

# THE 21ST CENTURY SILK ROAD: PERILS AND OPPORTUNITIES OF CHINA'S BELT AND ROAD INITIATIVE

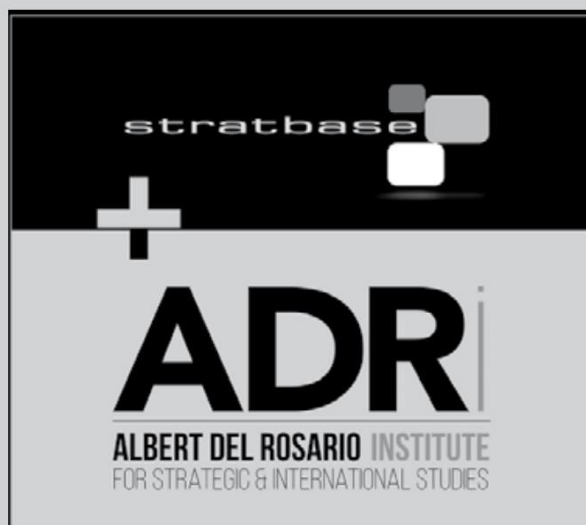
RICHARD JAVAD HEYDARIAN





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# EXECUTIVE SUMMARY

In the 21<sup>st</sup> century, infrastructure development has become the new pivot of geopolitics. Power and influence is no longer measured by the military prowess or economic size alone, but also the ability of international actors to provide the necessary capital and technology for overhauling decaying or underdeveloped public infrastructure around the world. On May 14, 2017, Beijing launched the Belt and Road Initiative (BRI), previously known as One Road, One Belt (OBOR). During the summit of global leaders, President Xi Jinping opened up the mega-event as the keynote speaker before leaders from as many as 28 nations, who were more than eager to tap into Chinese infrastructure development largesse. At its very core, the event served as the chief register for China's new role in the international economic system and, more personally, Xi's emergence as a global leader. And the timing couldn't be any more perfect, given America's abrupt withdrawal from its historical role as the anchor of the global free trade regime. Through the BRI, which Xi has dubbed as "the project of the century", not only does China reiterate its commitment to globalization, but it also places the Asian powerhouse in the position to shape the post-American international economic order.

Over the coming decade, China is expected to invest up to \$5 trillion in transcontinental infrastructure projects, which will connect the country's industrial heartland to the world's largest consumer markets in Western Europe. The BRI's seven objectives fall under two themes: internal economic rebalancing and expansion of strategic presence across resource-rich and geographically important nations. Specifically, the objectives are: (I) Facilitating China's long-term plans of developing landlocked hinterlands and underdeveloped regions; (II) Outsourcing internal productive glut and infrastructure overcapacity amid slowdown in global demand for its exports; (III) Assisting and promoting troubled State-Owned Enterprises (SOEs), which employ tens of millions of workers, through provision of lucrative projects overseas; (IV) Developing trading partners' basic infrastructure so that China will also be able to reverse anemic growth in global trade by enhancing the absorption capacity of export markets in the emerging world; (V) Gaining foothold across strategically located nations; (VI) Locking in rare commodities key to Chinese long-term development; and, finally, (VII) Globalizing Chinese technological and industrial standards across emerging markets. Despite the lofty pronouncements and pledges, however, BRI investments may not be as large and consequential in the long-run. Only a minority of beneficiaries, especially small economies with low sovereign credit ratings, are at risk of a so-called "debt trap". Yet, the (limited) Chinese investments may instead have an extremely negative impact on the institutions of host nations, especially where transparency and accountability regimes are sorely lacking. Nonetheless, the Asian Development Bank's (ADB) estimates that Asia alone confronts an \$8 trillion infrastructure spending gap over the next decade. Developing countries in Asia need \$1.7 trillion annually to cover their infrastructure needs. This makes the BRI an indispensable infrastructure boost, which will have to be welcomed with cautious embrace by targeted beneficiaries, including the Philippines.





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# The 21<sup>st</sup> Century Silk Road: Perils and Opportunities of China's Belt and Road Initiative

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RICHARD J. HEYDARIAN

On May 14, 2017, Beijing launched the Belt and Road Initiative (BRI), previously known as One Road, One Belt (OBOR). During the summit of global leaders, President Xi Jinping opened up the mega-event as the keynote speaker before leaders from as many as 28 nations, who were more than eager to tap into Chinese infrastructure development largesse. “We have no intention to form a small group detrimental to stability,” the Chinese leader said during his keynote speech. “What we hope to create is a big family of harmonious co-existence.” At its very core, the event served as the chief register for China’s new role in the international economic system and, more personally, Xi’s emergence as a global leader. And the timing couldn’t be any more perfect, given America’s abrupt withdrawal from its historical role as the anchor of the global free trade regime. Through the BRI, which Xi has dubbed as “the project of the century”, not only does China reiterate its commitment to globalization, but it will also place the Asian powerhouse in the position to shape the post-American international economic order.

Over the coming decade, China is expected to invest up to \$5 trillion in transcontinental infrastructure projects, which will connect the country’s industrial heartland to the world’s largest consumer markets in Western Europe. The mega-project is slated to cover as many as 64 nations across four continents (Asia, Australia, Africa and Europe), accounting for 62 percent of the world’s population and about a third of the global Gross Domestic Product. China’s policy banks, namely the Development Bank, Bank of China, Export-Import Bank of China, The Industrial and Commercial Bank of China, are set to play a central role in funding the ambitious transcontinental infrastructure initiative.

## **The Birth of Peripheral Diplomacy Strategy**

The year 2013 will likely be remembered as the beginning of modern China's full-fledged bid for global primacy. It marked the rise of a new Chinese paramount leader, Xi Jinping, who, within a matter of months, managed to secure his grip on the three pillars of the Middle Kingdom's political system: presidency of the state, the office of the secretary-general of the Chinese Communist Party (CCP), and the head of the Central Military Commission (CMC). The swift—though far from completely uncontested—consolidation of formal power ensured that, unlike in the case of Jiang Zemin and Hu Jintao in the mid-2000s, a single figure sat undisputedly atop the pyramid of power in Beijing (Osnos 2014).

Over the next five years, Xi would unleash a dramatic anti-corruption crackdown, which virtually eliminated all potential rivals (e.g., Bo Xilai, Sun Zhengcai), sidelined or intimidated critics, placed practically all key-decision-making agencies under the control of a single man (much at the expense of Premier Li Keqiang), and paved the way for the creation of a unique and pervasive cult of personality unseen since the heady days of the Cultural Revolution (1966-1976). Within four years in office, Xi oversaw the punishment of close to 1.4 million Party members, including “seventeen full and seventeen alternate Central Committee members, a pair of sitting Politburo members, an ex-member of the Politburo Standing Committee, and more than a hundred generals and admirals.” (Shirk 2018: 24). By 2018, Xi went one step further: eliminating term limits on the office of presidency, unequivocally placing himself in the position to become a Mao-like ‘leader for life’. Thus, the year 2013 saw the beginning of end of the two decades-long collective leadership regime, which supplanted the tumultuous days of Chairman Mao Zedong's bloody reign, under the guidance of Deng Xiaoping and his reformist coterie. The upshot of Xi's political machinations is an ultramodern absolutist rule by a single man rather than, in the tradition of post-Stalinist and post-Maoist China, the oligarchy of collective party leadership (in this sense, today's China is beginning to resemble archaic North Korea rather than Vietnam, which has adopted a Deng-like system of party-led oligarchic rule). Leaving nothing to imagination, Xi has personally overseen—through small working groups populated by loyalists, most notably Wang Qishan and the so-called Zhejiang clique—the management of the People's Liberation Army (PLA) and the domestic security apparatus in order to stave off

any potential challenge to his power base. As one Chinese scholar put it, “No other Chinese Communist Party leader, not even Mao Zedong, has controlled the military to the same extent as Xi does today, [since] Mao had to share power with powerful revolutionary-era marshals.” The centralizing bureaucratic reforms, coupled with Xi’s refusal to designate a heir apparent in defiance of tradition, not only reflects Xi’s political acumen, but arguably also his appetite for staying in power for the long haul (Shirk 2018; Economy 2018).

This earthshaking revolution within the Chinese political system has been accompanied by the emergence of China as the new global superpower and, potentially, the new anchor—if not, in Marxist lexicon, “vanguard”—of the international economic order. As the former United States House of Representatives Tip O’Neill once memorably said, “all politics is local.” Thus, understanding China’s overarching foreign policy initiative, the One Road, One Belt (OBOR) initiative, later renamed to Belt and Road Initiative (BRI), can’t be divorced from the fundamental reconfiguration in Beijing’s internal politics. Great leaders rarely leap into, to use the words of G.W.F. Hegel, “the slaughter-bench” of history without forwarding a grand vision of the future, both for their country and the wider world. Xi Jinping—as China’s most powerful leader in decades, who presides over a newly-minted global superpower—hasn’t shied away from crafting and forwarding his own grand vision of, first, “national rejuvenation” for at home and, secondly, placing China at the center of an emerging post-American global order through the revival and re-creation of the ancient Silk Road.

## Birth of a Global Vision

In 2013, Xi made two important speeches. In a high-profile conference in October that year, which was attended by the entire Standing Committee of the Politburo (SCP) and practically all key foreign policy players in the country, the Chinese president held the first ever policy-meeting about “peripheral nations” (China’s immediate neighbors) since the founding of the modern Chinese state. Dubbed as the “Peripheral Diplomacy Work Conference”, the event saw the Chinese paramount leader emphasizing the “extremely significant strategic value” that Beijing attaches to its relations with neighboring countries. He highlighted the centrality of



deepening economic cooperation and security partnership with nations in Middle Kingdom's historical backyard. There was, of course, a sense of urgency that drove the formulation and implementation of the "peripheral diplomacy" strategy. A year earlier, as Xi prepared to take over the leadership of China from his (embattled and emaciated) predecessor, Hu Jintao, the CCP held its first Foreign Affairs Leading Group meeting in nearly a decade. The aim of the high-level meetings was to explore specific measures to stave off growing regional backlash against China's rising territorial and maritime assertiveness across the East and South China Seas. Countries such as Vietnam, the Philippines and Japan were increasingly aligning with America, which was pushing forward with its own Pivot to Asia policy (P2A). The leadership in Beijing feared the possibility of an American-led encirclement and growing diplomatic isolation in the region unless China managed to restore relations with neighboring states. In particular, the Philippines, then under the Aquino administration, made the unprecedented move of taking China to international court over the territorial disputes in the South China Sea. As one prominent Chinese scholar, Yan Xuetong, bluntly put it: "The policy now is to allow these smaller [neighboring] countries to benefit economically from their relationships with China. For China, we need good relationships more urgently than we need economic development. We let them benefit economically, and in return we get good political relationships. We should 'purchase' the relationships." (Nikkei Asian Review 2015). To facilitate the effectiveness of its strategy, Xi appointed a leading Asia expert, Wang Yi, as the new foreign minister in early 2013. Mr. Wang was a capable hand and dexterous diplomat, who was at the center of the negotiation of the 2002 Declaration on the Conduct of Parties in the South China Sea (as deputy minister for Asia affairs at the Chinese Ministry of Foreign Affairs), a former director of Taiwan Affairs Office, and proved an extremely capable ambassador in Tokyo at the height of Sino-Japanese tensions in mid-2000s. During the Peripheral Diplomacy conference, Xi called on China to "strive to promote regional security cooperation" and "insist on mutual trust and benefit, equality and cooperation, propose the overall, common and cooperative security idea to push ahead security cooperation with peripheral countries." Highlighting the centrality of "maintaining stability in China's neighborhood" to his new foreign policy strategy, the Chinese leader underscored his country's commitment to "encourage and participate in the process of regional economic integration, speed up the process of building up

