumulative strength of nearly 40 percent of the global GDP.<sup>34</sup> Thereafter, despite suggesting that he would be open to re-joining the TPP,<sup>35</sup> Trump’s approach towards China’s trade practices remained unilateral. This was evident in his administration’s 18 month-long trade war to coax China to negotiate a “fair and reciprocal” trading arrangement.<sup>36</sup>

On China’s regional influence with the BRI, however, the dampening of this ‘America First’ unilateralism was evident. In purporting the high standards of US investments under DFC vis-à-vis Chinese funding, the Trump administration embraced multilateralism to partner with development finance corporations of Japan, Australia, Singapore, Canada, and the European Union. Called the “Blue Dot Network,” it seeks to provide “a globally recognized seal of approval confirming high standards in infrastructure and adherence with global best practices.”<sup>37</sup> Similarly, with Infrastructure Finance and Market Building Agreements with South Korea and Singapore, the US aims to attract “private sector financing, develop local debt and capital markets, bolster utility creditworthiness, and attract institutional investors” into the region’s infrastructure projects.<sup>38</sup>

Under its policy of “unleashing American energy dominance” by seeking “new export opportunities” for US energy producers,<sup>39</sup>



the Trump administration focused on the Indo-Pacific region, which is poised to account for 60 percent of global growth in energy demand by 2040.<sup>40</sup> With about 30 percent of US energy exports (worth US\$ 50 billion) already going to the region,<sup>41</sup> the administration announced the Asia EDGE (Enhancing Development and Growth through Energy) initiative to “grow sustainable and secure energy markets throughout the Indo-Pacific.”<sup>42</sup> Under the Asia EDGE initiative as well, a multilateralist approach encouraged investments from partner nations such as Japan, which has pledged US\$10 billion towards the effort.<sup>43</sup> Additionally, the US encouraged cooperative arrangements to develop energy infrastructure in the region. For instance, with their co-financing agreement,

US EXIM and Japan’s Nippon Export and Investment Insurance have laid the ground for the joint development of natural gas projects.<sup>44</sup> The USAID has partnered with the Asian Development Bank to mobilise up to US\$7 billion in investment to reform the region’s energy sector.<sup>45</sup> Finally, a Trilateral Infrastructure Partnership between Japan, Australia and the US includes projects worth US\$400 million to support the Papua New Guinea Electrification Partnership.<sup>46</sup>

Thus, Trump’s policy in the Indo-Pacific encompassed a systematic dampening of his ‘America First’ impulses and an embrace of multilateralism to counter China’s propositions under the BRI.

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# Russia's Guarded Optimism

*Nivedita Kapoor*

Russia's current perception of the Belt and Road Initiative (BRI) has evolved significantly since the project was first announced by Xi Jinping in Kazakhstan in 2013. Russia was initially sceptical<sup>1</sup> about increasing Chinese influence in Eurasia; today, owing to the evolving strategic scenario, it is planning to coordinate with the BRI through the Eurasian Economic Union (EAEU). The impact of the 2014 Ukrainian crisis, which led to a sharp downturn in relations with the West and necessitated a stronger turn to Eurasia for Russia, can also be seen in developments regarding BRI.

In BRI's current layout, two out of its six corridors will pass through Russia: the New Eurasia Land Bridge (China-Kazakhstan-Russia-Belarus-Poland) and the China-Mongolia-Russia Economic Corridor. Soon

after the EAEU was created in January 2015, Russia and China signed a statement on the construction of joint EAEU and Silk Road projects. By 2018, a trade cooperation agreement was reached between the EAEU and China. Meanwhile, Russia announced its own vision of Greater Eurasia, and China was hailed by President Vladimir Putin as the continent's "natural partner"<sup>2</sup> in development.

Some analysts note that Moscow would benefit<sup>3</sup> from the potential of BRI to improve market access and transport infrastructure, boost production centres, encourage SMEs, and develop the regional economy via the Russia-specific routes. However, given the perpetually developing nature of the situation, the jury is still out on the extent of eventual benefits that will accrue to Moscow. Meanwhile in 2018, the release of a Chinese White Paper<sup>4</sup> envisioned a 'Polar

Silk Road' to build infrastructure along the Arctic route, which will provide a shorter distance to countries to Europe. Climate change is impacting the Arctic at twice the rate for rest of the world, leading to melting ice caps and making sea navigation possible for longer durations in a year than ever before. The rich natural resources of the Arctic have also fuelled Chinese ambitions to extend the scope of the BRI.

Even as the BRI has faced sustained international criticism over concerns of corruption, opaque financing schemes, and potential debt-traps for poor countries, Russia has attempted to carefully navigate the nuances of the initiative. After several years of slow progress, in 2019, Russia approved a key BRI project – the 2000-km long Meridian Highway<sup>5</sup> – that consists of a road link from Kazakhstan to Belarus as part of the New Eurasia Land Bridge. The highway is expected to be completed by 2024, and will offer a faster route of 11 days for commodities moving from China to Europe.<sup>6</sup> In contrast, the sea route takes 30-50 days, and the rail, 15 days—though the latter remains cheaper.

Another step forward has been the completion of a rail bridge over River Amur connecting the Russian Far East to the north-eastern Chinese city of Heihe. It is expected to be integrated into the China-Mongolia-Russia corridor<sup>7</sup> of the BRI, connecting into the Trans-Siberian rail network. The Russian leadership<sup>8</sup> has expressed interest in expanding the capacity of Trans-Siberian and Baikal-Amur railways, and Putin has welcomed the Chinese initiative as well as its interest in the development of the Northern Sea Route (NSR).

## EAEU-BRI

The territory of Eurasia is critical for the BRI's success, as seen in the number of routes that pass through it, especially Central Asia. The region is also in need of improvements in its infrastructure and transport networks, market access, as well as investment, especially for the landlocked countries or those without direct maritime access. This brings into focus Russia's economic and geopolitical interests in the region. Economically, Russia wants to promote domestic economic development by building linkages via the EAEU. This is with a view of not only shoring up its economic presence in the region – which is already being challenged by China – but also maintaining political and security presence in its immediate neighbourhood.

Russia hopes to benefit from an economically developing Eurasia and is willing to act as an “intermediary”<sup>9</sup> in connecting BRI to Europe. China also recognises the benefit of having to cross only two customs borders to reach Europe due to an agreement with EAEU. At the same time, China welcomes Russian support<sup>10</sup> for the BRI when it has generated considerable backlash in several countries, leading to acceptance of each other's role<sup>11</sup> in the endeavour.

However, despite the optimistic pronouncements, there are obstacles to cooperation between Russia and the BRI – whether at the bilateral or the multilateral level. This was reflected in the absence of Russian Foreign Minister Sergei Lavrov at a virtual BRI conference in June 2020.

Despite the 2015 agreement regarding joint projects, out of 40 projects<sup>12</sup> proposed by the Eurasian Union for approval for financing under BRI in 2017, not one was deemed financially profitable. Even in the case of bilateral initiatives, there have been only a few projects<sup>13</sup> implemented under BRI in Russia. Moreover, Russia has so far garnered little in investment as a result of BRI; only a few projects have gained ground in the recent past. While Russia prefers investment in high-tech industries and promotion of local business, China wants to focus on “its own excess production capacities and workforce.”<sup>14</sup>

Eurasia's stagnating economy<sup>15</sup> has also weakened the position of EAEU, with member countries taking the bilateral route in negotiating with China.<sup>a</sup> This was seen in the case of Kazakhstan, which has tailored its Nurly Zhol<sup>b</sup> to BRI. On the other hand, Russia prefers “multilateral linkages”<sup>16</sup>—through EAEU in this case – in order to retain its own influence. Studies indicate that by 2017, there had been an increase in container traffic on the China-EAEU-EU route, but it was in large part due to railway transport subsidies<sup>17</sup> given by Beijing. There is the additional task of integrating two completely distinct ideas – an economic union and a combination of bilateral transport infrastructure projects – which will create problems of coordinating mechanisms.

More than that, the BRI is also a geopolitical project that serves as an instrument of Chinese foreign policy, creating<sup>18</sup> a new set of norms, standards and institutions for the participating countries. In this scenario, Russia will have to deal with rising Chinese presence in its backyard at a time when its relations with the West are at a historic low and its ties with Asia are weak—whether in trade, investment, or security.

### **Polar Silk Route and the Arctic**

As mentioned earlier, a 2018 Chinese White Paper outlines the country's interest<sup>19</sup> in the oil and gas resources in the Arctic and its plans to develop its own infrastructure. China also declared itself to be a “near-Arctic state” and linked the BRI to the Arctic through a Polar Silk Route. In recent years, China has been shoring up its ties<sup>20</sup> with all Arctic states: for instance, it made its first investment in the oil and gas sector in the form of a 29.9 percent stake in Russia's Yamal LNG project, with China National Petroleum Corporation (CNPC) and Silk Road Fund owning shares worth 20 and 9.9 percent, respectively. Russia, which has had to deal with a drying up of investment as a result of Western sanctions, has only in recent years relented and allowed China to invest in its upstream sector. At the same time, Russia has brought in diversified investors despite the prevailing constraints to maintain a balanced portfolio.

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<sup>a</sup> This has been a key feature of BRI.

<sup>b</sup> Nurly Zhol or Bright Path refers to Kazakhstan's domestic economic stimulus plan launched in 2014 that seeks to develop the country's connectivity through improvement of transport infrastructure – roadways, railways, air and port linkages.

Russia has consistently sought to maintain the primacy of Arctic coastal states – which does not include China – where they have their exclusive economic zones. It also remains vigilant about the security implications of the impact of climate change. Furthermore, Russia's legal position<sup>21</sup> with regard to the Arctic does not entirely coincide with that of China, including regarding regulation of navigation of ice-covered areas<sup>22</sup> on the shipping routes. Moscow wants to utilise the natural resources of the Arctic for economic growth while “regulating navigation”<sup>23</sup> on the route, including through the use of Russian icebreakers.<sup>24</sup> However, the launch of Chinese icebreakers has raised concerns about the future impact<sup>25</sup> on Russian predominance at a time when the former superpower is seeking to develop the Northern Sea Route. Thus, while Putin has welcomed China's interest in NSR development and in recent years the two sides have signed agreements<sup>26</sup> regarding Arctic projects, there are still areas of divergence regarding Sino-Russian positions in the Arctic. Their full implications, though, remain unclear.

### **Conclusion**

As both sides try to maximise<sup>27</sup> their respective gains from BRI, Russia has focused on using EAEU—and more recently, the concept of

‘Greater Eurasia’—to integrate the Chinese initiative into its broader regional plans. Given the evolving world order, both China and Russia are aware of the benefits accruing from continuing their close association. However, as demonstrated in this article, the path has not been smooth for Russia.

