

POWER PLAY

Addressing China's Belt and Road Strategy

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Executive Summary

The United States and China are in a competition to shape the course of the 21st century. At stake is whether the prevailing international order that has backstopped peace, prosperity, and freedom will endure, or whether Beijing's emerging vision – a world defined by great power spheres of influence, rigged economic interactions, and ascendant authoritarianism – will become the global reality.

To realize this vision, China is making multiple power plays. It has worked assiduously to offset long-standing American military advantages by transforming the People's Liberation Army (PLA) into a force tailored to exploit perceived U.S. vulnerabilities.¹ China has also employed economic coercion against American allies and partners to modify their behavior to suit its interests.² And Beijing has systematically acquired foreign technology through legal and illegal means with the objective of dominating the innovation industries of the future.³

Then there is what China calls "One Belt, One Road," its newest power play combining economic, diplomatic, military, and informational instruments of statecraft. This Belt and Road strategy envisions a more connected world brought together by a web of Chinese-funded physical and digital infrastructure. Beijing has dedicated enormous resources to this strategy; independent estimates put total Belt and Road-related construction and investment at around \$340 billion from 2014 to 2017.⁴ Yet the Belt and Road should not be viewed as a 21st-century Marshall Plan with Chinese characteristics. Although addressing a genuine demand for infrastructure, this strategy is designed to lay the foundation for an alternative order and is already eroding international norms and standards in a way that privileges China.

How the Belt and Road is Reshaping the World

Despite confronting growing resistance in some countries, the Belt and Road is having real-world effects that extend from geopolitics to commerce to governance and development.

CHINA WILL CEMENT ITS STATUS AS A GLOBAL POWER.

- Dual-use facilities constructed under the banner of the Belt and Road will enable the PLA to increasingly operate globally. This will create new risks for U.S., ally, and partner militaries operating in the Indian Ocean Region (IOR) and beyond.
- China will attain lasting diplomatic leverage across a large part of the world by offering infrastructure financing to some governments at a level exceeding their ability to repay.
- China's ability to manipulate global supply chains for geopolitical benefit will grow. In a crisis or conflict, it could create artificial market scarcities as a new form of economic coercion.
- European cohesion on China policy will continue to weaken as Belt and Road investment into Southern and Eastern Europe incentivizes countries to minimize positions at odds with Beijing.

CHINA WILL PLACE THE WORLD ECONOMY AT RISK WHILE STRENGTHENING ITS ABILITY TO COMPETE.

- International commercial standards will come under pressure as China races to execute infrastructure projects and moves to create a new legal architecture associated with the Belt and Road.
- The Belt and Road will provide China's information technology sector with a significant edge by enabling Beijing to set online standards and establish new platforms while tapping data and talent overseas.
- Key countries will confront significant risk of debt distress given that most of China's financing for Belt and Road projects is loans.
- Non-Chinese companies will compete for Belt and Road contracts on an uneven playing field and participate in projects on Beijing's terms. China will attempt to externalize some of the financial risk associated with Belt and Road projects by inviting Western investors.

CHINA WILL IMPERIL DEMOCRACY IN SOME COUNTRIES AND PROMOTE LOW-QUALITY DEVELOPMENT.

- Countries taking Chinese investment under the Belt and Road run a high risk of governance declines, in part because many lack strong institutions, and because corruption and the resulting capture of elites can serve as a tool for Beijing to secure projects with strategic potential.
- The Belt and Road will serve to exports elements of China's digital surveillance regime as Beijing promotes information connectivity to complement physical infrastructure.
- Beijing advances a "China First" development model that maximizes its economic interests while offering minimal capacity building to countries receiving investment. Local environmental and human rights concerns will be ignored.

Addressing China's Power Play

The United States today lacks a coherent and well-resourced response to China's Belt and Road strategy. Unadulterated opposition would prove counterproductive, given that many countries welcome infrastructure investment from any quarter – even with strings attached – and see few credible alternatives to working with China. Accordingly, the United States in concert with its allies and partners should adopt an approach that seeks to shape the Belt and Road where possible, compete when required, and most critically, advance a positive economic vision.

