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To cite this article: Suisheng Zhao (2020) China's Belt-Road Initiative as the Signature of President Xi Jinping Diplomacy: Easier Said than Done, Journal of Contemporary China, 29:123, 319-335, DOI: [10.1080/10670564.2019.1645483](https://doi.org/10.1080/10670564.2019.1645483)

To link to this article: <https://doi.org/10.1080/10670564.2019.1645483>



Published online: 26 Jul 2019.



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China's Belt-Road Initiative as the Signature of President Xi Jinping Diplomacy: Easier Said than Done

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ABSTRACT

This article examines the design, objectives, and implementation of the Belt Road Initiative (BRI) six years after its inception. It argues that although the BRI as a top-level design on which President Xi has staked his personal legacy is to serve China's ambitious geostrategic and geo-economic interests, many developing countries have welcomed the BRI because of their desperate need in infrastructure construction. But the BRI's popularity has exceeded the substance as China has yet to bridge many fault lines on the ground.

Arguably the largest and most ambitious project to enhance global connectivity, the BRI has been heavily controversial since its inception. On the one side, idealists present the BRI as a bold and visionary win-win cooperation between China and its partners. Establishing China as an engine of global development and providing China great access to natural resources and markets for sustained economic growth, the BRI is designed to win diplomatic allies and produce great prosperity across the developing world.¹ As one survey of six years progress of the BRI projects argued, 'the BRI has become the world most welcomed international public goods and international cooperation initiative.'² Shrugging at the BRI, the US is making a grave mistake because, creating transport infrastructure across the world, China 'has revived the global dream of Abraham Lincoln's allies when they planned and constructed the American transcontinental railway.'³

In contrast, the realists describe the BRI as a power grab by Beijing for global hegemony, fueled by its vast wealth that draws developing nations into Beijing's grip.⁴ According to one observer,

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¹Wang Yiwei, 'China's one belt, one road initiative: a grand vision or a play for power', *Global Asia* 12(2), (2017), pp. 56–59; Wang Wen, 'Belt and Road Initiative: Creating a Smoother Path', *China Daily*, May 21, 2018, accessed June 22, 2019, <http://www.chinadaily.com.cn/a/201805/21/WS5b02689da3103f6866ee9a4a.html>; Tian Wenlin, 'The belt and road initiative: a chinese concept for global development', *Contemporary International Relations* 27(4), (2017), pp. 1–20; Wang Xiaolong, 'The belt and road initiative: a new chapter for fruitful and Win-Win cooperation', *Foreign Affairs Journal* 130, (2018), pp. 7–16; Weifeng Zhou and Mario Esteban, 'Beyond balancing: China's approach towards the belt and road initiative', *Journal of Contemporary China* 27(112), (2018), pp. 487–501.

²徐刚 (Xu Gang), 司文 (Si Wen), 陈璐 (Chen Lu), '一带一路海外项目建设回顾与展望, [the retrospect and outlooks of the BRI overseas project construction], *国际研究参考 [International Studies References]*, no. 5, 2019, p.27.

³Parag Khanna, 'Washington Is Dismissing China's Belt and Road', *Washington Post*, April 30, 2019, accessed June 22, 2019, <https://www.politico.com/magazine/story/2019/04/30/washington-is-dismissing-chinas-belt-and-road-thats-a-huge-strategic-mistake-226759>; Matthew Ehret-Kump, 'The American Spirit behind China's New Silk Road', *Los Angeles Review of Books*, February 28, 2019, accessed June 22, 2019, <https://chinachannel.org/2019/02/28/railway-links/>.

⁴William A. Callahan, 'China's belt and road initiative and the new Eurasian order', Norwegian Institute for International Affairs, *Policy Brief* 22, (2016), accessed June 22, 2019, https://www.jstor.org/stable/resrep07951?seq=1#page_scan_tab_contents; Christopher K. Johnson, 'President Xi Jinping's "Belt and Road" Initiative: A Practical Assessment of the Chinese Communist Party's Road Map for China's Global Resurgence', *US-China Business Council*, March 2016, accessed June 22, 2019, https://www.uschina.org/sites/default/files/President_Xi_Jinping's_Belt_and_Road_Initiative.pdf; Ely Ratner, 'Geostrategic and Military Drivers and Implications of the Belt and Road Initiative', *U.S.-China Economic and Security Review Commission*, January 25, 2018, accessed June 22, 2019, https://www.uscc.gov/sites/default/files/Ratner_USCCTestimonyCORRECTED.pdf.

'Instead of gunboat diplomacy and coercive military power, the PRC intends to use BRI to access new markets, get a hold on to critical infrastructure assets, and influence regional countries' strategic decisions.'⁵ Another observer warns that due to the long-term effects of the BRI, the RMB would replace the dollar, customers would use Alipay instead of VISA, authoritarian rule would be consolidated, families would watch Chinese TV programs and read the news provided by Xinhua, students, professionals, and political elites would be educated and trained in Chinese universities, internet censorship technology and applications from China's great firewall would cover the region and filter public cyberspace, the spread of universal rights would yield to development rights, and Western influence, especially that of the United States, would be relegated to the margins.⁶

Related to the realist view is the pessimist position that characterizes BRI as 'One Belt and One Trap,' a 'bridge to nowhere,' and 'a grandiose and abstract wish list.'⁷ Such an ambitious, expensive, and risky initiative is doomed to collapse and ultimately exhaust China. The BRI is China's way 'to overplay its hand, encouraged by its sudden wealth.'⁸ The massive and costly projects of BRI could create 'the risk of strategic overdraft' (战略透支).⁹

Advocates of the three views tend to present what they want to see. Examining BRI's design, objectives, and implementation six years after its inception, this article argues that, focusing rightfully on infrastructure construction, BRI has provided opportunities not only for China but also for its partners to reach their respective goals. However, Beijing has yet to develop practical programs based on scrupulous economic planning and formidable diplomatic actions to realize these ambitious goals. While BRI has become an organizing concept of Chinese diplomacy, it faces challenges to be commercially sustainable, balance China's interests with the interests of partners, and create shared values. Without overcoming colossal economic obstacles, navigating fragile political barriers, and placating apprehension surrounding its ambitions, BRI could become a huge white elephant, leaving an enormous amount of wasted resources strewn along its path.

A Top-Level Design

President Xi announced the Silk Road Economic Belt to connect China with Eurasia continent in his September 2013 visit to Kazakhstan and announced the Maritime Silk Road linking China with Southeast Asia, the Middle East, Africa, and Europe the next month in his visit to Indonesia. Known later as the Belt and Road Initiative, Beijing extended it to the Arctic in January 2018, forming a Polar Silk Road. With Xinjiang as the core area of the Belt and Fujian as the core of the Road, BRI is to cover two-thirds of the world's population by building six economic corridors: the New Eurasian Land Bridge, the China-Mongolia-Russia Economic Corridor, the China-Central Asia-West Asia Economic Corridor, the China-Indochina Peninsula Economic Corridor, the China-Pakistan Economic Corridor, and the Bangladesh-China-India-Myanmar Economic Corridor.

⁵Nadège Rolland, Testimony before the U.S.-China Economic and Security Review Commission Hearing on: 'China's Belt and Road Initiative: Five Years Later', *National Bureau of Asian Research*, January 25, 2018, accessed June 22, 2019, <http://nbr.org/research/activity.aspx?id=837>.

⁶Roy D. Kamphausen, 'Development Finance in Asia: U.S. Economic Strategy amid China's Belt and Road', *National Bureau of Asian Research*, November 15, 2017, accessed June 22, 2019, <http://nbr.org/research/activity.aspx?id=820>.

⁷Harry G. Broadman, 'Will China's "One Belt, One Road" Become a "Bridge to Nowhere"?', *Forbes*, January 6, 2016, accessed June 22, 2019, <http://onforb.es/1PL9o3J>; Guy de Jonquiere, 'Beijing's Belt and Road summit invites caution in the West', *Nikkei Asian Review*, April 27, 2017, accessed June 22, 2019, <http://asia.nikkei.com/Viewpoints/Guy-de-Jonquieres/Beijing-s-Belt-and-Road-summit-invites-caution-in-the-West>; 'The Challenges Facing China's Belt And Road Initiative', *DIIS Policy Brief*, February 2016, accessed June 22, 2019, http://pure.diis.dk/ws/files/409521/PB_Belt_and_Road_WEB.pdf.