As it aims to preserve its influence in Central Asia and prevent the EAEU from being undermined,<sup>28</sup> Moscow will have to work with limited resources. While the Sino-Russian strategic partnership has grown stronger in recent years, the former superpower does not want to assume the status of a junior partner in the relationship. This would entail building its own vision of Greater Eurasia from a vague concept to a more concrete strategy, combined with sustained diversification of ties across Asia. In addition, an overhaul of domestic economic policies will be needed to promote growth – in turn boosting the position of EAEU. Similarly, domestic development of the Far East and Siberia, attracting diversified investments for Arctic projects and skilful diplomacy within the Arctic Council alongside NATO-member states, will be prerequisites for the preservation of Russian influence in the region. These developments will together play a crucial role in determining Russia's future with the BRI and its own great-power narrative.



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# Japan's Response: From Abe to Suga

*Vindu Mai Chotani*

China's rise has loomed large in Japan's foreign policy radar, and analyses carried in Japanese articles and media typically ask, "How should Japan confront China?" and "How will Japan and China get along?"<sup>1</sup> A key provocation for these questions has been China's Belt and Road Initiative (BRI), a mega-infrastructure plan announced in 2013 which aims to reconstruct the ancient Silk Road from Europe to East Asia.<sup>2</sup>

It is important to evaluate Japan's response to the BRI given that for decades, Japan has set the gold standard for infrastructure lending in the region—one that has championed internationally accepted norms and principles. The relevance of this becomes even more clear, as the ongoing COVID-19 pandemic illustrates what happens when so many BRI

projects, with poor lending practices come in contact with a global pandemic: some are showing signs of becoming white elephants, and a few that were already dubious before the start of the pandemic, are hanging on precariously.<sup>3</sup>

This article traces Japan's response to the BRI. It argues that with the impacts of COVID-19 and the deterioration of China-US relations, it is in Japan's interests, and that of the broader region, for Japan to pursue two strategies. First, it is imperative for Japan to continue collaborating on joint projects with China's BRI.<sup>4</sup> Second, Japan should simultaneously compete by continuing to cultivate its infrastructure partnerships in the region. Finally, this piece will analyse some of the key challenges for Prime Minister Suga, who was elected in September 2020.

### From Caution to Cooperation

In September 2013, while visiting Kazakhstan, President Xi Jinping announced what was then called the One Belt One Road (OBOR) initiative. Japan was suspicious, and remained so even after Abe met Xi in Jakarta in 2015, where Abe pointed out that Japan would closely watch how the OBOR would eventually materialise.<sup>5</sup>

In May 2017, when China hosted the Belt and Road Forum (BRF) for International Cooperation, Japan began to change its stance. Although Abe did not attend the BRF, he asked LDP Secretary General and famous pro-China lawmaker, Nikai Toshihiro, to attend the forum, alongside Sakakibara Sadayuki, then chairman of the *Keidanren* (the Japan Business Federation).<sup>6</sup> Nikai met Xi and handed him a letter from Abe—this would lay the groundwork for future cooperation between the two states.<sup>7</sup>

By June 2017, Abe was describing the BRI as a project that held the potential to connect East and West, as well as the diverse regions in between.<sup>8</sup> Many observers were surprised with what they described as Abe's "reluctant embrace"<sup>9</sup> of the BRI or him striking a "Belt and Road balancing act",<sup>10</sup> given increasing Chinese assertiveness in the East and South China Seas as well as in other parts of the region.

The ambiguity would later be cleared up at Da Nang, on the sidelines of the Asia-Pacific Economic Cooperation (APEC) Economic Leaders Meeting. In that meeting, Abe clearly articulated Japanese expectations of engaging with the BRI, stating that "in a forward-looking way...adequately incorporating the

thinking held in common by the international community regarding the openness, transparency, economic efficiency, financial soundness, and other such aspects of the infrastructure"<sup>11</sup>

Thus, it was with these preconditions for Tokyo's participation in the BRI that in November 2017, Japan's Cabinet Secretariat, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Economy, Trade and Industry as well as Ministry of Land, Infrastructure and Transport jointly issued a guideline of bilateral business cooperation in third countries for Japanese enterprises.<sup>12</sup> By October 2018, preliminary agreements for cooperation in over 50 joint Japan-China BRI cooperation projects in third countries started to take shape.<sup>13</sup>

It is clear that Abe reverted to Japan's policy of *seikei bunri*, or "separating politics and economics". As the guiding principle in Japan's conduct of its relationship with China, this is something that the former prime minister had already written about in his 2006 book, *Utsukushii Kuni e* (Towards a Beautiful Country).<sup>14</sup> This decision was important for two reasons.

First, while maintaining a conditional stance, Tokyo was signalling that it was welcoming constructive engagement in the investment sector by Asia's two biggest economies—as long as it adheres to the principles of open tenders and transparency. Such cooperation will ultimately serve the larger objective of enabling emerging economies in the region to fuel national growth and boost the overall outcomes for both investors and host communities.

Second, this also ensured that Japanese businesses did not lose out; instead the *Keidanren* and other Japanese multinationals were able to expand in other countries. In that way, Abe understood that Beijing's grand designs happened to advance Tokyo's own broader economic ambitions in Asia.<sup>15</sup>

### **Japan and China's New Normal: Competing Amidst Cooperation**

Tokyo's commitment to continue to shape and uphold the rules-based order and quality lending practices has led it to simultaneously compete with the BRI. Its Partnership for Quality Infrastructure, together with the Asian Development Bank (ADB), aimed to provide approximately \$110 billion for quality infrastructure investment in Asia from 2016 to 2020.<sup>16</sup> An extended version of this project, announced in 2017, named the Expanded Partnership for Quality Infrastructure (EPQI) provides further financing of approximately \$200 billion to be allocated to infrastructure projects across the world over five years.<sup>17</sup> While these have often been cited as one of the most substantial alternatives to China's approximately \$ 1.2 to 1.3-trillion BRI,<sup>18</sup> they evidently do not offer stiff competition.

Thus, Tokyo has also been seen to be increasing infrastructural collaborations with its allies and like-minded partner states. There is the Asia Africa Growth Corridor (AAGC)—an initiative designed to integrate Africa and the Western Indian Ocean which Japan signed on to with India in 2017.<sup>19</sup> There is also the EU-Japan infrastructure pact signed in October 2019 which aims to boost connectivity between Europe and Asia.<sup>20</sup> However, while the AAGC has been around for three years, it remains squarely in the developmental phase.

For the latter, it is still relatively new and both sides are yet to zero in on specific projects.

Japan is also pursuing cooperation within trilateral frameworks. For instance, there is the relatively new Blue Dot Network (BDN), which was announced by the US, Japan, and Australia in November 2019 at the Indo-Pacific Business Forum in Thailand. The three allies plan to “certify infrastructure projects around the world that meet high standards of transparency, sustainability, and developmental impact.”

Unlike the others, it seems that only the BDN carries the financial bandwidth to keep up with, and perhaps even overtake, Chinese overseas infrastructure development, provided its members ramp up spending from 0.2 percent to 0.3 percent.<sup>21</sup> However, given that each member state has such profound domestic issues, it will take a much more coherent effort than just a simple increase in spending.

### **Future Challenges**

As Japan has transitioned from Abe to Suga, the key challenges Suga will face vis-à-vis the BRI, are the very same issues that were left unresolved by his predecessor's administration.

First, with the importance of Japan's continued participation in the BRI highlighted above, one of the key tasks for Suga remains the ability for Japan to balance competing with China on infrastructure initiatives, yet simultaneously continuing to collaborate. Such competition should not be excessive, as it could hurt both sides—and the region, even.

When Xi Jinping visited Japan in June 2019 for the G20 Osaka Summit, he agreed to return for a state visit in the spring of 2020. In the intervening months, although US-China relations deteriorated further due to the pandemic, Japan and China have managed to maintain the status quo.<sup>22</sup> With the forced and indefinite postponement on a next Japan-China summit meeting, what becomes of their relations will be Suga's statecraft put to test.

Second, from the new collaborative infrastructure endeavours that Japan is signing on to—such as the BDN, AAGC, or the Japan-EU partnership—it is clear that all these initiatives in their respective capacities share complementary visions, goals and principles. However, it is equally important to produce quality deliverables and outcomes from these partnerships.<sup>23</sup> As many of which are yet to be seen, these initiatives risk being perceived as merely convening bodies of proposed anti-China infrastructural endeavours.

Moreover, COVID-19 has exponentially exposed the sensitivity of supply chains that have been overly dependent on the Chinese

market. Therefore, ensuring the quality of supply chains that stem from connectivity nodes would be high on Suga's to-do list.

The third challenge is to rectify China's own bilateral natured lending practices, and aim to have them transition to more multilateralised practices, thus ensuring that the BRI benefits all countries. This can seem beyond Japan's scope, yet, in 2018, Japan and China developed the Committee on Japan-China Business Development and Promotion in third countries, an inter-ministry and government & business discussion body.<sup>24</sup> Due to the collaborative nature of over 50 joint projects Japan has lined up with China, Japan is one of the few countries that can really endeavour to make an impact in this aspect.

In the coming post COVID-19 and post-Trump years, many other concrete issues will arise, but it is a good time for Suga to take advantage of Xi Jinping's current Japan-friendly policy, and vigorously pursue renewed cooperation amidst competition with China's BRI, while also aiming to improve BRI practices. This will benefit not just Japan, but the broader region as a whole.

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# The EU's View on the BRI

*Sabrina Korreck*

China's Belt and Road Initiative (BRI) is not limited to economic goals; it also has to be considered in the context of China's growing ambitions to shape the international system and pull partner countries closer into its sphere of influence. At the time of writing, 19 countries of the European Union (EU) have joined the BRI.<sup>1</sup> This article describes projects under the BRI umbrella in Europe, explores the opportunities and risks from a European perspective, and analyses the EU's response so far.

## **BRI Projects in Europe**

The BRI connects China and Europe by a continental route<sup>2</sup> Starting in China, the route traverses Central and Western Asia, enters the European continent in Bulgaria, and then passes North through Romania, Moldavia,

Ukraine, Belarus and Russia. From there the route continues westward, through Poland, and reaches Central and Western Europe. This continental route largely overlaps with both existing railway lines and those being planned. Railway tracks from China already link Kazakhstan, Russia, Belarus, Poland and Germany; from there, railway lines split into different directions and end in various port cities (including Hamburg, Rotterdam, Antwerp, Bilbao, Marseille, Dunkerque, and Vado Ligure). Another branch line currently ends in Budapest in Hungary, and the continuation of this route through Serbia, Bulgaria, Turkey and Central Asia is a key BRI project.

At the same time, the BRI connects China and Europe through maritime routes.<sup>3</sup> One route passes through the arctic and leads into the North Sea, where ships reach the two biggest

European ports—Rotterdam in Netherlands and Antwerp in Belgium—as well as Dunkerque in France. Another route passes through the Indian Ocean and Suez Canal, and reaches the Mediterranean Sea; from there ships can reach the Greek port of Piraeus and further pass through the Adriatic Sea to the planned port of Venice.

