The Heritage Foundation

BACKGROUNDER

No. 3331 | AUGUST 9, 2018

China's Belt and Road Initiative: Strategic Implications and International Opposition

Jeff M. Smith

Abstract

China's expansive Belt and Road Initiative (BRI)—through which Beijing intends to spend or invest over $1 trillion on new infrastructure and connectivity investments across the Indo-Pacific and Eurasian supercontinent—is already reshaping the economic and geopolitical landscape of the region. While the Chinese initiative initially received an overwhelmingly positive reception, since mid-2017 the democratic Quad—Australia, India, Japan, and the U.S.—and several European countries have begun to signal major reservations about the BRI. This change of heart has paralleled growing anxiety about broader trends in Chinese foreign policy, including: (1) the strategic and financial costs and risks posed by the BRI and Chinese investments in sensitive infrastructure and (2) the outgrowth of Chinese "sharp power" and the ways it is using its economic influence as an extension of its foreign policy to punish, coerce, or incentivize regional states to align with its agenda. America and its partners have begun exploring how best to cope with these consequences, offer alternatives to developing countries, and defend the rules-based order against new challenges from China and the BRI.

China's Belt and Road Initiative (BRI)—formerly known as the One Belt One Road (OBOR) initiative—has quickly become one of the most ambitious and hotly debated government initiatives in modern history. In recent years, few topics in international relations have been the subject of more articles, books, conferences, discussions and, ultimately, controversy. When President Xi Jinping unveiled the BRI in 2013 as an expansive new vision for connectivity across the Indo-Pacific, the initial reception was

Key Points

- After a largely positive initial reception of the BRI, international opposition has been growing since mid-2017. Australia, India, Japan, the U.S., and several European countries have begun to signal major concerns about the Chinese initiative.
- The BRI poses an array of new challenges and risks to the U.S., its partners, and participating nations. Washington must better define these and forge a consensus on the most effective ways to respond to the BRI and the outgrowth of Chinese "sharp power."
- The U.S. cannot compete directly with the BRI—and it does not have to. The U.S. should promote a new vision for regional connectivity with more transparency and better standards while shining a light on the BRI's risks and aiding friendly countries vulnerable to Chinese economic coercion.

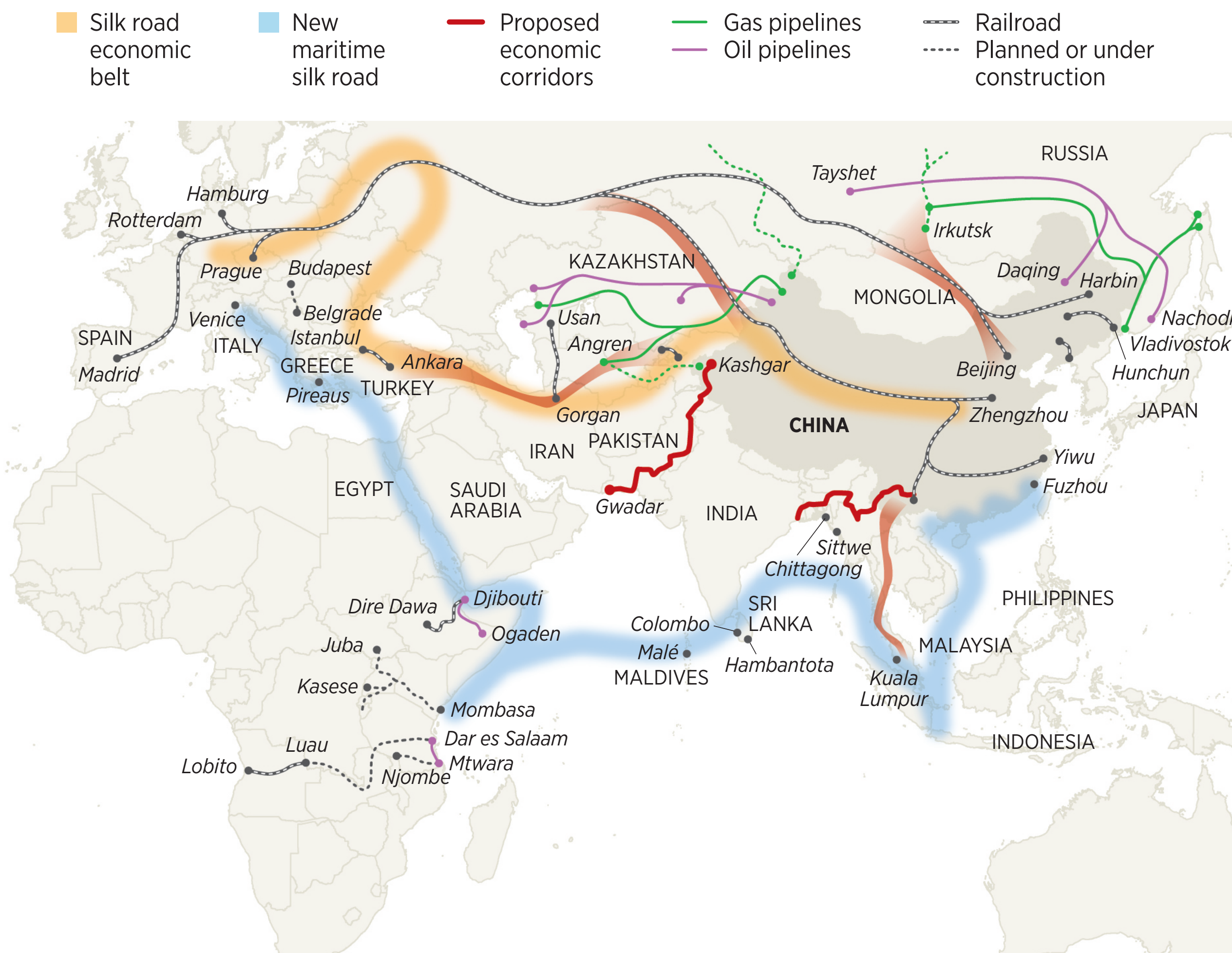
This paper, in its entirety, can be found at **http://report.heritage.org/bg3331**

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

MAP 1

China's Belt and Road Initiative

Through its Belt and Road Initiative (BRI), China endeavors to reshape the economic and geopolitical landscape of Eurasia and the Indian Ocean with an unprecedented wave of infrastructure investments. However, in America, Australia, Europe, and India, concerns about the BRI are growing.



SOURCES: "Reviving the Silk Road," Reuters, May 10, 2017, map, https://pictures.reuters.com/archive/CHINA-SILKROAD--C-ET1ED5A1MD43P.html (accessed July 3, 2018), and Heritage Foundation research.

BG3331 heritage.org

almost universally positive, with capitals across the Indo-Pacific rushing to endorse the initiative and attract new Chinese infrastructure investments. In mid-2017, however, this landscape began to shift as the U.S. joined India, then the lone critic of the BRI, in signaling major concerns about the Chinese initiative. Since then, Australia and several European countries have begun to voice their own reservations about the BRI.

This *Backgrounder* examines why these countries have changed their position on the BRI and attempts to contextualize the strategic challenges posed by the BRI and growing international opposition to the Chinese initiative.

Part I of this report offers a brief background on the BRI. Part II examines the motivations driving the Chinese initiative and the various economic and geopolitical interests it advances for Beijing. Part III explores in greater detail changing views and growing criticism of the BRI expressed by the democratic Quad—Australia, India, Japan, and the U.S.—and several European nations.

Part IV analyzes the layered challenges the BRI poses to participating nations and the rules-based order, including both direct macroeconomic consequences as well as unique strategic and geopolitical challenges. It also examines the emerging pushback against Chinese investments and "sharp power" more broadly. Part V reviews the efforts being undertaken by the U.S., Japan, India, and other countries to promote alternatives to the BRI. Part VI offers policy recommendations.

I. The Belt and Road Initiative

First unveiled by Chinese President Xi Jinping in two speeches delivered in Kazakhstan and Indonesia in September and October 2013, the BRI is a 21st-century geopolitical enigma.[1]

It took nearly two years for the full scope of the initiative to come into focus, but by 2015 it was clear that the BRI was not just another short-lived Chinese catchphrase (such as "Asia for the Asians," "New-Type Major Power Relations," or "Community of Common Destiny"). That year, Beijing released the first official BRI blueprint,[2] the initiative was incorporated into the government's 13th Five-Year Plan, a central leading small group (the highest-level policy coordination mechanism) dedicated to the BRI was established, and China's state-run development banks began devoting vast sums of resources to the initiative.

By mid-2016, President Xi claimed that 57 countries had become active participants in the BRI, with 30 of them formally signing BRI cooperation deals.[3] China further claimed to have established 75 overseas economic cooperation zones in 35 BRI countries.[4] The China Development Bank, meanwhile, says it is "tracking" more than 900 projects in 60 countries worth nearly $900 billion.

The BRI is arguably the most ambitious geostrategic initiative in contemporary history, yet China's own officials and experts have struggled to properly define its scope, motivations, and objectives. China's National Development and Reform Commission (NDRC) defines the BRI as a "systematic project" that "aims to promote the connectivity of Asian, European, and African continents and their adjacent seas." It claims the BRI will "set up all-dimensional, multi-tiered and composite connectivity networks, and realize diversified, independent, balanced and sustainable development in these countries."[5]

In practice, however, there is no official account of precisely which Chinese initiatives and investments fall within the BRI rubric and which do not. Pre-existing Chinese projects are often included in the BRI's portfolio while estimates of the number of projects, countries participating, and monetary value of the projects in question are in a state of constant flux. The BRI, argues scholar Nadege Rolland, "remains—arguably purposely—an amorphous and ambiguous construct that even some Chinese analysts admit having difficulty in grasping.... Many uncertainties linger about the initiative's actual content, its objectives, its feasibility, and even its reality."[6]

As a result, international observers have been left to define the BRI themselves, producing a diverse array of assessments. Feng Zhang of the Australian National University describes it as "literally China's economic diplomacy for half of the world, under one single policy framework."[7] Australian analyst Rory

1. While the Chinese-language phrase remains unchanged, Beijing began emphasizing BRI over OBOR after critics targeted the exclusive-sounding nature of OBOR.
2. The document is titled, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road."
3. Ministry of Foreign Affairs of the People's Republic of China, "Xi Jinping Highlights Positive Results of 'Belt and Road' Construction in Various Aspects When Delivering a Speech at Legislative Chamber of the Supreme Assembly of Uzbekistan," June 22, 2016, http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpdsrwyblwzbkstjxgsfwbcxshzzcygyslshdschy/t1375058.shtml (accessed February 23, 2018).
4. Lu Hui, "China's Outbound Direct Investment Surges in Jan.–April," Xinhua, May 16, 2016, http://www.xinhuanet.com/english/2016-05/16/c_135363299.htm (accessed February 23, 2018).
5. News release, "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road," National Development and Reform Commission (NDRC), People's Republic of China, March 28, 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html (accessed February 23, 2018).
6. Nadège Rolland, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative* (The National Bureau of Asian Research, May 2017), http://www.nbr.org/publications/issue.aspx?id=346 (accessed May 21, 2018).
7. Feng Zhang, "Beijing's Master Plan for the South China Sea," *Foreign Policy*, June 23, 2015, http://foreignpolicy.com/2015/06/23/south_china_sea_beijing_retreat_new_strategy/ (accessed May 21, 2018).

Medcalf sees the BRI as "the Indo-Pacific with Chinese characteristics."[8] Former Singaporean diplomat Bilhari Kausikan believes the BRI represents "Beijing's attempt to break out from the unfavorable geopolitical situation that surrounds it."[9] University of Texas-Austin Professor Dr. Joshua Eisenman warns that the BRI should be viewed as China's attempt to "create a new Sinocentric era of globalization using both traditional tools of Chinese statecraft as well as new types of economic incentives and debt financing arrangements."[10]

At its core the BRI—overseen by China's NDRC, Ministry of Foreign Affairs, and Ministry of Commerce—is a comprehensive and well-resourced Chinese strategic-economic initiative designed to create an expansive global connectivity network via several infrastructure mega-corridors. An overland Silk Road Economic Belt will link western China to Western Europe through the Eurasian supercontinent while a 21st Century Maritime Silk Road will cross the Indian Ocean connecting the Western Pacific to the Mediterranean Sea. Underpinning the dual corridors are an unprecedented wave of Chinese investments in "virtually all types of transportation infrastructure, including rail, roads, ports, airports, electricity generation, telecommunications and various other forms of connectivity."[11]

It is what lies beneath the surface, however, that has made the BRI such a topic of intense interest, scrutiny and, more recently, criticism. What are the strategic implications of this expansive connectivity network? Who benefits? What security risks do China's investments in sensitive infrastructure pose? How will the BRI amplify the growing global footprint of the Chinese military?

How will China's neighbors service the large amounts of new debt they are assuming? To what degree will China seek to translate this leverage into equity stakes in sensitive infrastructure? How will China's investments and loans affect existing development finance and multilateral lending standards and institutions? How does this advance China's ambitions for regional and global primacy? And what does this all mean for U.S. national security interests?