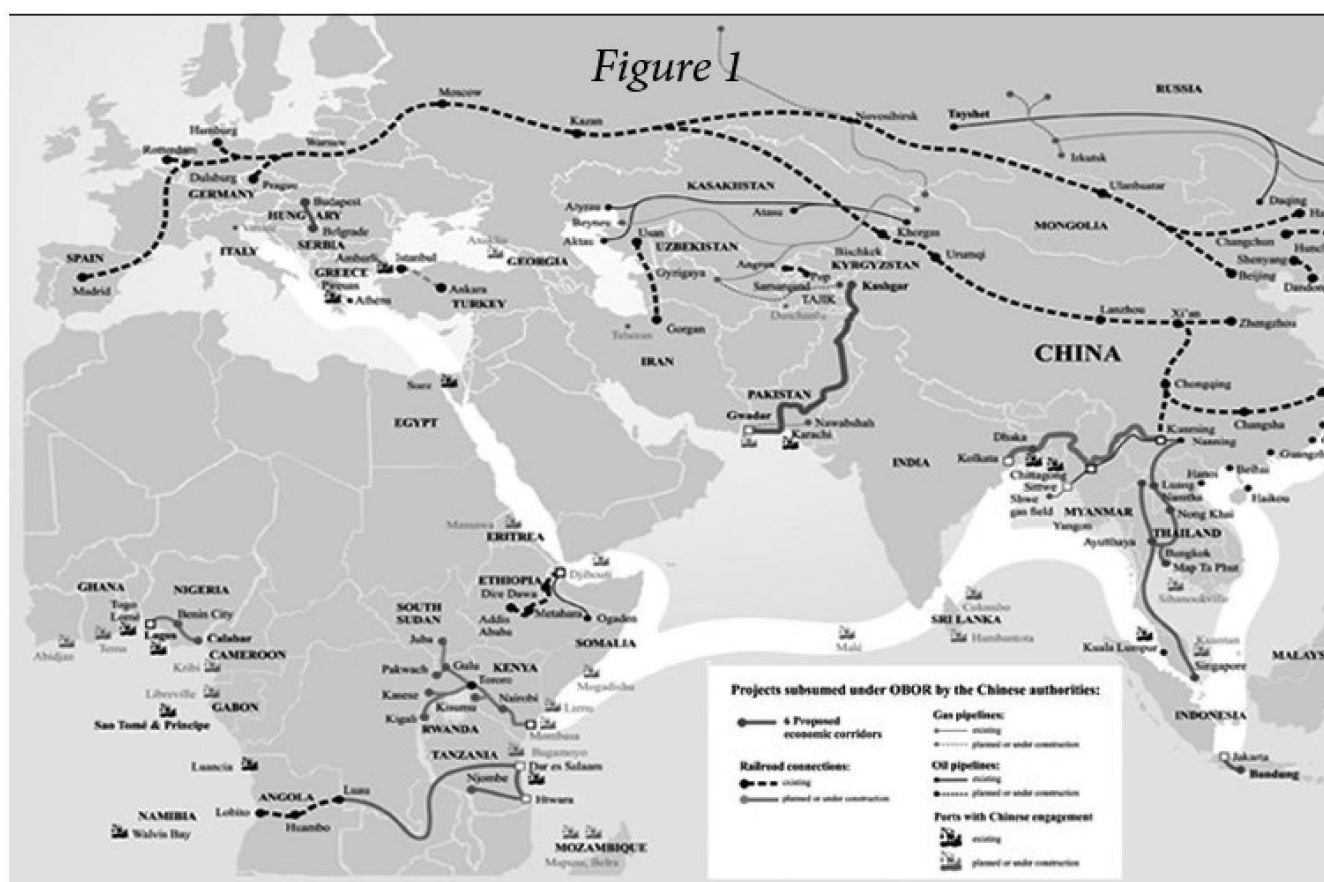
infrastructure and connectivity. We must build the Silk Road Economic Belt and 21st Century Maritime Silk Road, creating a new regional economic order.”

In the same month, during the ASEAN–China Summit, Premier Li Keqiang proposed the ‘2+7 cooperation framework’, which envisioned a two-point political consensus on enhancing good neighborliness and mutual trust, likely through an augmented form of a Treaty of Amity and Cooperation (TAC) agreement between the two sides, as well as a seven-point economic cooperation package, focusing on trade, investment and infrastructure development (Parameswaran 2013). Months earlier, Xi made another important speech, this time in Almaty, Kazakhstan, a key energy-rich nation in China’s BRI vision, particularly under its ‘belt’ strategy that cuts Eurasia, passes through Iran and Turkey, and extends all the way to Western Europe (See Figure 1)

During his address at the Nazarbayev University on 7 September 2013, Xi, in a typically Sino-centric manner, claimed that “the Silk Road linking east and west, Asia and Europe” goes as far back as “2,100 years ago during China’s Han Dynasty,” when the China sent envoys, particularly Zhang Qian, to Eurasian nations such as Kazakhstan to expand trade and diplomatic relations. He discussed how, “Shaanxi, my home province, is right at the starting point of the ancient Silk Road,” claiming (falsely) that China was the genesis of the ancient Silk Road, even though historians contend that there was neither a single road, nor a single point of origin, and that, crucially, silk wasn’t the primary trading item among nations back then (Morrison 2013). Xi made it clear that reviving the ancient Silk Road was his grand foreign policy vision, with peripheral Eurasian neighbors acting as the linchpin of the overall strategy:

*To forge closer economic ties, deepen cooperation and expand development space in the Eurasian region, we should take an innovative approach and jointly build an “economic belt along the Silk Road”... we need to improve road connectivity. The [Shanghai Cooperation Organization] is working on an agreement on transportation facilitation. If signed and implemented at an early date, it will open up a major transportation route connecting the Pacific and the Baltic Sea. Building on that, we will actively discuss the best way to improve cross-border transportation infrastructure and work toward a transportation network connecting East Asia, West Asia and South Asia to facilitate economic development and travel in the region... we need to promote unimpeded trade. The proposed “economic belt along the Silk Road” is inhabited by close to 3 billion people and represents the biggest market*





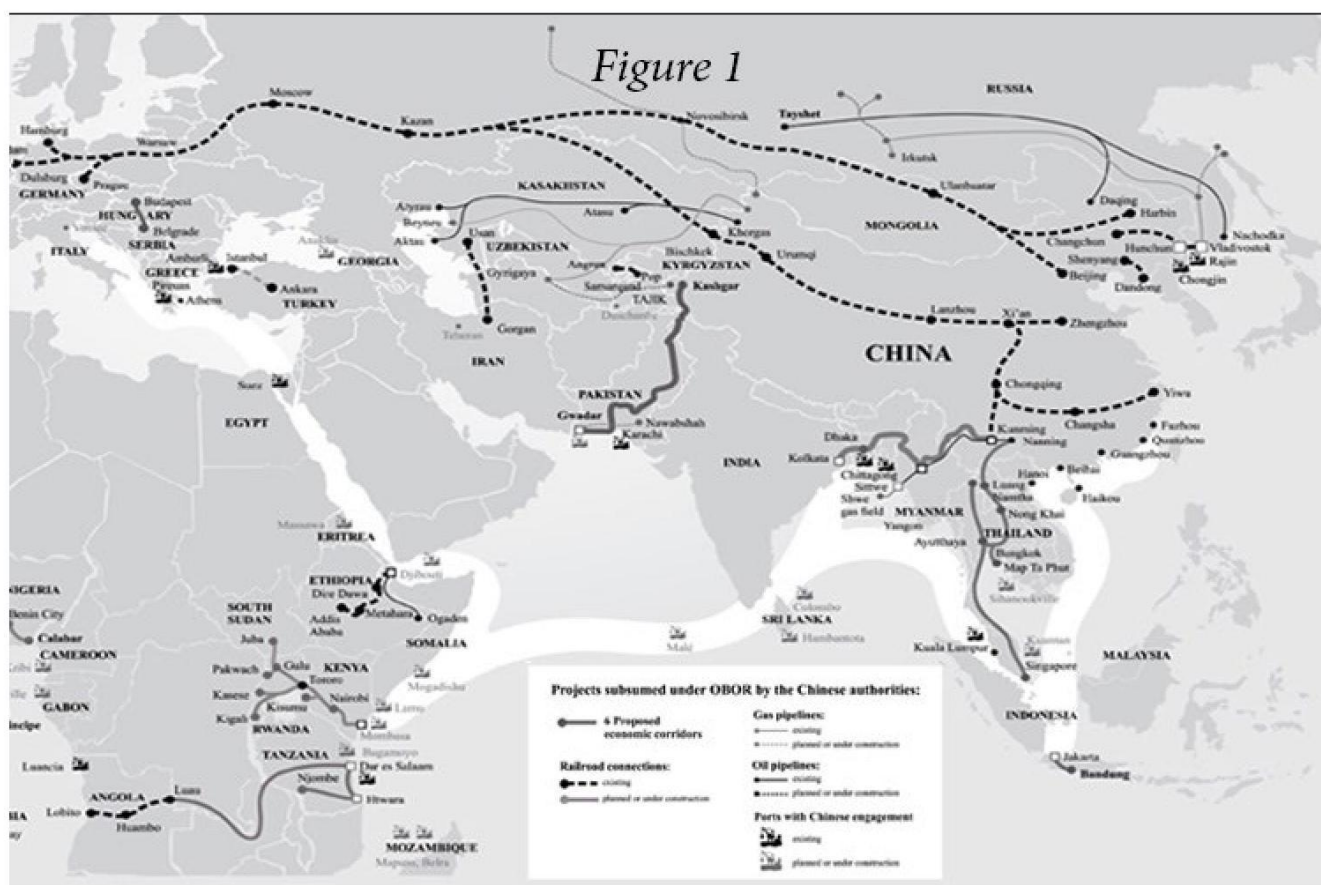
*Source: Mercator Institute for China Studies*

*in the world with unparalleled potential. The potential for trade and investment cooperation between the relevant countries is enormous. We should discuss a proper arrangement for trade and investment facilitation, remove trade barriers, reduce trade and investment cost, increase the speed and quality of regional economic flows and achieve win-win progress in the region... we need to enhance monetary circulation... it will significantly lower circulation cost, increase our ability to fend off financial risks and make our region more competitive economically in the world.<sup>1</sup>*

## Empire by Other Means

The BRI initiative, however, has both land-based (“belt”) and maritime (“road”) dimensions. Thus, one might ask, which dimension is more urgent or important to China? Moreover, why does Beijing insist on having two different transcontinental routes? Wouldn’t this lead to overstretching China’s (finite) resources, or represent a fanciful flight of ambition? More fundamentally, is BRI primarily an economic project or a geopolitical one? The best way to understand the strategic logic behind





*Source: Mercator Institute for China Studies*

Xi's vision is to look at the evolving geography of Chinese power. As Robert Kaplan (2018), building on his earlier work (Kaplan 2010; 2012), perspicaciously notes:

*China's infrastructure expansion across Central Asia is directly related to its maritime expansion in the South and East China seas. After all, China is only able to act aggressively in its adjacent seas because it is now, for the time being, secure on land to a degree it has never been in its history [author's own emphasis]. Threatened constantly by the peoples of the steppe in the west, southwest, and north, with the exception of the voyages of Admiral Zheng He during the Ming Dynasty in the early fifteenth century, China never actually did have a maritime tradition in the east. But globalization, with its exaggerated emphasis on sea lines of communication, has necessitated Chinese power projection into the blue-water extensions of its own continental landmass. Because that requires China to remain secure on land, it also means the permanent subjugation of the Muslim Uighurs, Tibetans, and Inner Mongolians. And thus, we have the One Belt, One Road strategy.*