⁸Philip Bowring, 'China's Silk Road Illusions', *New York Books*, October 25, 2017, accessed June 22, 2019, <http://www.nybooks.com/daily/2017/10/25/chinas-silk-road-illusions/>.

⁹Shi Yinong, 'Amid Western uncertainties, China mustn't spread too thin', *Global Times*, October 26, 2016, accessed June 22, 2019, <http://www.globaltimes.cn/content/1013884.shtml>.

The Third Plenum of the CCP's 18th Congress in November 2013 endorsed BRI as a component of China's long-term economic reform strategy. The Central Economic Work Conference at the end of 2014 launched BRI as one of China's national grant strategies. In March 2015, the Chinese government issued *The Visions and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road*, which laid out principles, framework, priorities, coordination, mechanism, and Chinese government actions, with the intent to allocate more than US \$1 trillion to the initiative. In March 2016, BRI was morphed into an entire chapter in the 13th Five-Year Plan running through 2020. At the CCP's 19th Congress in October 2017, BRI was enshrined into the party constitution.

A government hierarchy has been established to help design and implement BRI. At the top is the Central Small Leadership Group for BRI Development. Its leadership lineup that was publicized for first time in February 2015 included a CCP Standing Committee member as the chair (Zhang Gaoli) and two politburo members (Wang Huning and Wang Yang). After the 19th Party Congress in 2017, a new politburo Standing Committee Member (Han Zheng) became the chair. Its members include three Politburo members (Yang Jiechi, Hu Chunhua, and Wang Yi).¹⁰ The National Development and Reform Commission (NDRC) is in charge of the coordination of BRI projects, supported by the Ministry of Foreign Affairs (MFA) and the Ministry of Commerce (MOC). The State International Development Cooperation Administration (SIDCA) was established in 2018 as a one-stop shop for disseminating important decisions on BRI.

Meeting the enormous funding demands, China established the US\$40 billion Silk Road Fund (SRF) in December 2014. President Xi in May 2017 pledged additional 100 billion yuan (about US \$14.5 billion) to the SRF and 380 billion yuan (about US\$55.1 billion) special lending schemes through China Development Bank (CDB) and Export-Import (EXIM) Bank of China. In addition, the Chinese government has launched six international institutions to facilitate BRI funding opportunities. The best known is the US\$100 billion Asian Infrastructure Investment Bank (AIIB). The others include China-Central European Cooperation Fund, China-Eurasia Economic Cooperation Fund, Asian Regional Cooperation Transfer Fund, China-ASEAN Maritime Fund, and the Coalition of China-Central-Eastern European Banks.

The Xi leadership has gone into overdrive to generate enthusiasm for BRI in a forceful and occasionally bizarre propaganda campaign, which reached a peak when President Xi hosted the First Belt and Road Forum for International Cooperation (BRFIC) in Beijing in May 2017, attended by 29 heads of states and representatives from about 100 governments and international organizations. As a vivid display of the power of Chinese propaganda, one video released in the run-up to the lavish Forum showed a father reading his rapt daughter a bedtime story about BRI. Two videos showed children singing to express gratitude for the initiative. Two Western reporters found that 'The videos are so cringe-inducing, so ridiculously saccharine, that they are almost funny.'¹¹ Although the propaganda for the second BRFIC in 2019 was more restrained than the over-the-top campaign for the first BRFIC, Beijing still produced a music video prior to the forum, 'I'd Like to Build the World a Road,' adapted from a popular English song in the 1970s, 'I'd Like to Teach the World to Sing,' to show BRI helped promote common development and prosperity and was taken root in the minds of people from all around the world.¹² Another propaganda video, 'about a durian called Little Thai,' thanked BRI for helping its 'durian brothers and sisters' get a smoother ride to China to be eaten in 'durian hot pot.'¹³

¹⁰韩正主持召开推进“一带一路”建设工作领导小组会议 [Han Zheng calls for the meeting of the Central Small Leadership Group for the BRI Development], *Xinhua*, January 31, 2019, accessed June 22, 2019, http://www.gov.cn/guowuyuan/2019-01/31/content_5362888.htm.

¹¹Emily Rauhala and Simon Denyer, 'Silk Road forum showcases China's power—and the power of its propaganda', *Washington Post*, May 15, 2017, accessed June 22, 2019, https://www.washingtonpost.com/news/worldviews/wp/2017/05/15/silk-road-forum-showcases-chinas-power-and-the-power-of-its-propaganda/?utm_term=.625bbf0cff3a.

¹²'Let's sing a song called I'd Like to Build the World a Road', *People's Daily*, September 10, 2018, accessed June 22, 2019, <http://en.people.cn/n3/2018/0910/c90000-9499003.html>.

¹³'Durian "Little Thai" takes us on a journey along the Belt and Road', *The Second Belt and Road Forum official website*, April 19, 2019, accessed June 22, 2019, <http://www.beltandroadforum.org/english/n100/2019/0419/c40-1121.html>.

BRI is framed by the Chinese government as a product of China's benevolence to offer other countries to jump aboard the Chinese development express train. Portraying itself as the magnanimous provider of public goods, China is to extend friendship, economic development, and trade without any of the US-style political strings attached. In his speech at the opening ceremony of the much ballyhooed 2017 Forum, President Xi presented BRI as 'the project of the century,' creating new opportunities for global development. Invoking the potent historical imagery of China as the center of regional commerce, prosperity and stability, Xi hailed the spirit of the ancient silk roads, a network of trade routes crisscrossing Eurasia to the eastern frontiers of the Roman Empire, underpinning China's golden age more than a thousand years ago, as 'peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit.' Proclaiming the Silk Road spirit as a great heritage of human civilization, Xi claimed that BRI would be the road of peace, prosperity, opening up, innovation, and connecting different civilizations, adding splendor to human civilization and helping build a new era of harmony.¹⁴

Officially using 'initiative' (倡议) rather than strategy (战略) to show its intention of inclusiveness, President Xi said that the vast and amorphous project is 'open to all like-minded friends ... not a member's club, but a circle of friends with extensive participation. It does not exclude or target any party.' He stated that 'The initiative is neither the Marshall Plan after World War II nor an intrigue of China. The initiative is aimed at achieving policy, infrastructure, trade, finance, and people-to-people connectivity, building a new platform for international cooperation, and creating new drivers of shared development to benefit more countries and people.'¹⁵

Serving China's National Interests

In spite of the altruistic rhetoric, BRI is similar to the Marshall Plan that the US implemented to rejuvenate Europe through imports from American companies across the Atlantic on American merchant ships. 'Only the naïve would believe it was all altruistic. An open Europe provided a market for US exports. Free flows of goods and capital played to America's core strength: the dynamism of its private sector. The mighty dollar anchored the system. Finally, in the thinking of US planners like Mr. Acheson, a prosperous "Free World" provided a bulwark against the Soviet Union in the Cold War.'¹⁶ Similarly, BRI serves China's national interests in many ways.

First, BRI is to serve China's geostrategic interests by making China the dominant power in Asia and beyond. With investments and infrastructure projects both as incentives to garner support and as means to punish recalcitrant countries, China could enmesh a large number of countries within a web of the BRI projects, making them hesitate to align with the US to challenge China's core interests. China's success in building connectivity to Africa has helped China gain geostrategic leverage over countries far beyond its neighborhood. China has been successful to such an extent that Taiwan has been left with diplomatic ties to only one small country in Africa. The appeals of BRI with easy finance are the primary reasons for the steady switch of allegiance by African states.

As a rising power demanding greater voices in the global governance, BRI is one of China's major initiatives to provide 'new thinking of global governance and new concepts of globalization.'¹⁷ Co-founding the BRICS Bank with Brazil, Russia, India, and South Africa in 2014 and launching the AIIB in 2015 in this regard, China has pushed for internationalization of its

¹⁴'President Xi's speech at opening of Belt and Road forum', *Xinhuanet*, May 14, 2017, accessed June 22, 2019, http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm.

¹⁵'Highlights of Xi's keynote speech at Boao Forum', *China Daily*, April 10, 2014, accessed June 22, 2019, <http://www.chinadaily.com.cn/a/201804/10/WS5acc15a6a3105cdcf6517259.html>.

