Dominating Global Juggernaut?

On China, it’s too early to tell.

By Atman Trivedi

One of the most-repeated but misunderstood foreign policy stories centers around Chinese Premier Zhou Enlai’s rejoinder to Henry Kissinger, in the early 1970s, when asked about his views on the impact of the French Revolution. As the anecdote goes, Zhou famously replied, “It is too early to tell.”

Here’s what really happened: Zhou mistook the question as an invitation to weigh in on the student demonstrations roiling Paris in 1968. But the confusion, as American diplomat Chas Freeman remembers, was naturally “too delicious to invite correction.”

That episode in history evokes China’s Belt and Road Initiative in two key respects: First, the hype and emotions surrounding China’s rise and “the project of the century,” as Chinese Foreign Minister Wang Yi trumpeted Belt and Road last year, make it susceptible to misunderstanding. Second, the Belt and Road Initiative’s ambiguous, open-ended, and long-term character counsel in favor of patience and circumspection in evaluating its impact.

Boosters think China’s big idea can transform relations across over sixty-five countries in Eurasia, Africa, and beyond by building and linking transportation corridors, logistics hubs, and facilitating trade. Emerging market infrastructure needs are no doubt massive. The Asian Development Bank estimates that between 2017 and 2030, Asia alone will require $26 trillion in investments just to maintain present growth rates and account for climate change.

Beyond an estimated $150 billion a year pouring into Belt and Road countries, China has invested serious resources to launch Belt and Road events and tell Belt

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and Road stories. That reflects the scheme’s status as President Xi Jinping’s signature development and foreign policy initiative. Its ambitious geographic scope, financial backing believed to be somewhere in the range of $1 trillion to approaching $4 trillion over time, and China’s dogged efforts to frame a narrative of open borders and open trade in a connected world—at a moment when parts of the West have turned inward—has created an aura of formidability for many. These perceptions are important; they are already pulling smaller countries towards China’s gravitational field—and can foster dependency, in the absence of feasible alternatives.

But look closer, as the Center for Strategic and International Studies’ Jonathan Hillman has done, and the narrative of a juggernaut based on openness is contradicted by some inconvenient facts: First, depending on the region, China faces competition for infrastructure projects from Japan, the European Union, and the multilateral development banks. Second, not surprisingly, Chinese-funded projects seem to rely overwhelmingly on Chinese companies. Third, these projects may lag in transparency at the crucial early stages when Western companies can bid. Fourth, China’s state-owned enterprises enjoy easy access to government credit and benefit from other non-market tools in competing for Belt and Road contracts. Finally, even as China extols the virtues of connectivity outside its borders, its Communist Party is increasingly controlling border regions in ways that create obstacles for Belt and Road projects and choke the free flow of ideas and information.

In spite of these complicating tensions, five years in, part of the Belt and Road Initiative’s outsized brand can be traced to its still ill-defined and elastic nature. No one knows where it ends, there are no defined criteria for projects, and aggregate Belt and Road data is hard to come by. No wonder that Chinese Foreign Minister Wang Yi was recently able to tout distant Latin America as a “natural extension” and “indispensable participant” in the initiative on a recent visit to that region. Only one country, Panama, has inked a Belt and Road agreement; regardless, China’s power, rail, and port projects in nations such as Brazil and Argentina are now making an impression.

If viewed as a series of far-flung projects, the Belt and Road Initiative encounters a number of potholes, from Thailand to Tanzania, in the form of delays or cancellations. These include challenges over no-bid contracts, bribery allegations, financing difficulties, and burdensome ownership requirements. More fundamentally, identifying profitable projects in Belt and Road countries is no easy task. Revenues can be uncertain. The Council on Foreign Relations’ Brad Setser believes that the pace of offshore lending by Chinese banks actually slowed in 2017.

But seen as a concept or a general policy direction, the scheme’s overall success may not hinge so much on the commercial viability of specific projects, as in other countries’ overall reception to it. This story will play out in slow motion over decades, which not coincidentally, is the life cycle for many Belt and Road projects.