This approach should include the following key elements:

RECOMMENDATIONS: GETTING FUNDAMENTALS RIGHT

- *Advance a compelling American agenda for international development, trade, and investment.* The United States should immediately launch a series of forums across the Indian Ocean rim and Eurasia to showcase America's commitment to high-quality development cooperation leveraging U.S. strengths such as entrepreneurship.
- *Develop and execute a counternarrative to China's Belt and Road.* This starts by forging a robust non-military public diplomacy capability, re-creating aims and functions of the Cold War-era U.S. Information Agency, optimized for the digital age.
- *Resource all elements of an American response.* Congress should significantly raise the cap on lending by the Overseas Private Investment Corporation (OPIC) and allow the U.S. government

to take equity in overseas projects by swiftly passing legislation such as the Better Utilization of Investments Leading to Development (BUILD) Act.

RECOMMENDATIONS: GEOPOLITICS

- *Align strategic infrastructure investments.* This begins with the United States, Japan, Australia, India, France, and the United Kingdom prioritizing locations and infrastructure projects in the Indo-Pacific based on their combined economic and military value.
- *Play defense and offense on military posture in the Indian Ocean.* As an initial step, the United States should convene defense planners from Japan, Australia, India, France, and the U.K. to identify one or more locations in the region that could become shared military hubs.
- *Launch a supply chain dialogue.* The United States should invite its advanced economy allies to participate in a new, quiet dialogue on how to mitigate the risk accompanying China's growing control over global supply chains.

RECOMMENDATIONS: COMMERCE

- *Expand U.S. digital outreach.* The United States should work with Europe and Japan to establish a digital development fund under the auspices of the Organisation for Economic Co-operation and Development (OECD). In addition, the Department of Commerce's Digital Attaché Program should be expanded to a wider set of countries.
- *Promote regional connectivity plans.* The United States should partner with members of the Gulf Cooperation Council (GCC) to launch a new infrastructure initiative for the Middle East.
- *Codify an international standard for high-quality infrastructure.* Using the new standard, the United States should put forward a "high-quality infrastructure pledge" that global companies and investors could make.

RECOMMENDATIONS: GOVERNANCE AND DEVELOPMENT

- *Prepare to capitalize on moments of disillusionment with the Belt and Road.* Focusing on countries hosting Belt and Road projects, the U.S. State Department should leverage artificial intelligence-powered sentiment analysis of local news and social media and American embassy reporting to create a database for use across the U.S. government that tracks mounting frustration with Chinese investment.

- *Foster political resiliency in countries targeted for Belt and Road investment.* In nations potentially vulnerable to Chinese capture of their elites, the United States should bolster rule of law, transparency, accountability, freedom of the press, and civil society.
- *Enhance technical capacity in countries across the Indian Ocean rim and Eurasia.* Partnering with India and the United Arab Emirates, the United States should establish an Infrastructure Center of Excellence in Dubai to train officials from the Middle East, Africa, and South and Central Asia.

With a Belt and Road backlash already evident in some countries, the United States has a window of strategic opportunity. In concert with like-minded allies and partners, it should seize the moment.

CHAPTER 1

Introduction and Background

China is making a power play to transform large parts of the globe into the core of a new international order. Its Belt and Road strategy seeks to bind together Asia, the Middle East, Africa, and Europe through infrastructure projects ranging from ports and railways to power plants and telecommunications networks. China has portrayed the Belt and Road as an engine for shared development and growth. But while the infrastructure needs addressed by Beijing's strategy are real, the Belt and Road ultimately serves to advance China's ambitions across the economic, diplomatic, and military domains.

Launched by President Xi Jinping in 2013,⁵ what Beijing in Chinese still calls "One Belt, One Road" (though now in English referred to by China as the "Belt and Road Initiative") involves by some estimates two thirds of the world's population⁶ and one-third of its economic output. Although many aspects of the Belt and Road remain opaque and the scope and scale of the effort continue to evolve, its three main elements are clear. The first is a "Silk Road Economic Belt" that runs from China through Central Asia to Europe, with additional branches extending into Pakistan and the Middle East. The second is a "21st-Century Maritime Silk Road" that projects from China's coast into Southeast Asia, crosses the Indian Ocean, and terminates in East Africa and the Mediterranean Sea.⁷ Rapidly emerging as the third major element is a "New Digital Silk Road" that will provide telecommunications and information connectivity for both the maritime and land routes.⁸