¹⁶Andrew Browne, 'China Builds Bridges and Highways While the U.S. Mouths Slogans', *Wall Street Journal*, January 30, 2018, accessed June 22, 2019, https://www.wsj.com/articles/china-builds-bridges-and-highways-while-the-u-s-mouths-slogans-1517308205?mod=cx_picks&cx_navSource=cx_picks&cx_tag=contextual&cx_artPos=2#cxrecs.

¹⁷何亚非 (He Yafei), '一带一路给世界经济和全球治理带来新思路' [One Belt and One Road brings new thinking for the world economy and global governance], *财新会* [Caixin], September 15, 2017, accessed June 22, 2019, <http://conferences.caixin.com/2017-09-15/101147776.html>.

currency, RMB. One explicitly stated goal of BRI is to promote the use of RMB. While RMB is used as a transaction currency less than 2% globally, RMB usage among BRI economies is about 5%.¹⁸ China made big progress when Pakistan decided to use RMB in replacement for the US dollar to pay for the surge of capital goods import from China in January 2018.¹⁹

Second, BRI is to serve China's geo-economic interests by connecting with an expansive geographic scope, particularly emerging economies in Afroeurasia. While China's rapid economic growth in the past decades benefited immensely from the market opening of the US and other developed countries, China's economy has faced increasing competition from these developed countries. Trump's trade war has further limited China's access to the market in the US and other developed markets. BRI has helped China open emerging markets and offered a new path for China to participate in the international division of labor by building 'an economic network led by China and connecting producers, resources, and consumers in East Asia, Central Asia, South Asia, Central and Eastern Europe and the US to sustain China's development.'²⁰

China began advancing westward with pipelines to the oil-rich Caspian Sea when Persian Gulf countries shifted the majority of their oil exports towards the fast-growing markets of the Indo-Pacific after the Cold War. Enhanced trade allowed Asians to capitalize on each other's comparative advantages. According to one account, annual Afroeurasian trade is more than US\$2 trillion compared with US\$1.1 trillion in trans-Atlantic trade and growing steadily. Afroeurasia and its nearly six billion people have become the center of gravity of the world economy. As a result, countries that once aspired to a future convergent with the West—Saudi Arabia, Russia and Turkey—have become significant and enthusiastic players in the new economic networks, seeing themselves as Eurasian or Indo-Pacific powers and bridges.²¹

China's economic growth is powered by its massive export-oriented industries and the import of large amounts of intermediate components and raw materials. As the transport of these goods depends on land transportation and maritime shipping, BRI is to create a network of infrastructure to extend its economic reach around the Afroeurasian and beyond by investing in strategically vital transit corridors and seaports. Building trans-border highway and expressway transportation networks to almost every neighboring region, China has made progress in the construction of pan-Asia railway networks such as the China-Laos and China-Thailand railways. BRI also includes direct rail services cross Eurasia. Freight express train lines between central China and Europe have linked four major Chinese cities (Chongqing, Zhengzhou, Yiwu, and Lianyungang) to the heart of Europe. The rail services are considerably cheaper than air and faster than sea. With generous government subsidies and state media promotion, these rail links have operated as successful stories of BRI.

BRI has also built seaports all over the world to secure reliable shipping lines. In Southeast Asia, investing in four key ports of Malaysia (Melaka gateway, Kuala Linggi Port, Penang Port, and Kuantan Port), China expanded the Tanjung Priok, Indonesia's biggest port. In South Asia, China has developed the Seaport of Hambantota in Sri Lanka and the Port of Gwadar in Pakistan. In the Middle East, Chinese companies have invested in Abu Dhabi Ports, taken over management of Israel's Haifa port and won a contract to build a port in the Israeli city of Ashdod. In Europe, constructing a deep port at Arkhangelsk located in Russia's White Sea, Chinese companies have built train lines from Budapest to Belgrade, Serbia, providing another artery for Chinese goods flowing into Europe through a Chinese-owned port in Greece. Running from China to the Pacific and Indian Ocean and then on to the Mediterranean, these projects not only help China control the

¹⁸Cai Xiao and Li Xiang, 'RMB use to grow in Belt, Road economies', *China Daily*, June 7, 2017, accessed June 22, 2019, http://www.chinadaily.com.cn/business/2017-06/07/content_29645681.htm.

¹⁹Editorial, 'Ending reliance on dollar', *the Pakistan Observer*, January 4, 2018, accessed June 22, 2019, <https://pakobserver.net/ending-reliance-dollar/>.

²⁰Fu Mengzi, 'The Belt and Road Initiative from Three Theoretical Perspective', *Contemporary International Relations* 29(2), (2019), pp. 20–21.

²¹Parag Khanna, 'Washington Is Dismissing China's Belt and Road', *Washington Post*, April 30, 2019, accessed June 22, 2019, <https://www.politico.com/magazine/story/2019/04/30/washington-is-dismissing-chinas-belt-and-road-thats-a-huge-strategic-mistake-226759>.

world's busiest trade loops but also have broader strategic significance. Overly relying on its transit from the Gulf through the Malacca Straits between Indonesia and Malaysia under the patrol and surveillance of the US Navy, Beijing has looked for alternative routes to circumvent the 'Malacca Strait dilemma.' The China-Pakistan Economic Corridor (CPEC) and the Chinese-invested Pakistani port of Gwadar, a political bulwark of BRI, is to circumvent the dilemma.

BRI helps define and export Chinese technical standards across the full range of infrastructure investments, dictating a broad set of technological applications and altering the global competitive landscape. Standards serve as bridges between innovations and the marketization and industrialization of those innovations. The companies that own the technology on which the standards are based benefit by either selling their equipment or licensing their patents. America's ability to set international standards has benefited its economy immensely, giving American companies a strong advantage in selling goods in other markets. The BRI projects push participating countries to adopt Chinese standards, circumventing standards set by Western countries and creating barriers to competing US technologies. Billions of dollars in equipment sales and patent royalties are up for grabs in this competition. To the extent that China's standards supplant Western ones, it represents a direct threat to the profitability of non-Chinese companies.²²

Third, BRI is a stimulus package to sustain China's economic growth by supporting Chinese companies to explore international markets. When President Xi announced BRI in 2013, China's growth started to sputter partially because the state-led investment drive that turned China into an economic powerhouse produced an overheated infrastructure sector. As a platform to address its excess capacity and look for a new engine of economic growth, BRI is to channel investment-led growth beyond China's border by offering an 'upgraded' version of the Going Global strategy that China launched in the 1990s.

BRI is a smart branding to provide new vision and direction for the SOEs to expand overseas. Taking a centralized approach as an all-encompassing initiative, BRI folded old projects into the new narrative. A number of the BRI projects actually began operations before BRI was announced in September 2013. For example, one of the listed projects on the official website of BRI Portal, the Sino-Myanmar natural gas pipeline, began operations in July 2013. The building of the first oil pipeline from Kazakhstan to China in 1997 was also wrapped into BRI. Using its political might, BRI could help grease the wheels to get deals through faster. Collectively dubbed BRI, these existing and new projects leverage China's vast reserves of capital, business savvy, engineering expertise, and production and construction capacity to help sustain domestic growth.

Fourth, BRI is to help China contain security threats by stabilizing the troublesome Western hinterland through economic development to narrow the prosperity gap. In particular, the land-locked Xinjiang has been threatened by Islamic jihadists and separatist activities partially because the region is under-developed. As the hub of the trade routes towards the Indian Ocean and the Middle East through the port facilities in Pakistan, Xinjiang could attract more investment and trade to create jobs and discourage radicalization and terrorist recruitment within China's borders.