Initially, the BRI rested on three pillars: rail, maritime, and road infrastructure projects. In

recent years, the “Digital Silk Road”—with its focus on cooperation in the digital economy, and innovation-driven development—has gained more attention. Related projects deal with the buildup of digital infrastructure such as cables and network equipment (including 5G) and further include data and research centres, “smart city” projects, and large e-commerce and mobile payment deals.<sup>4</sup>

**Table 1: Overview of BRI projects in Europe**

<b>Silk Road Economic Belt</b>	China –Kazakhstan – Kirgistan – Uzbekistan – Tajikistan – Iran – Turkey– Bulgaria – Romania – Moldova - Ukraine – Russia – Poland – Germany –Netherlands – Italy
<b>New Eurasian Landbridge Economic Corridor</b>	Partly overlaps with existing rail line from China via Kazakhstan – Russia – Belarus – Poland – Germany (branch lines from Germany connect to major European port cities, including Hamburg, Antwerp, Rotterdam, Bilbao, Marseille, Dunkerque, Vado Ligure)
<b>Maritime Silk Road</b>	Northern route via Arctic leading into North Sea Southern routethrough Suez Canal leading into Mediterrean Sea
<b>Digital Silk Road</b>	Building of digital infrastructure

### Risks and Opportunities

As the countries of the EU assess the potential benefits and risks of the BRI differently, they have their own stances on the project. Of the 27 EU countries, 19 have endorsed and signed on to BRI; the others are more wary. The latter point out that the BRI has been initiated by a country that the European Commission now partly considers a “systemic rival”<sup>5</sup> with different ideological beliefs. The BRI’s goals are in several ways at odds with those of the EU, and China is seen as acting in an increasingly aggressive manner to pursue these ambitions.

The BRI promises new opportunities in trade and investment and, consequently, economic growth. The countries that have signed on to the project were persuaded largely by these economic arguments. In particular, these EU countries initially viewed the BRI as a real opportunity for economic recovery after the Eurozone crisis.<sup>6</sup> Moreover, China provides substantial amounts of credit for the financing of BRI projects and its loan carries an appeal to some countries as they seemingly come without conditionalities. Further, geopolitical rationales play a role as countries believe that they will benefit from having deeper ties with China.

However, the potential benefits need to be weighed against the risks. In economic terms, even as new infrastructure can indeed facilitate trade, European companies and investors find it difficult to penetrate Chinese markets, which are more difficult to access due to informal trade barriers. European companies that have participated in the procurement of BRI projects have done so only in a peripheral manner, given the disadvantages they face when compared to Chinese companies that receive political support and substantial amounts of subsidies.

Politically, Brussels is concerned about China's growing influence in Central Asia, neighbouring countries in the East and in the Balkans, and within the EU itself. China appears to have carefully targeted the EU periphery, and in particular the 17+1 format for cooperation,<sup>a</sup> in what is perceived as an effort to divide the EU and undermine European cohesion.

What adds greater distrust is that procurement processes and lending conditions are highly opaque and there is a dearth of official information regarding the implementation of the projects. China also prefers bilateral over multilateral agreements—even on matters that may have an impact on other countries—and within such relations, smaller countries will likely remain the weaker partner. Some countries already have high levels of sovereign debt and they risk becoming highly indebted

to China by taking loans. If their financial situation becomes untenable, infrastructure assets could be pledged as collateral, thereby allowing China to take control.

Furthermore, Chinese activities related to the Digital Silk Road are controversial and there are security concerns about the trustworthiness of Huawei as a provider of fibre-optic cables and 5G networks.<sup>7</sup> In addition, there are increasing concerns about Chinese investments and acquisitions in European high-tech companies and startups.

### EU Responses

EU responses must address the economic and geopolitical challenges posed by the BRI and be grounded in its own democratic values.

First, with regard to economic policy, the EU aims to remain open and not turn protectionist itself. The priority is to achieve a level playing field with China, with reciprocity in market access and fair and undistorted competition. Substantial EU reforms of its competition policy are already underway. Furthermore, the EU and China recently concluded negotiations on the Comprehensive Agreement on Investments (CAI), which aims to improve market access conditions for European companies and ensure that they compete on an equal footing vis-a-vis their Chinese counterparts.

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<sup>a</sup> This forum gathers China and 12 EU member states and five candidate countries in Central and Eastern Europe.

Second, in geopolitical policy, the EU needs to step up its engagement and deepen ties with countries in its neighbourhood and beyond. Connectivity is one way to do so, and therefore the EU appointed a Connectivity Ambassador and initiated its own connectivity strategy, called “Connecting Europe with Asia”, in September 2018. In contrast to the BRI, this initiative emphasises connectivity that is sustainable, comprehensive and based on international rules, and underlines high standards of transparency and good governance.<sup>8</sup>

Third, in critical IT infrastructure and the question of whether Huawei should be involved in the laying down of Europe’s 5G network, the European Commission has called on member states to limit the use of “at risk” suppliers in non-critical zones and to give precedence to European equipment providers. Further, to better protect European companies in strategic areas, the EU introduced

mechanisms to screen, and if necessary prevent, investments and acquisitions by non-European entities.

Finally, what is ever more important is European unity in order for the region to assert itself on the global stage. At present, opinions on the BRI differ and the EU does not yet have a common approach vis-à-vis China. The EU must not allow China to exploit this situation and weaken its cohesion by using divide-and-rule tactics. Rather, despite difficulties, the EU must develop a joint strategy towards China. Ultimately, all EU states should have an interest in empowering the union to speak with one voice. After all, in bilateral agreements with China, individual countries would only bring themselves to a much weaker bargaining position. The recovery fund in response to the COVID-19 pandemic is a concession to Southern member states and can be seen as a crucial effort to help them withstand Chinese overtures.

## Endnotes

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<sup>1</sup> EU-member states, who participate in the BRI, include: Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Luxemburg, Malta, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia.

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An aerial, long-exposure photograph of a multi-level highway interchange at night. The image is dominated by vibrant light trails from moving vehicles, creating a sense of motion and energy. The trails are primarily in shades of blue, white, and red, curving and crisscrossing the various levels of the interchange. The background shows the dark asphalt of the roads and some structural elements of the interchange.

SECTION 3

**OTHER IMPLICATIONS  
AND ONGOING DEBATES**

# China Challenges Western-led Global Economic Governance

*Aarshi Tirkey*

**P**owerful states—armed with their geopolitical standing and resources—can be instrumental in shaping structures for global governance. The role played by the United States (US), for example, in establishing post-war institutions such as the Bretton Woods Institutions and the World Trade Organization (WTO), is what China is expected to play vis-à-vis the BRI. In governing the BRI, there is a clear indication that Beijing favours informal mechanisms—deriving from Chinese legal traditions of harmony and community—as opposed to formal ones like treaties and multilateral institutions. This is being called a “new formula of global governance”, largely based on bilateral partnership agreements and with some elements of regional economic integration.<sup>1</sup> At the same time, however, Beijing recognises that such informal machineries may lead to

legal uncertainties and hinder the success of BRI projects. As such, it is gradually evolving platforms to enhance legal cooperation, and is establishing processes to adapt the European “rule of law”<sup>2</sup> tradition to create new mechanisms that will be more suitable to Chinese interests.

## **The Chinese alternative for global governance**

Legal traditions in the US and Europe focus on principles of justice, recognition of civil and political rights, constitutional checks and balances, as well as judicial remedies to safeguard such guarantees. These principles have been adapted to suit the Western-led model of global governance, through legally binding commitments, and rights and duties for countries in multilateral treaties. They are enforced—to an extent—under international tribunals and multilateral institutions.

However, these principles have no equivalent in Chinese legal tradition.<sup>3</sup> The BRI reflects these preferences: the focus is on informal bilateralism, avoidance of multilateral treaties, and preference to settle disputes through negotiation, mediation and arbitration, as opposed to adjudication.<sup>4</sup> Cooperation on the BRI is sealed through legally non-binding documents such as memorandums of understanding and action plans that seek to create a framework for confidence-building and bilateral cooperation in mutually agreed areas.<sup>5</sup> As of January 2021, China had signed 204 cooperation documents for jointly building BRI with 140 countries and 31 international organisations.<sup>6</sup> Beijing's approach to the BRI has been described as a "partnership-based, relational approach"<sup>7</sup>—it is informal and less institutional, and varies according to the status of each country, and Beijing's relations with it.

In this regard, the BRI represents a significant departure from the Western "rules-based" framework and can be seen as an alternative model for international cooperation and governance. There is a reason why this may appeal to countries with less developed governance and legal systems. Despite the moral and aspirational values inherent in the Western global order, it has certain shortcomings: it is binary, top-down, and moralising.<sup>8</sup> Entry in these institutions depends on the consent of an 'elite' group of Western states, who evaluate a prospective member on various considerations, on whether it is a just society or it respects the rule of law. In contrast, China's approach has no moral strings attached, and is directed by its traditional diplomacy which gives precedence to sovereignty and non-intervention.

Such features can assuage concerns of smaller countries which are apprehensive of the West's legally binding frameworks that may potentially intrude in their political sovereignty and domestic affairs. At the same time, there are elements in the BRI that can consolidate China's role as a new hegemon. While BRI is said to be based on informal bilateralism, the MoUs and similar documents are based on templates designed by Beijing. The flow of investments and financing—through China's "debt diplomacy"—can make "partner" countries dependent on China. As a consequence, the extent to which Beijing would accommodate the interests and priorities of smaller countries in future bilateral negotiations remains a moot question.

### **Whither 'rule of law'**

Legal risks are inherent in the wide heterogeneity of legal systems and laws that BRI projects may face. While "soft law" increases flexibility, it can pose a challenge to "consistency, coherence, predictability, risk management and transparency" by creating an "alphabet soup of commitments".<sup>9</sup> Depending on how China approaches the matter, it may consider making efforts towards harmonising rules on customs and financial regulations, trade and investment facilitation, and dispute settlement, among others. In a statement issued by China's Foreign Ministry, it emphasised the need to "promote international law by enhancing cooperation, improve the rules-based system, prevent and settle disputes, and promote legal exchange under BRI."<sup>10</sup> As such, several initiatives have been launched to enhance legal cooperation and strengthen China's legal infrastructure—arguably to enhance the "rule of law" in these projects (See Table 1).