What's in play in here is what one can describe as 'dialectics of empire': with the expansion of China's productive capacities, industrial, energy and consumer

needs, and overseas trade, inevitably came greater stake in secure and reliable global channels of communications, both on land and in seas. Prosperity also brought about an expansion in defensive capabilities, with the PLA closing its vast technological and tactical gap with rival powers. The result is the emergence of new interests, new insecurities, new ambitions, and, ultimately, the re-evaluation, if not complete reconstitution, of a power's own identity. Over the past century, modern China has gone from a tenuously reconstituted post-Qing Empire in the early-20th century to a land power surrounded by hostile continental neighbors (i.e., Russia) during the Cold War and, in recent decades, a global economic power with vast and expanding maritime interests. As China's spheres of interest and arch of influence expand, so thus (the real and imaginary) necessity of creating buffer zones, defensive perimeters, and expanded area of strategic posturing and military operation. As Kaplan (2010) correctly observes: "Empires rarely come about by design; they grow organically. As states become stronger, they cultivate new needs and – this may seem counterintuitive – apprehensions that force them to expand in various forms." The BRI's ambitious scale has drawn inevitable comparisons with America's key domestic and global projects at the peak of its industrial and geopolitical power. Some have compared the BRI to the Transcontinental Railroad project in the late-19th century, as America began to dominate the global industrial output, while others have compared it to the Marshall Plan in the mid-20th century, when America became the *de facto* global policeman, responsible for the bulk of military expenditures and economic output on earth. In the case of China, however, it is approaching likely both the peak of its economic and geopolitical power simultaneously. In contrast, there was a significant lag between America's emergence as an economic power, on one hand, and its geopolitical hegemony, on the other. Even more astonishingly, China has managed to achieve its current status within a (i) single-generation of unprecedented economic transformation, and (ii) without the advantages of American geography, which left the North American power unscathed during the two world wars and, throughout its history, bereft of any significant indigenous rival in the entire Western Hemisphere. In contrast, China (i) was at the center of destruction wrought by the two world wars, primarily through the brutal and destructive Japanese Imperial occupation, and (ii) has been hemmed in by a coterie of hostile and capable rivals, ranging from Japan to India and Russia throughout the past century (Kissinger 2011; Allison 2017). In Xi's

worldview, his country's rapid rise to riches and influence—coming on the heels of decades of domestic instability and economic insecurity—stands as an indubitable validation of China's potential, if not historical destiny, to once again become the center of the world. Thus, the BRI, at its very heart, is both a reflection of China's emergence as a global power as well as an instrument for the realization of a Sino-centric order in the future. The BRI, however, is far from just a vanity fair. It's a comprehensive, deliberate, yet flexible strategy, which aims to achieve seven key objectives simultaneously:

1. Develop hinterlands and underdeveloped regions, particularly in minority-dominated regions in western regions;
2. Outsource internal infrastructure glut and productive overcapacity amid an economic slowdown;
3. Develop export markets' infrastructure for next stage of trade;
4. Expand domestic supply-chain beyond the Pearl River Delta, and internationalize Chinese industrial standards;
5. Save China's troubled State-Owned Enterprises (SOEs), which employ millions of workers;
6. Lock in rare commodities key to Chinese long-term development;
7. Gain foothold in key sectors of foreign countries for geopolitical gain, push back against Western influence

The ultimate goal is to mitigate, if not eliminate, existing imbalances in the Chinese economy, while shaping the next chapter of the international economic order along Beijing's preferences, standards, and interests. Within a single generation, China precipitated a fundamental rebalancing within the international system, first economically (rising to become the second largest economy and largest trading nation), then militarily (as Asia's undisputed indigenous powerhouse with rapidly advancing asymmetrical as well as conventional military capabilities), and, finally, ideationally, as China doubles down on its soft power through exporting its cultural preferences, worldviews (i.e., Tianxia), industrial standards, and cutting-

edge technological innovation (i.e., Alibaba). Before going into the details of the BRI, however, one must understand China's decades-old charm offensive strategy towards Asia. After all, the Peripheral Diplomacy initiative is a repackaged and updated version of an earlier regional policy.

## **The Beijing Consensus**

Jiang Zemin's rise to power marked the first peaceful transfer of power in modern Chinese history. Though Deng would maintain informal levers of power for few more years, the early-1990s saw the gradual and steady establishment of a new form of authoritarian regime in Beijing. China transformed from, to use the classification of American political scientist Jack Goldstone (2011), a "sultanistic" dictatorship into a "party-state" of collective leadership. It was an endogenously driven change that was born out of the ghost of Mao-era terror. As Deng warned, the horrors of the Maoist era weren't solely the fault of the former leader, Mao Zedong, but instead an inevitable outcome of an inherent systemic flaw namely, "Over-concentration of power is liable to give rise to arbitrary rule by individuals at the expense of collective leadership." (Shirk 2018: 2).

One should, of course, take into consideration the fact that the establishment of institutionalized collective leadership came after the Tiananmen protests (1989), which shook the foundations of the communist regime (Shirk 2008; Li 2010). It also came on the heels of an economic takeoff that saw per capita income levels increasing by a factor of five across urban centers, the seat of massive nationwide protests in 1989, and three times in rural areas after the introduction of economic reforms a decade earlier (Kissinger 2011: 479). Under Jiang's stewardship, the Chinese political system was dramatically pluralized, as competing ideological currents coalesced under the umbrella of capitalist experimentation. Overtime, even the entrepreneurial class—the much-derided "bourgeoisie" in Marxist-Leninist universe—was gradually incorporated into the upper echelons of the CCP (Kissinger 2011: 480). The diversification of the membership of the political establishment was clearly an attempt to co-opt new centers of power, namely the burgeoning middle class as well as business tycoons, but it also had the inevitable result of creating powerful interest groups, which favored greater openness,



particularly in the economic realm (Kurlantzick 2009).

The seismic changes in the outlook and composition of the Chinese leadership went hand in hand with a dramatic overhaul of China's foreign policy. Both Jiang and his successor, Hu Jintao, would oversee the operationalization of Deng's famous dictum: "Hide our capacities and bide our time, but also get some things done [author's own emphasis]". Far from a pacifist, Deng encouraged friendlier external relations as well as greater economic engagement with the outside world as a means to empowering China after decades of self-imposed isolation, which brought about technological and scientific backwardness. It was a fundamentally opportunistic, calibrated call for (temporary) strategic self-restraint. As John Mearsheimer (2014) explains, "The reason it ma[de] sense for China to bide its time is that if it avoids trouble and merely continues growing economically, it will eventually become so powerful that it can just get its way in Asia". Together, Jiang and Hu, the two protégés of Deng, launched the third phase of PRC's foreign policy, better known as the "charm offensive" (Kurlantzick 2007). Under Mao, China engaged in a protracted ideological warfare across its 'near neighborhood', particularly in Southeast Asia, where indigenous communist movements relied on both material and political support of Beijing throughout the early phase of Cold War. Mao's China largely shunned the international order as an illegitimate construct of capitalist West, while openly supporting revolutionary movements across the "Third World". After the Sino-Soviet split in the 1960s, Maoist China launched a two-front global struggle against both the West (America) and the East (Soviet Union). This era of combative cohabitation vis-à-vis the great powers and their regional allies, including Japan and Western-oriented regimes in the Third World, peaked right before the Richard Nixon administration shepherded a historic détente between Beijing and Washington by skillfully tapping into Mao's strategic anxieties towards Moscow. Yet, it was not until the ascent of Deng to the pinnacle of power in late-1970s, shortly after Mao's death and the purge of radical-leftist elements within the regime that the second phase of Chinese foreign policy gained its full expression. In 1978 and 1979, Deng embarked on high-profile diplomatic visits to key Southeast Asian countries, namely Singapore, Malaysia and Thailand, as well as the United States, signaling the beginning of a new chapter in China's relations with the outside world. This phase was anchored by a singular impulse, namely the normalization of Beijing's ties with the West and its immediate neighbors, including Japan and the



Association of Southeast Asian Nations (ASEAN). Similar to Mao, however, Deng remained aloof towards the liberal international order, viewing active Chinese participation in Western-led global organizations as strategic distractions, traps or entanglements, which may frustrate efforts at modernizing his country. In other words, Deng sought engagement with the outside world, but only to the extent that it helps turbocharge economic development at home. Greater assertiveness on the international stage, he maintained, is a luxury that China could afford if and only if it managed to reach a certain level of development, which necessitated stronger global presence for protection of emerging Chinese interests overseas. This is precisely why Deng counseled his protégés to ‘keep a low profile and never take the lead’—making sure development at home remained at the apex of the communist regime’s national priority. The meteoric rise of China, however, meant that Deng’s successors would soon afford to undertake an increasingly pro-active foreign policy (Kurlantzick 2007: 16). As Fravel and Medeiros (2003) explain, from the mid-1990s onwards Beijing entered the third phase of its foreign policy, which was characterized by ‘an attempt by China’s [new] leaders to break out of their post-Tiananmen isolation, rebuild their image, protect and promote Chinese economic interests, and enhance their security’, while ‘hedg[ing] against American influence around the world’.

## China’s Charm Offensive

As the dialectics of empire gained pace, so did China’s interest in developing warm and cordial relations with the outside world. Rapid industrialization at home meant growing appetite for raw materials, agricultural produce, minerals, and energy resources from across the world, particularly in resource-rich developing regions of Africa, Asia and Latin America. In Sub-Saharan Africa, China became, within a span of a decade, a top trading and investment partner. The blossoming economic partnership was soon accompanied by the migration of millions of Chinese citizens, a *mélange* of workers and businessmen, who, in the words of former New York Times bureau chief Howard French (2014), turned Africa into “China’s second continent”. In Latin America, China became an indispensable partner to the left-leaning, populist regime of Hugo Chavez, who launched an ambitious

transnational Bolivarian bloc of mostly anti-American nation. China became a key export partner, investor and supplier of technology, both civilian and military, to the Chavismo regime, which leveraged Venezuela's oil riches to bankroll a region-wide geopolitical earthquake. China, however, also developed close relations with other Latin American powers, ranging from Brazil to Argentina and Chile, which served as precious sources of minerals and food produce for voracious Chinese industries and consumers. Shifts in China's political economy undergirded a reformulation in China's foreign policy and, ultimately, self-perception. By the end of Jiang's leadership, China began to fancy itself as a potential development model for the post-colonial world. In particular, China wasn't only attracted to autocratic regimes, which seemed as more reliable and straightforward partners for business, but also began to attract autocrats, who, in China, saw a seemingly perfect fusion of political control (under one party) and economic dynamism (managed capitalism).