II. Motivations

One way to try to develop a more nuanced picture of the BRI is to ask: What is its purpose? Which Chinese economic and foreign policy objectives does it advance? Ironically, it may be more prudent to ask which Chinese interests are *not* served by the BRI. Indeed, the initiative manages to advance a wide array of complementary geostrategic and economic objectives for Beijing, from energy security to counterterrorism and from boosting Chinese exports to popularizing the Chinese currency.

Infrastructure. Infrastructure remains the bread and butter of the BRI and its raison d' être. Its stated purpose is the promotion of infrastructure development abroad via a network of new connectivity corridors that link the economies of neighboring countries to China's.

Motivated by estimates that Asia will require infrastructure investments exceeding $1.5 trillion annually for the next 12 years "to maintain growth momentum,"[12] the BRI ostensibly represents an effort to meet those needs at a time no other country or institution has demonstrated the will, capacity, expertise, or capital resources to do so.

This gap is arguably the principal reason why the BRI has—with a few important exceptions—received ringing endorsements across the Indo-Pacific. It also reflects the reality that China is not only filling a legitimate need, it has a legitimate competitive advantage in this space, with the raw materials, equipment, and expertise to excel at affordable infrastructure projects.

8. Rory Medcalf, "Goodbye Asia-Pacific. But Why the Sudden Buzz Over Indo-Pacific?" *South China Morning Post*, December 31, 2017, http://www.scmp.com/week-asia/geopolitics/article/2126210/goodbye-asia-pacific-why-sudden-buzz-over-indo-pacific (accessed June 15, 2018).

9. Bilahari Kausikan, "Bilahari Kausikan: America's Retreat from the World Is Greatly Exaggerated," *Nikkei Asian Review*, February 15, 2018, https://asia.nikkei.com/Politics/Bilahari-Kausikan-America-s-retreat-from-the-world-is-greatly-exaggerated (accessed May 21, 2018).

10. Joshua Eisenman, "Contextualizing China's Belt and Road Initiative," testimony before the U.S.–China Economic and Security Review Commission, U.S. Congress, January 19, 2018, https://www.uscc.gov/sites/default/files/Eisenman_USCC%20Testimony_20180119.pdf (accessed May 21, 2018).

11. Joshua Eisenman, "Contextualizing China's Belt and Road Initiative," testimony before the U.S.–China Economic and Security Review Commission, U.S. Congress, January 19, 2018, https://www.uscc.gov/sites/default/files/Eisenman_USCC%20Testimony_20180119.pdf (accessed May 21, 2018).

12. "Asia Infrastructure Needs Exceed $1.7 Trillion Per Year, Double Previous Estimates," The Asian Development Bank, February 28, 2017, https://www.adb.org/news/asia-infrastructure-needs-exceed-17-trillion-year-double-previous-estimates (accessed June 1, 2018).

Channeling Capital. When the liberalization of the Chinese economy began gaining momentum in the early 1990s, the country became a magnet for foreign direct investment (FDI), producing a massive capital account surplus. Far more capital was flowing into China than flowing out.

Since the mid-2000s, this landscape has begun to change. As government-imposed capital controls eased, Chinese investors, entrepreneurs, and state-owned enterprises grew wealthier and began looking abroad for greater returns as the stock of productive, low-hanging fruit in the Chinese economy shrank.

Between 2005 and 2015, Chinese outbound FDI grew by an average annual growth rate of 30 percent. In 2016, Chinese outbound FDI surged from $128 billion to $183 billion and for the first time in modern history, more capital flowed out of China than in (inbound FDI was $133 billion in 2016). The trend "was driven by greater incentives for corporations to diversify in the face of a slowing domestic economy, financial stress, and devaluation pressure on the Chinese currency."[13]

Concerned that it had lost control of this capital exodus, Beijing re-imposed some capital controls in 2016.[14] As one State Department official explained, this has only further elevated the importance of the BRI for Chinese state-owned enterprises as they race to apply BRI labels to their overseas investments in a bid to win support for their proposals from Beijing.

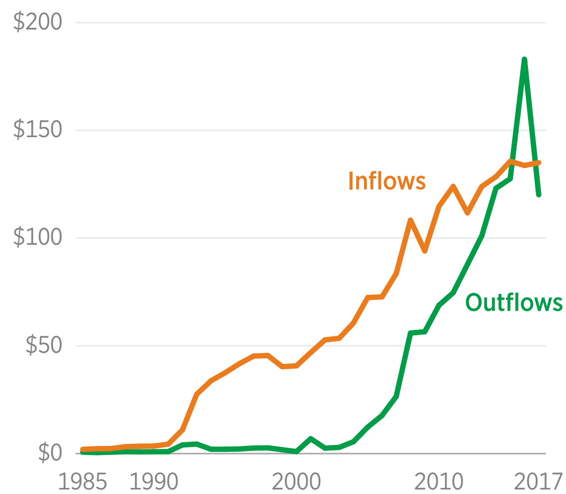
In part, the BRI can be seen as an attempt by Beijing to channel some of this outbound capital toward a strategic agenda that serves the broader interests of the Chinese economy and nation.

Exporting Surplus Capacity. Beijing's decision to enact a massive $600 billion stimulus package in the wake of the 2008 global financial crisis helped to produce a substantial increase in China's excess capacity as "officials shoveled money indiscriminately at state firms in infrastructure and heavy industry."[15] Today, China's *surplus* steelmaking capacity is greater than the entire steelmaking capacity of Japan, Germany, and the U.S. *combined*. As a result, the chairman of China's Development Bank has urged the country to "gradually migrate our low-end manufacturing to other countries and take pressure off industries that suffer from an excess capacity problem."

CHART 1

Chinese Foreign Direct Investment

IN BILLIONS OF DOLLARS



SOURCE: United Nations Conference on Trade and Development, http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en (accessed June 5, 2018).

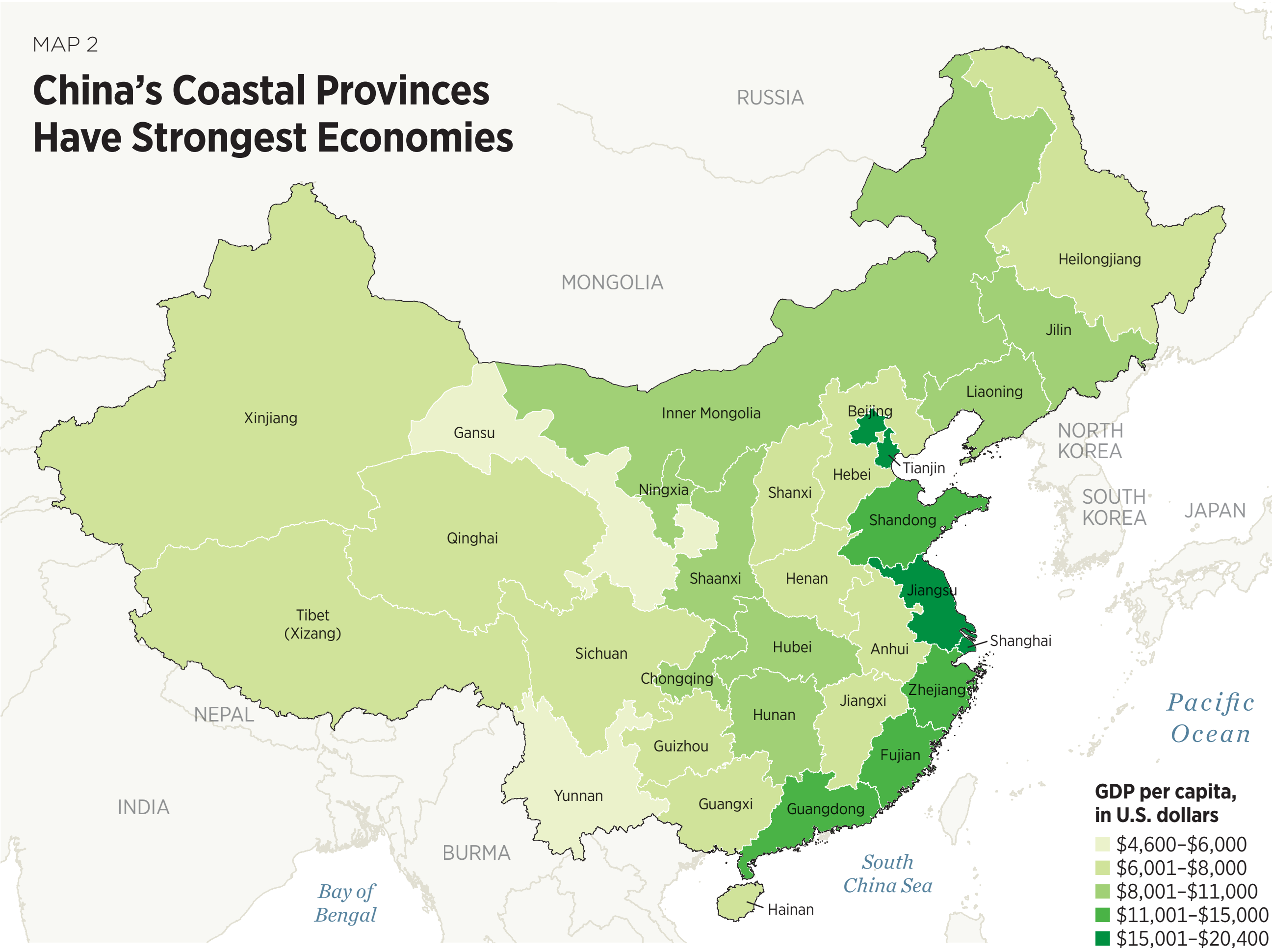
BG3331 heritage.org

As Peter Cai notes, the excess capacity problem "has become one of the top economic priorities for the Chinese Government. Beijing has described this issue as the sword of Damocles hanging over its head. Excess capacity will squeeze corporate profits, increase debt levels, and make the country's financial system more vulnerable." However, Cai contends that the BRI is less about boosting exports of excess *goods* than about moving excess *production capacity*—meaning factories—to neighboring countries.[16]

13. Thilo Hanemann and Mikko Huotari, "Record Flows and Growing Imbalances: Chinese Investment in Europe in 2016," Merics *Paper on China* No. 3, update, January 2017, https://www.merics.org/sites/default/files/2017-09/MPOC_3_COFDI_2017.pdf (accessed June 18, 2018).
14. Ibid.
15. "The March of the Zombies," *The Economist*, February 27, 2016, https://www.economist.com/business/2016/02/27/the-march-of-the-zombies (accessed May 21, 2018).
16. Peter Cai, "Understanding China's Belt and Road Initiative," Lowy Institute, March 2017, https://www.lowyinstitute.org/sites/default/files/documents/Understanding%20China%E2%80%99s%20Belt%20and%20Road%20Initiative_WEB_1.pdf (accessed May 21, 2018).

MAP 2

China's Coastal Provinces Have Strongest Economies



SOURCE: Salvatore Babones, "China Quietly Releases 2017 Provincial GDP Figures," *Forbes*, February 12, 2018, https://www.forbes.com/sites/salvatorebabones/2018/02/12/china-quietly-releases-2017-provincial-gdp-figures/#6ee3000020dc (accessed June 5, 2018).

BG3331 heritage.org

Exports and Economic Growth. The Chinese economy has been slowing down. After averaging 11 percent gross domestic product (GDP) growth from 2002 to 2008, growth has averaged closer to 7 percent in the eight years since. While boosting exports is not the principal goal of the BRI, China intends to increase the production and export of high-end Chinese manufactured goods in an attempt to move up the value chain. By boosting the economic fortunes of its immediate neighbors, Beijing hopes to create new export markets. Meanwhile, binding regional economies to the Chinese market via transportation corridors can give China's exporters a competitive advantage while reducing import costs.

Developing the West. The rapid growth witnessed by the Chinese economy over the past quarter-century has been unevenly distributed internally. The economic miracle that has transformed parts of China's east coast has not reached its more remote western provinces.

Since launching a "go west" strategy in 2000, Beijing has devoted substantial amounts of attention, investments, and subsidies to closing this gap,[17] including nearly $1 trillion in 300 major energy and infrastructure projects between 2000 and 2016.[18]

17. Wuu-Long Lin and Thomas P. Chen, "China's Widening Economic Disparities and Its 'Go West Program,'" *Journal of Contemporary China*, Vol. 13, No. 41 (2004), pp. 663–686, https://www.tandfonline.com/doi/abs/10.1080/1067056042000281422 (accessed June 1, 2018).

18. "New Five-Year Plan Brings Hope to China's West," Xinhua, December 27, 2016, http://english.gov.cn/premier/news/2016/12/27/content_281475526349906.htm (accessed June 1, 2018).

There is still a long way to go: China's 12 western provincial regions account for over 60 percent of its territory but still only 21 percent of its GDP.

Beijing hopes that the BRI will help to further close the gap with its prosperous east coast, promoting indigenous development by creating new trading routes through its western provinces while better integrating them with the economies of neighboring countries, which in some cases are more geographically proximate than the economic hubs on China's eastern seaboard. Meanwhile, as the BRI promotes economic development among the countries on China's western periphery, Beijing hopes that will generate a virtuous cycle, providing those provinces with new foreign markets and trading partners.