**Table 1: China's initiatives to strengthen rule of law and enhance legal cooperation for BRI**

Year	Name	Department/ Organization	Description
2016	International Academy of the Belt and Road, Hong Kong	-	Builds a platform for academic and professional exchanges in law, economics and international relations. <sup>11</sup> It has published books on law and dispute resolution.
2017	MoUs to intensify legal cooperation on BRI projects	All China Lawyers Association (ALCA)	MoUs signed with India, Laos, Mongolia, Poland and Thailand (2017) <sup>12</sup> and Italy, Russia, Azerbaijan and Malaysia (2019). <sup>13</sup>
	Signing of Hong Kong manifesto	Hong Kong Law Society	Signed with 37 legal groups from 22 countries/regions, to foster cooperation, exchange of information and knowledge to optimise BRI benefits. <sup>14</sup>
2018	Belt and Road Legal Research Centre	University of International Business and Economics, Beijing	It will work on international economics law and identify solutions for problems and risks faced by Chinese enterprises. <sup>15</sup>
	Belt and Road Legal Cooperation Forum	Ministry of Foreign Affairs and China Law Society	It will facilitate legal exchanges and international cooperation for BRI. <sup>16</sup>
2019	Belt and Road International Lawyers Association	ACLA	It is an association of 85 founding members from 36 countries and regions. <sup>17</sup> It aims to promote integration of legal services, build cooperation mechanisms, and promote communication and learning in the field of law.
2019	Global Lawyers Forum	ACLA	It aims to promote rule of law, develop the legal profession and push exchanges between Chinese and foreign lawyers. <sup>18</sup>

These initiatives are not based on any treaty, but rather on “soft” mechanisms directed towards enhancing cooperation and information exchange between lawyers. Some of these efforts have borne fruit—in 2017, legal professionals from China and other BRI countries compiled a practical guidebook for investment-related laws to reduce market risks. This has received government support as well; China’s Ministry of Justice allocated 1.1 million yuan (\$165,100) for compiling similar guidebooks, and proposes to set up representative offices in some BRI countries.<sup>19</sup>

Apart from cooperation mechanisms, Beijing has launched nascent initiatives to enhance

legal certainty and reduce risks—in a bid to strengthen “rule of law” along the BRI. In 2016, the International Academy of Belt and Road (Hong Kong) published a blue book on “The Dispute Resolution Mechanism for the Belt and Road” which puts forward a new system to “make up for the existing system and formulate a mechanism that can better reflect the culture, customs, traditions, legal systems and values of the countries along the Belt and Road.”<sup>20</sup> The Supreme People’s Court (SPC), the highest court in the mainland, issued two “opinions” (policy documents that support government strategies and guide lower courts) to improve legal infrastructure and fill “gaps” in Chinese laws.<sup>21</sup>

Legal risks and disputes due to differences in legal systems have already arisen in BRI-related projects. In 2017, the SPC revealed that China has seen a boom in disputes involving foreign parties, particularly in maritime and commercial cases.<sup>22</sup> In order to provide a China-centred dispute resolution mechanism, two Chinese International Commercial Courts (CICC) were established in Shenzhen and Xi'an in 2018. The CICCs are under the authority of the SPC, and can entertain disputes of certain monetary threshold. Only Chinese judges can be appointed to the CICC and the proceedings will take place in Mandarin. An "International Commercial Expert Committee" (ICEC) with foreign legal experts has been set up to provide advice and assist CICC judges in interpreting foreign laws.<sup>23</sup> This is a departure from a similar adjudication mechanism in Singapore, which conducts proceedings in English and are allowed to appoint foreign judges. This is because such cases are international in nature, and the mechanism intends to provide a process that is impartial, transparent and accessible to foreign parties.

With the structure of the CICC, questions remain about its judicial independence, impartiality, autonomy, judicial review and its ability to compete with Western-style arbitration mechanisms. The CICC appears to fulfill the strategic objective to safeguard interests of domestic firms—particularly Chinese State operated enterprises (SOEs)—

and ensure that China-related BRI disputes are settled in China. It can be seen as an "insurance policy" to mitigate risks for Chinese businesses and provide a safe forum for dispute resolution, with rules and procedures suited for Chinese interests.<sup>24</sup> Perhaps this effort is driven by China's own experience in adjudication mechanisms established by the West, such as the 2016 ruling of the Permanent Court of Arbitration in the South China Sea dispute.<sup>25</sup>

This runs counter to the global nature of the BRI, since the CICC appears to be an extension of the state judiciary and not an international/transnational commercial court, such as the Singapore International Commercial Court. International confidence in the CICC could be difficult to establish since China's state judiciary is hardly regarded as independent, and has time and again issued statements to "serve the country's major strategies."<sup>26</sup> Depending on how dispute resolution clauses are framed in contracts, parties will still be free to approach other international arbitration centres. A question that remains, however, is whether China could use its financing capacity in BRI investments to pressure parties and veer them to accept the jurisdiction of the CICC.<sup>27</sup> As such, it would be difficult to deliver the "rule of law" if power asymmetries are utilised to get foreign companies to turn to a mechanism that will favour Chinese businesses. This can be indicative of how Beijing wishes to design the "rule of law" for the BRI.

## Conclusion

Beijing's policy documents on BRI speak of "mutual benefit" and "win-win cooperation", and intend to base the project on regulations and the rule of law. Thus, there is concern that Beijing could utilise the BRI to underwrite new legal norms, and propagate its political and economic philosophy across the world. There has been a significant shift in China's engagement with global economic governance, as it moves from the "reactive, selective adaptation of rules" towards a "proactive, selective reshaping" of international economic law and institutions.<sup>28</sup> In this context, the BRI governance model—based on "soft law" instruments—does

provide an alternative to the Western-led model. However, the West's multilateral and a rules-based system guarantees transparency and can help protect weaker countries. It is unclear if informal bilateralism as pursued by China would protect smaller countries from power asymmetries and the imposition of superior interests.<sup>29</sup> Beijing's efforts to enhance legal cooperation and reduce legal risks, such as the establishment of the CICC raise questions about their independence, impartiality and access. Apart from the fact that the CICC falls short of being "international" in nature, it provides a snapshot of a mechanism that could favour China's own interests over those of its BRI partners.

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# The BRI: A White-Elephant in the Making?

*Ritika Passi*

**T**he BRI faces a crisis of viability.<sup>1</sup>

China's outbound initiative, a continuation of the country's Going Out strategy, is not aid; it is an investment initiative that seeks returns on its investments. "We need to at least recoup principal and a moderate interest," notes a researcher at the Chinese Development Bank, one of the biggest lenders to BRI projects.<sup>2</sup> Yet, according to OECD data, China's non-performing assets in the BRI had reached \$101.8 billion by the first half of 2018, a figure that will have ballooned since. This represents a significant share of China's total BRI disbursement since 2013, pegged anywhere between \$450 and \$700 billion.

BRI had already faced backlash over its unsustainable approach to lending in its first years of operation. The COVID-19 pandemic

has only sharpened existing concerns about the financial sustainability of the initiative. The problem is two-fold. First, inefficient, bloated, and unregulated lending in higher-risk countries has left littered in its wake unused and underutilised projects, hitting project revenues and incapacitating debtor countries from paying back project loans to China. Second is China's own uncertain capacity to keep channeling money into the BRI — now enshrined in its Constitution — in the face of the initiative's inability to yield sustainable returns as its own domestic economy faces obstacles.

## **Debt distress: symptom of the malaise**

As the largest official creditor to the developing world today, China is facing increasing

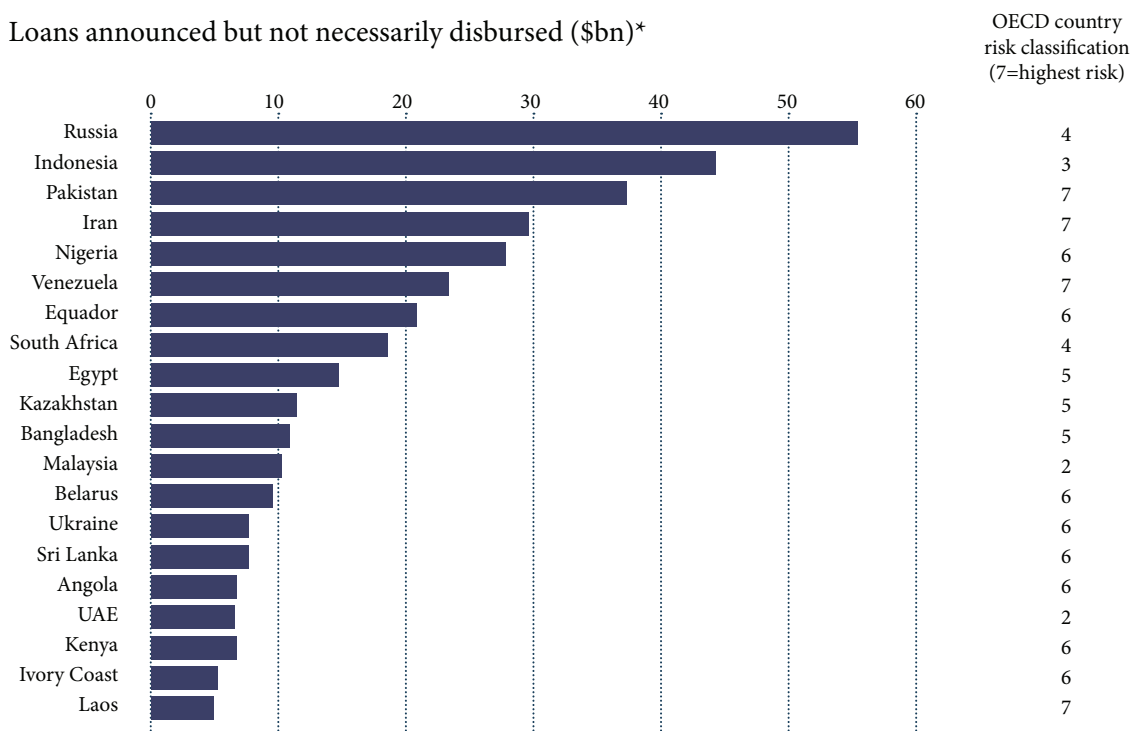
scrutiny over its lending — including through the BRI. According to the IMF and World Bank, debt risk in low-income developing countries has been on the rise in recent years, and the number of countries at either high risk of debt distress or in debt distress has doubled since 2013.<sup>3</sup> A 2019 study by the Kiel Institute<sup>4</sup> reveals that debt owed to China by 50 of its top developing country recipients has increased from less than 1 percent to more than 15 percent of debtor country GDP between 2005 and 2017.<sup>5</sup> A dozen owe China upwards of 20 percent of their nominal GDP: the list includes Djibouti, Maldives, Laos, Cambodia, Mongolia, and Kyrgyzstan — all of them familiar names in the BRI roster. These, along with Pakistan and Tajikistan, were identified by a 2018 CGD paper as the eight countries at the highest risk of debt distress due to BRI-induced financing.<sup>6</sup>

The Covid-19 pandemic has brought front and centre concerns around developing country debt and the role China plays. Notable here is that the majority of Chinese lending has been in higher-risk countries (see Figure 1). Weaker trade balances, underdeveloped financial markets, poor debt management, and low foreign exchange reserves already hamper their ability to pay back loans. China had already been involved in debt restructuring deals pre-Covid; 2020 saw China receive multiple requests from key BRI participating countries, such as Pakistan, Sri Lanka, Kyrgyzstan, Ecuador, Angola, and Zambia — to restructure, delay, or forgive loans, as borrowers' ability to repay what are usually commercial loans have been further hit due to the pandemic.

**Figure 1: A risky affair**

### China's Belt and Road loans have gone mainly to high-risk countries

Loans announced but not necessarily disbursed (\$bn)\*



\* Loans announced by China's state-owned institutions to projects in countries that signed BRI MoUs 2013-2020

Source: RWR Advisory

© FT

At the heart of concerns of growing debt vulnerability are structural problems on both the lender's and recipient's end. These implicate the revenue-generation potential of projects, in turn affecting the host country's ability to pay back loans, which then impacts the sustainability of Beijing's approach to BRI financing. Substandard financing practices behind what one commentator has called China's "opaque and chaotic debt binge," and governance weaknesses in recipient countries — particularly in riskier, low-income countries, have been found to come together to result in ill-conceived and ill-managed projects — at their worst, a herd of "white elephants."