By the turn of the century, Beijing no longer viewed itself as an isolated, ideologically righteous force for the liberation of the Third World, nor as a fragile power undergoing uncertain domestic economic transformation. Instead, China began to see itself as a rising economic power with global interests. In fact, by the mid-2000s, Sinologist Joshua-Cooper Ramo (2005: 2–3) observed: "China's rise is already reshaping the international order by introducing a new physics of development and power...China is in the process of building the greatest asymmetric superpower the world has ever seen...marking a path for other nations around the world who are trying to figure out not simply how to develop their countries but also how to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices in a world with a single massively powerful center of gravity." In fact, Ramo coined the term "Beijing Consensus", pertaining to the country's non-ideological, no-strings-attached, pragmatic approach to its global trade and investment engagement, as opposed to the World Bank and the International Monetary Fund (IMF)-driven "Washington Consensus" approach, which, based on principles of neo-classical economics, calls for structural, pro-market reforms. China's flexible, heterodox approach to development at home, on one hand, and trade and investment abroad, on the other, rapidly transformed it into a model of development and preferred strategic partner to developing nations around the world, which opposed or lamented the orthodoxies of neo-liberalism under the aegis of International Financial Institutions (IFIs). As the material

conditions of China transformed, the country's leaders embraced new ideas about China and its place in the world. Under Jiang and Hu, Asia's rising superpower economically matured, it advanced a series of new strategic concepts, including the slogans of "new security concept" and "peaceful development", which emphasized the centrality of diplomacy, multilateralism and cooperation to a "win-win" relationship between Beijing and its external partners. The Jiang administration (1989-2001) was primarily focused on strengthening the foundations of China's relations with America and the broader West, a critical export market and source of capital and technology, while the Hu administration (2002-2012) extended the horizons of China's proactive diplomatic engagement with much of the developing world. Improving relations with the West, however, meant stable and robust relations with Western-leaning powers in the region, including American treaty allies and strategic partners in East Asia. Jiang saw stable relations with great powers as key to creating the right conditions for China's rise, which was accelerated by the country's entry into the World Trade Organization (WTO) with the full backing of the Clinton administration. Hu built on Jiang's strategic achievements by deepening diplomatic engagement with the West, especially in light of the Global War on Terror (GWOT) in the first decade of the 20th century, while doubling down on rapidly deepening trade and investment relations with the developing world (Shirk 2008:111). As Fravel and Medeiros (2003) put it, under the Jiang-Hu period, China "expanded the number and depth of its bilateral relationships, joined various trade and security accords, deepened its participation in key multilateral organizations, and helped address global security issues." And true to Deng's vision of collective leadership, even "[f]oreign policy decision-making [became] less personalized and more institutionalized, and Chinese diplomats [became] more sophisticated in their articulation of the country's goals." To anchor China's economic breakout, ensure stability at home and secure friendly relations with neighbors became the three primary strategic concerns. Between 1988 and 1994, China normalized/established diplomatic relations with as many as 18 nations, many emerging from the ruins of the Soviet empire and bordering restive, Turkic-populated region of Xinjiang. China also upgraded strategic relations with the ASEAN, while ending its support for anti-regime communist movements across Southeast Asia. By 1991, China had established formal relations with all members of the ASEAN. That year, Chinese Foreign Minister Qian Qichen, made China's inaugural attendance at

the ASEAN Foreign Ministers Meeting (AMM). Three years later, the energetic Chinese diplomat founders co-founded the ASEAN Regional Forum (ARF), the prime platform for strategic dialogue among all relevant powers, including Russia, China, the United States, Japan, and India, in the Asia-Pacific region. Between 1995 and 1997 period, China regularly held annual meetings with senior ASEAN officials and successfully advocated for the establishment 'ASEAN+3' initiative, which brought the three historically-hostile powers of Japan, (South) Korea and China together under the umbrella of the ASEAN-related platform. China also became the first major power to finalize a free trade agreement with the ASEAN (Shirk 2008: 113). China's prestige among its neighbors, particularly in Southeast Asia, was further boosted during the 1997 Asian Financial Crisis, which wreaked havoc across emerging markets of the region as well as undermined confidence in America and International Financial Institutions (IFIs) of World Bank and the IMF. While America refused to rescue troubled Asian economies, which, under Washington's influence, opened up their financial sector to Western hot money, the IFIs failed to adopt effective measures during the crisis and, subsequently, imposed onerous structural adjustment programs across multiple Southeast Asian nations in its aftermath. In contrast, China not only refused to opportunistically revalue its currency and adjust its interest rates, in order to attract equity investors fleeing collapsing East Asian markets, but also emerged as an enthusiastic supporter of a regional—rather than Western-dominated—multilateral institutions to avoid another financial catastrophe as well as aid post-crisis economies of the region (Anderson 1998; Stiglitz 2003; Goh 2014). Beijing supported the establishment of an Asian Monetary Fund as well as information-sharing and currency-swap arrangements to hedge against future financial crises. China also contributed to the IMF's aid package to post-crisis Thailand. Its highly constructive, if not 'altruistic' role, during the crisis, won praise from across the world, including the Clinton administration, which invited China to attend the G8 finance ministers' meeting in 1998 as an honorary guest. The Asian Financial Crisis was a crucial boost to China's regional standing, because (i) it undermined confidence in Washington's pro-financial liberalization prescriptions and (ii) damaged Japan's reputation as the anchor of East Asian economy, the *de facto* regional economic hegemon. Tokyo's decision to devalue its currency at the height of the crisis was seen as both irresponsible and opportunistic. In the preceding decades, Japan, under the so-



called ‘flying geese’ phenomenon, became the core element of an elaborate, ever-expanding network of vertically integrated regional production chain. Through bilateral agreements and Japan-dominated Asian Development Bank (ADB), Japan also became the key source of infrastructure development across Asia. As Benedict Anderson (1988) explains: “Beginning in the Fifties, thanks to a series of war reparations agreements whereby Japan provided substantial funds to South-East Asian countries for the purchase of its manufactures, Tokyo’s economic presence rapidly increased ... By the early Seventies, Japan had become the single most important external investor in the region, both as extractor of natural resources (timber, oil and so on) and in industrial and infrastructural development.”

By the turn of the century, however, Japan’s reputation as the regional economic hegemon was in tatters, already struggling with a two-decades-long economic stagnation after the bubble burst of the 1980s. In contrast, China was now seen as the emerging, responsible regional leader. In 2003, barely five years after the Asian Financial Crisis, China and the ASEAN signed a strategic partnership agreement, cementing Beijing’s new status as a trusted power in the Asian pecking order. Over the next decade, China-ASEAN trade expanded by more than six-fold, reaching \$400 billion in 2012, with two-way investments exceeding \$100 billion (Parameswaran 2013). Yet, China’s diplomatic pro-activeness, facilitated by a new generation of Western-trained and proficient diplomatic corps, extended to the more contentious Northeast Asian region. Cognizant of the absence of significant political integration among Japan, two Korea, and China, the leadership in Beijing encouraged greater participation in track 1.5 arrangements such as the Northeast Asia Cooperation Dialogue (NEACD). This was followed by China’s central role in setting up the Six-Party Talks, which brought all relevant powers together with North Korea in order to manage, if not resolve, the crisis in the Korea Peninsula. China also expanded its global profile by becoming a co-founder of the transcontinental Asia-Europe Meeting (ASEM), hosted the ninth Asia Pacific Economic Cooperation summit in Shanghai (2001), and explored new avenues of cooperation with the European Union (EU) and the North Atlantic Treaty Organization (NATO). The hyperactive diplomatic push allowed China to simultaneously (i) enhance its profile in its immediate neighborhood, (ii) deepen ties with key regions, and (iii) drive a wedge between America and its allies, both in Europe and Asia, which welcomed China’s charm offensive with gusto. By 2005, Malaysia hosted the inaugural East



Asia Summit, which was seen as a Beijing-led effort to exclude America from the region, with Kuala Lumpur seeking to keep Washington out of regional groupings amid growing schism between the Bush administration and regional states amid the GWOT. In a strange twist of events, China was now seen by a growing number of nations as a credible alternative to and an indispensable check on American hegemony (Shirk 2008: 120). Towards the end of the Jiang administration, China began to present itself as a responsible global power. This new self-conception was expressed through supporting peacekeeping operations in various conflict zones, including in Congo and East Timor, and support for, among other international agreements, the UN Security Council Resolution 1441, which authorized weapons inspections and disarmament in Saddam's Iraq in 2002. China also ratified the Treaty on the Nonproliferation of Nuclear Weapons as well as the Chemical Weapons Convention. Earlier, despite its strategic nuclear inferiority to Russia and America, Beijing also signed up to Comprehensive Nuclear Test Ban Treaty (1996) and basic principles of the Missile Technology Control Regime. Beijing also became the convener of the Six-Party Talks to address the North Korean nuclear threat, and over the years China censured and penalized its ally in Pyongyang (Fravel and Medeiros 2003; Shirk 2008; Kurlantzick 2007). During the early years of the Hu administration, China participated in US-organized joint naval exercise in the Sea of Japan aimed at preventing the spread of nuclear weapons (Shirk 2008: 122). Under the 'new security' concept, forwarded by strategic minds within the increasingly influential and professionalized Chinese Ministry of Foreign Affairs (MOFA), China emphasized 'mutual trust, mutual benefit, equality, and cooperation' as the basic operating principles of the country's foreign policy (Ibid.: 128).

## Power to the Moderates

The period saw the MOFA countering more hardline voices within the bureaucracy and the PLA, which advocated a more muscular and non-compromising position vis-à-vis China's territorial and strategic disputes overseas. The Jiang administration largely sided with the reformist and pragmatic voices, including the MOFA, in order to gain the goodwill of neighbors, including newly-emerging post-soviet states, and enhance China's standing in the international system. This was no easy

feat, since China has had among the world's most contested borders. The country has six maritime neighbors and fourteen continental neighbors, not to mention a decades-long standoff with what it views as the 'renegade province' of Taiwan. Yet, the Jiang administration, and to a lesser degree its successor, deftly dealt with this massive territorial conundrum. As Fravel (2008) explains in his seminal work, *Strong Borders, Secure Nation*, the Jiang administration patiently and skillfully resolved seventeen border disputes, even if it meant yielding 1.3 million square miles of land along its continental borders. During Jiang's rule, Beijing settled border conflicts with post-Soviet nations of Kyrgyzstan, Tajikistan, and Kazakhstan as well as Russia, not to mention with Southeast Asian neighbors of Vietnam and Laos. In most cases, China abandoned as much as 50 percent of its original claim. In the case of Tajikistan, China settled for only 1,000 out of 28,000 square kilometers of contested land areas in the Pamir Mountains (Fravel and Medeiros 2003; Steele 2013). As long-time Moscow-based correspondent Jonathan Steele explains: "Until the early 1990s Soviet Central Asia was hermetically sealed from China...When Central Asia unexpectedly became independent, Beijing and the three republics that have borders with China built on these foundations and border treaties were concluded within a decade. Although Mao had argued that the 19th-century tsarist treaties, which set the borders, were 'unequal', his successors accepted a deal that left 57 percent of the territory China had claimed in Kazakh hands. In Tajikistan China took only 3 percent of what it had asked for..." China's charm offensive wasn't only limited to land borders of post-Soviet Central Asian countries and communist regimes in Southeast Asia. In 2002, as the Jiang administration relinquished some levers of power (with the exception of the Central Military Commission) to the incoming leader, Hu Jintao, China signed up to Declaration on the Conduct of Parties in the South China Sea (DOC). The agreement, with Southeast Asian claimant states, namely Malaysia, Brunei, the Philippines and Vietnam, called upon all claimant states to resolve their disputes through peaceful dialogue instead of coercive and unilateral action. Over the succeeding years, China proposed maritime "joint development" agreements as well as confidence-building measures with other claimant states. Among the agreements were maritime delimitation in the Gulf of Tonkin (2002) with Vietnam and the 2005 Joint Maritime Seismic Undertaking with the Philippines and Vietnam. The period also saw China reaching out to other regional great powers, particularly Russia and China. The Shanghai Cooperation

Organization (SCO), established in 2001, served as a crucial mechanism to manage Sino-Russian influence and strategic competition in post-Soviet Central Asia. In effect, Beijing established a condominium, if not a full-fledged co-dominion, with Moscow. It was China's proactive strategic engagement with Russia that paved the way for a new age of cooperation between the two former rivals, which almost went to war in the 1960s, not to mention centuries of Czarist conflict with Imperial China. Except, the Sino-Russia balance of power increasingly favored the former junior partner, China (Kotkin 2009; Stokes 2017). The result is a stable strategic partnership after centuries of rivalry. As Fu Ying, veteran Chinese diplomat and Chair of the Foreign Affairs Committee of the National People's Congress, explains:

*The Chinese-Russian relationship is a stable strategic partnership and by no means a marriage of convenience: it is complex, sturdy, and deeply rooted. Changes in international relations since the end of the Cold War have only brought the two countries closer together...Beijing hopes that China and Russia can maintain their relationship in a way that will provide a safe environment for the two big neighbors to achieve their development goals and to support each other through mutually beneficial cooperation, offering a model for how major countries can manage their differences and cooperate in ways that strengthen the international system (Ying 2016).*

Bridging differences with India, however, proved more daunting, thanks to the bitter memories of the 1962 border war, historical rivalry within the global 'Third World' movement, China's strategic alliance with Pakistan (India's archrival), as well as minimal economic engagement between the two Asian giants. As late as 2000, Sino-Indian bilateral trade was only \$3 billion, with no direct flights between Beijing and New Delhi until 2002 (Shirk: 115–16). By the end of the first decade of the 21st century, however, China became India's top trading partner, with two-way exchanges inching to the \$100 billion mark in 2015 (Krishnan 2011). In addition to the SCO, China also established the Conference on Interaction and Confidence-Building Measures in Asia (CICA), which includes both Russia and China as its key members, while excluding Western powers as well as Japan. China's overall goal was to enhance its own "soft power". As American political scientist Joseph Nye (2004: 5) argues, soft power is anchored by the recognition that 'it is also important to set the agenda and attract others in world politics, and not only force them to change by threatening military force or economic sanctions'. By enmeshing regional



powers in China-led networks of cooperation, Beijing hoped to not only protect its core interests, but also, even more ambitiously, orient its broader Eurasian neighborhood along its strategic preferences. As China enhanced its military muscle amid an economic boom, it sought greater influence internationally where persuasion, rather coercion, serves as the primary tool of foreign policy. In a keynote speech to the 17th National Congress of the Communist Party of China (CPC) in 2007, Chinese President Hu Jintao declared, “Culture has become a more and more important source of national cohesion and creativity and a factor of growing significance in the competition in overall national strength.” The Chinese leader called on his country to ‘enhance culture as part of the soft power of [China] to better guarantee the people’s basic cultural rights and interests’ (Xinhua 2007).