Countering Terrorism. Chinese officials have long contended that poverty and a lack of economic development are the principal causes of terrorism.[19] They believe that by developing the western province of Xinjiang, where China faces a low-level Islamist-separatist insurgency among its disaffected Uighur minority, China can simultaneously advance key economic and national security objectives. Additionally, by promoting economic growth along its western borders in Afghanistan, Pakistan, and Central Asia, Beijing hopes to diminish the threat of terrorism emanating from its unstable, poor, and war-torn neighbors.

Popularizing the Yuan. China's currency, the yuan, has gradually been growing in status as a global reserve currency. In 2012, it was the 13th-most-used international currency; by 2015 its ranking had improved to fourth. That year it was awarded the status of a "reserve currency" by the International Monetary Fund (IMF), and in 2016 it was incorporated into the IMF's basket of reserve currencies used for "special drawing rights."[20] Use of the yuan abroad has fallen since China imposed stricter capital controls in 2016, but the Bank of China has argued that the BRI will help make the Chinese currency more widely accepted abroad.

Energy Security. Since the mid-2000s, Chinese officials have privately and publicly anguished over their "Malacca dilemma." Some 80 percent of China's oil imports traverse the Indian Ocean and the naval chokepoint at the Strait of Malacca, ostensibly making them vulnerable to interdiction during wartime.[21] As a result, China's leadership has prioritized diversifying China's energy import sources and creating alternative land and sea transport corridors.[22]

The BRI helps to advance this agenda by providing alternate overland energy import chains through the Eurasian heartland and via new infrastructure corridors connecting China to ports in the Indian Ocean, such as Gwadar, via the China–Pakistan Economic Corridor (CPEC).

The BRI is not only diversifying China's import routes but providing direct access to new resources via investments in mines, oil and gas projects, and tracts of agricultural land abroad. In sum, the BRI is both adding new sources of energy imports and diversifying the ways in which those resources reach the Chinese economy.

Countering America's Regional Vision. The BRI was unveiled at a time when the U.S. was advancing its own economic vision for the region, the Trans-Pacific Partnership (TPP), and its own regional security strategy, the "pivot" or "re-balance" to Asia. Since then, the Trump Administration has articulated a Free and Open Indo-Pacific Strategy that many in Beijing see as a de facto containment strategy aimed at China. Some Chinese officials have described the BRI as a direct attempt to "counterbalance" these U.S. policies and advance Beijing's own China-centric vision for the region.[23]

The Digital Silk Road. The BRI is helping China not only to facilitate the collection and use of big data across participating countries, but also to export its model of online information control, surveillance, and censorship. Beijing has begun diffus-

19. "China Calls for Comprehensive Measures to Tackle Problem of Foreign Terrorist Fighters," *New China*, November 30, 2017, http://www.xinhuanet.com/english/2017-11/30/c_136788780.htm (accessed June 26, 2018).

20. Nathaniel Taplin, Ben Blanchar, and Neil Fullick, "China's Yuan Just Joined an Elite Club of International Monetary Fund Reserve Currencies," *Fortune*, October 2, 2016, http://fortune.com/2016/10/02/china-yuan-imf-currencies/ (accessed May 21, 2018).

21. China Power, "How Much Trade Transits the South China Sea?" Center for Strategic and International Studies, https://chinapower.csis.org/much-trade-transits-south-china-sea/ (accessed June 18, 2018).

22. Ian Storey, "China's Malacca Dilemma," *China Brief*, Vol. 6, No. 8, April 12, 2006, https://jamestown.org/program/chinas-malacca-dilemma/ (accessed June 1, 2018).

23. Cai, "Understanding China's Belt and Road Initiative."

ing its "technological approach to censoring social media and its Great Firewall, also known as the Golden Shield Project" to neighboring countries. As Valentin Webber notes:

> In Sri Lanka, Chinese representatives have provided counsel and support to local authorities on how to censor the internet. Chinese experts are reported to have installed surveillance and censorship equipment in Zambian networks. In Zimbabwe, Chinese gear was applied to jam independent broadcasts. In Ethiopia, ZTE and Huawei signed a contract worth $1.6 billion to develop that country's telecommunications system and both companies are suspected of providing technical assistance to monitor citizens. Huawei and ZTE have also helped build Russia's information controls, given that the country lacks some of the requisite technology to do so itself.[24]

Additionally, in the coming years, China plans to launch dozens of new satellites for its Beidou navigation system, which is controlled by the Chinese military, and extend coverage to many BRI countries.[25] More than 30 countries have already signed agreements to "embed Beidou domestically," according to *The Economist*.[26]

III. A Change of Heart

In the years following the announcement of the BRI, potential recipients of Chinese investments rushed to endorse President Xi's signature initiative and formally sign BRI cooperation deals. The premier Belt and Road Forum Beijing hosted in May 2017 featured 30 heads of state and participation from scholars, entrepreneurs, and media representatives of 130 countries. Ringing endorsements of the BRI were heard from Greece to Sri Lanka and from Malaysia to Kazakhstan.

A group of important outliers, including Japan, the U.S., and several European countries opted to withhold judgment or any formal endorsement of the BRI, offering little commentary on the initiative or highly conditional expressions of support. Outright opposition to the BRI fell instead to an unlikely source and old Chinese rival.

India Alone. In a break with its more deferential traditions toward China, India emerged early on as the lone vocal critic of the BRI. (Ironically, the Indian port of Kolkata continues to appear as an important waypoint on all BRI maps despite Delhi's recalcitrance).

Even as its neighbors moved to embrace the BRI, Delhi refused to send participation to China's 2017 Belt and Road Forum while publicly and privately airing a variety of concerns about the initiative. India's principal complaints relate to the CPEC, an over $60 billion infrastructure corridor unveiled in 2015 which traverses Indian-claimed territory in Kashmir. When Indian Prime Minister Narendra Modi visited Beijing that year he reportedly "very firmly" explained to President Xi that the CPEC is "not acceptable to us."[27]

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

Many in Delhi saw the BRI as a unilateral vision that China was attempting to impose on India in its own neighborhood. Former Foreign Secretary S. Jaishankar described it as a "national Chinese initiative," explaining: "The Chinese devised it, created a blueprint. It wasn't an international initiative they discussed with the whole world, with the countries that are interested or affected by it."[28]

The BRI was also unveiled at a time of elevated tensions in bilateral relations, with India feeling

24. Valentin Webber, "Why China's Internet Censorship Model Will Prevail Over Russia's," Council on Foreign Relations, December 12, 2017, https://www.cfr.org/blog/why-chinas-internet-censorship-model-will-prevail-over-russias (accessed May 21, 2018).
25. Geoff Wade, "China's 'One Belt, One Road' Initiative," Parliament of Australia, August 2016, https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook45p/ChinasRoad (accessed May 21, 2018).
26. Colby Smith, "A Digital Silk Road," *The Economist*, 2018, http://www.theworldin.com/article/14433/edition2018digital-silk-road (accessed May 21, 2018).
27. "China Defends Projects in PoK, Opposes India's Oil Exploration in South China Sea," *The Indian Express*, June 4, 2015, http://indianexpress.com/article/world/asia/china-justifies-projects-in-pok-objects-to-indias-oil-exploration-in-south-china-sea/ (accessed May 21, 2018).

increasingly encircled by China in its own backyard. The People's Liberation Army (PLA) Navy began regular patrols of the Indian Ocean in 2008, and Beijing has made substantial political and economic inroads into India's smaller South Asian neighbors like Nepal, Bhutan, the Maldives, and Sri Lanka since the mid-2000s. As reviewed later, India's skepticism of the BRI was also shaped by the experience of Sri Lanka, which is coping with a series of unintended strategic and economic consequences after welcoming several large-scale Chinese investments in ports and infrastructure.

Despite India's opposition, China has continued to try to persuade India to endorse the BRI. "We are patiently waiting for India to understand the significance of [BRI]," Chinese expert Wang Dehua explained in late 2017.[29] Yet, Delhi's position remains unchanged. In April 2018, a government spokesman explained: "No country can accept a project that ignores its core concerns on sovereignty and territorial integrity."[30] At the June 2018 Shangri La Dialogue, Prime Minister NarendraModi elaborated:

> There are many connectivity initiatives in the region. If these have to succeed, we must not only build infrastructure, we must also build bridges of trust. And for that, these initiatives must be based on respect for sovereignty and territorial integrity, consultation, good governance, transparency, viability and sustainability. They must empower nations, not place them under impossible debt burden. They must promote trade, not strategic competition.[31]

America Turns the Corner. When it assumed office in early 2017, the Trump Administration adopted the same ambivalent posture toward the BRI adopted by the Obama Administration. While refusing to endorse the Chinese initiative, the Trump Administration sent Matthew Pottinger, Senior Director for Asian Affairs at the National Security Council, to the 2017 Belt and Road Forum in Beijing.

However, signs of an American change of heart on the BRI began to emerge in June 2017. When President Trump hosted Prime Minister Modi for dinner at the White House that month, the joint statement promoted a vision for regional connectivity at odds with the BRI. The two leaders supported "bolstering regional economic connectivity through the *transparent* development of infrastructure and the use of *responsible debt financing* practices, while ensuring *respect for sovereignty* and *territorial integrity,* the *rule of law,* and the *environment*"[32] (emphasis added).

In October 2017, shortly after returning from a trip to India, U.S. Defense Secretary James Mattis signaled for the first time that the U.S. harbored serious concerns about the BRI. "In a globalized world, there are many belts and many roads, and no one nation should put itself into a position of dictating 'one belt, one road,'" he declared in testimony before the U.S. Senate. His reservations echoed those of his questioner, Senator Gary Peters (D–MI), who worried that the BRI represented a strategy "to secure China's control over both the continental and maritime interests, in their eventual hope of dominating Eurasia and exploiting natural resources there."[33]

28. Charu Sudan Kasturi, "India Wrinkle on China Silk—Jaishankar Speaks Out on Absence of Consultations," *The Telegraph India*, July 21, 2015, https://www.telegraphindia.com/1150721/jsp/frontpage/story_32798.jsp (accessed May 21, 2018).
29. Ananth Krishnan, "With OBOR Now in China Constitution, Rift with India Could Widen," *India Today*, October 24, 2017, https://www.indiatoday.in/world/story/with-obor-in-china-constitution-rift-with-india-could-widen-1070308-2017-10-24 (accessed May 21, 2018).
30. "India Will Not Accept a Project that Violates Its Sovereignty: MEA on China's OBOR," *The Economic Times*, April 5, 2018, https://economictimes.indiatimes.com/news/defence/india-will-not-accept-project-that-violates-its-sovereignty-mea-on-chinas-obor/articleshow/63632894.cms (accessed June 18, 2018).
31. Indian Ministry of External Affairs, "Prime Minister's Keynote Address at Shangri La Dialogue," Singapore, June 1, 2018, http://mea.gov.in/Speeches-Statements.htm?dtl/29943/Prime_Ministers_Keynote_Address_at_Shangri_La_Dialogue_June_01_2018 (accessed June 18, 2018).
32. The White House, "United States and India: Prosperity Through Partnership," *Foreign Policy Fact Sheet*, June 26, 2017, https://www.whitehouse.gov/briefings-statements/united-states-india-prosperity-partnership/ (accessed February 23, 2018).
33. "On OBOR, US Backs India, Says It Crosses 'Disputed' Territory: Jim Mattis," *The Economic Times*, October 4, 2017, http://www.economictimes.indiatimes.com/news/politics-and-nation/on-obor-us-backs-india-says-it-crosses-disputed-territory-jim-mattis/articleshow/60932827.cms (accessed May 21, 2018).

Within weeks, then–Secretary of State Rex Tillerson solidified America's shift on the BRI, echoing many of the concerns raised by India. BRI investments, he explained in an October 2017 speech,[34] were saddling countries "with enormous levels of debt." He continued:

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

In early 2018, then-head of U.S. Pacific Command Admiral Harry Harris deemed the BRI "a concerted, strategic endeavor by China to gain a foothold and displace the United States and our allies and partners in the region." He insisted that the initiative was putting China "in a position to influence [global] shipping routes" and putting "global chokepoints under pressure."[35]

Australia Has Second Thoughts. Australia initially approached the BRI with an open mind, sending Trade Minister Steven Ciobo to attend the Belt and Road Forum in May 2017. There he offered conditional support for the Chinese initiative, explaining: "Australia supports the *aims* of initiatives such as Belt and Road that improve infrastructure development and increase investment opportunities in the Asia-Pacific region."[36]

Yet, two months prior, Australia also signaled some reservations when Canberra declined Chinese offers to formally link the BRI with its Northern Australia Infrastructure Facility.[37] The government's 2017 Foreign Policy *White Paper* noted with concern that economic power was "being used for strategic ends."