An August 2020 Chatham House study<sup>7</sup> notes several problems in China's bilateral lending process, from start to finish: a fractured development finance regime; poor inter-agency cooperation; limited capacity for viability studies; lack of information about partner country; non-transparent bidding; SOE's inexperience in global markets; and weak inspection and enforcement capacity. Multiple flagship BRI projects have been found to be commercial non-starters, including the Melaka Gateway project and the Kenya-Mombassa railway. Others have been found to have bloated price tags, such as Malaysia's East-Coast Rail Link project and Myanmar's Kyaukpyu deep sea port; they have since been renegotiated. Performance delays and low completion rates abound.

On the recipient's end, "need, greed, or some combination thereof"<sup>8</sup> jeopardise project quality and, ultimately, productivity. Governance gaps engender opportunities ripe for corruption, which are happily exploited by eager Chinese companies and officials.

(The China Communications Construction Company, a state-owned company, has been charged with corruption in its dealings in several Asian and African countries.) The track record of Chinese investments in both Malaysia and Sri Lanka are two particularly glaring examples of where ruling elites have held sway over project decisions for political gain at the expense of local and equitable benefit.<sup>9</sup> Chinese investments in Kazakhstan have also been found to "enhance the Kazakh leadership's ability to stay in power."<sup>10</sup> A Pakistan government-mandated committee released a 278-page report in May 2020 accusing Chinese and local power companies of a corruption scam worth \$625 million.<sup>11</sup>

Structural and governance gaps in both China and BRI partner countries damage the potential of the BRI to become a financially sustainable endeavour: debt is merely the distressing symptom. Efforts towards a common debt framework beyond interim debt suspension relief are welcome and necessary, and even as Chinese lending sees changes, as discussed below, accumulated loans remain a problem. (For instance, Tonga, Djibouti, and Cambodia face significant debt servicing requirements between now and 2024: over 50 percent of their total debt is owed to China. The numbers of Angola and the Republic of Congo are even higher.<sup>12</sup>) Chinese officials have privately acknowledged BRI as a loss-making enterprise, and Chinese bankers and researchers have recognised the inability of BRI countries to fund projects or repay debts. If as many as 1 in every 4 dollars that China lends runs into trouble — as per Rhodium Group's data, a quarter of Chinese overseas lending till last year has been renegotiated — prospects diminish of economic benefits outweighing the initiative's costs to the BRI



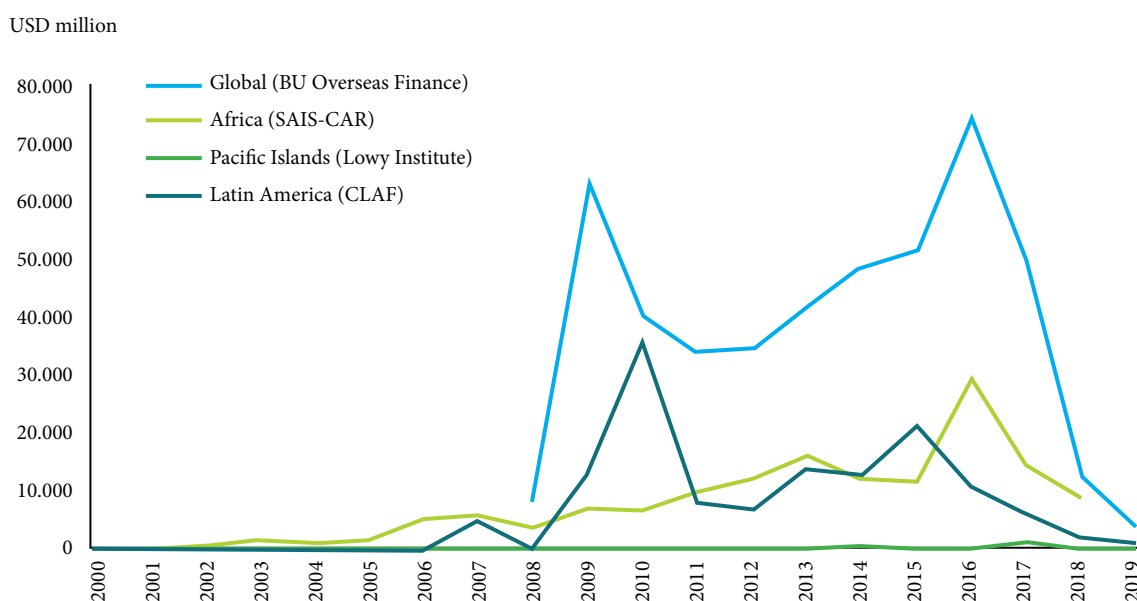
country. Large debt financing, and that too on commercial terms, is yet to prove a successful model of financing for the BRI.

### The Chinese economy: longstanding problems, persisting concerns

Will China be able to continue footing the bill, given the poor chances of the BRI financially sustaining itself? China's capacity to shoulder the BRI financial burden — and that of debt-ridden BRI participating countries — is not unlimited, particularly the kind of lending that has typified the BRI till now (big banks, big loans, big projects). Even as countries have called for debt relief or restructuring, China is unlikely to write off all debt completely.<sup>13</sup> As a researcher at the China Development Bank, one of the two biggest sources of BRI lending, notes, "It is OK for 20 per cent of our portfolio projects to have problems... But we can't tolerate half of them going under."<sup>14</sup>

China's muted response towards debt relief is in line with its BRI activity. In sharp and grounded contrast to heady estimates of total BRI investments ranging from anywhere between \$1 and \$8 trillion, the BRI accounted for \$545 billion in cumulative expenditure between 2013 and 2019 as per the World Bank. The RWR Advisory Group pegs Chinese spending below \$700 billion in its seven years of existence. Critically, investments have been declining (both in terms of new projects and dollar amounts committed) after peaking between 2015 and 2017 (Figure 2). Projects have also been cancelled, renegotiated, scaled back, delayed, or simply put on hold. Covid-induced lockdowns and economic pressures unsurprisingly affected BRI investments in 2020, with data from the Chinese Ministry of Commerce showing a 47-percent decline compared to 2019. Increasing demands for

**Figure 2: Select Chinese Overseas Lending Estimates by Region**



Source: Rhodium Group<sup>15</sup>

debt renegotiation (Chinese infrastructure loans typically have a 5-6-year grace period, and several debt repayment schedules will have begun in 2020/2021) may decrease China's willingness to lend large sums. The impact of emerging financing alternatives on China's lending in specific countries and regions will also gradually have to be taken into consideration, particularly as other state actors become increasingly active.

BRI lending and investment losing steam is again a symptom of a greater structural concern that implicates BRI financing. While a backlash from BRI participating countries has undoubtedly prompted a decrease in activity, a diminished appetite for risks on China's own end is also playing a critical part. Indeed, the second Belt and Road Forum in 2019 saw Xi Jinping orate plans for a more transparent and sustainable BRI 2.0: clearer rules for its SOEs, overseas auditing and anti-corruption mechanisms, and more robust investment standards. The pandemic has only sharpened existing China's domestic economic and financial troubles. Its economic growth had already slowed from double digits to a "new normal" of around 6 percent pre-Covid-19; independent sources put it significantly lower. As per an IISS report, China faces "a prolonged period of financial stress and uncertainty following years of unbridled lending in the interest of boosting the economy."<sup>16</sup> Weak domestic consumption, debt-build up, capital flight, falling forex reserves, an ongoing trade war, and now post-pandemic recovery stress China's capacity to lend indiscriminately, ambition notwithstanding.

China has been seeking to stabilise its domestic

finance system, revive domestic consumption, manage its currency, and double down on supply-side structural reforms begun in late 2015 in a bid to transition from export- and investment-led growth to consumption-led growth. It was the only major economy to post economic growth last year, but how equitable and robust China's pursuit of its "dual circulation" strategy will be an indicator of its financial health to be able to sustain the BRI in the coming time. As BRI countries assume greater focus of Chinese overseas lending and investment — while BRI investments fell sharply last year, a far greater dip occurred in investments to non-BRI countries — incentives other than financial rationality — Xi Jinping's political charge to state-owned enterprises; continuing overcapacity; prioritisation of short-term gains — may dig Beijing into a deeper financial hole. This will only aggravate the health of its significantly debt-stressed banks and SOEs — the Institute of International Finance estimated China's domestic debt at a staggering 335 percent of GDP in the third quarter of 2020 — and further constrain its ability to credibly and finance its ambition through the BRI down the road.

There have been emerging signs that Beijing is tweaking its BRI lending practices away from big banks and big loans in a bid to reduce wasteful spending. The Chinese economy may be simply too big to fail — only time will tell — but in the meantime, deep-rooted structural inefficiencies will remain a persisting obstacle to implementing an ambitious BRI. As its own economy stumbles, the opportunity costs facing China are clear.

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# Unlocking the Security Dynamics of BRI

*Kartik Bommakanti and Angad Singh*

**M**ost analysts agree that the Belt and Road Initiative (BRI) is the People's Republic of China's (PRC) attempt to showcase its emergence as a global power. Personally driven by President Xi Jinping, the BRI is Beijing's bet on delivering the country's commercial, energy, connectivity, and infrastructure-related interests.<sup>1</sup> These are the cogs in the BRI wheel that will help China pursue its strategic and defence goals. Three areas are critical to the success of the People's Republic of China's (PRC) larger strategic and military agenda: the China-Pakistan Economic Corridor (CPEC), the China-Myanmar Economic Corridor (CMEC), and the Maritime Silk Road (MSR)—the oceanic element of the BRI. CPEC and CMEC are essential for China to secure sea access to the Arabian Sea and the Gulf of Hormuz and the Indian Ocean, respectively; the MSR,

including the proposed development of the Kra Canal in Thailand, cements China's continental access to the seas and allows it to dominate the Indian Ocean Region (IOR).

## **The CPEC**

The CPEC will have security and defence implications for the PRC's capacity to project power beyond its borders and shores. The project is a vital gateway for China, as it will give it access to the Arabian Sea, the Gulf of Hormuz, and the Horn of Africa (HoA). Projecting military strength through CPEC also helps reduce the PRC's dependence on energy shipping through the Straits of Malacca and the Indian Ocean. CPEC involves a range of connectivity and infrastructure projects across the stretch of Pakistan, and is an important land corridor to the Arabian Sea and the Indian Ocean. The PRC is investing

an estimated US\$ 46 billion in CPEC-related projects that will be spread out over several years.<sup>2</sup> Pakistan has permitted the presence of 7,000-10,000 PLA personnel in Gilgit-Baltistan in Pakistan-occupied Kashmir (PoK).<sup>3</sup> The Gwadar Port—a deep warm water port ideal for submarine basing—is the flagship base being developed by China. Beyond Gwadar, China and Pakistan maintain close military ties through the use of common military equipment and weapons platforms. The Pakistan Navy operates Chinese-built frigates and Chinese naval equipment, as Karachi remains a logistics hub providing repair and supply-related services for visiting PLA Navy (PLAN) personnel.<sup>4</sup> Beijing has made a serious strategic bet by investing in the CPEC despite facing terrorism challenges which has claimed the lives of Chinese nationals working in Pakistan and are threatening CPEC. Domestic instability in Pakistan is unlikely to dampen China's persistence. With the Pakistan Army assuring security for CPEC, Beijing is unlikely to retreat. Beijing and Islamabad, therefore, have mutual stakes in the CPEC and both are keen to make it a reality.