Fifth, as an expression of newly-found pride in the nation's power and wealth for Xi to sell his nationalist ideology wrapped in globalist terminology, BRI demonstrates to a domestic audience that China is a global leader and all roads go to Beijing. The blanket coverage of the BRICs showed that all world leaders came to Beijing and praised how China's investments were welcomed in other countries, stirring national pride and Solidifying Xi's doctrine of 'four confidences' in the path, political system, theories, and culture of Chinese socialism. In a set piece of imperial pomp, power and benevolence for which the Chinese capital seems designed, President Xi stood in front of a giant landscape painting titled *This Land is So Rich in Beauty* and shook hands with the heads of state lining up in the Great Hall of the People. Broadcast live on national television and repeated numerous times in prime-time newscasts, these images encapsulated China's growing political and economic influence and President Xi's leadership on the world stage. China was positioned as

²² Andrew Polk, 'China Is Quietly Setting Global Standards,' Bloomberg News, 6 May 2018, accessed 22 June 2019, <https://www.bloomberg.com/view/articles/2018-05-06/china-is-quietly-setting-global-standards>.

a benign master, receiving tribute from neighbors. BRI reminds the Chinese people of the glory days when the imperial reach was at its peak. As one Chinese scholar wrote, 'every time foreign leaders walk down that 50-meter stretch of red carpet and shake hands with Chinese leaders, many of us are overcome with excitement.'²³ As a result, 'BRI helps to mobilize public support for Xi's diplomacy in a way few other initiatives could accomplish.'²⁴

Attractions to Developing Countries

Serving China's interests, BRI is welcomed in many developing countries primarily because their enormous infrastructure deficit and funding gap are major impediments to economic development, poverty reduction, and market access. The costs of mega infrastructures are vast and inaccessible to many developing countries. Western developmental aid and investment have failed to meet these needs. The major international financial institutions have not provided sufficient infrastructure loans. A widely quoted ADB study finds that in Asia alone, US\$26 trillion infrastructure investments or US\$1.7 trillion per year are needed over 2016–2030 to maintain 3–7% economic growth. The report covered 45 countries where a substantial infrastructure gap remained, with over 400 million people lacking electricity, 300 million without access to safe drinking water, and about 1.5 billion lacking access to basic sanitation. Many economies lacked adequate ports, railways, and roads that could connect them efficiently to larger domestic and global markets.²⁵

Massive infrastructure investment has been an engine of China's growth. With technologies practical and relatively affordable, China has accumulated a significant amount of wealth to provide capital, technology, and equipment to a wide-range of infrastructure construction in developing countries. No country builds infrastructure as speedily as China or has comparable means to fund it. BRI investments increase competition for development projects, allowing developing countries to bargain more effectively for better economic returns with Western countries.

The BRI has, in fact, sparked an infrastructure race in which other countries have actively competed with China to finance infrastructure projects. For example Australia, India, the US and Japan met at the Quadrilateral Security Dialogue in November 2017 'to expand cooperation between democracies in the region for economic openness and give opportunities to other nations who are looking for infrastructure development.'²⁶ The Quad first came together in response to the devastating 2004 Indian Ocean tsunami in relief operations and held their first summit and participated in a large naval exercise in the Bay of Bengal in September 2007. But the Quad suffered demise when the Rudd government in Australia pulled out under Chinese pressure. Although it remains unclear what the resurrected Quad can accomplish, it is one response to BRI from the four democracies.

The EU also launched its Europe-Asia connectivity strategy to provide funding for the construction of transport links, which emphasizes 'sustainability' through investments that respect labor rights, do not create political or financial dependencies, and guarantee a level playing field for businesses. Ioana Kraft, general manager of the EU Chamber of Commerce in China, notes that the market-based European approach to cross-border connectivity contrasts significantly from Beijing's state-led approach. The EU approach puts transparent public procurement processes in place to allow European and Chinese companies, and especially private companies, to compete on an even playing field.²⁷

²³ 罗建波 (Luo Jianbo), 中国的救世主心态要不得 [China needs to check its inflated national ego], *Financial Times* [Chinese Edition], May 25, 2017, accessed June 22, 2019, <http://www.yinhucms.com/story/001072733.html>.

²⁴ Zhimin Lin, 'Xi Jinping's "Major country diplomacy": the impacts of China's growing capacity', *Journal of Contemporary China* 28(115), (2019), pp. 35–37.

²⁵ 'Asia Infrastructure Needs Exceed \$1.7 Trillion Per Year', *Asian Development Bank*, February 28, 2017, accessed June 22, 2019, <https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates>.

²⁶ Primrose Riordan, 'Brits call for united front of involvement to loosen China Belt fears', *The Australia*, February 21, 2018, accessed July 11, 2019, <https://www.theaustralian.com.au/national-affairs/foreign-affairs/brits-call-for-united-front-of-involvement-to-loosen-china-belt-fears/news-story/33d87b93b8bb4f68cf7e347208322cf3>.

²⁷ Emanuele Scimia, 'Europe prefers market driven connectivity over Belt and Road', *AsiaTimes*, September 29, 2018, accessed June 22, 2019, <http://www.atimes.com/article/europe-prefers-market-driven-connectivity-over-belt-and-road/>.

The US established a new agency in 2018, the International Development Finance Corporation, to offer financing assistance to US companies involved in development projects abroad. The US Agency for International Development also announced a new initiative to provide capacity building to countries interested in understanding the financial as well as social impacts of proposed infrastructure projects. Both Japan and India have launched their Connectivity Corridors to finance and build infrastructure in developing countries. They joined Sri Lanka in 2019 to develop the Port of Colombo to prevent cargo from being transferred to China controlled port of Hambantota. Japanese Official Development Assistance is to finance a portion of the project.²⁸

Quoting the Chinese proverb, 'to become rich, one must first build roads,' IMF Managing Director Christine Lagarde praised BRI for helping close the developing country infrastructure gap, lift potential global growth, and raise the incomes of millions of people.²⁹ Asian Development Bank President Takehiko Nakao concurred that BRI was instrumental in boosting inter-connectivity and regional development.³⁰ A World Bank Report suggested that the BRI transport corridors 'will help in two critical ways- lowering travel times and increasing trade and investment' to substantially improve trade, foreign investment, and living conditions for citizens in its participating countries that 'are ill-served by existing infrastructure.' It estimated that 'BRI transport projects could help lift 7.6 million people from extreme poverty (those earning less than \$1.90 a day) and 32 million people from moderate poverty (those earning less than \$3.20 a day)'³¹

Many developing countries have welcomed BRI also because the China Model of state capitalism characterized by the authoritarian state making use of markets to create wealth lifted hundreds of million people out of poverty. Only three decades ago, China was as poor as some of the poorest third world countries. While most of them remain poor, China has developed as the second largest economy in the world. Many political leaders of developing countries have seen the paramount task as the eradication of poverty. For them, the secret of China's success is that the powerful Chinese state is effective in marshalling extraordinary resources for economic development, creating world-class infrastructure and majestic cities, building thousands of miles high speed railways, a massive feat requiring colossal human sacrifice quite unthinkable in the West.³²

The appeal of the China model is supported by China's value-free diplomacy in contrast to Western countries that sets democracy, transparency, rule of law, and human rights as conditions. Guiding mostly by economic and strategic interests, China has invested heavily in countries off limits to the Western investors. Increasingly fed up with the doctrinaire Western democratic promotion, many developing countries have turned to the China model and Chinese investment. A recipe for stability and prosperity, the China model has become a unique and refreshing brand at a time the Western brand has been much tarnished and lost a big chunk of its allure. Political leaders in many developing countries have welcomed the BRI investment and the China model as alternatives to the Western versions of both.

Economic Sustainability

But BRI still faces serious challenges. The first challenge is economic sustainability. Looming on a scope and scale with little precedent in modern history, BRI has been driven more by China's

²⁸Japan and India to develop Colombo port, countering Belt and Road With Sri Lanka, partners take on China's expanding Indian Ocean presence', *Nikkei Asian Review*, May 20, 2019, accessed June 22, 2019, <https://asia.nikkei.com/Politics/International-relations/Japan-and-India-to-develop-Colombo-port-countering-Belt-and-Road>.

²⁹Christine Lagarde, 'Belt and Road Initiative: Proven Policies and New Economic Links', *International Monetary Fund*, May 14, 2017, accessed June 22, 2019, <https://www.imf.org/en/News/Articles/2017/05/14/sp051417-belt-and-road-initiative-proven-policies-and-new-economic-links>.

³⁰'ADB president willing to engage in BRI projects, sees AIIB as partner', *Xinhua*, May 29, 2019, accessed June 22, 2019, http://www.china.org.cn/business/2019-05/29/content_74834692.htm.

³¹World Bank Group, *Belt and Road Economics: Opportunities and Risks of Transport Corridors* (Washington DC, 2019), accessed June 22, 2019, <https://openknowledge.worldbank.org/bitstream/handle/10986/31878/9781464813924.pdf>.