Yet, the Hu administration harbored no illusions vis-à-vis the limits of soft power and the exigencies of realpolitik in the international system. With greater economic resources came the early intimations of geopolitical assertiveness. Against this backdrop, the Hu administration also introduced “new historic missions” for its burgeoning military, including the protection of the country’s ever-expanding trade linkages and supply lines, especially in the maritime space. Thus, the combination of expanding energy needs and trade linkages organically spurred a more assertive and capable Chinese maritime fleet operating across the Eurasian rimland (Kaplan 2013; 2014). This marked the birth of China as a maritime power, as the Asian powerhouse broke out of its centuries-old continental geopolitical orientation amid (i) improved ties with land-based neighbors, (ii) rapidly growing naval capabilities, and (iii) the globalization of China’s state-owned companies, and (iv) China’s self-re-examination as an increasingly global power. It was precisely against this backdrop of dialectically evolving China’s role in the world that Xi launched his 21st century Silk Road initiative.

## **The New Vanguard of Globalization**

On May 14, 2017, Beijing launched the so-called “Belt and Road Initiative”, previously known as the New Silk Road project and often also called as the Belt and Road Initiative (BRI). During the summit of global leaders, President Xi Jinping opened up the mega-event as the keynote speaker before leaders from as many as 28

nations, who were more than eager to tap into Chinese infrastructure development largesse. “We have no intention to form a small group detrimental to stability,” the Chinese leader said during his keynote speech. “What we hope to create is a big family of harmonious co-existence.”<sup>2</sup> At its very core, the event served as the chief register for China’s new role in the international economic system and, more personally, Xi’s emergence as a global leader. And the timing couldn’t be any more perfect, given America’s abrupt withdrawal from its historical role as the anchor of the global free trade regime. Under President Donald Trump, Washington has adopted for a neo-isolationist, unilateralist, anti-free trade “America First” foreign policy. Under Trump’s watch, the historical anchor of the liberal international order abruptly reneged on the Paris Agreement on climate change, the Asia-Pacific-wide mega-free trade Transpacific Partnership Agreement (TPP) negotiations, and the Iranian nuclear deal—the three chief foreign policy initiatives of the Obama administration. The upshot was a global leadership vacuum. And China wasted no time in exploiting the historic opportunity. Earlier that year, as Trump began to assume office, Xi made the unprecedented decision of becoming the first Chinese head of state to attend the World Economic Forum at Davos, which annually brings together the world’s economic and liberal policy-making elite. “Just blaming economic globalization for the world’s problems is inconsistent with reality,” declared Xi in his high-profile speech at Davos, indirectly attacking the protectionist, anti-trade rhetoric of the American president. Though the purported leader of the world’s largest and most powerful communist nation, he described globalization as a historic inevitability, a “big ocean that you cannot escape from”, while criticizing protectionism as “locking oneself in a dark room.”<sup>3</sup> In effect, the Chinese communist leader presented himself as the new vanguard of globalization. Yet, this was more out of timely self-interest rather than vacuous rhetorical bombast. After all, China has arguably been the biggest beneficiary of globalization, which has allowed the communist nation to, within a single generation, lift 400 million citizens out of poverty, while transforming an agricultural backwater into the world’s leading manufacturing power. In short, globalization has been the bedrock of China’s economic miracle. Later that year, during the APEC summit in Da Nang Vietnam, Xi described globalization as an “irreversible historical trend.” He advocated for a “multilateral trading regime and practice”, which allows “developing members to benefit more from international trade and investment.” In stark contrast, Trump,



during his first visit to Asia, emphasized bilateralism, fair trade, while lambasting globalization as inimical to the interests of nations (BBC 2018). Through the BRI, which Xi has dubbed as “the project of the century”, not only does China reiterate its commitment to globalization, but it will also place the Asian powerhouse in the position to shape the post-American international economic order. Over the coming decade, China is expected to invest up to \$5 trillion<sup>4</sup> in transcontinental infrastructure projects, which will connect the country’s industrial heartland to the world’s largest consumer markets in Western Europe. The mega-project is slated to cover as many as 64 nations across four continents (Asia, Australia, Africa and Europe), accounting for 62 percent of the world’s population and about a third of the global Gross Domestic Product (PWC 2015).

The “belt” pertains to the “Silk Road Economic Belt”, which runs through the post-soviet states of Central Asia, and West Asian powers of Iran and Turkey, then East-Central Europe all the way to the shores of Netherlands, while the “road” pertains to “Maritime Silk Road” (MSR), which starts from southern Chinese provinces of Fujian right through Southeast Asia, extending to South Asia and Western and North Africa then cutting through the Mediterranean to Europe. The maps are flexible, and the number of participating nations could expand or contract over coming years. Similar to the ancient Silk Road, the BRI aims to connect East Asia to Europe via Central Asia and the Middle East. There are also several “economic corridors”, with north-south orientation. The \$46 billion China-Pakistan Economic Corridor, which crosses southward from the western Chinese province of Xinjiang all the way through the Baluchistan Province and ending in the port of Gwadar in the Indian Ocean, is the most prominent and prized one. The BCIM (Bangladesh, China, India, Myanmar) Economic Corridor aims to bring about development to other western and southwestern provinces, connecting them to major maritime routes in the Indian Ocean. To prove its determination to realize the BRI vision, China has set up an initial \$40 billion Silk Road Fund, with an additional \$50 billion to be provided by the Beijing-based Asian Infrastructure Investment Bank (AIIB). In 2016, the AIIB approved \$1.7 billion in loans to nine projects under the BRI. During the BRI summit in Beijing, Xi pledged another \$113 billion, with Chinese policy banks (e.g., China Development Bank, Bank of China, Export-Import Bank of China, The Industrial and Commercial Bank of China etc.) expected to shoulder up to \$1.3 trillion in investments over the coming years. Half-

a-trillion dollars' worth of projects and mergers and acquisitions (M&A) deals were announced in 2016 across seven infrastructure projects (PWC 2017), a third of them within China. Between 2013 to mid-2017, about 50 major Chinese state-owned enterprises were involved in about 1,700 BRI-related projects (Huang 2017).

The China Development Bank (CDB) alone has been overseeing 60 nations, where as many as 900 projects worth around \$890 billion is at stake. The Industrial and Commercial Bank of China (ICBC) is evaluating up to 130 BRI-related projects worth about \$159 billion, while the Bank of China (BOC) has pledged around \$100 billion between 2016 and 2018 alone (Cai 2017). The Xi administration has also established an elaborate, high-level bureaucratic structure to oversee the BRI vision. The Chinese president placed first-ranked Vice-Premier Zhang Gaoli, a member of Politburo Standing Committee (2012-2017), atop the BRI-focused bureaucracy, which includes heavyweights such as Vice-Premiere Wang Yang and chief foreign policy hand Yang Jiechi. The aim is to involve high-ranking officials from across the Chinese state apparatus in order to give a coordinated, comprehensive, and sustained momentum to the grand project. Xi has designated three agencies to coordinate the overall project, namely the Ministry of Foreign Affairs, Ministry of Commerce, and the National Development and Reform Commission. The BRI's first official blueprint was issued in March 2015, entitled 'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road' (Ibid).

## The Economic Logic

The plethora of names attached to the transcontinental project reflects the inherently flexible, if not ambiguous, nature of the BRI project. Yet, as China analyst Peter Cai explains, "some of the key drivers behind BRI are largely motivated by China's pressing economic concerns." China's economic troubles began shortly before Xi's ascent. Thanks to a \$586 billion stimulus program, China managed to overcome the Global Financial Crisis with a massive domestic infrastructure buildup. Over the succeeding years, China became the prime engine of global economic growth. Yet, the massive fiscal expansionary program, augmented by monetary easing (i.e., reduced interest rates), created systemic stress within an

already-imbalanced economy. Add to these, growing public dissatisfaction with corruption, the decadent lifestyle among the ‘princeling’ elite, and heightened inequality within and among Chinese provinces. It was precisely within this context that Xi pushed for a massive anti-corruption initiative to boost his legitimacy, while calling for structural reforms within the Chinese economy. Domestic reforms, once again, went hand in hand with global outreach, except, this time, even with greater zeal and ambition than in the past. In this sense, Xi represents the fourth phase in Chinese foreign policy. In his first years in power, Xi also pushed forward with establishing multiple China-led multilateral initiatives, allocating \$50 billion to the Beijing-based AIIB as well as \$41 billion for the Shanghai-based New Development Bank (NDB) along Brazil, Russia and China. Together, the AIIB and the NDB are tasked to provide alternative multilateral developmental organizations to the Western- and Japanese-dominated IFIs, namely the World Bank, the IMF, and the ADB. The Xi administration also allocated close to \$10 billion in annual budget for “external propaganda”, eclipsing the U.S. Department of State’s \$666 million budget for public diplomacy in 2014 (Shambaugh 2015).

The beauty of the BRI project is that it allows Xi to strike multiple birds with a single stone. The objectives of the BRI fall under two key themes: internal economic rebalancing and expansion of strategic presence across resource-rich and geographically important nations.

### *I. Internal Economic Rebalancing*

*a. Facilitate China’s long-term plans of developing landlocked hinterlands and underdeveloped regions.* As early as the Jiang administration, the Chinese regime launched the “western development strategy” (WDS) aimed at closing the developmental gap between underperforming hinterlands and high-performing coastal regions. Yet, despite massive injection of central government funds and a slew of preferential policies, the peripheral western regions contribution to Chinese gross domestic product (GDP) barely increased from 17.1 percent in 2000 to 18.7 percent a decade later (Cai 2017). Despite Beijing’s preferential policies, large-scale fiscal injections and state-directed investments, the western provinces’ share of China’s total GDP increased only marginally from 17.1 percent in 2000

to 18.7 percent in 2010. In national economic rankings, the western, landlocked provinces Tibet, Xinjiang, Qinghai, and Gansu have consistently ranked well below the national average (Cai 2017). During the Xi administration, influential Chinese scholar Wang Jisi proposed the “March West” strategy, which was both a response to the US pivot to Asia as well as a revival of the earlier WDS strategy. In 2014, the BRI plan was officially integrated into China’s national economic development strategy at the Central Economic Work Conference, with BRI serving as one the three regional development plans (Ibid).