For China, the original – and still primary – impetus behind the Belt and Road is domestic. The strategy offers an outlet for excess industrial capacity at a time when investing in domestic infrastructure yields diminishing returns. It holds the potential to accelerate economic growth in China's outlying, underdeveloped provinces by connecting them to foreign markets. In addition, the Belt and Road creates international opportunities for state-owned enterprises that Beijing seeks to transform into global champions. The Belt and Road is an essential vehicle for advancing Xi's vision of "national rejuvenation" – a future in which China is unconstrained within Asia and leads globally.⁹

Geopolitical motivations also underpin the Belt and Road – and they have become more pronounced since its inception. Its increasing focus on aspects of digital connectivity are indicative of Beijing's intense interest in shaping the standards and platforms that will govern the 21st-century economy. The Belt and Road strategy also reflects Beijing's enduring desire to diversify its energy imports away from singular dependence on

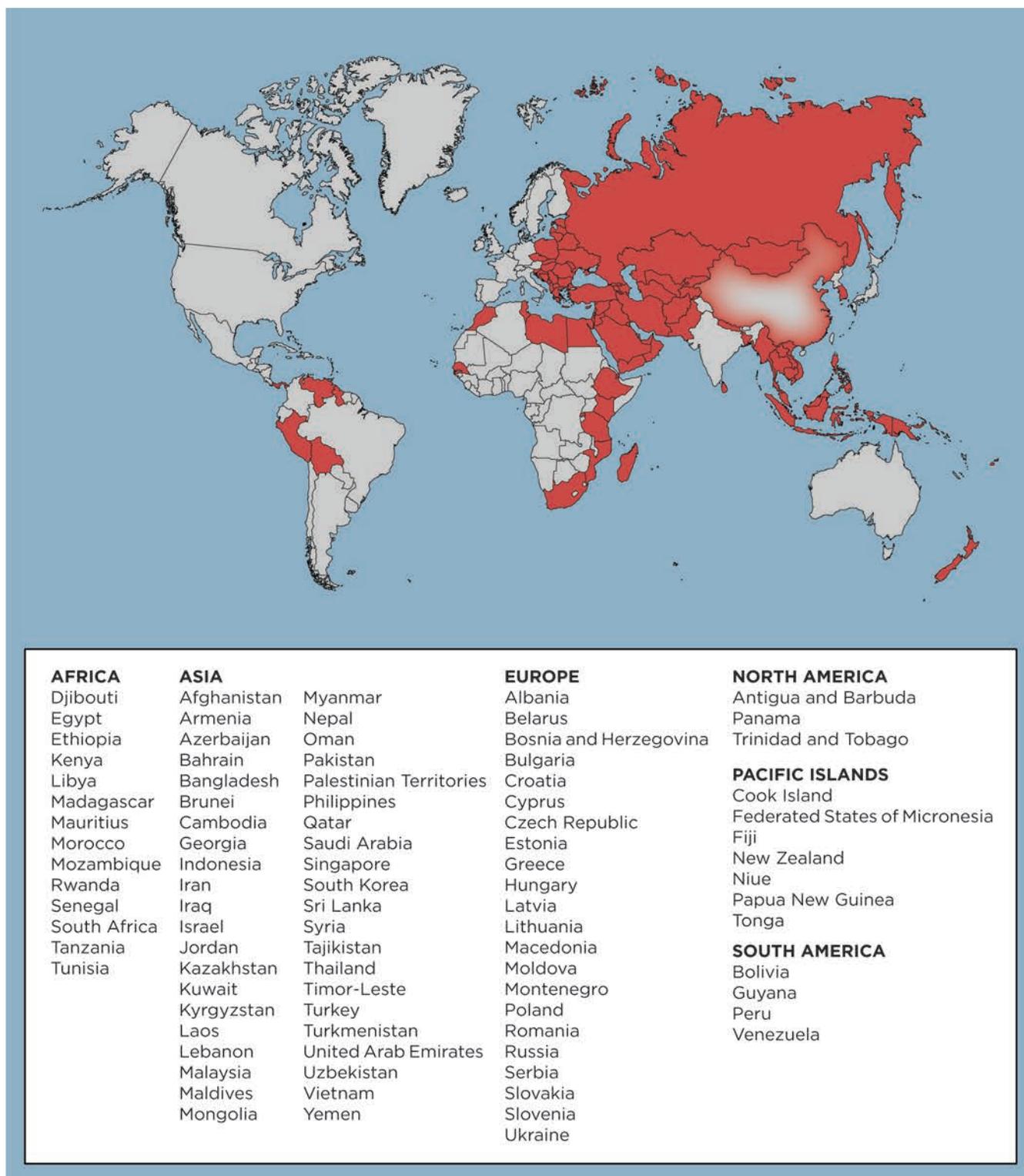
shipping that transits vulnerable maritime choke points and to create new forms of international organizations where the United States and its allies and partners do not predominate.¹⁰