### **The CMEC**

The CMEC's aims are largely consistent with those of CPEC, but working from the Eastern flanks of the Indian Ocean and the Bay of Bengal. The PRC has invested in Myanmar with the same strategic intention as it has done with Pakistan; the contrast is that Pakistan is a more stable and steadfast partner of the PRC. Nevertheless, China has sought to cultivate Myanmar as a partner in the BRI.

Naypyidaw, while seeking to reap the benefits of greater economic and trade engagement with Beijing, is also cautious due to the PRC's continued support for various insurgent ethnic groups arrayed against the Myanmar state. Recent evidence also suggests that the PRC is colluding with the Pakistani intelligence service, the Inter-service Intelligence (ISI), by supplying weapons to rebel groups in Myanmar's Rakhine state.<sup>5</sup> Pakistan, in all probability, also operates independently by colluding with disaffected local Muslims groups in Myanmar and in neighbouring Thailand. Indeed, according to Myanmar's and Thailand's intelligence services, Pakistani presence is known in Mae Sot in Western Thailand bordering Myanmar.<sup>6</sup> The military leadership of Myanmar has publicly expressed displeasure at Chinese interference in its internal conflicts. Beijing is known to support the Arakan Army (AA) in Myanmar's Rakhine state.<sup>7</sup> The AA has attacked the Kaladan multi-modal project connecting Sittwe port in Southern Myanmar with Kolkata.<sup>8</sup> By backing specific insurgent groups in Myanmar, Beijing is aiming to secure coercive leverage in countering Naypyidaw's slowing or scuttling the PRC's CMEC-related investments. Further, close cooperation between Pakistani and Chinese intelligence in Myanmar's internal challenges means that Naypyidaw is likely to remain cautious about the extent to which it is ready to be part of the BRI. Ultimately, analysts expect, the CMEC leg of the BRI will not be as robust as the CPEC due to the persistent strains between the PRC and Myanmar. Thus, fundamental problems associated with Beijing's record of interference

in Myanmar's insurgent movements, and its collusion with Pakistan, prevents the PRC from getting the most out of CMEC.

### The MSR

One of the BRI's most important security and defence-related benefits seeks to address a key strategic vulnerability: PRC's Sea Lines of Communications (SLOCs). PRC's strategists recognise the threats to the country's merchant shipping and sea-borne energy supplies passing through the Straits of Malacca posed by interdiction by regional navies such as those of India, Indonesia, Australia and Singapore, and most consequently, the United States. If even parts of the MSR are successfully executed, Beijing will be able to mitigate this "Malacca Dilemma" that holds at risk nearly 40 percent of all Chinese trade.<sup>9</sup>

By securing port rights in Kuantan and Melaka, China can now connect the SCS-facing east coast of Malaysia with the west coast over land, and limit its exposure to the Malacca Strait. A more ambitious project, also part of the BRI, is the proposed development of the Kra Canal across the isthmus linking Thailand with the Malay peninsula.<sup>10</sup> The Canal would connect the South China Sea with the Andaman Sea and bypass the Straits of Malacca entirely, emerging well north of the critical chokepoint.<sup>11</sup> There is, however, scepticism about the viability of the Kra Canal.<sup>12</sup> The canal saves only three days of sailing time, much less than the weeks afforded by the Panama and Suez Canals—this does not make it an attractive shipping

route when oil prices are extremely low.<sup>13</sup> In addition, the scale and cost of construction are stratospheric, and unlikely to be recovered if passage is charged at competitive rates. And although Bangkok has appeared a willing partner on the project, no concrete decision has been arrived at, likely owing to sensitivities around Thailand's relations with Malaysia and Singapore. Bangkok is apprehensive that if the canal project were to go through, it might congeal divisions between Thailand's Buddhists and Malay Muslims who are waging a separatist ethno-religious insurgency in Southern Thailand.<sup>14</sup> This would certainly bring strategic benefits to Beijing.

Besides the Malacca question—which is strategic rather than commercial—oceanic trade routes, ports, and transshipment hubs in the Indian Ocean and South China Sea are fairly well established, calling into question the logic around China's investment into a new maritime architecture for the BRI. What the investment undeniably accomplishes, however, is lacing a 'String of Pearls' across the IOR – ports that China will de facto control, securing unfettered access from the Horn of Africa to the straits entering the South China Sea (SCS). The PRC has already secured long-term control of key ports in countries across the IOR, including Myanmar, Malaysia, Djibouti, Maldives and Sri Lanka. It is worth noting that the Chinese PLA's first overseas naval base is in Djibouti, adjoining the PRC-controlled Doraleh port. Gwadar in Pakistan and Hambantota in Sri Lanka are obvious candidates for similar militarisation in the near future.

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# MSR: The Waters Under China's Belt

*Gayathri Iyer*

Connectivity is key in ushering in important eras of transformation in the world economy. Linkages forged in the aftermath of the Second World War have hardly ever been exclusively economic in nature: the economic benefits of increased connectivity—whether by land, sea, air or digital—have been closely interwoven with geopolitical gains. Testament to this is China's Belt and Road Initiative (BRI) — the ambitious sea and road infrastructure connectivity vision linking Asia, Europe and Africa.

Ever since its announcement in 2013, the BRI has been pitched as an economic agenda that will facilitate the rapid modernisation of Asia through the bridging of the enormous gap in connectivity in Eurasia. It has been touted as

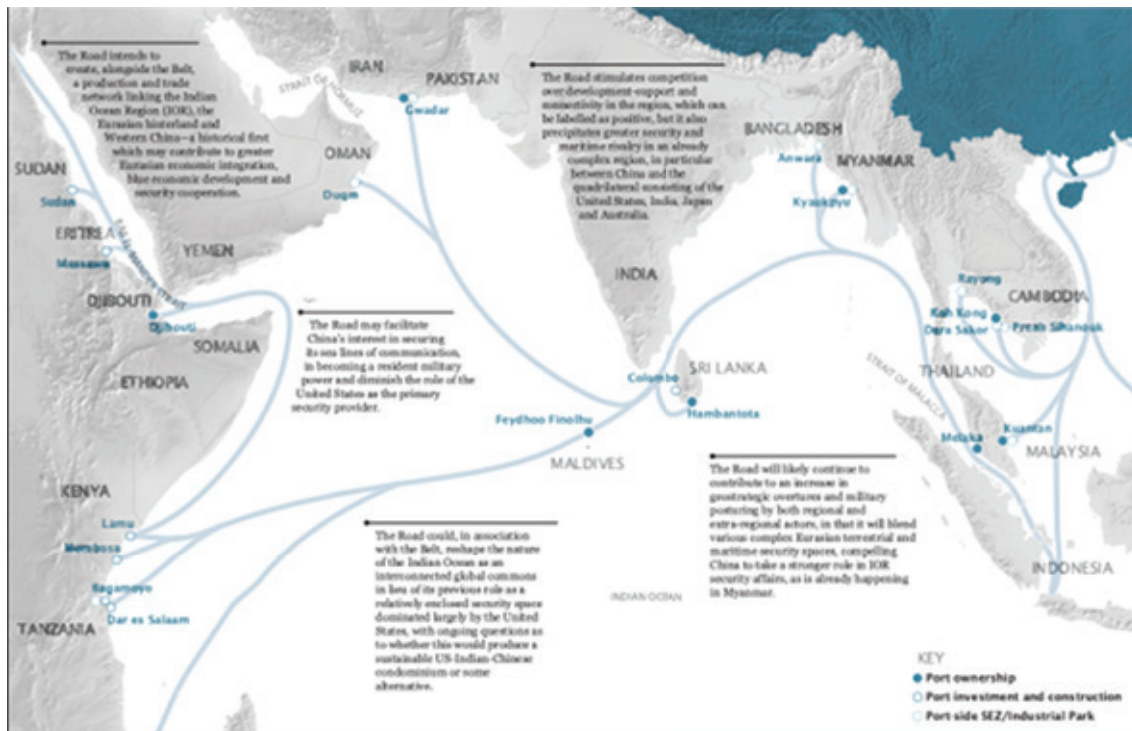
singular, with its proponents declaring that no comparable project could compete with its scale, speed and commitment.<sup>1</sup> The dire need for infrastructure investment and its potential positive spin-offs of development and cooperation in the Indo-Pacific region make the BRI an immensely attractive proposition for numerous developing nations. Studies show that economically, a direct maritime connection to another nation plays an important role by encouraging bilateral relations as well as reducing trade costs. According to the United Nations Conference on Trade and Development (UNCTAD), “the absence of a direct port connection is associated with a drop in exports value varying between 42 and 55 per cent”—this makes the MSR economically a timely, sensible and pragmatic vision.<sup>2</sup>



At the same time, growing uncertainty around BRI's economic viability, its security consequences, and China's geopolitical intentions have raised concerns for many of the stakeholder states. Although the promise of economic prosperity has become the

strongest foreign policy motivator for nations in the post-World War 2 era, hard-power projection remains as significant as ever. It is clear that the BRI, overall, is China's way of increasing its presence in the world economy and its role in global policy.

Figure 1: The Indian Ocean region and the Maritime Silk Road



Source: SIPRI

### The Maritime Silk Road (MSR)

While the BRI seems to be the more recognised half of Xi Jinping's vision, it is its maritime complement, the Maritime Silk Road (MSR), that holds the stronger economic and political implications. The MSR envisions bridging the connectivity gap while revitalising China's maritime capabilities to achieve its core interest of expanding maritime strategic space far beyond its adjacent waters. The grand plan for the MSR includes the development

and expansion of its "1.2 trillion USD blue economy, improving food and energy security, diversifying and securing sea lines of communication (SLOC), upholding territorial sovereignty and enhancing its international discourse power."<sup>3</sup>

Beijing maintains that the MSR is designed for global integration and growth. However, China's motivations remain questionable, specifically when it comes to its behaviour in port investments. MSR initiatives so far have

been focused on the Indo-Pacific littorals. Most of these have been port-development projects, with five strategically important ports in the Indian Ocean alone. While the economy may be its main driver, the strategic motivations of these investments are apparent in the select ownership of the strategic seaports and the debt structure of China's investments. It has invited questions about the possibility for China exerting undue influence over the domestic and foreign policies of beneficiary countries on top of providing strategic locations for its expanding a blue water navy. The overriding concern is that China will use these ports to service military assets deployed to the region in support of its growing security interests.

It cannot be denied that the MSR is about naval power and international influence playing an instrumental role in Xi Jinping's broader national strategy. Indeed, China elevated the "construction of a strong maritime country" to the level of national goal for the first time, during its 18<sup>th</sup> party congress. Further, the Presidents work report to Chinese Communist Party's 19th Congress stated that "by 2050 China will have become a global leader in terms of composite national strength and international influence."<sup>4</sup> Maritime policies will play an important role in support of that strategy.