Within days of U.S. Defense Secretary Mattis' October 2017 testimony criticizing the BRI, Frances Adamson, the Secretary of Australia's Department of Foreign Affairs and Trade (DFAT), revealed that Australia shared some of America's concerns: "Let's look at the financing arrangements, let's look at the governance arrangements because we know...infrastructure projects can come with very heavy price tags and the repayment of those loans can be absolutely crippling."[38]

Australian government officials were reportedly sharply divided over China's offers to join the BRI. As one senior government official told the Australian press: "We saw very little in additional economic benefit for signing up, but a lot of negative strategic consequences if we accepted Beijing's offer."[39]

In January 2018, Australia's minister for international development further elaborated on Australia's hesitations: "We just don't want to build a road that doesn't go anywhere. We want to ensure that the infrastructure that you do build is actually productive and is actually going to give some economic benefit or some sort of health benefit." She warned that the Pacific was growing "full of these useless buildings which nobody maintains, which are basically white elephants."[40] China's foreign ministry derided the statement as

34. Center for Strategic and International Studies, "Defining Our Relationship with India for the Next Century: An Address by U.S. Secretary of State Rex Tillerson," October 18, 2017, https://www.csis.org/analysis/defining-our-relationship-india-next-century-address-us-secretary-state-rex-tillerson (accessed June 18, 2018).
35. "All Global Chokepoints Under OBOR Pressure: Admiral Harris," *The Economic Times*, February 15, 2018, https://economictimes.indiatimes.com/news/defence/all-global-chokepoints-under-obor-pressure-admiral-harris/articleshow/62926472.cms (accessed May 21, 2018).
36. News release, "China's Belt and Road Forum," Minister for Trade, Tourism and Investment, The Hon Steven Ciobo MP, May 14, 2017, http://trademinister.gov.au/releases/Pages/2017/sc_mr_170514.aspx (accessed May 21, 2018).
37. Primrose Riordan, "Australian Officials Ignorant on China's Economic Policy-Report," *The Australian*, November 20, 2017, https://www.theaustralian.com.au/national-affairs/australian-officials-ignorant-on-chinas-economic-policy-report/news-story/4401fbf1dc93a5d334553454bdf6180b (accessed June 18, 2018).
38. Andrew Greene, "DFAT Boss Warns International Students to Resist Chinese Communist Party's 'Untoward' Influence," ABC News, October 9, 2017, www.abc.net.au/news/2017-10-09/universities-warned-to-resist-chinese-communist-party-influence/9030372 (accessed May 21, 2015).
39. Andrew Greene and Andrew Probyn, "One Belt, One Road: Australian 'Strategic' Concerns Over Beijing's Bid for Global Trade Dominance," ABC News, October 22, 2017, http://www.abc.net.au/news/2017-10-22/australian-concerns-over-beijing-one-belt-one-road-trade-bid/9074602 (accessed February 23,2018).
40. Catherine Graue and Stephen Dziedzic, "Federal Minister Concetta Fierravanti-Wells Accuses China of Funding 'Roads that Go Nowhere' in Pacific," ABC News (Australia), January 9, 2018, http://www.abc.net.au/news/2018-01-10/australia-hits-out-at-chinese-aid-to-pacific/9316732 (accessed June 25, 2018).

"full of ignorance and prejudice," encouraging the Australian minister to "engage in self-reflection."[41]

Japan Splits the Difference. Among the Quad, Japan has adopted a unique approach to the BRI: While it has not signed a formal BRI cooperation agreement or offered an unconditional endorsement, Japan has been the least vocal public critic and the most open to working collaboratively with Chinese firms on select BRI investments. At the same time, Japan has been the most active in working to provide alternatives to developing Indo-Pacific nations seeking financing and expertise for large-scale infrastructure projects.

After two years of relative silence on the BRI, Japan sent the Secretary General of the Liberal Democratic Party to the March 2017 Belt and Road Forum. Since mid-2017 Prime Minister Shinzo Abe has repeatedly signaled Japan's willingness to extend *conditional* cooperation with BRI. That June he declared that Japan would collaborate when the BRI was "in harmony with a free and fair trans-Pacific economic zone" and contributed to "peace and prosperity in the region and the world."[42]

Tokyo, Tobias Harris notes, is trying to "find ways for Japan to profit from the BRI and perhaps shape the initiative on the margins in a way more friendly to Japanese interests and values." He suggests Japanese public financial institutions will:

> provide financial support for Japanese corporations working on BRI projects, provided the projects satisfy certain conditions, including transparency, profitability, debt sustainability for the borrower, and no possibility that the infrastructure could be converted to military purposes.[43]

Yet, Harris also points to a May 2017 Reuters survey that found that 95 percent of Japanese firms "had no desire to participate in the BRI and no firms were currently considering participation in BRI projects."

Europe Joins the Fray. While European countries initially took a more favorable view of the BRI, as concern was mounting among the Quad in 2017, several European capitals began voicing their own reservations. In particular, European diplomats worried that China was pursuing a "divide-and-conquer" strategy on the continent by seeking to translate large-scale infrastructure investments in select eastern and southern European states into political influence in ways that undermine unity on China policy.

In June 2017, Greece, one of the largest recipients of Chinese investments on the continent, blocked a European Union declaration condemning China's human rights record months after Chinese entities assumed control of the Greek port of Piraeus, one of the world's largest. "If we do not develop a strategy in the face of China, it will succeed in dividing Europe," German Foreign Minister Sigmar Gabriel warned that August,[44] calling on Beijing to "respect the concept of 'one Europe'" the following month.

In January 2018, British Prime Minister Theresa May disappointed Chinese officials when she refused to endorse the BRI on a trip to Beijing amid "strenuous behind the scenes wrangling."[45]

At the Munich Security Conference the following month, French Prime Minister Edouard Philippe suggested that Europe "cannot leave the rules of the new Silk Road to China." The presentation offered by Germany's foreign minister was even more blunt. There, he declared:[46]

41. Mark Wembridge, "Australia Lashes Out at China's 'Useless' Pacific Projects," *Financial Times*, January 10, 2018, https://www.ft.com/content/9bd0cb6a-f5a6-11e7-8715-e94187b3017e (accessed May 21, 2018).
42. "Abe Offers Conditional Cooperation with China's Silk Road Initiative," *The Japanese Times*, June 5, 2017, https://www.japantimes.co.jp/news/2017/06/05/national/politics-diplomacy/abe-offers-conditional-cooperation-chinas-silk-road-initiative/#.Wo8PnqinGUk\ (accessed February 23, 2018).
43. Tobias Harris, "China's Belt and Road Initiative: Five Years Later Regional Reactions and Competing Visions," testimony before the U.S.–China Economic and Security Review Commission, U.S. Congress, January 25, 2018, https://www.uscc.gov/sites/default/files/Harris_USCC%20Testimony_20180118.pdf (accessed May 21, 2018).
44. "Europe Casts a Wary Eye on China's Silk Road Plans," *Financial Express*, January 7, 2018, https://www.financialexpress.com/world-news/europe-casts-a-wary-eye-on-chinas-silk-road-plans/1004944/ (accessed May 21, 2018).
45. George Parker, "May Resists Pressure to Endorse China's 'New Silk Road' Project," *Financial Times*, January 31, 2018, https://www.ft.com/content/3e79ae14-0681-11e8-9650-9c0ad2d7c5b5 (accessed June 18, 2018).
46. Nick Miller, "China Undermining Us 'with Sticks and Carrots': Outgoing German Minister," *The Sydney Morning Herald*, February 19, 2018, http://www.smh.com.au/world/china-undermining-us-with-sticks-and-carrots-outgoing-german-minister-20180218-p4z0s6.html (accessed February 23,2018).

> The initiative for a new Silk Road is not—as some in Germany believe—a sentimental reminder of Marco Polo. Rather, it stands for the attempt to establish a comprehensive system for shaping the world in Chinese interest.... It is no longer just about the economy: China is developing a comprehensive system alternative to the Western one, which, unlike our model, is not based on freedom, democracy and individual human rights.... [W]here the architecture of the liberal order crumbles, others will begin to move their pillars into the building. In the long term the entire building will change. I'm sure in the end neither Americans nor Europeans will feel comfortable in this building that is being rebuilt.

Within weeks, 27 of 28 EU Ambassadors (Hungary was the lone holdout) signed on to a report which claimed the BRI "runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies."[47] Finally, in a May 2018 speech in New Caledonia, President Emmanuel Macron accused China of "building its hegemony"—a "hegemony which will reduce our liberties, our opportunities [for] which we will suffer."[48]

To date, no major European country has signed a formal BRI memorandum of understanding (MoU), and many have outright rejected Chinese-proposed agreements. As one EU diplomat explained in private, "All of China's offers for BRI MoUs and agreements have failed to meet European standards for transparency and accountability. They simply insist on retaining too much control."

IV. Framing the Challenge

In less than one year, concerns about the BRI have coalesced among the democratic Quad and further afield. In the U.S. and Europe it is now commonplace to see the BRI discussed with a high degree of skepticism or defined in threatening strategic terms.

For the head of America's Indo-Pacific Command, Admiral Philip Davidson, the BRI now represents Beijing's bid to "shape a world aligned with its own authoritarian model while undermining international norms such as the free flow of commerce and ideas."[49]

Yet, while there is a common sense of anxiety over the BRI building internationally, concerned capitals have yet to adequately define and articulate the specific challenges that the BRI poses and the elements that pose the greatest challenges.

On the surface, China is providing infrastructure financing, material, and expertise to countries that desperately want and need it, in some cases with no other viable alternatives. Why, exactly, is this such a bad thing?

Direct Concerns.

Standards. The most basic and direct set of BRI concerns relates to the standards associated with Chinese infrastructure investments, or the lack thereof.[50] There is mounting evidence that suggests that Chinese firms frequently fail to meet the safety, quality-control, and environmental standards set by Western and other international infrastructure firms. Indeed, failure to meet international standards was one of the reasons cited by British Prime Minister Theresa May for why she declined to formally endorse the BRI.[51]

Of equal significance, the lending practices and standards of Chinese financial institutions involved in the BRI have come under heavy scrutiny in recent years. They have been accused of operating with little transparency and pursuing secretive deals the terms of which are not revealed to the public or are later revealed to have contained objectionable provisions. They have been further accused of failing to follow international best practices with regard to preventing corruption and nepotism.

In Sri Lanka, Chinese firms involved in the development of the Colombo and Hambantota ports were

47. Dana Heide, Till Hoppe, Stephan Scheuer, and Klaus Stratmann, "EU Ambassadors Band Together Against Silk Road," *Handelsblatt Global*, April 17, 2018, https://global.handelsblatt.com/politics/eu-ambassadors-beijing-china-silk-road-912258 (accessed May 21, 2018).
48. News release, "Macron Wants a Balance Against China in the Pacific," Radio New Zealand, May 7, 2018, https://www.radionz.co.nz/international/programmes/datelinepacific/audio/2018643812/macron-wants-a-balance-against-china-in-the-pacific (accessed May 21, 2018).
49. Bill Gertz, "US Admiral Outlines New Military Buildup to Counter China," *Asia Times*, April 24, 2018, http://www.atimes.com/article/us-admiral-outlines-new-military-buildup-to-counter-china/ (accessed May 21, 2018).
50. David Volodzko, "The Trouble with Chinese Mega Projects," *The Diplomat*, September 8, 2016, https://thediplomat.com/2016/09/the-trouble-with-chinese-mega-projects/ (accessed June 19, 2018).
51. Jonathan Hillman, "China Must Play Fair over BRI Contracts," *Nikkei Asian Review*, February 6, 2018, https://asia.nikkei.com/Politics/China-must-play-fair-over-BRI-contracts (accessed June 26, 2018).

accused of illegally funneling $200 million to the re-election campaign of President Mahinda Rajapaksa in 2015.[52] In the Maldives, Chinese firm CCCC won a $125 million bid to construct the country's first inter-island bridge "through a bidding process run not by the government of the Maldives, but by the PRC government."[53] In Bangladesh, Chinese firm CHEC was "blacklisted" for offering $60,000 in bribes to the country's communications secretary in 2018.[54] Its parent company, CCCC, was debarred by the World Bank for eight years over fraud and corruption in a Philippines road project.[55]

Part of the reason Chinese loans and investments have been more attractive to developing countries is because they tend to come with fewer "strings attached" than those from Western sources and international financial institutions. While imperfect, at their best, those "strings" have promoted pro-growth economic policies and higher standards while advancing human rights, transparency, and financial responsibility. There is growing concern that BRI is poised to undermine existing lending institutions and international standards, producing a "race to the bottom" with a wave of new infrastructure investments suffering from poor oversight and little accountability. There is also growing recognition that Chinese loans come with their own unique set of "strings," which carry their own unique set of costs and challenges.

The Beneficiaries. At its worst, the BRI can represent a one-way street: Participating nations assume large sums of Chinese debt and pay high rates of interest to Chinese financial institutions to compensate Chinese firms using Chinese materials and Chinese workers whose earnings are cycled back into the Chinese economy.

According to the Center for Strategic and International Studies, Chinese firms accounted for 89 percent of contractors used in Chinese-funded infrastructure projects with local companies comprising only 7.6 percent. Projects funded by multilateral development banks, by contrast, used over 40 percent local contractors.[56] As India's Ashok Malik argues:

> In [the BRI] model much of Chinese "investment" is actually a loan that the host nation has to repay. The bulk of Chinese money goes not to locals but is transferred from a state-owned Chinese bank or credit institution to a state-run or state-associated Chinese infrastructure company that executes the project using Chinese workers. Project costs are gold plated to account for both bribes for local elites…as well as to ensure windfall gains for the Chinese.[57]

Financial Risks. If much of the benefit of BRI projects goes to Chinese entities, the costs are being born by participating nations. According to a 2018 study by the Center for Global Development, 23 of the roughly 70 countries participating in the BRI are at "risk of debt distress," and in eight of those countries, "future BRI-related financing will significantly add to the risk of debt distress." The latter group includes Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan.[58] "Unlike the world's other leading government creditors," the study adds, "China has not signed on to a binding set of rules of the road when it comes to avoiding unsustainable lending and addressing debt problems when they arise."