³²Suisheng Zhao, 'Whither the China model: revisiting the debate', *Journal of Contemporary China* 26(103), (2017), pp. 1–17.

strategic ambitions than economic rationale. As a political campaign that takes political diktat in command over market force, BRI is not intellectually coherent and carefully orchestrated. Mobilizing all segments of the bureaucracy and state-owned and private companies, it is fragmented and patchy. Everyone has pitched in with frenzied enthusiasm but little coordination. The negative effects are generally disregarded until they grow too serious to ignore. The widely publicized Chinese government document of *Visions and Actions* is only seven pages long, 'hardly a blueprint for how to invest \$1 trillion, by when, for what priorities and by whom. Top officials still haven't defined what constitutes a BRI project or who qualifies as a participant in the initiative. As a result, every investment project, whether public or private, profit-making or money-losing, honest or dishonest, claims to be part of the bandwagon.'³³

The MAF and the MOC as two supporting agencies are often in a tug of war, with MFA's long-term political agenda clashing with MOC's emphasis on short-term commercial interests. The SIDCA was established to cut through the overlap and discord of the agencies and institutionalizes a concept of 'development coordination' to which Beijing's strategic goals are vital, but its commercial interests cannot be ignored. The SIDCA is not an aid agency as the word 'aid' is nowhere in the agency's title. Instead, its emphasis is 'international development cooperation', which consists less of grants and volunteerism, more of bank loans and the construction expertise of Chinese companies.

Below the central level, every province has its own BRI office. Scrambling to get hold of and justify the use of funding and ensuring their projects being chosen with a generous budgetary support, local governments have collaborated with the infrastructure building complex, the nexus between SOEs and state banks formed in the domestic infrastructure building spree but has faced diminishing returns domestically, to sneak through their side projects. Turning into Xi's signature diplomacy effectively gave local governments carte blanche to pursue whatever projects they can get away with.³⁴ This opaqueness makes it difficult to balance economic rationality and political motivations, fostering a politically-driven rush for SOEs to take on projects hastily and the state banks to give out loans whether or not they are financially viable.

Although Chinese SOEs' risk awareness has grown, they still lack the ability to manage overseas risks effectively. Becoming overexposed abroad while struggling to shed costs and slash soaring debt loads at home, they lack local knowledge, adding that they sometimes assume money can solve all problems. BRI passes through volatile countries suffering from unstable governments, brittle authoritarian regimes, unstable economies, terrorism, ethnic conflict, and other security threats and geopolitical risks. Their lack of a fair and transparent mechanism and supervision inevitably results in corruption and rent-seeking. It is difficult for Chinese companies to ensure their money is well-spent because they are contending with a myriad of complex political and social situations. Without sufficient risk-control procedures, they often only see a bevy of opportunities, but not the pitfalls underfoot.

Chinese banks also do not have a track record of allocating resources effectively. In the early days of BRI, it was easy to get loans if they were going to do some sort of BRI projects, especially if the projects were in the countries with significant natural resources. The assumption was that if a resource-rich country had trouble repaying loans, it could offer resources instead. No one, not even the Chinese government, had a comprehensive picture of the lending. The state banking system poured money into projects as various government agencies issued extensive export and loan guarantees and other financial arrangements as part of the initiative without sufficient risk or cost-benefit analysis, helping get many projects up and running faster than might have happened otherwise. In unstable, high-risk markets, loans could turn sour and projects could fail easily,

³³Yuen Yuen Ang, 'China's Belt and Road Is a Campaign, Not a Conspiracy', *Bloomberg News*, September 27, 2018, accessed June 22, 2019, <https://www.bloomberg.com/opinion/articles/2018-09-27/china-s-belt-and-road-initiative-is-a-campaign-not-a-conspiracy>.

³⁴Baogang He, 'The domestic politics of the belt and road initiative and its implications', *Journal of Contemporary China* 28(116), (2019), pp. 180–195.

creating a strain of bad debts. Many BRI countries are off the World Bank's ease-of-doing-business league, with sovereign debt ratings that are either junk or not grade, meaning their capacity to repay the loans is in doubt. As a result, thousands of financially dubious 'white elephants' projects that never took off, or were abandoned or useless, or faced long delays, got the imprimatur of BRI projects. China's politically directed investments resulted in vanity projects and tens of billions in bad loans.

Critics of BRI have claimed that the failures are intentional as a result of China's 'debt-trap diplomacy' to ensnare some countries in debt by unsustainable loans to seize strategic assets from them.³⁵ While the debt trap could make the nations in debt beholden to the Chinese government, China fell victim of its own snare and lending missteps. One example is the US\$60 billion of China's loans-for-oil in Venezuela, which helped China secure energy supplies while bolstering an anti-US ally in Latin America for a decade. The loan went south after the collapse of oil prices in 2014. As inflation ran in the four digits and the country was in real peril of defaulting on debt repayments, Chinese-funded infrastructure projects turned into 'red elephants' as they were called by locals. 'Venezuela has changed from the closest thing China had as an ally in Latin America and the Caribbean to a clear liability. China's own interests are therefore undercut through such unsustainable deals.'³⁶

Clearly, the unsustainable debt is negative for everyone. One study tracked over 3000 Chinese financed projects and found scant evidence that Chinese banks, acting at the government's behest, were deliberately over-lending or funding loss-making projects to secure strategic advantages.³⁷ A study of 38 Chinese debt renegotiations with 24 countries supports the finding. Borrowers in 14 cases were able to get China to write off the debt and in most other cases renegotiated their loans. The problems point to a lack of competency among Chinese lending institutions, combined with their eagerness to support broader political goals despite low potential returns and weak project planning capacity.³⁸

The CPEC as a flagship project of BRI is one example. In a straight line on the map, it is only about 1100 miles from Kashgar in Xinjiang to Karachi and the Indian Ocean. But the road twists and turns up to more than 15,000 feet above sea level and down through almost uninhabited country until it reaches the Indus Valley. While the great knot of mountain ranges and deserts that separate China from the Indian Ocean makes land transport difficult, Kashgar itself is 2500 miles from Shanghai, half of that distance through the very sparsely populated country.

Additionally, the CPEC has faced security troubles from the Pakistani Taliban and other militant groups. Separatist militants in Baluchistan province that forms the southern hub of the CPEC have waged campaigns against the central government for decades, demanding a greater share of the gas-rich region's resources and trying to disrupt construction of the corridor. Pakistan's military created an army division of more than 10,000 troops in 2015 to protect CPEC projects and Chinese workers, increasing the costs of CPEC.

Global transportation and trade network making has been intertwined with the rise of hegemonic powers. The connectivity of the global sea lanes in post-1945 was warranted by US hegemony. Rising but still far from the hegemonic position, China could be over-extended by the costs of BRI. A Chinese scholar warned that although BRI may help promote China's rejuvenation and global development, there have been substantial concerns such as 'premature advance' (战略冒进), 'rejoicing in grandiose deeds' (好大喜功) and 'having too great an appetite' (贪大求全)

³⁵Brahma Chellaney, 'China's debt-trap diplomacy', *Project Syndicate*, January 23, 2017, accessed June 22, 2019, <https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt-by-brahma-chellaney-2017-01?barrier=accesspaylog>.

³⁶Matt Ferchen, 'China, Venezuela, and the Illusion of Debt-Trap Diplomacy', *AsiaGlobal Online*, August 16, 2018, accessed June 22, 2019, <https://www.asiaglobalonline.hku.hk/china-venezuela-debt-trap-diplomacy/>.

³⁷Deborah Brautigam, 'Is China the World's Loan Shark?', *New York Times*, April 26, 2019, accessed June 22, 2019, <https://www.nytimes.com/2019/04/26/opinion/china-belt-road-initiative.html>.

³⁸Agatha Kratz, Allen Feng, and Logan Wright, 'New Data on the "Debt Trap" Question', *Rhodium Group*, April 29, 2019, accessed June 22, 2019, <https://rhg.com/research/new-data-on-the-debt-trap-question/>.

in the actual implementation. Criticizing BRI in a political campaign style, he was particularly concerned about the repeated declarations to see an ‘early harvest of results’ (早期收获) in the full-fledged rush into the CPEC without consideration of costs.³⁹

These events are all occurring as China’s economic growth slows, the debt-to-GDP ratio has skyrocketed, and their fragile financial system is increasingly under strain. Stacking China’s losses and obligations on top of slowing growth, Beijing has tried to curb capital outflow. BRI has complicated Beijing’s effort. Chinese companies have used BRI as an excuse to evade capital controls, smuggling money out of the country. The initiative has provided cover for the acquisition of less productive and often trophy assets, such as European football clubs, of which Chinese tycoons acquired about 100.⁴⁰ When BRI outlays are snowballing, many huge ventures with dubious returns take ever-bigger bites of China’s finances. BRI is a stiff test of China’s ability to weather a slowing economy.