It is therefore no coincidence that China's maritime aspirations have been concentrated around the complex regions of the South China Sea (SCS) and the Indian Ocean Region (IOR)— security spaces that are most contested by regional and extra-regional players in the world. In the South China Sea, the MSR has rekindled pre-existing strained relations between China and regional states

over maritime and jurisdictional disputes. The complicated state of affairs in the region fluctuates from moderate to extreme. Territorial disputes with Vietnam and the Philippines, China's ever increasing footprint in the region, extra-regional powers at play and the arms build-up have all made the region's stability uncertain. In parallel, the prospect of economic growth through developing a regional blue economy has occasionally helped bring a semblance of stability to the region.

The IOR, meanwhile, is a theatre for strategically important and complex global dynamics. The Ocean hosts the SLOCs most important strategically, and is central to global commerce<sup>5</sup> at it sees more than 80 percent of the world's seaborne trade in oil.<sup>6</sup> The busiest container ports in the world are situated along its shores<sup>7</sup> and it is central to the commercially busiest Far East–Northern Europe maritime trade route.<sup>8</sup> At the same time, it hosts most of the world's armed conflicts, power projection of extra-regional powers, and deployment of extensive military forces.<sup>9</sup> The Indian Ocean littorals are home to ever-evolving strategic developments, and it is not a mystery why China has rapidly invested and built five large ports in them: Gwadar in Pakistan, Hambantota in Sri Lanka, and Kyaukpyu in Myanmar. In the region, MSR seeks to create "a production and trade network linking the maritime domain with the Eurasian hinterland and Western China"<sup>10</sup> to restructure the IOR into an economic powerhouse through a more interconnected global commons. It would open up landlocked Central Asia, improve South Asian connectivity, and promote integration into the idea of a Eurasian cooperation.

However, as SIPRI's report points out, "the Road has begun to stimulate greater competition over development support and connectivity in the region." This could lead to increased multistakeholder maritime rivalry and militarisation. For instance, it has provoked tense relations, even as it has pushed the resurgence of the Quadrilateral initiative of the US, India, Japan and Australia. China's move to becoming a resident military power in the IOR, its lack of transparency, as well as conflicts with regional players such as India have only led to increased skepticism around its presence in the region. The growth of Chinese presence in the region will likely lead to intensification in geostrategic stratagems and military posturing by both regional and extra-regional actors.

### **The COVID-19 Dimension**

The transformative impact of the massive disruptions caused by the COVID-19 pandemic has uncovered the numerous failings and risks associated with global interconnectedness. The disruption of supply chains and the overdependence on China for raw materials, intermediate and final products has brought matters into perspective for many Asian nations.<sup>11</sup> There is no doubt that this will have long-lasting effects on the BRI.

As the world deals with a global economic downturn, including the developing nations associated with the BRI, questions are being raised about its financing. This is especially concerning since China's debt-trap diplomacy has long been an essential geopolitical issue when it comes to the BRI. Meanwhile, domestically, China has moved to secure the needs of its Communist Party and the economic needs of its citizens. The likelihood of connectivity and infrastructure projects being put on hold seems imminent. On the strategic front, many nations, in an attempt to cushion the economic blow domestically, have redirected funds from their defense budget to the economy, signaling a possible reduction in skirmishes and conflicts. Despite this, however, the world is witnessing an increasingly assertive China—one that is unwilling to slow down on its territorial assertiveness with India and in the SCS even at the height of the pandemic.

In the end, the future of the MSR will be determined by China's relationship with the regional powers of the Indo-Pacific. A less combative, more transparent and cooperative China would make it a more welcome player in the region. So far, however, China's hegemonic ambitions to dominate Eurasia and shape a new world order might be the only aspect of the BRI that is fully transparent.

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# The 'Indo-Pacific' Counter-Narrative

*Anasua Basu Ray Chaudhury*

Chinese President Xi Jinping calls the Belt and Road Initiative (BRI) the “project of the century”.<sup>1</sup> Even as BRI claims to aid in the development of China’s neighbouring countries, the initiative is China’s strategic endeavour to promote its interests in energy and other resources. It is regarded as a lynchpin of China’s position of strength in its influence in the Indo-Pacific region, with a focus on Southeast Asia. Criticisms against the project also seek to highlight the massive risk of indebtedness facing the participating countries.<sup>2</sup>

While China has been busy with its BRI, a geostrategic construction called Free and Open Indo-Pacific (FOIP) emerged and gained salience in the past few years. Amidst

the growing threats to regional order, Japan and the US, along with Australia and India, comprising the Quadrilateral initiative or Quad—have put forth the idea of FOIP development cooperation. The question is whether, and how, the Indo-Pacific cooperation can serve as a viable alternative to the BRI.

## **BRI: Growing hesitations**

As a development strategy, BRI aims to build connectivity and cooperation across six main economic corridors that represent more than one-third of global GDP and over half of the world’s population.<sup>3</sup> China is supporting infrastructure development in countries across the region, primarily through loans from government-affiliated financial institutions.

A 2017 report from the Asian Development Bank (ADB) has noted that the Asian region will require US\$ 26 trillion in investments from 2016 to 2030 (or US\$ 1.7 trillion per year) in order to maintain balanced growth.<sup>4</sup> China, with its excess industrial capacity and foreign exchange reserves, is perhaps the only country that has the potential to undertake projects of such magnitude. The threat is that gradually, China's influence heightens as the countries become more dependent on China for financing. Indeed, earlier experiences of some countries offer cautionary tales: the "debt trap" faced by Sri Lanka in relation to development of the Hambantota Port, and the "dual use logistics strategy" in case of Cambodia.<sup>5</sup>

In many cases, partners are still grappling with how to negotiate with increasing Chinese dominance.<sup>6</sup> The question of balancing security issues—specifically, the South China Sea (SCS) disputes—and economic cooperation has been a challenge for Southeast Asian countries for many years. The changing stance of Malaysia is instructive. After Mahathir became prime minister in 2018, Malaysia decided to suspend several projects, including the East Coast Rail Link that is vital for China as it will allow Beijing to bypass the Strait of Malacca. In the case of Myanmar, concerns about the high project costs for the development of the Kyaukpyu port have compelled the country to rethink. For its part, Indonesia has delayed the construction schedule for the Jakarta-Bandung rail project, and Thailand has expressed concerns over the interest rate on loans for a railway extension project. Vietnam, facing disputes with China in the SCS and, in parallel, constraints in China-funded infrastructure projects, has

attempted to search for alternative sources of funding from Japan, India and other countries.

Indeed, such vacillation being shown by many BRI partners towards long-term engagement with China only shows their scepticism on the projects' profitability and their capacity to repay. These partners are also apprehensive of China's growing assertiveness in the Bay of Bengal region and the wider Indo-Pacific. Part of this is due to China's apparent indifference towards maritime law and the rapid rise in its influence in the region in the form of land acquisitions and sovereignty claims.<sup>7</sup> Is the Indo-Pacific cooperation a viable option for these countries?

### **Interpreting the idea of 'Indo-Pacific'**

The term 'Indo-Pacific' refers to the geographical expanse combining the Indian and Pacific oceans. China's vision of regional governance with regard to the SCS and in BRI has caused massive concerns to the Indo-Pacific nations. Japan was the first to propose in 2007 a regional initiative to counter China's rising ambitions, engaging Japan, India, Australia and the US. That first 'Quad' failed to take off. Later, in 2016, Japanese Prime Minister Shinzo Abe launched the FOIP initiative by highlighting the importance of Indo-Pacific Ocean as an arena for "international public goods."<sup>8</sup> In the same year, the Asia-Africa Growth Corridor initiative came into existence to engage Africa in the Indo-Pacific paradigm and compete with China's BRI.<sup>9</sup>

The Indo-Pacific concept has also become part of US national strategy. In May 2018 the US changed the name of the US Pacific Command to "US Indo-Pacific Command",<sup>10</sup>

and in 2019 two policy documents were released: the *Indo-Pacific Strategy Report* and *A Free and Open Indo-Pacific: Advancing a Shared Vision*<sup>11</sup>—all indicating the centrality of the Indo-Pacific in the US' strategic agenda. Former US Defense Secretary Jim Mattis has been quoted as saying: “the Indo-Pacific region has many belts and many roads.”<sup>12</sup>

The Indo-Pacific is a massive market: 38 countries, with 65 percent of the world's population, 62 percent of the world's GDP and 46 percent of the world's merchandise trade.<sup>13</sup> However, for this market to be optimally utilised, there is need for greater connectivity and freedom of navigation, including safety from threats such as maritime piracy or terrorism. For this sake, India has rolled out various initiatives to cultivate greater presence in the Bay of Bengal and thereby in the wider Indo-Pacific, by developing ties with Southeast Asian countries and other key powers. This is done by nurturing logistical linkages, extending maritime domain awareness and the reach of the Indian Navy, and promoting dialogue and diplomacy to attain collaborative growth.

### **ASEAN Centrality**

The BRI and the FOIP are two competing regional initiatives where Southeast Asia occupies a central position: after all, the region possesses vital sea lanes of communications (SLOCs). It is therefore important to understand the region's perception of the Indo-Pacific. As far as foreign policy objectives are concerned, most countries of Southeast Asia look towards ASEAN for direction and leadership. The document, 'ASEAN Outlook on the Indo-Pacific' (2019) declares its aim as “promoting cooperation in the Indo-

Pacific region, with ASEAN-led mechanisms, such as the East Asia Summit (EAS), as platforms for dialogue and implementation of the Indo-Pacific cooperation to ensure a rules-based order following international law, transparency, inclusivity, openness and a commitment to promote economic engagements in the region.”<sup>14</sup> The Outlook complements India's vision for an inclusive Indo-Pacific, and it envisions the expansion of cooperation with IORA and the BIMSTEC.

As Indo-Pacific cooperation builds up as collective endeavour, India as an important regional power finds itself as a stakeholder in many of the discourses. Some portray India as a counter-weight to a rising China, while others view it as a partner in maintaining stability and prosperity in the region. India is more inclined to be a partner in ensuring regional stability by enhancing connectivity, and thereby, collective growth.

Despite the dynamics of inter-country relations or the imperatives of national interest, almost all the Southeast Asian countries are in favour of adopting a balanced approach, rather than being fully tilted towards the Indo-Pacific as constructed by the US. Singapore, for instance, would prefer not to be caught up in competing interpretations of the term. Thailand, Malaysia and Indonesia follow the same approach. At the same time, Southeast Asia's hesitation towards BRI does not indicate a reduction in ASEAN-China economic cooperation. Nevertheless, it is evident that ASEAN as a regional group intends to avoid one-way economic dependence on China, instead seeking to find a balance between China and other countries. The absence of any Southeast Asian country in the new construction of FOIP by Japan and the US has

caused serious concern. After all, Southeast Asia tends to associate the FOIP with the Quad.