China’s peripheral regions with large minority population cover up to two-thirds of the country’s landmass and, crucially, host the bulk of the country’s natural resources. This makes them hugely significant, even if more than nine out of ten Chinese citizens hail from the so-called “Han” majority. These regions are also important from a security point of view, since provinces such as Xinjiang and Tibet, which host Uighur Muslim minorities and Tibetan Buddhists, have also been a hotbed of political resistance to the communist regime. To the Chinese state, the root of the crisis is developmental deficit rather than socio-cultural alienation. The communist regime hopes to purchase the hearts and minds of its restive minorities through an infrastructure offensive. The China-Pakistan Economic Corridor, in particular, is a flagship project that allows China to funnel large-scale infrastructure development funds to its troubled western province. The BCIM (Bangladesh, China, India, Myanmar) Economic Corridor aims to bring about development in other western and southwestern regions of China. It’s hard to understate the gravity of China’s politico-security dilemma in places such as Xinjiang, formerly known as East Turkistan. After decades of socio-cultural alienation, which includes draconian restrictions on expression of Islamic faith among the local population, the Uighur minority has embraced a more muscular form of resistance. Beginning in 2009, Xinjiang has been hit a spate of terror attacks and violent clashes between the Uighur minority and Han settlers. In mid-2009, violent clashes between the two groups in the regional city of Urumqi led to as many as 184 casualties and injuries. China’s repressive response has strengthened more radical groups, including the East Turkestan Islamic Movement (ETIM), which have embraced a more violent form of resistance against the communist regime. In late-2013, the violence spread to Beijing, when several ethnic Uighurs, using an SUV, ploughed through visitors



at Beijing's Tiananmen Square. The following year, in March, a group of knife-wielding individuals attacked civilians in Kunming, Yunan, followed by several terrorist attacks in Xinjiang in May that year. By July, a terrorist attack killed close to hundred individuals in the province, which was followed by the murder of an Imam close to the regime (Rauhala 2014). In recent years, there have also been cases of self-immolation and other forms of resistance adopted by Tibetan monks in protest against cultural oppression by the communist regime (Lama 2015). Through the BRI, in addition to virtual security lockdown in certain regions, the Xi administration hopes to bring stability to its restive western regions.

*b. Outsource internal productive glut and infrastructure overcapacity amid slowdown in global demand for its exports.* China simply has too much steel, cement, and infrastructure-related productive capacity that can't be absorbed domestically. This all goes back to the unsustainable economic growth and stimulus programs it adopted in the past two decades. Back in the 1990s, China was already struggling with one of the highest rates of non-performing loans in the world, which reached as high as 50 percent (Walker and Buck 2007). In the three years following the global financial crisis, the Chinese banking system, controlled by the state, unleashed around \$4 trillion in new credit, expanded overall liquidity to \$10 trillion, around 20 percent larger than that of America. Much of the new credit was funneled into speculative sectors, including the real estate, which saw, in 2010 alone, more sales than the rest of the world combined. Others were invested in public infrastructure projects, which provided (temporary) economic reprieve though (Sharma 2012: 24). Inflation rates experienced a ten-fold increase in the 2009-2010 fiscal year, as real estate prices experienced bubble-like increase at the expense of middle-class families, whose earning barely kept up with inflation. Add to these, countless ghost cities, airports, roads and railways across the country—infrastructure projects that ended up as elephant projects simply because their primary objective was the creation of a counter-cyclical growth in the immediate aftermath of the Great Recession (Jacobs 2017). To put things into perspective, China's steel industry's annual production surged from 512 million tons in 2008 to 803 million tons in 2015, with the extra 300 million tons outstripping the combined production of the entire European Union and the U.S. Similar levels of excess capacity are seen in the cement industry (Cai 2017). In short, China desperately needs to

address over-investment and over-construction at home. In fact, the problem is so severe that China is considering not only exporting its excess production, but also the very production facilities themselves. In 2014, Chinese premier Li Keqiang, in a speech in Myanmar, the then ASEAN chairman, announced: “We have a lot of surplus equipment for making steel, cement and pleat glass for the Chinese market. This equipment is of good quality. We want companies to move this excess production capacity through direct foreign investment to ASEAN countries who need to build their infrastructure. These goods should be produced locally where they are needed.” (Ibid). China aims to export some of its heavy industry and low-end manufacturing production facilities to less industrialized neighboring countries. The Xi administration seeks to do this by tying productive capacity and excess production under BRI-related projects, including construction of steel, railways, ports and highways across the Eurasian region, which hosts much of the world’s emerging markets with heavy infrastructure needs.

*c. Assist and promote troubled State-Owned Enterprises (SOEs), which employ tens of millions of workers, through provision of lucrative projects overseas.* This is both a matter of strengthening national champions as well as preserving domestic order, the highest priority of the communist regime. The last time China oversaw a major overhaul of its SOEs, which led to the unemployment of as many as 60 million individuals, it sowed the seeds of political unrest throughout the 1980s, culminating in nationwide protests in 1989, most famously in the Tiananmen Square (Andreas 2012). In recent years, China has had to lay off up to 1.8 million workers from the steel and coal industries due to excess capacity and production glut (Cai 2017). The transport equipment market across the BRI-covered regions is close to \$263 billion in 2018 alone (Ibid). Almost 90 percent of BRI contracts have gone to Chinese SOEs (Hurley et al 2018).

*d. By developing trading partners’ basic infrastructure, China will also be able to reverse anemic growth in global trade by enhancing the absorption capacity of export markets in the emerging world.* This is crucial in light of the fact that the year 2016 saw, for the first time in recent memory, global trade stagnating (Applebaum 2016). Between 2007 and 2014, China’s GDP growth halved, from a high of 14 percent to just above 7 percent. China hopes to achieve a global

trade bump up through successfully deepening its hard infrastructure connection to BRI-covered nations as well as export its production capacity to less developed nations (Cai 2017).

## *II. Enhancement of China's Global Influence*

Yet, the BRI is far from a purely economic enterprise. Its deep geopolitical underpinnings are reflected in the sheer breadth of its land-based as well as maritime blueprint. In fact, it's in the maritime portion of the BRI, where geopolitics is most alive and kicking. And this is crucial since the bulk of global trade is still carried through maritime trade, despite massive technological advancements that have promised to shrink trade and communication in time and space (Kaplan 2013). While China's land-based linkages run through relatively friendly countries in Central (Russia and post-Soviet states), South (Pakistan and Afghanistan) and West (Iran and Turkey) Asia, the Eurasian rimland, stretching from the South China Sea and the Indian Ocean to the Persian Gulf and the Mediterranean, present a completely divergent geopolitical reality. The U.S. and its allies—along with key strategic partners such as India, Singapore and the Gulf Cooperation Council—have dominated all these maritime routes since the end of Second World War. At least, this has been the perception of Chinese strategic planners, who have feared the prospect of US-led maritime encirclement and siege in an event of deeper Sino-American rivalry in the decades ahead. Add to this is the more brutal reality of China's growing dependence on energy imports. From 2000 to 2008, the country's energy needs were so explosive that it accounted for more than half of the world's total growth in energy demands. The period also saw China ending up consuming 10 percent of global oil, which is largely imported from the Persian Gulf region via the Indian Ocean, Malacca Strait, and the South China Sea (Kennedy 2010). China's growing dependence on international imports of basic commodities has reinforced its sense of maritime vulnerability. Recognizing China's maritime vulnerability, and ever-more confident with its land borders, the Hu administration placed the development of the PLA Navy's (PLAN) capabilities at the heart of its defense policy agenda. As Li (2010) explains: Hu [Jintao] has been particularly concerned about China's newly emerging national interests in terms of energy security...[As early as November 2003] Hu, as the new CCP general secretary, advanced the concept of oil

security, and stressed the need to develop a new energy-development strategy from a 'strategic overall height' to achieve national energy security." The PLAN's South Sea Fleet gained outsized attention, because "the South China Sea has potentially rich deposits of fossil fuels and natural gas and straddles major sea-lanes through the Strait of Malacca into the Indian Ocean." (Li 2010).

*a. Gain foothold across strategically located nations.* The BRI builds on the earlier efforts of the Hu administration. In order to protect China's emerging interests across maritime lanes of communications, the Hu administration steadily expanded the country's access to international ports across the Eurasian rimland. Unlike America, however, China didn't establish forward deployment bases across vast oceans, ranging from Hawaii and Guam to Japan and, during the Cold War, the Philippines' Subic and Clark bases. Instead, China went for a less costly and provocative alternative by instead developing as well as negotiating basing access across friendly nations across the Indian Ocean, stretching from the Seychelles, Chittagong (Bangladesh) in the east to Hambantota (Sri Lanka) and Gwadar (Pakistan) in the west. As Holmes and Yoshihara (2012) explain, 'Beijing is negotiating agreements that grant Chinese vessels the right to call at ports like Gwadar, Hambantota, and Chittagong to rest, refuel, and perhaps refit,' most likely for the purpose of "laying the foundations for a hypothetical build-up of hard naval power while debating the wisdom of such an expensive, arduous, potentially hazardous course of action...the port facilities under development in the Indian Ocean boast infrastructure that is "clearly adequate" for military use should Beijing see the need.' By the second decade of the 21st century, China conducted massive rescue operations of its citizens in civil war-torn nations of North Africa, joined the international anti-piracy coalition in the Gulf Aden, and established its first full-fledged overseas naval base in Djibouti. What the BRI seeks to achieve is to strengthen Chinese foothold across the Indian Ocean by deepening Chinese stake and investment in ports, airports, and key infrastructure facilities in friendly Eurasian rimland nations, from Bangladesh and Sri Lanka to Pakistan and friendly Middle Eastern and West African nations.

*b. Lock in rare commodities key to Chinese long-term development.* The BRI also allows China to enhance its access to resource-rich nations in Central



Asia, Middle East, Africa and Southeast Asia. Enhanced infrastructure allows for more efficient and costly transfer of precious minerals, food commodities, and hydrocarbon products from the upstream in BRI-covered nations all the way to downstream Chinese consumer markets and industrial heartlands.

*c. Globalize Chinese technological and industrial standards across emerging markets.* The BRI means Chinese national champions building massive infrastructure projects as well as partnering with foreign companies in production across the world. It will also help China diversify its heavily concentrated production base away from the Pearl River Delta (PRD), the manufacturing heartland of the world. The PRD, representing only 1 percent of the country's territory and 5 percent of its population, is responsible for 10 percent of the total GDP, quarter of total exports, and hosts a fifth of total foreign direct investments of China (Vaitheeswaran 2017). This means usage and diffusion of Chinese technology and engineering across the world, so that China's productive capacity, similar to Japan, is extended beyond its immediate borders and the traditional industrial zones. Under the Internet Plus and Made in China 2025 strategies, which draw on Germany's "Industry 4.0" plan, the Asian powerhouse aims to become technologically self-sufficient as well as a global leader in cutting-edge industries. Based on the plan, China has identified 10 key sectors for national champions, namely biopharma and advanced medical products, new advanced information technology, aerospace and aeronautical equipment, automated machine tools & robotics, modern rail transport equipment, power equipment, maritime equipment and high-tech shipping, new-energy vehicles and equipment, agricultural equipment, and new materials. Quantitatively, China aims to raise domestic content of core components and materials from 40 percent by 2020 to 70 percent by 2025 (Kennedy 2015). As Xi declared in a science event in May 2016, China will have become "the world's major scientific and technological power," and it will require the state "to champion first-class institutes, research-oriented universities and innovation-oriented enterprises." (Reuters 2016). The initiative builds on the earlier "Go Out" or "Going Global" strategy of the Jiang administration, with the China Council for the Promotion of International Trade (CCPIT) playing a key role, which encouraged, beginning in 1999, for Chinese companies to increase their global presence, move up the value chain, and develop global brands. Pushing Chinese national champions up