What does the Belt and Road Initiative fundamentally seek to achieve? It’s not the successor of the Marshall Plan, with benign goals such as development, humanitarian aid, and post-conflict stabilization (although some countries may nevertheless experience a decline in poverty as a result). The majority of China’s assistance comes in the form of loans issued at around commercial rates or higher, sometimes reflecting risk premiums paid to a lender of last resort.
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resort. But fears that Belt and Road is an instrument to advance sinister strategic designs may be a bit exaggerated at this stage.

The initiative serves a wide variety of Chinese goals: It opens markets, exports overcapacity, soaks up labor, finds another source for vast foreign exchange reserves, provides access to natural resources, promotes stability at China’s borders, and helps garner political influence. These factors, along with Xi’s big reputational investment, point to China pushing ahead despite the initiative’s early problems.

It’s the objective of carving out a political sphere of influence, against a backdrop of growing Chinese assertiveness, and even signs of aggression, that fuels regional fear and mistrust over Belt and Road. As India found in a tense border standoff with China high atop a remote plateau in Bhutan last summer, roads can connect countries or facilitate military maneuvers in a conflict. Pakistan’s Gwadar port reportedly hosts container ships as well as Chinese warships providing port security. And Chinese infrastructure development and militarization of disputed land features in the South China Sea appear intended to create facts on the ground, not advance regional prosperity. In Southeast Asia, Chinese infrastructure loans to Cambodia and the Philippines have led these countries to reassess their relationships with the United States.

Ultimately, it will take some time to determine with confidence whether China’s often risky projects in remote, unstable, or insurgency-racked regions like Pakistan’s Baluchistan reflect, and will actually advance, hegemonic intentions. One thing is fairly certain: The region will be watching carefully.

But for now, geopolitics may be beside the point: Small, developing countries could be forgiven for feeling as if they have little choice in the near term but to accept China’s offers to grow despite potential mid- to long-term costs such as a vicious debt cycle and erosion of sovereignty. Sri Lanka stands out as an early cautionary tale: Unable to find other lenders or later pay off its debt to China for the Hambantota port, the Sri Lankan government resorted to awarding a majority ownership stake to China, and has acquiesced in a series of Chinese offers, plunging it further into debt.

So what is to be done? Simply highlighting the financial, environmental, and corruption risks of the Belt and Road Initiative is not enough. The United States and its allies need to offer an affirmative vision of economic statecraft, not protectionist rhetoric. That includes viable infrastructure financing alternatives that help unlock private funds. Supporting multilateral development bank reforms to enable bankable projects that adhere to best practices in transparency and good governance, while dusting off languishing national export finance tools (read: the U.S.

Export-Import Bank and Overseas Private Investment Corporation), would also be a good start.

U.S. companies are competing for Belt and Road contracts with modest success to date. Their government should resist the temptation to give the initiative the cold shoulder and test whether it can leverage Xi’s desire for international respect to close the gap between China’s globalization rhetoric and the reality. The United States can work with allies such as Japan and Germany, as well as multilateral development banks, to encourage improved environmental, labor, and procurement standards on lending and a level playing field for all businesses.

Yes, the international community may encounter marginal results in shaping China’s showpiece initiative funded in large measure by Chinese capital. So, in the new great game, the United States is well-served by focusing on itself, allies, and partners like India, accelerating efforts to find new and innovative ways to pool capital and technology to meet the insatiable demand for quality infrastructure in Asia and elsewhere.

We should not foreclose cooperation but may still find ourselves in a period of protracted great power competition not seen in recent decades. China’s bold but risky economic vision will likely register a significant global impact. China and its leader’s deep motivations, huge capital reserves, technical know-how, and ever-growing labor pool suggest as much. But whether or not the Belt and Road Initiative is truly transformative depends in large part on the West’s own ability to build high-standard trade and financial alternatives. Whether or not the Belt and Road Initiative is truly transformative depends in large part on the West’s own ability to build high-standard trade and financial alternatives.

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