Conflict of Interests

The second challenge is the conflict of interests between China and its BRI partners in a complex and vulnerable geo-economic and geo-political environment. Beijing may assume that economic development coupled with good will would be enough to make BRI a success. But the implementation of BRI ‘depends on the response of China’s neighbors, large and small, and will require much more than simply rhetoric and good will.’⁴¹ Cross-border infrastructure projects require complex and often protracted negotiations over proposed routes, development rights, financing and investment returns, and local employment. China cannot assume that the growth through gigantic infrastructure investments, which drove China’s economic success in the past, is a panacea and embraced by other countries. With shared and conflicting interests, other countries’ reactions to BRI are inevitably mixed, both longing for and dreading Chinese investment.

The conflict of interests has come firstly due to the concerns of BRI countries over China’s geostrategic ambitions. China’s smaller neighbors are concerned about being overwhelmed by an over-mighty China. In particular, China’s heavy-handedness in the maritime territorial disputes has conspired to breed fear, mistrust and misgivings among China’s neighbors. Expanding land reclamation in the South China Sea while promoting maritime Silk Road, China has difficulties in convincing Southeast Asian countries that the benefits of BRI outweigh their apprehensions.

Regional powers such as Japan and India are also concerned over China’s strategic intentions. Despite projects on its turf, Japan remains leery of throwing its support behind BRI as Sino-Japan relations have been soured by various issues deriving from unresolved historical legacies, strategic rivalry, and territorial disputes. Fearing Beijing will create a sphere of influence that could erode its own power, Japan has taken the lead to revive the Trans-Pacific Partnership (TPP) after the US withdrawal, creating competition with BRI. A group of 11 nations signed the CPTPP (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership) in March 2018, which became effective on 30 December 2018. In addition, Japan has competed with China to boost outward investment. Japan owned US\$1.667 trillion in foreign assets, while China owned US\$1.542 trillion in 2018. Promoting the overseas use of its currency, the yen is the third most popular currency for international transactions, with a 4.35% share in February 2019, well above 1.15% of RMB.⁴² Representing the headwinds facing Beijing, Japan, rather than bending to Chinese power, is counterbalancing it.

³⁹ 罗建波 (Luo Jianbo), 中国的救世主心态要不得 [China needs to check its inflated national ego], *Financial Times* [Chinese Edition], May 25, 2017, accessed June 22, 2019, <http://www.yinhucms.com/story/001072733.html>.

⁴⁰ Jörg Wuttke, ‘Xi Jinping’s Silk Road is under threat from one-way traffic Trade must flow both ways to make the route economically and politically viable’, *Financial Times*, May 9, 2017, accessed June 22, 2019, <https://www.ft.com/content/61c08c22-3403-11e7-99bd-13beb0903fa3>.

⁴¹ Hong Yu, ‘Motivation behind China’s “One belt, one road” initiatives and establishment of the Asian Infrastructure Investment Bank’, *Journal of Contemporary China* 26(105), (2017), p. 367.

⁴² Mike Bird, ‘Japan’s Silent Belt and Road Is Beating China’s’, *Wall Street Journal*, April 22, 2019, accessed June 22, 2019, <https://www.wsj.com/articles/japans-silent-belt-and-road-is-beating-chinas-1155923604>.

Regarding economic relationship with China valuable and cooperated with China, for example, by joining the AIIB, India has opposed BRI because of the fears of it as an updated version of 'the string of pearls' to encircle India. The construction of the Gwadar Port in Pakistan, Colombo Port City in Sri Lanka, and Kyaukpysu Port in Myanmar, which all face the Indian Ocean, have only reinforced India's suspicions. Moreover, India has protested the CPEC through the disputed territory in Pakistan-administered Kashmir. Boycotting the 2017 BRFC, Indian External Affairs Ministry spokesperson stated that 'No country can accept a project that ignores its core concerns on sovereignty and territorial integrity.'⁴³ Chinese construction activities in the Himalayas also acquired an ominous strategic shadow for India. The 73-day border military standoff during late 2017 in Doklam, a contested territory on the border between China and Bhutan, is one illustration that while roads can connect, they can also divide and bring conflicts.

Second, while China has presented BRI as win-win cooperation, for many BRI countries, the Chinese term 'win-win' could mean China wins twice or more. The Chinese loans work like a corporate welfare to Chinese companies. Countries receiving the loans use the money to buy Chinese goods and hire Chinese workers.⁴⁴ If indebted countries cannot repay, Chinese state banks can seize the collaterals of the loan or turning the debt into equity that gives China control over national assets and infrastructure. In the end, it is a win-win for China.

Although loans from China's lending institutions lack transparency, making the amount and terms of much of that debt unknown to international financial risks institutions, BRI is a commercial venture on which China expects to earn returns and recoup its investments. A Philippines' economist held that China offered development loans at 2–3% interest rates, while Japan loans at 0.25–0.75%. There were additional hidden costs on China's loans that could increase the rates to about 7–12%. The only reason the Philippine leaders took the Chinese deals was that they were bribed or otherwise paid off.⁴⁵ Saddled with high-interest loans and underutilized 'white elephant' projects that do not produce revenue, BRI projects could be financially unsustainable for poor countries. A 2018 report assessed the likelihood of debt problems in 68 countries identified as potential BRI borrowers and found debt distress in eight countries: Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan and Tajikistan.⁴⁶

One commentator therefore suggested that BRI 'looks good, until each country closely examines what their financial commitment to receive infrastructure.'⁴⁷ As a result, a number of BRI projects were canceled or renegotiated due to costs or complaints that host countries got too little. In Pakistan, the unparalleled tax breaks granted to Chinese companies and mounting security costs for the CPEC operation saddled Islamabad's budget with a hole. Billing domestic electricity consumers a surcharge in their utility bills for the astronomical CPEC security outlay, Pakistan had little foreign exchange inflow. In November 2017, Pakistan pulled the plug on a US\$14 billion deal to build the Diamer-Bhasha Dam, saying China's funding conditions were unacceptable. After the

⁴³Oki Nagai And Yuji Kuronuma, 'Asian neighbors keep distance from China's "Belt and Road", Beijing's growing regional influence seen as a threat', *Nikkei Asian Review*, May 16, 2017, accessed June 22, 2019, <http://asia.nikkei.com/Spotlight/New-Silk-Road-summit-in-Beijing/Asian-neighbors-keep-distance-from-China-s-Belt-and-Road?page=2>.

⁴⁴According to one study, of the contractors working on 178 China-funded transport infrastructure projects in 34 Asian and European countries between 2006 and 2017, 89% were Chinese, leaving 11% from elsewhere. Among the transport infrastructure projects funded by the World Bank and the Asian Development Bank, 41% of contractors were from local countries and 30% were from third countries. James Kynge, 'Chinese contractors grab lion's share of Silk Road projects', *Financial Times*, January 25, 2018, accessed June 22, 2019, <https://www.ft.com/content/76b1be0c-0113-11e8-9650-9c0ad2d7c5b5>.

⁴⁵'Japan has better rates for loans, but PH needs China, too to speed up infra projects', *Interaksyon*, February 22, 2018, accessed June 22, 2019, <http://www.interaksyon.com/breaking-news/2018/02/22/120754/japan-has-better-rates-for-loans-but-ph-needs-china-too-to-speed-up-infra-projects-pernia/>.

⁴⁶John Hurley, Scott Morris, and Gailyn Portelance, 'Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective', *Center for Global Development Paper 121*, March 2018, accessed June 22, 2019, <https://www.cgdev.org/publication/examining-debt-implications-belt-and-road-initiative-a-policy-perspective>.