52. Jeff M. Smith, "China and Sri Lanka: Between a Dream and a Nightmare," *The Diplomat*, November 18, 2016. https://thediplomat.com/2016/11/china-and-sri-lanka-between-a-dream-and-a-nightmare/ (accssed June 19, 2018).
53. Matt Schrader, "In a Fortnight: In Maldives Standoff, China Looks to Safeguard Growing Interests," The Jamestown Foundation, February 26, 2018, https://jamestown.org/program/fortnight-maldives-standoff-china-looks-safeguard-growing-interests/ (accessed May 21, 2018).
54. News release, "Bangladesh: Bangladesh Blacklists China Harbour Engineering for 'Bid to Bribe Secretary,'" *ethixbase*, January 17, 2018, https://ethixbase.com/eanews/bangladesh-bangladesh-blacklists-china-harbour-engineering-bid-bribe-secretary/ (accessed May 21, 2018).
55. News release, "World Bank Applies 2009 Debarment to China Communications Construction Company Limited for Fraud in Philippines Roads Project," World Bank, July 29, 2011, http://www.worldbank.org/en/news/press-release/2011/07/29/world-bank-applies-2009-debarment-to-china-communications-construction-company-limited-for-fraud-in-philippines-roads-project (accessed June 19, 2018).
56. Jonathan Hillman, "China's Belt and Road Initiative: Five Years Later," testimony before the U.S.–China Economic and Security Review Commission, U.S. Congress, January 25, 2018, https://www.uscc.gov/sites/default/files/Hillman_USCC%20Testimony_25Jan2018_FINAL.pdf (accessed May 21, 2018).
57. Ashok Malik, "What CPEC Means for South Asia," Observer Research Foundation, November 16, 2016, https://www.orfonline.org/research/what-cpec-means-for-south-asia/ (accessed June 19, 2018).
58. John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," Center for Global Development, March 4, 2018, https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf (accessed June 19, 2018).

In recent years there have been countless examples of governments—including those of Venezuela, Sri Lanka, and, increasingly, Pakistan—assuming large, potentially unsustainable levels of Chinese debt, often but not exclusively to finance BRI projects.

China has reportedly financed 80 percent of the $62 billion in debt that Pakistan has accumulated in recent years. The $6.7 billion railway China is funding in Laos is equivalent to half the country's GDP. By 2016, China reportedly owned 82 percent of Djibouti's foreign debt[59] and 55 percent of Kenya's foreign debt.[60]

A Chinese firm's plan to invest as much as $3.8 billion in a city-sized casino resort in Cambodia has produced a "sprawl of mostly empty hotel buildings, deserted beach bars and the unfinished shell of a casino on a remote part of the Cambodian coast." The project, which officially began in 2008 but was touted in the Chinese Ministry of Commerce's 2017 Belt and Road "yearbook" has reportedly caused "extensive environmental damage" and "the displacement of thousands of people."[61]

An expensive new Chinese-built railway in Kenya "carries less than 20% of the freight it needs to break even." The port China built for Sri Lanka at Hambantota was hemorrhaging so much money—"with almost no container traffic and trampled fences that elephants traverse with ease"—Colombo was forced to transfer the port to Chinese firms on a 99-year lease for debt relief.[62] The nearby airport China built for $270 million was servicing just 50 to 75 passengers a day in 2017.[63] In June 2018, Fly Dubai, the last air carrier operating at the airport, abruptly ended service there.[64]

These reports present obvious concerns about the health and sustainability of the BRI—both for participating countries and even for Beijing. Of the 68 nations formally participating in the BRI, 27 have "junk" financial ratings and another 14 do not have ratings at all.[65] Some experts warn that Beijing risks "losing hundreds of billions of dollars and creating a slew of disgruntled debtor neighbors with landscapes scarred by white elephant projects."[66] After all, China saw its foreign reserves "drop by more than 20 percent between 2014 and 2017 [and] cannot write off bad loans ad infinitum."[67]

Strategic Concerns. A second set of concerns springs from growing recognition of the strategic consequences and implications of the BRI. They are tied to more fundamental questions about the nature of China's economic statecraft and the more assertive geopolitical trajectory that China has charted since 2008. While they are not always a direct product of the BRI, these trends and concerns are being amplified by the Chinese initiative.

Debt Traps and Grand Strategy. Chinese firms are not alone in seeking to translate debt to equity when borrowing nations are unable to repay their loans.

However, unlike international and private commercial lenders, China seems to view—even encourage—debt-for-equity swaps as a tool to advance a narrow geopolitical agenda. China has eagerly taken ownership stakes in sensitive ports and infrastruc-

59. Ibid.
60. Yinka Adegoke, "Chinese Debt Doesn't Have to Be a Problem for African Countries," *Quartz*, May 13, 2018, https://qz.com/1276710/china-in-africa-chinese-debt-news-better-management-by-african-leaders/ (accessed May 21, 2018).
61. Brenda Goh and Prak Chan Thul, "In Cambodia, Stalled Chinese Casino Resort Embodies Silk Road Secrecy, Risks," Reuters, June 6, 2018, http://forex-south-africa.com/2018/06/in-cambodia-stalled-chinese-casino-resort-embodies-silk-road-secrecy-risks-by-reuters/ (accessed June 19, 2018).
62. Iain Marlow, "China's $1 Billion White Elephant," Bloomberg, April 17, 2018, https://www.bloomberg.com/news/articles/2018-04-17/china-s-1-billion-white-elephant-the-port-ships-don-t-use (accessed June 19, 2018).
63. "The Lavish Airport Pretty Much No One Uses," News.com.au, July 4, 2017, https://www.news.com.au/travel/world-travel/asia/the-lavish-airport-pretty-much-no-one-uses/news-story/c3e62865b750c68684faf319d55c32a3 (accessed June 19, 2018).
64. "No More Flights from Sri Lanka's Second Airport," *The Times of India*, June 8, 2018, https://timesofindia.indiatimes.com/world/south-asia/no-more-flights-from-sri-lankas-second-airport/articleshow/64510324.cms?utm_source=twitter.com&utm_medium=social&utm_campaign=TOIDesktop (accessed June 26, 2018).
65. Douglas Bulloch, "Why China's Looming Debt Problems Won't Stop At Its Borders," *Forbes*, May 31, 2018, https://www.forbes.com/sites/douglasbulloch/2018/05/31/while-china-is-facing-its-own-debt-crisis-it-is-also-exacerbating-others/#390aa813fc33 (accessed June 19, 2018), and "China's Silk Road Cuts Through Some of the World's Riskiest Countries," Bloomberg News, October 26, 2017, https://www.bloomberg.com/news/articles/2017-10-25/china-s-new-silk-road-runs-mostly-through-junk-rated-territory (accessed February 23, 2018).
66. Joshua Eisenman and Devin T. Stewart, "China's New Silk Road Is Getting Muddy," *Foreign Policy*, January 9, 2017, http://foreignpolicy.com/2017/01/09/chinas-new-silk-road-is-getting-muddy/ (accessed May 21, 2018).
67. Eisenman, "Contextualizing China's Belt and Road Initiative."

ture facilities when nations have found themselves unable to service their growing debt.

India's opposition to the BRI has been colored by developments in neighboring Sri Lanka, where the risks of Chinese debt traps—and the nexus between economics and geopolitics—have come into the sharpest focus.

Sri Lanka's relationship with China soared to new heights in the late 2000s under President Mahinda Rajapaksa (2005 to 2015). However, a wave of high-profile Chinese investments negotiated in secret in the Colombo and Hambantota ports in the late 2000s became mired in controversy. The abrupt appearance of Chinese submarines at Colombo in 2014, peculiarly timed to coincide with a visit to the country by Japanese Prime Minister Abe, only heightened scrutiny over China's investments. The submarine notably docked not at any of the berths designated for foreign military ships but at the Chinese-operated South Container Terminal, "in violation of protocol."[68]

A national election in 2015 saw Rajapaksa unseated by Maithripala Sirisena, whose government put a hold on China's involvement in the Colombo and Hambantota port projects to review the confidential deals. Among other objectionable provisions, it found that the contract for the Colombo Port City Project had secretly awarded China unrestricted ownership of 88 hectares of land while "the airspace over the Chinese-held area would be exclusively controlled by China."[69]

The Sirisena government attempted to cancel both deals but found itself so indebted to Chinese firms it reluctantly agreed to debt-for-equity swaps, allowing Chinese entities to assume greater stakes in the port projects in return for debt relief. When renegotiating the Hambantota port deal, the Sri Lankan government rejected nearly a dozen drafts proposed by the Chinese side due to unacceptable terms and provisions. The contract that was eventually signed ostensibly gave the Sri Lankan Port Authority control of the security and operations at the port. Yet, this author contends that through a convoluted share structure, Chinese entities will in fact remain majority shareholders in the organizations designed to manage the port's operations and security.

"China's strategists do not draw lines separating economic and security objectives," observes former Indian Foreign Secretary Shyam Saran. "Each dimension reinforces the other, even though the economic dimension may sometimes mask the security imperative."[70]

Militarizing the BRI. Over the past decade, China's conception of its security interests has spread beyond its immediate periphery, as has its military footprint. Until recently, Beijing was resolutely opposed to the very concept of stationing military forces abroad—an affront to its principal of "non-interference" in the affairs of others and a relic of imperial powers of past eras.

In recent years, the Chinese Communist Party has done a veritable U-turn on this subject. Since 2008, the Chinese military has begun regular naval patrols in the Indian Ocean, conducted its first overseas military evacuations, and opened its first overseas military base in Djibouti. In 2018, that base, initially billed as a "logistics supply facility," was accused of "blinding" U.S. aircraft operating nearby with lasers.[71]

"China's economic interests that require protection have increased rapidly overseas during the past decades," argues the *China Daily*. "In such a context, that the Chinese navy is going out is natural and something that Japan and others will have to get used to."[72]

Chinese officials have gradually come to link the BRI to this expanding conception of the country's "core" national security interests. In 2018, Chinese Defense Minister Wei Fendge reportedly told Paki-

68. News release, "Beijing's Nuclear Subs Coming Again, India Concerned," *The Sunday Times*, October 19, 2014, http://www.sundaytimes.lk/141019/news/beijings-nuclear-subs-coming-again-india-concerned-123254.html (accessed May 21, 2018).
69. Jeff M. Smith, "China and Sri Lanka: Between a Dream and a Nightmare," *The Diplomat*, November 18, 2016, https://thediplomat.com/2016/11/china-and-sri-lanka-between-a-dream-and-a-nightmare/ (accessed May 21, 2018).
70. Shyam Saran, "What China's One Belt and One Road Strategy Means for India, Asia and the World," *The Wire*, September 10, 2015, https://thewire.in/12532/what-chinas-one-belt-and-one-road-strategy-means-for-india-asia-and-the-world/ (accessed May 21, 2018).
71. Ankit Panda, "Possible Use of Bling Laser Weapon Near China's Djibouti Base Spurs US Warning to Aviators," *The Diplomat*, May 3, 2018, https://thediplomat.com/2018/05/possible-use-of-blinding-laser-weapon-near-chinas-djibouti-base-spurs-us-warning-to-aviators/ (accessed June 19, 2018).
72. "Of Course, China's Navy Is Not Untoward in Blue Water," *China Daily*, March 1, 2018, http://www.chinadaily.com.cn/a/201803/01/WS5a9801c4a3106e7dcc13ef7c.html (accessed May 21, 2018).

stan's Navy chief that China was "ready to provide security guarantees for the One Belt, One Road project."[73] Separately, General Qiao Liang from the PLA Air Force has argued that the Chinese military must "have the capacity to prepare for expeditions along the belt and road." He calls the BRI "a tremendous incentive for China's military reforms according to our national interests and needs."[74]

"The Chinese are playing the long game," explains U.S. Marine Corps Commander General Robert Neller, "everywhere I go, they're there.... [T]hey want to win without fighting."[75]

Chinese Sharp Power. In recent years, Beijing has begun to wield instruments of economic power in more overtly coercive, punitive, and intrusive ways to induce or enforce alignment with its foreign policy priorities—what some have begun referring to as "sharp power." China, U.S. Navy Secretary Richard Spencer contends, has begun "weaponizing capital."[76]

While this phenomenon predated, and is not necessarily linked to, the BRI, the two have nevertheless become directly intertwined as the BRI increasingly serves as an extension and source of China's power, influence, and economic leverage.

One of the early manifestations of this new trend could be found in China's decision to suspend diplomatic relations with Norway in 2010 after the Oslo-based Norwegian Nobel Committee granted its prestigious Nobel Peace Prize to the imprisoned Chinese democracy advocate Liu Xiaobo. Beijing immediately halted trade talks and diplomatic ties were sent into a deep freeze for six years until Norway agreed to a joint declaration pledging to respect China's sovereignty, territorial integrity, core interests, and major concerns.[77]

The same year, following a dispute with Japan over the arrest of a Chinese fishing captain operating near the disputed Senkaku islands, Beijing levied restrictions on the export of rare earth metals to Japan, over which it held a virtual monopoly. Two years later, Beijing restricted the import of Filipino bananas as tensions flared over territorial disputes in the South China Sea.