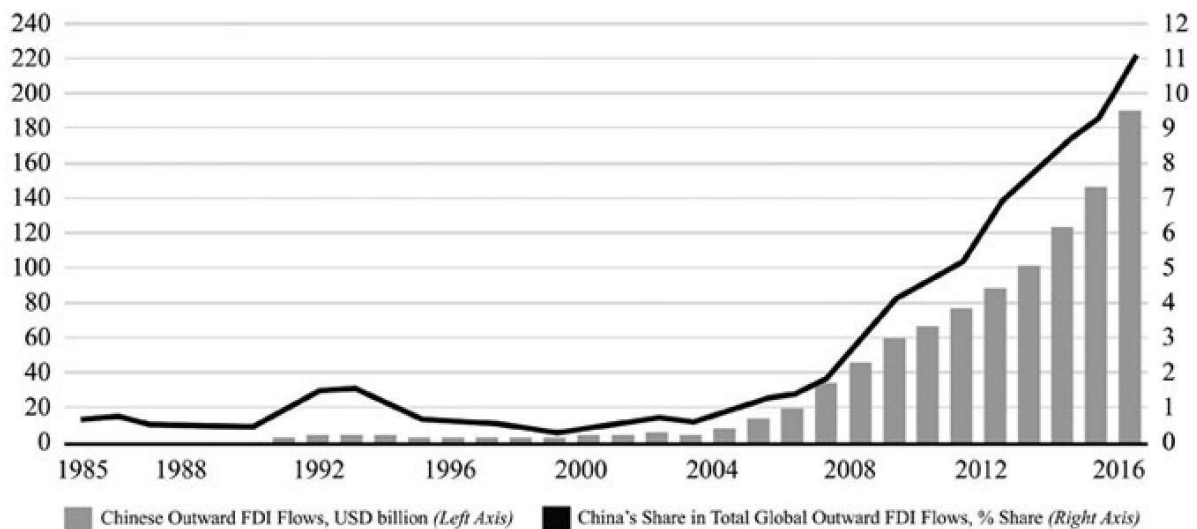
the value-chain is crucial to China becoming a consumer-based, service-oriented, high-tech and innovation-driven economy. The seven objectives show how BRI is crucial to China's transformation into a comprehensive power by the middle of the century.

### **Globalization with Chinese Characteristics: Beijing Consensus 2.0**

During the 19th Chinese Communist Party National Congress at the Great Hall of the People in central Beijing, Xi unveiled a two-stage national development plan. From 2020 to 2035, China will forge ahead with two 15-year development plans. The first one aims to turn China into a “moderately prosperous society” in 2035. By the middle of the century (2049), marking the 100th anniversary of the founding of the People's Republic of China (PRC), China aims to become a “great modern socialist country”. At this point, the country should have achieved five objectives: (1) new heights are reached in every dimension of material, political, cultural and ethical, social, and ecological advancement; (2) modernization of China's system and capacity for governance is achieved; (3) China has become a global leader in terms of composite national strength and international influence; (4) common prosperity for everyone is basically achieved; and (5) the Chinese people enjoy happier, safer, and healthier lives. According to Xi, China has met two of three strategic goals, namely “ensuring that people's basic needs are met and that their lives are generally decent”, ahead of time. The final strategic goal of comprehensive modernization will be the chief focus in the three decades following the centenary of the founding of the CCP . The BRI is key to China's achievement of a truly global superpower status, where the country not only wields instruments of power, but also rewrites the rules of international affairs according to its preferences and beliefs. Xi, who could remain in power for the foreseeable future, will not settle for anything less or else. The BRI means emerging countries across Asia, Africa and Europe—and developing Oceania as well as Latin American nations may one day be included—increasingly relying on Chinese capital, engineering and, likely, even labor. Between 2000 and 2014, China has invested up to \$350 billion around the world, a staggering number that is expected to exponentially increase under the

*Figure 2***China's Global Outward FDI Grew above Trend in 2016\***

Annual outward FDI flows, USD billion, percent share of global total



Source: PRC Ministry of Commerce (MOFCOM), United Nations Conference on Trade and Investment (UNCTAD), \*2016 data points are projections by the authors based on available monthly data points on non-financial OFDI from January to November 2016.

Source: *Center for Global Development 2018*

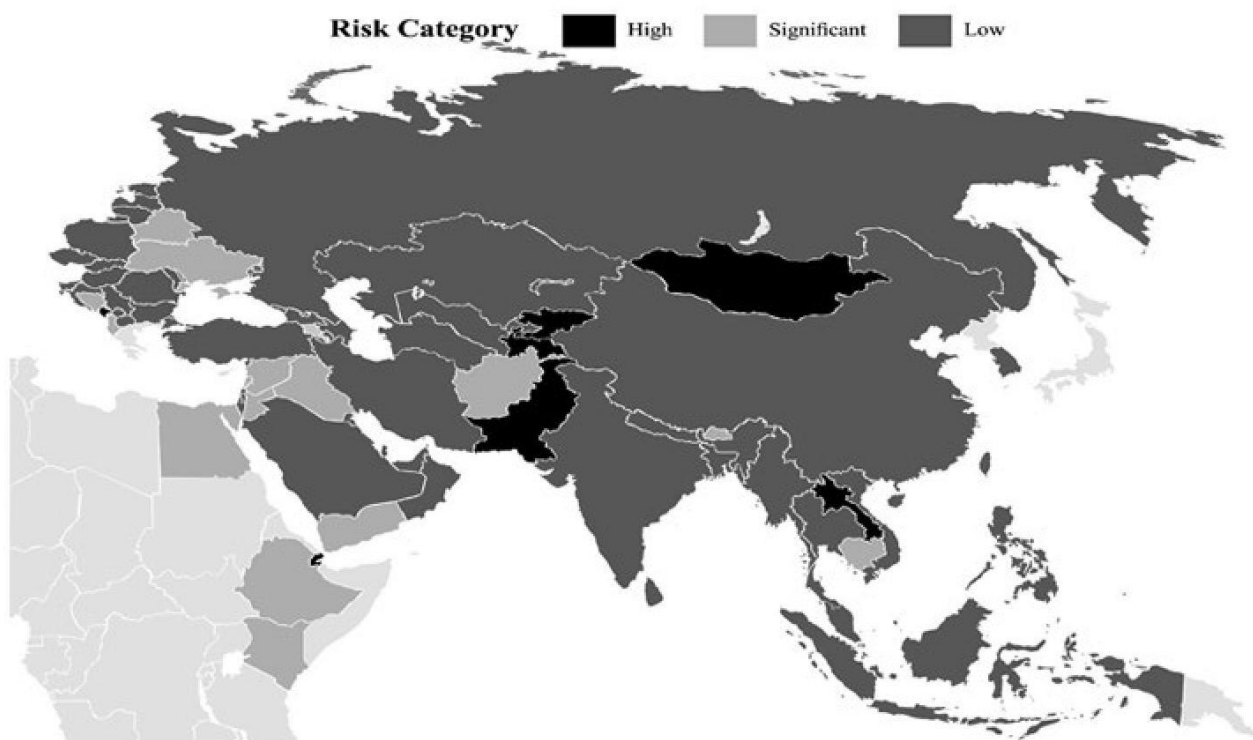
BRI strategy (See Figure 2). Some put the final BRI tag price as high as \$8 trillion (Hurley et al 2018).

Crucially, the operationalization of the BRI means a growing portion of the world relying on Chinese legal, regulatory and technological standards. This would make China a global cultural power, similar to where the West and Japan stand today. In fact, China is already establishing parallel international courts to oversee dispute-settlement cases vis-à-vis the BRI projects, especially in matters of debt-repayment and implementation standards (Chandran 2018). The problem, however, is that, as Hurley et al. (2018: 20) argue in an authoritative study on the BRI, “China’s behavior as a creditor has not been subject to the disciplines and standards that other major sovereign and multilateral creditors have adopted collectively.” Now this is crucial in light of the fact that up to 33 BRI countries that are currently rated below investment grade or non-rated, while Bosnia, Belarus, and Herzegovina, Kenya and Ethiopia are at high-risk of developing unsustainable debt levels in the short-run, if they were to welcome significant BRI-related investments (see Figure 3). Eight countries in particular Tajikistan, Lao People’s Democratic Republic (Laos), Kyrgyz Republic (Kyrgyzstan), Mongolia, Maldives, Montenegro, and Pakistan are at high-

risk of falling into complete debt-trap (Hurley et al: 2018). To some critics, China is essentially engaging in 'debt-trap diplomacy'. As Brahma Chellaney (2017) argues:

*China is using sovereign debt to bend other states to its will...states caught in debt bondage to the new imperial giant risk losing both natural assets and their very sovereignty...In exchange for financing and building the infrastructure that poorer countries need, China demands favorable access to their natural assets, from mineral resources to ports...Chinese financing can shackle its "partner" countries. Rather than offering grants or concessionary loans, China provides huge project-related loans at market-based rates, without transparency, much less environmental- or social-impact assessments.*

**Figure 3**



*Source: Center for Global Development 2018*

### *Transparency Deficit*

The CDB and China Exim Bank tend not to disclose the terms of their loans, making it even difficult to trace BRI-related investments across the world, particularly in developing nations that lack institutional transparency or sufficient accountability regulations. China policy banks, the backbone of BRI's funding, tend to provide a variety of credit arrangements, ranging from fully commercial loans (Ethiopia-



Djibouti railway, with upwards of 3 percent interest rates or more) to interest-free loans (mostly to key strategic partners such as Pakistan), with some carrying sovereign guarantees, meaning the receiving state has to cover, with tax payers' money or/and national resources, any outstanding debt obligations. Even in cases where there is no formal sovereign guarantee, obscure and non-transparent deals with China carry such implication by incumbent governments in receiving nations. There are also concerns over foreign currency fluctuations, since Chinese loans tend to be made in Renminbi or dollars, to which the former is pegged. In fact, the Chinese regime itself fails to provide comprehensive, systematic, centralized and transparent cross-border reports of its projects. The terms of the agreements also lack transparency. In some cases, China has pushed for onerous debt-settlement measures including 80:20 debt-to-equity ratios, with financing ratios ranging from 75:25 to 80:20 (with Beijing in clear command position). There have been several cases of debt-relief, though on an ad-hoc, case-by-case basis. China isn't a member of the Paris Club, the world's grouping of creditor nations, thus it doesn't abide by internationally acceptable standards of debt-relief. Thus, China's debt structuring arrangements don't follow any multilateral framework on debt sustainability. In some cases, full or partial debt-relief came along controversial compromises on the part of the receiving nation. In 2011, Tajikistan conceded 1,158 square kilometers of disputed territory with China in exchange for debt relief. Most notoriously in the case of Sri Lanka, China demanded a 99-year lease for managing the Hambantota Port—echoing Britain's arrangement with Qing China over Hong Kong—as part of a debt-for-equity settlement in 2017. China demanded a whopping 6 percent interest rate on its \$8 billion loan to Sri Lanka for the development of its main port. International credit rating agency Fitch recently warned that China's new Silk Road project is “driven primarily by China's efforts to extend its global influence,” where “genuine infrastructure needs and commercial logic might be secondary to political motivations.” (Reuters 2017). Thus, the BRI could lead to the creation of elephant projects across emerging markets, except on a far larger scale than the past. It's precisely the concerns over economic viability as well as China's aggressive, if not neo-colonialist, debt settlement arrangements have forced even Pakistan, a key strategic partner, as well as Myanmar and Nepal to reject major hydroelectricity projects under BRI worth close to \$20 billion (Chellaney 2018; Hurley et al 2018). Chinese infrastructure projects across key Southeast Asian countries such as

Thailand and Indonesia have also been hobbled by delays, concerns over quality, as well as terms of agreement. In Laos, there is fear of long-term debt trap by China (The Economist Intelligence Unit 2016; Cai 2017). As the then US Secretary of State Rex Tillerson correctly pointed, “[Beijing] encourages dependency using opaque contracts, predatory loan practices, and corrupt deals that mire nations in debt and undercut their sovereignty, denying them their long-term, self-sustaining growth... Chinese investment does have the potential to address Africa’s infrastructure gap, but its approach has led to mounting debt and few, if any, jobs in most countries.”<sup>6</sup>