⁴⁷Peter Guy, 'Nepal and Pakistan pulling the plug on Belt and Road plans, casts spotlight on public tender issues', *South China Morning Post*, November 20, 2017, accessed June 22, 2019, <http://www.scmp.com/business/china-business/article/2120597/nepal-and-pakistan-pulling-plug-belt-and-road-plans-casts>.

election in 2018, Pakistan's new Prime Minister Imran Khan, while remaining committed to Chinese investments, wanted to review all BRI contracts and push harder on price and affordability.

In Sri Lanka, President Rajapaksa sought an ambitious port at home district Hambantota of Colombo Port City after the 2005 elections. Feasibility studies showed that the project was not viable, but China's Exim Bank funded it with very steep terms. After President Maithripala Sirisena won the 2015 election, his government renegotiated a debt-equity swap in which China erased US \$1.12 billion debt for a 99-year lease agreement in July 2017. The China Merchant Holdings, which had built the white elephant project, took 70% ownership in the Hambantota Port and controlled about 15,000 acres nearby for an industrial zone. Although the project could become a stranded asset to China, international and Sri Lanka press criticized that 'the island's sovereignty has essentially been handed over to China' and the area could be turned into a Chinese colony.⁴⁸ Sri Lanka's policy of 'trade with all, ally with none' would face a serious challenge.⁴⁹

The Sri Lanka case caused some countries to rethink about Chinese loans. As a result, Malaysia attempted to substantially reduce its exposure to China in an effort to manage debt levels. Key resource hubs from Nigeria to Kazakhstan and Uzbekistan to Mongolia pushed back to prevent foreign countries from controlling stakes in their utilities and industries. While Chinese industrial parks and railways helped Ethiopia raise textile exports to sustain its double-digit growth, numerous factories were handed over to Indian firms due to dissatisfaction with Chinese management.

The lack of attention of BRI projects to local conditions is the third source of conflict of interest. BRI is to export China's capacity in building large scale infrastructure. But China's speedy infrastructure construction at home depended on the state power to evict anyone who got in the way. The China model of construction is hard to replicate in other countries because of the thornier local politics. As open and competitive bidding processes for BRI projects are not institutionalized, local companies are often sidelined. Lucrative contracts are mostly awarded to Chinese SOEs with little incentive to take local concerns on board. Without the ability to work closely with local communities, Chinese companies have tried to develop amicable relationships with the ruling elites, including using kickbacks, assuming that so long as the interests of ruling elites are aligned with theirs, problems would be managed. The reality on the ground often suggests otherwise. China has, therefore, suffered setbacks and encountered legal and political minefields in BRI countries.

For example, landlocked Kazakhstan could benefit from infrastructure improvements that open the country to Europe. But citizens protested against decisions that would allow Chinese to rent agricultural land for 25 years because they were concerned that Chinese workers would come for such projects. Protesters in 2016 successfully prevented the enactment of a policy that would have allowed for long-term Chinese leases of agricultural land. In both Thailand and Indonesia, construction of China funded high speed rail was delayed because of the local resistance. The newly elected Malaysian Prime Minister Mahathir Mohamad in July 2018 suspended its largest China-backed projects, the East Coast Rail Link and two pipeline projects negotiated by former Prime Minister Najib Razak in disadvantageous terms.⁵⁰ Under Razak, billions of dollars financed by China were poured into Malaysia, making it a success for BRI. But only an average of 13% of the pipelines' construction was completed, while almost 90% of the projects' value was paid to Chinese companies.⁵¹ In his first visit to Beijing, Mahathir told Premier Li Keqiang that his country was canceling the projects because Malaysia can't repay its debts. 'We do not want a situation where

⁴⁸Patrick Mendis and Joey Wang, 'Reconsidering the Belt and Road Initiative', *China-US Focus*, January 12, 2018, accessed June 22, 2019, <https://www.chinausfocus.com/finance-economy/2018/0112/15989.html>.

⁴⁹'Sri Lanka at Geopolitical Crossroads', *Colombo Daily Financial Times Online*, December 19, 2017, accessed June 22, 2019, <http://www.ft.lk/news/Sri-Lanka-at-geopolitical-crossroads-Prof-Patrick-Mendis/56-645517>.

⁵⁰Hong Liu, Guanle Lim, 'The political economy of a Rising China in Southeast Asia: malaysia's response to the belt and road initiative', *Journal of Contemporary China* 28(116), (2019), pp. 216–231.

⁵¹Stefania Palma, 'Malaysia suspends \$22bn China-backed projects', *Financial Times*, July 4, 2018, accessed June 22, 2019, <https://www.ft.com/content/409942a4-7f80-11e8-bc55-50daf11b720d>.

there is a new version of colonialism.⁵² Malaysia resumed the stalled projects in April 2019 only after it renegotiated a fresh deal that significantly reduced the costs.

A 2018 study showed that 14%, or 234 out of 1,674, Chinese-invested infrastructure projects in 66 BRI countries, hit troubles, including public opposition to projects, objections over labor policies, performance delays, and concerns over national security. Chinese companies often disregard local conditions to move forward projects in spite of strong local opposition. The Ituango hydroelectric dam in Colombia partly financed by China was a case in point. In spite of a well-known propensity towards landslides, mentioned in the dam's environmental impact report, repeated warnings of local activists were brushed aside. Heavy rains in summer 2018 triggered a landslide. The dam was in danger of collapse, forcing the evacuation of 26,000 people.⁵³

To avoid the drawbacks, Chinese companies have tried to invest in friendly countries. But the friendship itself is a variable, which the Chinese government can hardly control. The Communist government in Lao is a longstanding friend of China. Fearing China's domination, Laos has cast around for other friends as well, including China's regional rivals Japan and Vietnam. Although the Philippines' Duterte administration has adopted a conciliatory approach towards China and local residents support more infrastructure projects, Chinese businessmen are not sure how long the favorable momentum can last and have invested mostly on small scale projects because big projects need time to complete and may be affected or face a reshuffle when the President steps down.⁵⁴

China prospers only if its partners prosper. If prosperity is unequally shared, local communities are not consulted on projects that affect them, BRI could easily produce a conflict of interests. But Chinese leaders have not found effective ways to respond to the anxieties in many BRI countries that are historically little known in China.

Shared Values

The third challenge is to build shared values to attract followers. Unlike the Marshal Plan, which built a community of liberal democracies that share many common values and speak with a similar cultural frame of reference, China has failed to develop widely shared values with BRI countries. President Xi has put forward a community for a shared future. But the community cannot work it out only through China's financial resources to lure foreign partners in building railroads, highways and pipelines, but to a great extent, depends on whether China can build identities and values shared by other countries to defuse the suspicions, inspire partners, work with competitors, and influence how others interpret China's objectives and act on these interpretations.

Creating a contemporary version of the historical Silk Road, BRI is to connect China's historic and modern roles. The history of ancient expeditions was complicated, with the backdrops of conflict and the push to spread a Sinocentric order unacceptable in the modern context. China's Supreme People's Court established two courts to mediate BRI-related disputes in June 2017, one in Shenzhen to handle disputes arising along the maritime Road, the other in Xian to handle cases along the overland Belt. While not mandatory, Beijing opted to set up its own courts rather than rely on existing international arbitration centers to manage inevitable commercial disputes in BRI projects shows a Sinocentric attitude. Wrapping the effort in Silk Road mythology and comprising

⁵²Chun Han Wong, 'Malaysia Can't Afford \$22 Billion Beijing-backed Projects', *The Wall Street Journal*, August 21, 2018, accessed June 26, 2019, <https://www.wsj.com/articles/malaysia-cant-afford-22-billion-beijing-backed-projects-mahathir-tells-china-1534850997>.

⁵³James Kyng, 'China's Belt and Road difficulties are proliferating across the world', *Financial Times*, July 10, 2018, accessed June 22, 2019, <https://www.ft.com/content/fa3ca8ce-835c-11e8-a29d-73e3d454535d>.

⁵⁴Kristin Huang, 'Duterte's dilapidated hometown to get makeover with China's "Belt and Road" investment', *South China Morning Post*, May 12, 2017, accessed June 22, 2019, <https://www.scmp.com/news/china/diplomacy-defence/article/2093566/dutertes-dilapidated-hometown-get-makeover-chinas-belt>.

of multiple bilateral relationships linked to the Chinese core, BRI could tangle in conflicts for which China is not prepared.