In 2016, China began to adopt these coercive sharp-power tactics with greater regularity. That year, China–Singapore ties were shaken when authorities in Hong Kong impounded nine Singaporean Terrex troop transport vehicles upon their return from a routine military training exercise in Taiwan. The move came at a time of elevated tensions in bilateral ties including over Singapore's support for a July 2016 U.N. Convention on the Law of the Sea tribunal ruling that, among other things, invalidated China's Nine Dash Line claim to nearly the entire South China Sea.[78]

In 2017, South Korea was subjected to a fiercely retributive campaign by Beijing in response to its decision to host a U.S. missile defense system, the Terminal High Altitude Area Defense (THAAD) platform. The Chinese government "restricted Korean pop culture imports, ordered Chinese travel agencies to halt sales of travel packages to South Korea, blocked importation of Korean cosmetics, and unleashed a series of unofficial economic sanctions."[79] Lotte, the South Korean retail supermarket that provided land to the federal government for the deployment of the THAAD system, saw over 80 percent of its 99 stores in China abruptly closed for "fire code violations."[80]

73. Frank O'Donnell, "China Deepens Militarization of One Belt, One Road Initiative," Belfer Center for Science and International Affairs, April 23, 2018, https://www.belfercenter.org/publication/china-deepens-militarization-one-belt-one-road-initiative/ (accessed May 21, 2018).
74. Nadège Rolland, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative* (The National Bureau of Asian Research, May 2017), http://www.nbr.org/publications/issue.aspx?id=346 (accessed May 21, 2018).
75. Christopher Woody, "China Is 'Weaponizing Capital'—and It's Keeping the Head of the US Navy Awake at Night," *Business Insider UK*, March 7, 2018, http://uk.businessinsider.com/china-weaponizing-capital-us-navy-chief-awake-at-night-2018-3?r=US&IR=T (accessed March 21, 2018).
76. Ibid.
77. Sewell Chan, "Norway and China Restore Ties, 6 Years After Nobel Prize Dispute," *The New York Times*, December 19, 2016, https://www.nytimes.com/2016/12/19/world/europe/china-norway-nobel-liu-xiaobo.html?_r=0 (accessed May 21, 2018).
78. "Singapore Sings for Return of Terrex Army Vehicles," BBC News, January 13, 2017, http://www.bbc.com/news/world-asia-38592060 (accessed May 21, 2018).
79. Kristian McGuire, "Dealing with Chinese Sanctions: South Korea and Taiwan," *The Diplomat*, May 12, 2017, https://thediplomat.com/2017/05/dealing-with-chinese-sanctions-south-korea-and-taiwan/ (accessed May 21, 2018).
80. Kenneth Tan, "80% of Lotte Supermarkets in China Have Been Forced to Shut Down in Wake of THAAD Backlash," *Shanghaiist*, May 5, 2018, http://shanghaiist.com/2017/03/21/lotte_closings-3/ (accessed May 21, 2018).

Seoul resisted Beijing's campaign of economic coercion, and China ended the crisis when South Korea offered a face-saving pledge. Seoul agreed that it would deploy no additional batteries, would not participate in U.S.-led strategic missile defense, and would not join a trilateral alliance with the U.S. and Japan.

The Trump Administration's 2017 National Security Strategy criticized China for "using economic inducements and penalties, influence operations, and implied military threats to persuade other states to heed its political and security agenda."[81] Similarly, the 2018 U.S. National Defense Strategy labeled China a "strategic competitor" that was "using predatory economics to intimidate its neighbors."[82]

An investigative report by *The Washington Post* that year underscored China's "industrial espionage, its demands for forced technology transfer, its use of Chinese state-run media to broadcast pro-Beijing propaganda in the U.S. and its attempts to influence U.S. educational institutions."[83]

Lately, the growing use of economic coercion has been paired with more overt Chinese interference in the domestic political affairs of its neighbors. In recent years, Australia has become embroiled in a contentious and highly public debate about Chinese influence operations inside the country. As Rory Medcalf contends, China is increasingly using "propaganda, political donations, and the mobilization of sub-groups within Australia's Chinese population to urge Canberra to support China's territorial claims in the South China Sea." Writing in the *Australian Financial Review*, he laments:[84]

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

In response, in late 2017, the government introduced a new bill targeting "intentional foreign interference" in Australia, one of the few countries that currently permits foreign donations to domestic politicians. The bill "will make it a crime for a person to engage in conduct on behalf of a foreign principal that will influence a political or government process (including opposition party policy) and is either covert or involves deception."[85]

In announcing the new legislation, Prime Minister Malcolm Turnbull explained: "Modern China was founded in 1949 with these words: 'The Chinese people have stood up.' It was an assertion of sovereignty, it was an assertion of pride. And…so we say, the Australian people stand up."[86]

Australia, China's Global Times retorted, is "one of those most actively making trouble against China, like a piece of chewing gum sticking to the sole of a Chinese shoe."[87]

The Building Backlash. Across the Indo-Pacific, investments in sensitive industries by Chinese state-

81. The White House, *National Security Strategy of the United States of America*, December 2017, https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf (accessed May 21, 2018).
82. U.S. Department of Defense, "Summary of the 2018 National Defense Strategy of the United States of America," 2018, https://www.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf (accessed June 26, 2018).
83. John Pomfret, "The Global Backlash Against China Is Growing," *The Washington Post*, December 19, 2017, https://www.washingtonpost.com/news/global-opinions/wp/2017/12/19/the-global-backlash-against-china-is-growing/?noredirect=on&utm_term=.7841e3773029 (accessed May 21, 2018).
84. "China's Influence in Australia Is Not Ordinary Soft Power," *Financial Review*, June 7, 2017, http://www.afr.com/opinion/columnists/chinas-influence-in-australia-is-not-ordinary-soft-power-20170606-gwli1m (accesed June 19, 2018).
85. "The Turnbull Government Has Unveiled New Laws Aimed at Protecting the Australian Political System from Any Foreign Meddling," SBS News, December 5, 2017, https://www.sbs.com.au/news/foreign-interference-in-politics-outlawed (accessed May 21, 2018).
86. Christopher Knaus and Tom Philips, "Turnbull Says Australia Will 'Stand Up' to China as Foreign Influence Row Heats Up," *The Guardian*, December 8, 2017, https://www.theguardian.com/australia-news/2017/dec/09/china-says-turnbulls-remarks-have-poisoned-the-atmosphere-of-relations (accessed May 21, 2018).
87. "Beijing Lashes Canberra in Diplomatic Row," *The Australian*, December 7, 2017, http://www.theaustralian.com.au/national-affairs/…/ee5f6342ec1ab0a2a5c6dd2c7258ef09 (accessed June 19, 2018).

owned entities with nebulous links to the Chinese government or military have begun to attract greater scrutiny and criticism. This trend accompanies an intensifying debate about the potential national security implications of Chinese investments and the shadowy nexus between economics, geopolitics, and grand strategy in Chinese foreign policy.

In recent years, select capitals have not only grown more vocal about their BRI-related concerns, they have demonstrated a greater willingness to: (1) intervene or veto Chinese proposals on national security grounds, (2) challenge China over unfair trading practices, and (3) create new mechanisms to restrict Chinese efforts to influence their domestic politics and internal affairs.

In Thailand proposals for Chinese infrastructure investments have been rejected over potential sovereignty violations. "We told the Chinese there is no granting of land rights [in infrastructure deals]. Thailand is not Laos," the country's transportation minister explained in 2016.[88]

In the first half of 2017, Delhi initiated more trade complaints against Beijing than any other capital.[89] In the second half of the year the Indian government intervened to stall what would have been China's largest-ever investment in the country, a bid by Shanghai Fosun to purchase an 86 percent stake in a major Indian pharmaceutical company for $1.3 billion.[90]

In 2017, this backlash even extended to Pakistan, arguably China's closest "all-weather friend," when Islamabad canceled a Chinese proposal to finance and construct the multibillion dollar Diamer-Bhasha Dam. China's financing conditions were "not doable and against our interests," explained a Pakistani minister, as they involved China taking ownership of the project.[91] Around the same time, Pakistan rejected a demand that the Chinese currency, the yuan, be used in the Gwadar Free Trade Zone.[92]

By mid-2018, eight Chinese energy projects in Pakistan were "facing financial crises due to non-payment of duties"[93] as Pakistan's growing debt burden has begun putting its economic health in jeopardy. Islamabad's external debt payments are expected to surge by 65 percent in fiscal year 2018–2019, from $7.7 billion the year prior to $12.7 billion. Meanwhile, Pakistan has been hemorrhaging foreign exchange reserves, which fell nearly 40 percent between June 2017 and June 2018, from $16.1 billion to $10 billion. This prompted Pakistani officials to seek another loan bailout package from China. According to the *Financial Times*:[94]

> Officials in Islamabad have warned their Chinese counterparts that if the lending dries up, it could threaten the future of [CPEC]…They say that if Pakistan is forced to approach the IMF instead, it may have to disclose details of how the scheme is being funded, and even cancel some of the infrastructure projects already planned.

In May 2018, former prime Minister Mahathir Mohammed made an unlikely return to power in Malaysia. He swiftly promised to review a handful of mega-infrastructure deals signed with China by his predecessor. "China had a long experience in dealing with unequal treaties and China resolved it by renegotiation," he explained. "So, we feel we are

88. Chris Anstey, Tony Jordan, and Chris Blake, "Xi's Silk Road Dream for China Hits a Speed-Bump in Thailand," Bloomberg, May 3, 2016, https://www.bloomberg.com/news/articles/2016-05-03/xi-s-silk-road-dream-for-china-hits-a-speed-bump-in-thailand?=supchina&utm_source=SupChina&utm_campaign=40c29f9f66-20160504newsletter&utm_medium=email&utm_term=0_caef3ab334-40c29f9f66-142791465 (accessed May 21, 2018).

89. Frank Tang, "Are China–India Trade Ties Turning Sour Amid Border Standoff?" *South China Morning Post*, July 25, 2017, http://www.scmp.com/news/china/economy/article/2103988/are-china-india-trade-ties-turning-sour-amid-border-standoff (accessed May 21, 2018).

90. "Govt Stops $1.3bn Chinese Bid for Gland Pharma," *The Times of India*, August 1, 2017, https://timesofindia.indiatimes.com/business/india-business/govt-stops-1-3bn-chinese-bid-for-gland-pharma/articleshow/59855811.cms (accessed May 21, 2018).

91. James Dorsey, "Disappeared Chinese Engineer Holds Ties with Pakistan Hostage," *South China Morning Post*, January 27, 2018, http://www.scmp.com/week-asia/geopolitics/article/2130795/disappeared-chinese-engineer-holds-ties-pakistan-hostage (accessed June 19, 2018).

92. Shahbaz Rana, "Pakistan Rejects Use of Chinese Currency," *The Express Tribune*, November 21, 2017, https://tribune.com.pk/story/1564050/2-pakistan-rejects-use-chinese-currency/ (accessed May 21, 2018).

93. *Business Recorder*, "China Citing a Shift in Policy for Better Progress in CPEC," CPECInfo.com, July 15, 2018, http://www.cpecinfo.com/news/china-citing-a-shift-in-policy-for-better-progress-in-cpec/NTU5Mg (accessed August 7, 2018).

94. Farhan Bokhari and Kiran Stacey, "Pakistan Seeks More Loans from China to Avert Currency Crisis," *Financial Times*, July 5, 2018, https://www.ft.com/content/1256ceaa-802c-11e8-bc55-50daf11b720d (accessed August 7, 2018).

entitled to study and, if necessary, renegotiate the terms."[95] Mahathir later complained he was against investments in which "the contract goes to China, and China contractors prefer to use their own workers from China, use everything imported from China, even the payment is not made here. It's made in China. So, we gain nothing at all."[96]

One month later the government in Myanmar signaled it was reviewing a $9 billion Chinese-backed deepwater port project "over concerns it is too expensive and could ultimately fall under Beijing's control if Myanmar were to default on its debt."[97]

In June 2018, Vietnam witnessed a rare bout of public protests to signal displeasure with the government's proposal to grant special economic zones to foreign firms with leases of up to 99 years. The proposal reportedly "stirred fear that it would undermine national security by giving China control over parts of Vietnamese territory."[98]

The West Pushing Back. In 2016, Australia's federal treasurer rejected a bid by the State Grid Corp of China to purchase Australia's largest electricity grid on "unspecified security grounds."[99] Separately, Australia banned giant Chinese firm Huawei from participating in the country's National Broadband Network and vetoed a proposal by Chinese firm Minmetals to purchase Australia's OzMinerals, given the proximity of one mine to a major Australian military aerospace facility.[100]

Though not formally a party to the BRI, Chinese FDI into the U.S. and European continent has surged over the past decade. China's total FDI in both countries totaled around $700 million each in 2008. In 2016, Chinese FDI into the EU and the U.S. topped $35 billion and $50 billion, respectively, before moderating in 2017.