### *BRI and Duterteconomics*

As the failure of the NBN-ZTE (embroiled in corruption cases) and Northrail projects (violation of bidding procedures) in the Philippines shows, Chinese investments across Southeast Asia could be hobbled by good governance concerns. In addition, there are concerns over economic viability, interest rates, bidding competitiveness, and, crucially, reliance on Chinese technology, labor and long-term maintenance contracts, which could threaten both domestic employment as well as national security consideration. Nonetheless, the Rodrigo Duterte administration has tapped China as a major partner for national development in the Philippines. Under Duterte, the Southeast Asian country is experiencing an infrastructure boom unseen since the time of strongman Ferdinand Marcos. Over the next decade, the government is set to embark on an ambitious \$180 billion infrastructure spending bonanza, set to transform the Philippines’ economy. Philippine Department of Finance (DOF) chief economist Karl Chua said in an interview with the author (Feb 12, 2018) that the government is looking at 75 flagship projects, which include six airports, nine railways, three bus rapid transits, 32 roads and bridges, and four seaports that will help bring down the costs of production, improve rural incomes, encourage countryside investments, make the movement of goods and people more efficient, and create more jobs. The government is also aiming to construct four energy facilities that will ensure stable power supply at lower prices; ten water resource projects as well as irrigation systems that will raise agricultural output; five flood control facilities that will help protect vulnerable communities as well as boost their resilience against the impact

of climate change; and three redevelopment programs that will deliver sustainable solutions to best meet the needs of urban population (Heydarian 2018). On one hand, infrastructure has been a major source of concern for foreign investors, who have been discouraged by the country's weak infrastructure and heavy utility costs. Those investments are crucial to create well-paying jobs for the millions of poor and unemployed Filipinos. According to an authoritative study by the Japan International Cooperation Agency (JICA), traffic congestion in Manila, caused by poor infrastructure, carried a daily price tag of PHP2.4 billion (\$45 million) in 2012—a figure that is expected to almost triple by 2030. According to the 2017 World Economic Forum's competitiveness report, the Philippines ranked 97th in the world in terms of infrastructure. In a separate report by the United Nations, the Philippines ranked 5th in Southeast Asia in terms of access to physical infrastructure. Unlike his predecessors, he is ditching the PPP modality in favor of larger reliance on government revenues as well as Official Development Assistance (ODA), particularly from Japan and China, as his main sources of infrastructure funding (Heydarian *ibid.*). To support the new modality, Duterte has normalized relations with China, which has offered \$7.3 billion in infrastructure investments, and Japan, which has been a leading investor in the Philippines for decades. Experts have expressed doubts over absorption capacity of government agencies to undertake projects competently and on time; risk of large-scale corruption and bidding anomalies affecting foreign, especially Chinese-led, projects; lack of construction workers and skilled labor; as well as growing pressure on Philippine peso and international reserves due to need for importing intermediate goods and technology for infrastructure boom. Critics say that Duterte's increased reliance on China's higher than market rate interest loans may drive the country into 'debt bondage', similar to Sri Lanka, Venezuela and Laos, and weaken the Philippines' delicate position in the South China Sea, where it faces continued threats to its territorial claims and maritime interests. To win Beijing's goodwill, the Filipino president, as the rotational chairman of the ASEAN, he has actively guarded China against any criticism over its massive reclamation activities in the South China Sea. Meanwhile, to China's delight, Duterte has also downgraded security cooperation with the US, the Philippines' sole treaty ally. Duterte has made it clear that he won't raise sensitive bilateral issues, namely territorial disputes, during his meeting with the Chinese president on the sidelines of the summit. "To date, I have nothing to

say except [my profuse] thanks to China for helping us,” the Filipino president said shortly before flying to Beijing after a stopover in Hong Kong in 2017. “One thing is very certain actually: China, in all good faith, wants to help us.” In a reflection of the tight nexus between geopolitical and economic considerations, Duterte secured a \$500 million loan for arms purchases from China during his visit to Beijing for the BRI Summit. While China has pledged as much as \$26 billion in aid and assistance to Manila since Duterte rose to power last July, nearly none of those funds have as yet been delivered (Heydarian 2018b).

### *Chinese Chimera*

Yet, actual figures show that China is yet to make any major investments in the Philippines, despite repeated announcements about a new “golden age” in bilateral relations. In fact, Chinese investment pledges have been at the heart of Duterte’s pivot away from its traditional allies and increasingly warm relations with Beijing, despite yearlong maritime disputes in the South China Sea. The bulk of investments last year (2017) came from traditional trading partners such as the U.S., Japan, and the Netherlands, as well as city-states of Singapore and Hong Kong. No trace of Mainland Chinese investments in key sectors of Philippine economy. In the first year of Duterte’s administration, Japan and the United States led the way in investments. Japanese investment increased by 23.79 percent, from an already large base of \$490 million (PHP 25.43 billion) in 2016 to \$600 million (PHP 31.48 billion) in 2017. American investment was down by 69.62 percent (a 13-year low), from \$530 million (PHP 27.51 billion) in 2016, but still stood at a high \$160 million (PHP 8.357 billion). South Korean investment, however, virtually collapsed, down by 92.61 percent from a high of \$230 million (PHP 11.82 billion) in 2016 to only \$16.6 million (PHP 873.15 million) in 2017. In contrast, China investment expanded by 15 percent, but from a very low base of only \$27 million (PHP 1.40 billion) in 2016 to \$31 million (PHP 1.61 billion) in 2017. That means countries like Japan out-invested China by a whopping 23:1 ratio (Heydarian 2018c).

The other concern with BRI-related investments in the Philippines is the competence and economic viability of Chinese contractors, a number of which have been blacklisted by the World Bank for their anomalous track record. Not to



mention, concerns over exorbitant interest rates (3-6 percent), willingness of China to observe bidding competitiveness procedures, follow standard practices in good governance and environmental sustainability, and, above all, provide jobs for the locals, rather than relying on fully-integrated Chinese supply of capital, technology and labor. As Kenneth Cardenas writes in an authoritative study for the Philippine Center for Investigative Journalism (PCIJ):

*Among the Filipino parties to these deals are firms with no track record in major infrastructure projects, no recent operating profit, and alarmingly small asset bases. Of the 22 firms that returned from China with agreements, eight had a paid-up capitalization of less than PHP15 million. At least three firms report their annual results under accounting rules for small and medium enterprises. Seven had not turned a profit over the past two years. With a few exceptions, the reported value of their deals dwarf the firms' asset bases and turnovers by two or three orders of magnitude [author's own emphasis]... Sometimes, though, a firm's track record is not in demonstrable success in running businesses, but in its ability to bring connections with the right offices, infrastructure outlays, and politically-guaranteed credit into fortuitous alignments... flagship infrastructure projects, with direct involvement of the Office of the President; the availability of guaranteed funding, whether in the form of soft-loan financing or a public-private partnership; a well-connected Filipino firm that just happens to be at the right place and the right time; and finally, projects that once delivered fall well short of the original promise [raise concerns].*

As Cardenas (2018) points out, “How did virtually unknown firms with no track record in bidding for—much less completing—major infrastructure projects, rise to billion-dollar prominence with the change of the administration?” The Philippines’ healthy growth rates and stable sovereign credit rating put into question whether there is any serious risk of ‘debt-trap’. But, equally alarming, is the possibility of only a few Chinese investments reaching successful and sustainable completion due to lack of competence of involved contractors and massive corruption, which undermine the commendable Duterteonomics project. Moreover, there are concerns that the Chinese investments, similar to those in Africa, Latin America and Central Asia, will only reinforce undemocratic and undermine good governance standards, which, in effect, could strengthen autocratic tendencies in the Philippines. After all, transparency and accountability tend to be trumped by corruption and personalistic ties between China and the ruling elite in beneficiary nations (Fontaine and Kilman 2018). Then, there is the additional concern over whether China itself is solvent

enough to undertake the BRI project along its lofty pronouncements. After all, the Xi administration is yet to address serious internal systemic weaknesses within the Chinese economy. The upshot of its post-Global Financial Crisis massive stimulus program was a dramatic increase in private debt, which reached 130 percent of the GDP. If one were to include the 'shadow banking sector'—off-the-book transfers among depositors and corporations as well as informal lenders, which tend to charge dramatically higher interest rates—China's debt-to-GDP ratio could reach the 200 percent danger mark (Ibid:26). Local government units accumulated up to \$1.8 trillion in debt by the time Xi took reign of the country. Externally, anemic growth in the West means limited opportunities for exporting domestic problem at home, protecting the export industries, and continuing the manipulative recycling of export dollars into consumer credit overseas. A credit crunch at home has been on the horizon (Feigenbaum and Ma 2013). The Asian Development Bank's (ADB) estimates that Asia alone confronts an \$8 trillion infrastructure spending gap over the next decade. Developing countries in Asia need \$1.7 trillion annually to cover their infrastructure needs (Asian Development Bank 2013). Looking at 'debt trap' emerging when debt-to-GDP ratios breach the 50-60 percent threshold, Hurley et al (2018:5) argue that the bigger concern with BRI is its modesty in addressing infrastructure needs of developing countries:

*Our analysis finds that BRI is unlikely to cause a systemic debt problem in the regions of the initiative's focus. While the aggregate numbers look large, when assessed in the context of the size of the economies that are likely to benefit from BRI investments, the amounts are consistent with current levels of infrastructure investment. Over a 20-year span, an \$8 trillion investment program for BRI countries would amount to less than 1.5 percent of GDP per annum, and about 2.5 percent excluding China [author's own emphasis]. It is also likely that some of the China-sourced financing will merely substitute for other sources. These levels are modest in comparison to the ADB's estimated infrastructure financing "needs" in Asia, which are projected to be 5.1 percent of the region's GDP.*

In short, the BRI may end up more as a chimera, falling several factors short of the infrastructure needs of targeted countries, rather than a strategic trap for many its intended beneficiaries. In 2016, China's BRI-related investments dropped by 2 percent on a year-on-year basis. In fact, Xi himself acknowledged this tendency in recent years. In an important speech before senior officials in mid-2016, Xi



underscored his sense of urgency by calling on officials to “get some model projects done and show some early signs of success and let these countries feel the positive benefits of our initiative” (Cai 2017).

In many ways, the BRI can better be compared to the American Transcontinental Railway bonanza in the 19th century, where, as Jonathan Hillman (2016) points out, the project became “an unquestionable national imperative,” but the “actual construction...catered more to elite interests than collective wellbeing. Political favors trumped economic fundamentals thanks to shady financing, excessive subsidies and a heady dose of nationalism.” BRI investments may not be as large and consequential to the beneficiaries, yet they may have an extremely negative impact on the institutions of host nations, especially where transparency and accountability regimes are sorely lacking.

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<sup>1</sup> See the full speech here: [http://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/zyjh\\_665391/t1078088.shtml](http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zyjh_665391/t1078088.shtml)

<sup>2</sup> For full speech see [http://www.xinhuanet.com/english/2017-05/14/c\\_136282982.htm](http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm)

<sup>3</sup> For the full speech see <https://america.cgtn.com/2017/01/17/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>

<sup>4</sup> Depending on sources, the figure ranges from as low as \$1.3 trillion to \$8 trillion. Yet, the \$5 seems as a more reasonable upper-limit, since the larger figures have yet to be reflected in China's own documents and pronouncements.

<sup>5</sup> See full speech here: [http://www.chinadaily.com.cn/china/19thcpcnationalcongress/2017-11/04/content\\_34115212.htm](http://www.chinadaily.com.cn/china/19thcpcnationalcongress/2017-11/04/content_34115212.htm)

<sup>6</sup> See full speech at <https://www.state.gov/secretary/remarks/2018/03/279065.htm>

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