Without shared values to inspire other countries, China has relied on economic diplomacy to enhance political and strategic relations. But money cannot buy enduring loyalty. Influence does not simply derive from a country's coffers. While closer economic and trade ties are important, they are hardly sufficient to build strong trust between countries, especially those with conflicting economic and security interests. Unable to construct shared values, BRI may change few of substance in China's relations with these countries. The challenge for BRI is one of hearts and minds rather than money.

The lack of shared values has made some Western countries reluctant to join BRI because they are concerned that BRI has not met the acceptable standards of openness, fairness and transparency. Taking a cautious approach, the leaders of all major Western countries skipped the 2017 BRFC. The US sent a delegation led by Matt Pottinger, a senior staff at the National Security Council. While Pottinger said that the US recognized the importance of infrastructure development, he noted that transparency was the key when governments were involved in procurement. Representatives at the forum from EU countries did not sign on the statement prepared by the Chinese government until a series of concerns they had raised about economic and environmental sustainability and fair tendering processes were incorporated into the text.⁵⁵ After the summit, European leaders continued to air their concerns. Outgoing German Foreign Minister Sigmar Gabriel warned that BRI 'is not—as some in Germany believe—a sentimental reminder of Marco Polo. Rather, it stands for the attempt to establish a comprehensive system for shaping the world in Chinese interest. It is not based on freedom, democracy and individual human rights.'⁵⁶

Refusing to send a delegation to the 2019 BRFC, US State Department spokesman said that 'We will continue to raise concerns about opaque financing practices, poor governance, and disregard for internationally accepted norms and standards.'⁵⁷ Officials and business leaders from European countries at the forum kept a low profile. While the vast majority of participants in the summit and related events, including Xi, were wearing big yellow BRI lapel badges, the lapel badge of Italian Prime Minister Giuseppe Conte, the only head of state from the G7 nations in attendance, was conspicuously missing at the group photo session, as he stood in the front row. 'It was as if to say that Italy was ready to join the Belt and Road, but not necessarily share China's values when it comes to freedom and democracy.'⁵⁸

Facing the challenges, China would have to secure willingness of many countries to turn their back on the West and, in effect, *carte blanche* to determine outcomes in a world that bears no resemblance to the ancient Silk Road. Despite its rising economic prowess and growing military might, China's capabilities to shape the external environment and influence the behavior of other countries are limited.

Russia has been at odds with Western democracies, but it also has reservations concerning the BRI. Moscow has viewed itself as a quintessential Eurasia power and regarded much of Central Asia, the main stage for BRI, as its backyard. Both Russia and China see themselves as deserving to be great powers and value highly the independence of their respective decision-making. Reluctant to cede influence in the region to Beijing, Russia did not respond to BRI until 2014 when it had to dip

⁵⁵Tom Phillips, 'EU Backs away from Trade Statement to China's "Modern Silk Road" Plan', *The Guardian*, May 15, 2017, accessed June 22, 2019, <https://www.theguardian.com/world/2017/may/15/eu-china-summit-beijing-xi-jinping-belt-and-road>.

⁵⁶Nick Miller, 'China undermining us "with sticks and carrots": Outgoing German minister', *The Age*, February 19, 2018, accessed June 22, 2019, <https://www.theage.com.au/world/europe/china-undermining-us-with-sticks-and-carrots-outgoing-german-minister-20180219-p4z0s6.html>.

⁵⁷David Brunnstrom, 'U.S. Says will not send high-level officials to China's Silk Road summit', *Reuters*, April 2, 2019, accessed June 22, 2019, <https://www.reuters.com/article/us-china-silkroad-usa/u-s-says-will-not-send-high-level-officials-to-chinas-silk-road-summit-idUSKCN1RF008>.

⁵⁸Katsuji Nakazawa, 'Trump spoils Xi's Belt and Road Forum, without even attending, Beijing's infrastructure initiative becomes symbol of US-China power struggle', *Nikkei Asian Review*, May 2, 2019, accessed June 26, 2019, <https://asia.nikkei.com/Editor-s-Picks/China-up-close/Trump-spoils-Xi-s-Belt-and-Road-Forum-without-even-attending>.

into China's deep pockets due to the Western sanctions. At the Xi-Putin summit in May 2015, China and Russia agreed to link Moscow's Eurasian Economic Union (EEU) to BRI. But EEU and BRI have divergent purposes and priorities and even competing visions. As a result, while President Xi reiterated many times that 'China is ready to work with Russia to foster stronger synergy of BRI and EEU',⁵⁹ the cooperation on the ground has developed slowly. For example, they agreed to build two industrial parks in Xian and Moscow. While the Xian Park started construction in 2016 and several dozens of Chinese companies entered the park thereafter, the construction of the Moscow Park was delayed. In addition, while Chinese investors are not sure if investing in Russia would have profitable returns, many Russians fear a Chinese takeover of their country's sluggish economy and infrastructure.

Conclusion

With headwinds, BRI has come off slowly in spite of the heavy-handed push by the Chinese government and President Xi personally. Unprecedented excitement from the Chinese government has often stood in contrast to the reticence and anxiety of Chinese companies and their foreign partners. Relying heavily on lumbering and inefficient SOEs, China has yet been able to bring nimble Chinese entrepreneurs and international corporations into the Initiative. While the red flags have given Chinese companies pause to invest, Chinese banks are loathed in making loans to some BRI countries because of the difficulties to identify profitable projects to match the vaulting ambition of the scheme. Some bankers and SOEs complained privately that the government was pressuring them to undertake the BRI projects that were not profitable.⁶⁰ The Chinese government published a 'list of deliverables' at each of the 2017 and 2019 BRFCs, but most of them were MOUs and cooperation documents with promises of investment but not yet sprung from the ground. Chinese SOEs and banks have promised significant investments but delivered modestly.

Much of China's overseas direct investments (ODI), inherently commercial, are attracted to developed stable markets and Chinese bank lending hesitant to go to BRI countries. Leaving aside Hong Kong, the top 10 destinations of Chinese ODI in 2016 were the Cayman Islands, the Virgin Islands, the United States, Singapore, Australia, the Netherlands, the United Kingdom, Russia, Canada, and Indonesia. Among BRI countries, the leading investment destination was Singapore, a high-income country with well-developed infrastructure. Chinese ODIs to BRI countries gained a burst only after Chinese ODI slumped in the wake of the increased US and European countries' scrutiny on deals from China in 2017. China's ODI slumped 18% in 2018, with China's ODI to Europe and North America declining 56.3% and 60.0% respectively. But China's investment in 65 BRI countries earmarked by China's authorities increased 8.0% in 2018. The share of investment in these BRI countries increased to 21.6% from 16.8% in 2016.⁶¹

Under the uncertain global and domestic environment, Beijing has become conscious in response to the criticism of BRI. Beijing announced a Belt and Road Debt Sustainability Framework ahead of the 2019 BRFIC. Unlike his speech at the 2017 forum, President Xi did not lay out a global vision of what BRI can do at the 2019 Forum. Instead, he concentrated on answering criticisms, particularly the dominance of Chinese companies in BRI projects, and invited foreign and private partners to contribute to BRI projects. Xi also promised to deliver greener and better quality projects, more attentive to their local economy with a humane impact as well as to the recipient country's debt sustainability. Struggling to maintain momentum and worrying about

⁵⁹Xi says China to foster stronger synergy of development initiatives with Russia', *Xinhua*, June 5, 2019, accessed June 22, 2019, http://www.xinhuanet.com/english/2019-06/05/c_138116833.htm.

⁶⁰Gabriel Wildau and Ma Nan, 'China new "Silk Road" investment falls in 2016', *Financial Times*, accessed June 22, 2019, <https://www.ft.com/content/156da902-354f-11e7-bce4-9023f8c0fd2e>.

⁶¹'China: Five facts about outward direct investment and their implication for future trend', *FXSTREET*, March 21, 2019, accessed June 22, 2019, <https://www.fxstreet.com/analysis/china-five-facts-about-outward-direct-investment-and-their-implication-for-future-trend-201903210827>.

excess debt and bad projects, the Chinese government has required the building and funding of BRI subject to more discipline and central scrutiny.

But it is easier said than done. As in many transportation and trade network cutting across vast regions in world history, BRI is a highly risky initiative and a long march without assuring results. It has strenuously tested and will continue to test Beijing's political mettle, not to mention the attendant financial perils.

Disclosure statement

No potential conflict of interest was reported by the author.

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