At the urging of Germany, France, and Italy, in September 2017 the EU announced it would implement a framework for investment screening that would "scrutinize any foreign state-owned company's bid to buy a European harbor, part of its energy infrastructure or a defense technology firm."[101] That same month, the Trump Administration moved to block a Chinese-backed investor's attempt to purchase a U.S. semiconductor firm in "only the fourth time a [U.S.] president has stopped a foreign takeover in 27 years."[102]

In December 2017, the U.S. joined with Japan and the EU to forge an informal alliance designed to combat unfair Chinese trade practices at the World Trade Organization (WTO). They agreed to address "unfair market distorting and protectionist practices by third countries" in a thinly veiled reference to China.[103] The same month the U.N. General Assembly moved to table a resolution praising the BRI, as it had done a year earlier. This time Indian diplomats "took the lead in questioning the language." The provision was withdrawn when Beijing proved disin-

95. Ben Bland, "China's South-East Asia Push Threatened by New Malaysia Regime," *Financial Times*, May 15, 2018, https://www.ft.com/content/94906ad4-57eb-11e8-bdb7-f6677d2e1ce8 (accessed May 21, 2018).
96. Zuraidah Ibrahim and Bhavan Jaipragas, "Mahathir Mohamad Q&A: Malaysian PM on Beijing, Jack Ma and Why Battleships in the South China Sea Are a Bad Idea," *South China Morning Post*, June 20, 2018, https://www.scmp.com/week-asia/politics/article/2151394/mahathir-mohamad-qa-malaysian-pm-beijing-jack-ma-and-why (accessed August 7, 2018).
97. John Reed, "Myanmar Reviews $9bn China-Backed Port Project on Cost Concerns," *Financial Times*, June 3, 2018, https://asia.nikkei.com/Politics/International-Relations/Myanmar-reviews-9bn-China-backed-port-project-on-cost-concerns (accessed June 19, 2018).
98. Austin Ramzy, "American Is Detained After Joining Protest in Vietnam," *The New York Times*, June 14, 2018, https://www.nytimes.com/2018/06/14/world/asia/will-nguyen-vietnam-american-protest.html (accessed June 26, 2018).
99. "Australia's Biggest Electricity Grid Sold for $12.5 Billion After Blocked Chinese Bids," *Fortune*, October 20, 2016, http://fortune.com/2016/10/20/australias-biggest-electricity-grid-sold-for-12-5-billion-after-blocked-chinese-bids/ (accessed May 21, 2018).
100. Brendan Nicholson, "Military Ties to Darwin Port's Chinese Owner," *The Australian*, November 13, 2015, http://www.theaustralian.com.au/national-affairs/defence/military-ties-to-darwin-ports-chinese-owner-landbridge-group/news-story/760002593ca7edca6a3b9f2fbccba958?sv=d9f2c4dbcd5b882c9889723e5b8d6c1 (accessed May 21, 2018).
101. News release, "State of the Union 2017–Trade Package: European Commission Proposes Framework for Screening of Foreign Direct Investments," European Commission, September 14, 2017, http://europa.eu/rapid/press-release_IP-17-3183_en.htm (accessed February 23, 2018).
102. Bob Fredericks, "Trump Admin Blocks Chinese Buyer from Taking Over US Tech Firm," *New York Post*, September 13, 2017, https://nypost.com/2017/09/13/trump-admin-blocks-chinese-buyer-from-taking-over-us-tech-firm/ (accessed May 21, 2018).
103. News release, "Joint Statement by the United States, European Union and Japan at MC11," Office of the United States Trade Representative, December 2017, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/december/joint-statement-united-states (accessed May 21, 2018).

clined to "answer the many questions on transparency and environmental standards, or have to explain the intricacies of [BRI's] dicey finance mechanisms to well-informed UN representatives."[104]

One month later, U.S. telecom giant AT&T was abruptly forced to pull out of a proposed partnership with Chinese firm Huawei after the U.S. Senate and House Intelligence Committees raised security concerns.[105] Also in January 2018, the U.S. Committee on Foreign Investment in the United States (CFIUS) blocked the sale of money transfer firm Moneygram to a subsidiary of China's tech giant Alibaba.[106] Notably, the U.S. Congress has introduced bills to expand the "remit and resources" of CFIUS and strengthen its powers to vet and challenge proposals with national security implications.[107]

Meanwhile, the value of European FDI in China has been steadily declining since 2012. A survey in late 2017 showed that "for the first time in many years, more than half of [the members of the German Chamber of Commerce in China] were not planning investments in new locations in China. Nearly 13 percent of German firms operating in China said they could leave within the next two years."[108]

Commenting on this growing pushback, in May 2018 the U.K. envoy to China observed that China had perhaps grown too "overconfident." Beijing, she said, "underestimated the level of frustration that their state capitalist model was building up in different developed markets and in developing markets before that."[109]

V. The Quad Responds

With concerns about the BRI spreading, there seems to be consensus among several Indo-Pacific democracies on the need to become more actively involved in regional infrastructure and connectivity initiatives. The idea of promoting a new vision for regional connectivity that would serve as an alternative, if not competitor, to the BRI has been gaining currency in recent years.

Trilateral Cooperation. Since 2015, India, Japan, and the U.S. have begun discussing trilateral and multilateral efforts to promote infrastructure development in the Indo-Pacific. In September 2015, the three parties endorsed the creation of a new expert-level group to "identify collaborative efforts that can help strengthen regional connectivity" at a meeting of the India–Japan–U.S. trilateral dialogue.[110] This new Trilateral Infrastructure Working Group last met in Washington in February 2018.

In Tokyo the following November, Prime Ministers Modi and Abe proposed a new initiative "combining the human, financial and technological resources of the two countries to advance [regional infrastructure connectivity] including through Japanese [Overseas Development Aid] projects."[111]

Since then, Delhi and Tokyo have articulated and sought to merge new regional connectivity initiatives, including India's "Asia-Africa Growth Corridor" and Japan's "Expanded Partnership for Quality Infrastructure." In 2017, the two inaugurated a new India–Japan Act East Forum, joining India's East Policy Act with Japan's Free and Open Indo-Pacific Strategy.[112]

104. Seema Sirohi, "China Faces Pushback in the UN on Belt-Road Initiative, Retreats Quickly," *The Wire*, December 17, 2017, https://thewire.in/diplomacy/china-obor-belt-road-un-pushback (accessed May 21, 2018).

105. Wendy Wu, "Collapse of Huawei Deal with AT&T 'Will Threaten China–US Trade Ties,'" *South China Morning Post*, January 10, 2018, http://www.scmp.com/news/china/diplomacy-defence/article/2127528/collapse-huawei-deal-att-will-threaten-china-us-trade (accessed May 21, 2018).

106. Sylvan Lane, "US Blocks Sale of Moneygram to Chinese Firm," *The Hill*, January 3, 2018, http://thehill.com/policy/finance/367243-us-blocks-sale-of-moneygram-to-alibaba-subsidiary (accessed May 21, 2018).

107. Kate O'Keeffe, "Legislation to Curb Chinese Deals Moves Through Congress," *The Wall Street Journal*, May 17, 2018, https://www.wsj.com/articles/congressional-committees-set-to-advance-major-bill-to-curb-chinese-deals-1526571592 (accessed June 19, 2018).

108. Noah Barkin, "'Boiled Frog Syndrome': Germany's China Problem," Reuters, April 15, 2018, https://www.reuters.com/article/us-germany-china-insight/boiled-frog-syndrome-germanys-china-problem-idUSKBN1HM03J (accessed May 21, 2018).

109. Stuart Lau, "Xi Jinping Says 'China Can Come Out of Trade War in Better Shape than US,'" *South China Morning Post*, May 16, 2018, http://www.scmp.com/news/china/diplomacy-defence/article/2146334/xi-jinping-says-china-can-come-out-trade-war-better (accessed May 21, 2018).

110. Embassy of India in Washington, DC, "Inaugural U.S.–India–Japan Trilateral Ministerial Dialogue," September 29, 2015, https://www.indianembassy.org/archives_details.php?nid=2275 (accessed May 21, 2018).

111. Indian Ministry of External Affairs, "India–Japan Joint Statement During the Visit of Prime Minister to Japan," November 11, 2016, http://mea.gov.in/bilateral-documents.htm?dtl/27599/IndiaJapan_Joint_Statement_during_the_visit_of_Prime_Minister_to_Japan (accessed May 21, 2018).

112. Dipanjan Roy Chaudhury, "Shinzo Abe's Re-election Can Spell Big Gains for India–Japan Alliance," *Economic Times*, October 30, 2017, https://economictimes.indiatimes.com/news/defence/shinzo-abes-re-election-can-spell-big-gains-for-india-japan-alliance/articleshow/61328830.cms (accessed May 21, 2018).

For its part, the Trump Administration has argued for the creation of a development finance mechanism specifically designed to counter the negative effects of the BRI and Chinese economic coercion. It has also begun exploring ways to become more proactive in promoting regional infrastructure and connectivity initiatives in partnership with Japan.

In October 2017, then-Secretary of State Rex Tillerson revealed that the U.S. had begun "a quiet conversation" with America's partners about how to create alternative financing mechanisms that would offer a choice to countries eager for investment but wary of the terms and conditions attached to BRI projects.

That month, the U.S. Overseas Private Investment Corporation (OPIC) signed a Memorandum of Understanding with the Japan Bank for International Cooperation and Nippon Export and Investment Insurance to "offer high-quality United States-Japan infrastructure investment alternatives in the Indo-Pacific region."[113]

The following May, OPIC signed a separate MoU with the Association of European Development Finance Institutions, designed to promote collaboration on "sustainable investments" in developing countries and promote "democratic values, self-sustaining societies, and reinforcing best practices."[114]

Meanwhile, in late 2017, the U.S. and Japan launched a new Strategic Energy Partnership "to promote universal access to affordable and reliable energy" across the Indo-Pacific. Similarly, the U.S. Trade and Development Agency (USTDA) and Japan's Ministry of Economy, Trade, and Industry (METI) have reached an agreement to "help bring high-quality energy infrastructure solutions to the Indo-Pacific region." They hope to "demonstrate the high-quality value proposition that U.S. and Japanese companies excel at in infrastructure development."[115]

When Australia, India, Japan, and the U.S. revived their highly symbolic Quadrilateral Strategic Dialogue in November 2017, the four sides reportedly discussed the need to promote a new vision for regional infrastructure as well as the need to further support the Asian Development Bank and the World Bank to boost lending for infrastructure projects in the region.[116]

Finally, in May 2018, the U.S.–India Business Council and U.S.–Japan Business Council jointly launched a new private-sector initiative, the Indo-Pacific Infrastructure Trilateral Forum. The Forum is designed to gather private-sector companies from the three democracies to improve coordination on infrastructure development abroad. It will "promote market-based economics, support good governance and liberty and insulate sovereign nations from external coercion" as well as "help support quality, best value, and sustainable infrastructure development in the Indo-Pacific region."[117]

Japan's ODA. Notably, Japan has been active wielding large sums of Overseas Development Assistance (ODA) to fund infrastructure projects through the Indo-Pacific for decades. Indeed, Japan is already the dominant player in regional infrastructure investment although China is gradually closing the gap. Since the turn of the millennium, Japan's infrastructure investments in Southeast Asia totaled $230 billion as compared to China's $155 billion, according to Singapore-based BMI Research.[118]

113. The White House, "President Donald J. Trump's Visit to Japan Strengthens the United States-Japan Alliance and Economic Partnership," Foreign Policy *Fact Sheet*, November 6, 2017, https://www.whitehouse.gov/briefings-statements/president-donald-j-trumps-visit-japan-strengthens-united-states-japan-alliance-economic-partnership/ (accessed May 21, 2018).

114. News release, "OPIC Signs Commitment with European Development Finance Insititutions to Support Development and Private Sector Growth," Overseas Private Investment Corporation, May 24, 2018, https://www.opic.gov/press-releases/2018/opic-signs-commitment-european-development-finance-institutions-support-development-and-private-sector (accessed June 26, 2018).

115. News release, "USTDA Partners with Japan's Ministry of Economy, Trade and Development to Support Quality Infrastructure," U.S. Trade and Development Agency, November 6, 2017, https://www.ustda.gov/news/press-releases/2017/ustda-partners-japan%E2%80%99s-ministry-economy-trade-and-industry-support-quality (accessed June 26, 2018).

116. Angus Grigg and Lisa Murray, "Australia Seeks to Curb China's Infrastructure Influence," *Financial Review*, December 3, 2017, http://www.afr.com/business/infrastructure/australia-seeks-to-curb-chinas-infrastructure-influence-20171203-gzxlsy?btis (accessed May 21, 2018).

117. "Private Sectors of India, US and Japan Have Key Role in Development of Indo–Pacific: Official," Share Trips Info, May 17, 2018, https://www.sharetipsinfo.com/blog/post/private-sectors-of-india-us-and-japan-have-key-role-in-development-of-indo-pacific-official (accessed May 21, 2018).