### **Persistent debates**

The COVID-19 pandemic has started changing the global economy, affecting manufacturing, supply chains and the movement of people and goods. Whatever will be the long-term impacts of COVID-19 on the global economy, BRI will remain a priority for China. It is important to see how China will frame its short-, medium- and long-term responses to this health crisis, its shortfalls in its own health sector, and the economic fallout for the country's financially challenged small and medium enterprise sectors.<sup>15</sup> This situation could compel China to change its policy from developing hard infrastructure to strengthening the health systems of low-income countries in South Asia and Southeast Asia, under the banner of the BRI.

At present, the region is seeing the emergence of a Quad-Plus with several non-Quad

countries like New Zealand, South Korea, and Vietnam. The group has met virtually to discuss the COVID-19 health crisis. It will be interesting to see how Southeast Asia will react to this new construct. Another new formation is the Blue Dot Network (BDN), a US-led multi-stakeholders initiative involving Canada, France, Germany, Italy, Japan, Australia and the UK in search of an alternative to the China's BRI. The BDN intends to promote sustainable infrastructure development in the Indo-Pacific region and around the world. India has also expressed its interest in BDN.

A crucial question is whether the US-China trade war and the fallout of COVID-19 pandemic will force China to adopt a more collaborative model towards BRI. It is evident that, in recent times, the world has seen BRI's partially failing credentials as a global development strategy.<sup>16</sup> However, it will be too early to predict if Indo-Pacific cooperation will be a viable alternative to the BRI.



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# Behind the Curtains of the Health Silk Road

*Sohini Bose*

**I**n March 2020, as the COVID-19 cases rapidly increased across the world, China began sending teams of medical experts, vital health equipment such as ventilators and other ICU facilities, masks and testing kits to affected countries. While the healthcare systems in most nations were under severe strain and the governments focused on meeting domestic demands and stockpiling medical supplies, China's decision to engage in medical outreach—or “mask diplomacy”—was a political one.<sup>1</sup> Many analysts see China's assistance as a way of not only helping countries control the pandemic, but also looking after its own interests.

In recent years, China's interests have largely revolved around the Belt and Road Initiative (BRI), its flagship connectivity and infrastructure project<sup>2</sup> an important aspect of

which is health cooperation. At the first BRI Forum in 2017, the ‘Beijing Communique of the Belt and Road Health Cooperation and Health Silk Road’ (HSR) was signed by China, the World Health Organization, UNAIDS, and 30 countries. Largely reflective of the objectives of China's “Three Year Implementation Plan for Advancing BRI Health Cooperation (2015–2017)”, the stated aims of HSR are to create a BRI Public Health Network for a coordinated response to public health emergencies, promote cooperation in control and prevention of infectious diseases, and encourage investments in the healthcare industry. However, HSR remained at the margins of the BRI with uneven progress recorded in the areas of cooperation.<sup>3</sup> Recognising that medical assistance is the most urgent need during the time of a pandemic, China has sought to revitalise

this HSR component of the BRI and utilise it as a tool to extend medical assistance to the member countries and to other countries in need.

This article analyses China's narrative of the Health Silk Road. It aims to outline China's version of its HSR policy, provide an understanding of what motivated China to highlight the narrative of HSR in the pandemic situation, and explore the possibility of an alternative to the HSR.

### **China's narrative of healthcare outreach**

According to *People's Daily*, the official mouthpiece of the Communist Party of China, "From proposing a Health Silk Road and to the building of a community of common health for mankind, China stands ready to work together with all global partners to propel the perfecting of global public health governance and improve medical and health care of the world."<sup>4</sup> President Xi Jinping has maintained that China is willing to make efforts to enhance international cooperation in controlling the disease as it is impossible for any country to curb the pandemic on their own. China's endeavours of providing medical aid and financial support is a manifestation of its sense of responsibility in uniting the countries in the fight against COVID-19. The daily also maintains that China has "informed relevant parties of the epidemic information with openness, transparency and a sense of responsibility."<sup>5</sup>

The Chinese government has already provided medical aid to several European and African countries as well as countries in the Middle East, South Asia, and Southeast Asia.<sup>6</sup> Medical supplies have been provided by

private companies such as Huawei or China Communications Construction Company, the Chinese business magnate Jack Ma, and Alibaba Foundation.<sup>7</sup> The Chinese narrative on its HSR projects three notions: it is a responsible global power; it responds with alacrity to global crises; and it is intent on developing collaborations for the common good.

### **Health Silk Road: The Rationale**

The HSR provides assistance in healthcare, and serves as a diplomatic tool to repair China's global image after the widespread criticism of its handling of the coronavirus outbreak. Once Wuhan, the capital of the Hubei province of China had been identified as the source of the SARS-CoV-2 virus (which has claimed almost 20, 042, 045 lives across the world at the time of writing<sup>8</sup>), China needed to gain control of the global narrative of the pandemic to protect its great-power aspirations and ensure that it is not blamed for the world-wide recession, which would harm its trade ties.

What began as "mask diplomacy" thus soon transitioned into a defensive "wolf warrior diplomacy" as China began to fervently use its news agencies and social media to defend its image with the repetition of the line that China has been transparent, open and comprehensive in dealing with the pandemic.<sup>9</sup> The country embarked on a three-pronged approach to gain control of the global narrative: it questioned the origin of the virus by stating that it may have originated in the US; it claimed victory over the disease with no new cases being reported while criticising the western governments' handling of the situation in their territories; and it sought to project itself in a positive light by providing

medical aid and training.<sup>10</sup> The China Global Television Network frequently aired China's healthcare assistance to other countries to cope with the pandemic.<sup>11</sup> In March 2020, the Chinese Ministry of Foreign Affairs tweeted that "China's endeavor to combating the epidemic has bought time for int'l preparedness."<sup>12</sup>

In May 2020, China's Foreign Minister Wang Yi, speaking at a press conference on the sidelines of the third session of the 13th National People's Congress in Beijing, admitted that the pandemic had interrupted the progress of the BRI, albeit temporarily.<sup>13</sup> Attempts to curb COVID-19 had taken a toll on the economies of most countries, thereby reducing their appetite for taking on new loans on infrastructure projects. Indeed, China received requests from the BRI member countries for debt relief and deferment of payments.<sup>14</sup> Thus the Health Silk Road, a rhetorical extension of BRI, was brought into focus in 2020 to keep the BRI relevant and dynamic.<sup>15</sup> Through HSR, China sought to not only extend medical assistance but also develop the health infrastructure of BRI member countries.<sup>a</sup> As capital is necessary for undertaking these projects, China also extended financial aid to these countries. Sri Lanka, for example, received a loan of \$500 million from China with a long maturity and built-in grace period. The Asian Infrastructure Investment Bank led by China, has also announced a fund of \$10 billion for public and private sector entities in BRI participating states.<sup>16</sup>

The HSR is also the key for China's long cherished ambition of emerging as a key patron of global public health. China's National Health Commission has in fact had an exhaustive global rollout plan for HSR since 2017.<sup>17</sup> The pandemic has been an opportunity for China to directly work with countries in the health sector, in turn widening the scope for China's involvement in associated fields such as telecommunications. However, while some countries have easily accepted China's aid, others have been more sceptical, such as Nepal and India.<sup>18</sup> This reluctance shows certain apprehensions about China.

### **The quest for an alternative**

China's narrative is widely accepted primarily because most of these countries are economically dependent on China; there is also no feasible alternative at this time. While reducing economic dependency on China seems far-fetched, the emergence of an alternative to the HSR, deserves contemplation.

Attention is on those countries that are not members of the BRI and are also considered credible powers in the current world order: for example, the countries of the Quadrilateral initiative or Quad, i.e., India, Japan, Australia and the US. These countries can take inspiration from their success in responding to the Tsunami of 2004<sup>19</sup> and attempt to be instrumental in managing the pandemic using their shared pool of knowledge and

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<sup>a</sup>Amongst the BRI countries Pakistan, Serbia and Ethiopia have received healthcare aid from China. Italy being one of the largest recipients. Outside the BRI, China has also sent masks and protective equipment to USA and Japan.

resources. The Quad Plus (the four, with three regional powers of the Indo-Pacific—Vietnam, South Korea and New Zealand) have held discussions aimed at cooperative efforts to arrest COVID-19 in the Indo-Pacific.<sup>20</sup> However, such an initiative as an alternative to the HSR might be difficult to achieve as all the Quad countries are economically dependent on China to varying degrees. Moreover, two

members of the Quad Plus—Vietnam and New Zealand—are also members of the BRI. Indeed, Chinese displeasure had been one of the reasons why the first Quadrilateral Initiative withered. Thus questions remain about the seriousness of the commitment of the Quad countries to their grouping<sup>21</sup> and, in a wider frame, about the emergence of a possible alternative to the HSR.

## Endnotes

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# About the Authors

**Harsh V Pant** is Director of Studies and Head of the Strategic Studies Programme at ORF.

**Aarshi Tirkey** is a Junior Fellow with ORF's Strategic Studies Programme.

**Abhishek Mishra** is a Junior Fellow with ORF's Strategic Studies Programme.

**Anant Singh Mann** is pursuing an MSc in International Political Economy at the London School of Economics and Political Science.

**Anasua Basu Ray Chaudhury** is a Senior Fellow at ORF, Kolkata.

**Angad Singh** is a Project Coordinator with ORF's Strategic Studies Programme.

**Ayjaz Wani** is a Research Fellow at ORF, Mumbai.

**Dipayan Pal** is a postgraduate student at the Department of Humanities and Social Sciences, IIT Gandhinagar.

**Gayathri Iyer** is a former Junior Fellow at ORF.

**Joyeeta Bhattacharjee** is a Senior Fellow with ORF's Neighbourhood Regional Studies Initiative.

**Kabir Taneja** is a Fellow with ORF's Strategic Studies Programme.

**Kartik Bommakanti** is a Fellow with ORF's Strategic Studies Programme.

**Kashish Parpiani** is a Fellow at ORF, Mumbai.

**Kriti M. Shah** is an Associate Fellow with ORF's Strategic Studies Programme.

**K. Yhome** is a former Senior Fellow with ORF's Neighbourhood Regional Studies Initiative.

**Nivedita Kapoor** is a Junior Fellow with ORF's Strategic Studies Programme.

**Pratnashree Basu** is an Associate Fellow with ORF-Kolkata's Strategic Studies and Maritime Initiative.

**Premesha Saha** is an Associate Fellow with ORF's Strategic Studies Programme.

**Ritika Passi** is a Fellow at ORF.

**Sabrina Korreck** is a Senior Fellow at ORF.

**Shubhangi Pandey** is an Analyst with the Public Policy Consulting team at the Economist Intelligence Unit.

**Sohini Bose** is a Junior Fellow at ORF, Kolkata.

**Sohini Nayak** is a Junior Fellow at ORF, Kolkata.

**Vindu Mai Chotani** is a PhD candidate at the Graduate School of Public Policy, University of Tokyo.



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Observer Research Foundation (ORF)  
20, Rouse Avenue Institutional Area,  
New Delhi - 110 002, INDIA  
Ph. : +91-11-35332000 Fax : +91-11-35332005  
E-mail: [contactus@orfonline.org](mailto:contactus@orfonline.org)  
Website: [www.orfonline.org](http://www.orfonline.org)