118. "Japan Still Beating China in Southeast Asia Infrastructure Race," *The Japan Times*, February 9, 2018, https://www.japantimes.co.jp/news/2018/02/09/business/japan-still-beating-china-southeast-asia-infrastructure-race/#.WwMtFtMvz-b (accessed May 21, 2018).

In 2015, Japan announced a "Partnership for Quality Infrastructure" promising to spend $110 billion in the region over five years through its ODA and the Asian Development Bank. In 2016, Tokyo nearly doubled that sum and promised to "sharply reduce the time required to secure a yen-denominated international loan, explore euro-denominated lending, and increase NEXI's insurance coverage for overseas projects to 100%." Japan also dropped a demand for payment guarantees from recipient governments.[119]

As Andrew Small notes, in 2017 "China lost out on the opportunity to develop [Bangladesh's] first deep-water port after political pressure from India and the United States, and an attractive financial offer from Tokyo—whose development agency, JICA, issued its largest-ever loan—saw a Japanese alternative selected instead."[120]

Meanwhile, Tokyo has become more active pitching development projects in Central Asia,[121] and in 2016 Abe pledged $30 billion in public and private support for infrastructure projects in Africa.[122] Finally, in 2018 Abe requested a 10 percent increase for Japan's $6.4 billion annual ODA budget, specifically earmarked for financing infrastructure projects in the Indo-Pacific.[123]

In mid-2018, Australia took a page from Japan's playbook when it undercut a bid by Chinese telecom giant Huawei to fund and construct new undersea Internet cables for the Solomon Islands.[124]

A New Vision for Connectivity. In recent years, America, India, Japan, and several European countries have begun to articulate a coherent narrative not just about the costs and consequences of the BRI, but about the principles that *should* govern regional connectivity projects. They include:

- Transparency,
- High quality and high standards,
- Consultative and inclusive infrastructure,
- Responsible and sustainable lending and debt financing,
- Good governance and zero tolerance for corruption,
- The rule of law, and
- Respect for sovereignty and autonomy.

In speeches and public policy documents, these countries have repeatedly emphasized the importance of high-quality, transparent, sustainable infrastructure and development finance programs. "With American companies, citizens around the world know that what you see is what you get: honest contracts, honest terms, and no need for off-the-books mischief," Secretary of State Mike Pompeo explained in a July 30, 2018 speech to the U.S. Chamber of Commerce.[125]

At the same time, the U.S. and partner nations have begun drawing attention to the neo-colonialist characteristics of the BRI, cutting to the core of some regional concerns about the Chinese initiative. Many Indo–Pacific capitals have proven averse to challenging Beijing directly or being seen as "taking sides" between China and the U.S. Yet, they are increasingly sensitive to the risks of ceding their sovereignty and autonomy to Beijing or entering into a partnership characterized by strategic dependency or debt traps.

119. Ben Bland, "Japan and China Step Up Fight for Asean Infrastructure Contracts," *Financial Times*, November 22, 2015, https://www.ft.com/content/f20f9fec-90f4-11e5-bd82-c1fb87bef7af (accessed May 21, 2018).
120. Andrew Small, "The Belt and Road Initiative in South Asia," testimony before the U.S.–China Economic and Security Review Commission, U.S. Congress, January 26, 2017, https://www.uscc.gov/sites/default/files/Small_USCC%20Testimony.pdf (accessed May 21, 2018).
121. Samuel Ramani, "Japan's Strategy for Central Asia," *The Diplomat*, July 30, 2015, https://thediplomat.com/2015/07/japans-strategy-for-central-asia/ (accessed May 21, 2018).
122. Yun sun, "Rising Sino–Japanese Competition in Africa," Brookings, August 31, 2016, https://www.brookings.edu/blog/africa-in-focus/2016/08/31/rising-sino-japanese-competition-in-africa/ (accessed May 21, 2018).
123. "Japan's Aid Spending Pales to What China Is Doing," *Nikkei Asian Review*, September 2, 2017, https://asia.nikkei.com/Politics-Economy/International-Relations/Japan-s-aid-spending-pales-to-what-China-is-doing?page=2 (accessed May 21, 2018).
124. Sarah Elzas, "Australia Flexes Muscles Against China in Solomon Island Undersea Cable Deal," RFI, June 14, 2018, http://en.rfi.fr/20180614-Australia-flexes-muscles-against-China-Solomon-Island-undersea-cable-deal (accesed June 26, 2018).
125. Michael R. Pompeo, "Remarks on 'America's Indo-Pacific Economic Vision,'" U.S. Chamber of Commerce, July 30, 2018, https://www.state.gov/secretary/remarks/2018/07/284722.htm (accessed August 7, 2018).

In recent years, governing parties have been subject to greater scrutiny when they are perceived as getting too close, or too indebted, to Beijing. The phenomenon has already become a significant political issue in Malaysia, Sri Lanka, Myanmar, and some African countries.

Recognizing this emerging fault line, French President Emmanuel Macron surprised a Beijing audience in January 2018, when, in an otherwise positive speech, he declared: "The ancient Silk Roads were never only Chinese." "These roads," he warned, "cannot be those of a new hegemony, which would transform those they cross into vassals."[126] Two months earlier, at a speech in Vietnam, President Trump implored regional states to choose a future of "wealth and freedom over poverty and servitude."[127]

In June 2018, U.S. Defense Secretary James Mattis warned that China was "harboring long-term designs to rewrite the existing global order," warning: "The Ming Dynasty appears to be their model, albeit in a more muscular manner, demanding other nations become tribute states kowtowing to Beijing."[128] America, Secretary Pompeo declared in his July speech, "honors local autonomy and national sovereignty" and "seeks partnership, not domination." He added:

> We believe in strategic partnerships, not strategic dependency.... Like so many of our Asian allies and friends, our country fought for its own independence from an empire that expected deference. We thus have never and will never seek domination in the Indo–Pacific, and we will oppose any country that does.[129]

VI: Policy Recommendations

In order to mitigate the challenges that the BRI poses to U.S. interests and its vision for a Free and Open Indo-Pacific, the U.S. government should:

- **Coordinate interagency efforts.** The Trump Administration should consider establishing a central coordinating office within the White House's National Security Council to lead and guide interagency efforts to analyze and respond to the BRI.

- **Produce an annual report on China's Belt and Road Initiative and its strategic implications and consequences.** The Defense Department's annual report on Chinese military power could serve as a potential template but the report could also be tasked to the U.S.–China Economic Security and Review Commission (USCC). The USCC's annual report on China has begun to include a regular section on the BRI but the scope and significance of the initiative merits a separate, dedicated report.

- **Create a database of BRI investments.** The U.S. government should create, or support the creation of, a simple, color-coded user interface map designed to track, document, and archive BRI projects. It could be done as part of the above report or a complementary initiative, potentially in partnership with a U.S.-based research think tank.

- **Consolidate existing connectivity visions and initiatives.** Among the Quad there are several overlapping connectivity and infrastructure initiatives and forums currently underway.[130] The Quad would be well-served by consolidating and unifying these visions and initiatives under the banner of the Trump Administration's Free and Open Indo-Pacific Strategy in ways that play to the relative strengths of the group's members. The U.S. government should encourage collaboration with sympathetic external partners, particularly those European capitals increasingly invested in

126. Michel Rose, "China's New 'Silk Road' Cannot Be One Way, France's Macron Says," Reuters, January 8, 2018, https://www.reuters.com/article/us-china-france/chinas-new-silk-road-cannot-be-one-way-frances-macron-says-idUSKBN1EX0FU (accessed May 21, 2018).

127. The White House, "Remarks by President Trump at APEC CEO Summit, Da Nang, Vietnam," November 10, 2017, https://www.whitehouse.gov/briefings-statements/remarks-president-trump-apec-ceo-summit-da-nang-vietnam (accessed August 7, 2018).

128. Ellen Mitchell, "US Must 'Remain Vigilant' Toward Countries Pursuing Nukes," *The Hill*, June 15, 2018. http://thehill.com/policy/defense/392519-mattis-us-must-remain-vigilant-toward-countries-pursuing-nukes (accessed August 7, 2018).

129. Pompeo, "Remarks on 'America's Indo-Pacific Economic Vision.'"

130. These include India's Project Mausam and its Security and Growth for All in the Region (SAGAR), Japan's Partnership for Quality Infrastructure, and the Indo–Japanese Asia–Africa Growth Corridor (AAGC). Meanwhile, existing forums for promoting connectivity cooperation include the Quadrilateral Security Dialogue, the India–Japan–U.S. Trilateral Infrastructure Working Group, the India–Japan Act East Forum, and the private sector–led Indo–Pacific Infrastructure Trilateral Forum.

this issue. Ideally, the U.S. and its partners would pool resources, capabilities, and expertise to promote high-standards infrastructure development in the region.

- **Promote transparency.** The U.S. government and like-minded partners must devote more attention and resources to promoting transparency in connectivity projects across the Indo-Pacific. This includes not only helping countries to evaluate proposals using professional standards but also educating public and key interest groups about the full scope of monetary and non-monetary costs that can accompany BRI investments, including full life-cycle costs and debt risks, among others. There have been several high-profile cases of Chinese firms signing secretive deals that are later revealed to carry highly objectionable provisions. Helping participating nations to evaluate proposals using professional standards, publicize the terms of the deal, and educate them about potential alternatives is a service that the U.S. government and partner nations have the capability and expertise to provide at a reasonable cost.

- **Create a new "gold standard" for connectivity and infrastructure.** This standard would have specific metrics designed to ensure transparency, accountability, and financial responsibility. The U.S. government would develop this standard and promote its use through international forums. It could be modeled in part on the work done by the Extractive Industries Transparency Initiative (EITI), "a global standard for the good governance of oil, gas and mineral resources." Ideally, key domestic interest groups and political parties in developing nations would begin to demand that any deal exceeding a certain value would require certification of this professional standard.

- **Improve and adapt existing lending institutions.** The U.S. government and like-minded partners should evaluate the current standards and practices of the IMF and World Bank and, through a comprehensive review, consider how best to amend and update them in light of the changing international environment for development finance.

- **Make the BRI an explicit and regular topic of discussion in bilateral and multilateral strategic dialogues.** When leaders and senior officials of the U.S. meet with their counterparts, they should ensure that the BRI is a high-priority topic for discussion. This includes meetings at the Quadrilateral Dialogue, the overlapping trilateral dialogues the U.S. enjoys with other members of the Quad, and key bilateral dialogues, including with European member states. The U.S. government should also consider convening new BRI-dedicated working groups with its partners and allies as well as a new multilateral dialogue or forum on the "rules of the road" for connectivity in the 21st century.

- **Set priorities.** The U.S. government must not only make clearer which aspects of the BRI present challenges and concerns but internally prioritize which concerns and—critically—which countries and projects have the greatest impact on U.S. national security interests.

- **Educate the workforce.** The U.S. government should create new workforce education programs for relevant government employees and foreign service officers providing resources on the BRI's strategic scope and consequences, including encouraging new courses at government-affiliated research and educational institutes. In collaboration with non-government research institutes, Washington also must do a better job educating the American public about the nature and strategic implications of the BRI.

- **Connect the dots.** China's opaque model of state capitalism often obscures the nebulous connections between contractors, companies, state-owned enterprises, the Chinese military, and the Communist Party. Decoding these complex structures and networks of front groups is critical to understanding the strategic implications of proposed Chinese investments and projects. Notably, the EU has established a new commission to screen investments, not at the level of individual proposals, but the larger *patterns* and *structures* of investment. A similar body established by the U.S. government could help to uncover potential connections between diverse Chinese investments and the country's broader strategic ambitions.

Looking Ahead

It has featured so prominently in the headlines that it is easy to forget that the BRI is still a very new phenomenon. Its scope and ambition only began to reveal themselves in 2015. Its intentionally amorphous and secretive nature has ensured that the strategic implications are only now being properly understood and analyzed. As they have come into sharper focus, the BRI has begun to generate more direct opposition among the Quad and Europe, and increasingly pointed questions and concerns from developing nations and international institutions.

America does not have the political will, government structure, or resources to compete directly with the BRI—and it does not need to. The roads China are paving through Eurasia and the Indo-Pacific are fraught with obstacles. Chinese state-owned enterprises have lost billions of dollars pouring money into white elephant projects. They have begun to alienate capitals and interest groups across the Indo-Pacific, generating a backlash that could one day resemble the anti-colonialist sentiments that swept the developing world in prior centuries.

Yet, it is also undeniable that China is accumulating substantial—at times decisive—financial and political leverage across the geopolitical map, acquiring new stakes in key ports, new political allies, new resupply points for the PLA Navy, and new destinations to export elements of its authoritarian model and censorship regime. Even if the BRI fails to meet its lofty ambitions or ends up generating as much resentment as fealty, it is extending China's reach and altering the geopolitical balance of the Indo-Pacific in the process.

The answer is not for America to create its own New Silk Road but for Washington to help establish and enforce new rules of the road; promote better standards, transparency, and a new vision for regional connectivity; shine a light on the risks and consequences of the BRI where necessary; aid friendly countries subject to Chinese economic coercion; and assist like-minded partners and institutions in providing alternatives to those seeking infrastructure investments without the strategic baggage that accompanies BRI investments.

*—**Jeff M. Smith** is Research Fellow in the Asian Studies Center, of the Shelby and Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.*