WINNING UNITED NATIONS SUPPORT FOR THE BELT AND ROAD

A key component of President Xi Jinping's flagship Belt and Road is garnering high-level, multilateral support to solidify the strategy's international legitimacy. This has included a major – and successful – effort to win U.N. support for the Belt and Road. In 2016, the U.N. Development Programme signed a memorandum of understanding with China to cooperate on the Belt and Road. At the 2017 Belt and Road Forum (BARF) for International Cooperation, U.N. Secretary-General António Guterres noted that "the Belt and Road Initiative has immense potential,"¹¹ pointing to potential synergies with the U.N.'s sustainable development goals (SDGs). The U.N. is expanding this initial rhetorical support into broader convenings designed to enhance cooperation with the Belt and Road. In June 2018, the United Nations General Assembly (UNGA) convened a high-level symposium titled "Belt and Road Initiative and 2030 Agenda for Sustainable Development."¹² That the U.N. sees overwhelming overlap between the Belt and Road and its SDGs is no coincidence. China has leveraged U.N. offices where its nationals occupy key positions to champion the Belt and Road.¹³ The prospect of additional Chinese funding at a time when the United States has taken a more oppositional approach to the U.N. also likely increases the Belt and Road's appeal.

The Belt and Road pairs real-world projects with a massive propaganda effort. Anchored by an informational narrative crafted to amplify the strategy's impact, the Belt and Road paints a picture of China's inevitable ascent. To support this image, Beijing has played up the size and profile of the Belt and Road. In bilateral statements with participating countries, China routinely announces jaw-dropping investment commitments that it may or may not deliver upon.¹⁴ At the inaugural 2017 Belt and Road Forum (BARF) for International Cooperation, Beijing considered securing head-of-state attendance as a top priority, largely for optics' sake.¹⁵ More recently, China in public pronouncements has

92 Countries Formally Endorse China's Belt and Road



These endorsements generally indicate a country's political support for the Belt and Road but do not necessarily correlate with participation in actual projects. Source: YiDaiYiLuWang, One Belt, One Road Portal, <https://yidaiyilu.gov.cn>; and a comprehensive survey of a large number of official statements.

expanded the Belt and Road to incorporate its economic activities in the Arctic and Latin America.¹⁶ This new development poses risks to Beijing's strategy. Whether the rhetorical enlargement of the Belt and Road will ultimately reinforce China's ascendancy narrative or sow confusion is unclear.

Notwithstanding a number of recent, well-publicized setbacks,¹⁷ the Belt and Road retains considerable momentum. The strategy will likely play a central role in China's foreign policy for the foreseeable future, given that its chief patron, Xi, has successfully enshrined the Belt and Road¹⁸ within China's constitution at the 19th Party Congress.

CHAPTER 2

How the Belt and Road is Reshaping the World

China's Belt and Road is eroding the foundation of the existing international order. Already, the effects of the Belt and Road are increasingly visible and extend from geopolitics to commerce to governance and development.

Geopolitics¹⁹

The People's Liberation Army (PLA) will become more global. The Belt and Road simultaneously increases China's need to project military force overseas and enhances its ability to do so. Securing the "21st-Century Maritime Silk Road" will require the PLA Navy to more regularly patrol the sea lanes that link China's far-flung port investments. Moreover, with Chinese investment and workers fanning out to distant and sometimes dangerous regions, the PLA will more frequently confront circumstances that warrant noncombatant evacuations, humanitarian assistance and disaster relief operations, and counterterrorism missions. Operations such as the 2015 evacuation of Chinese citizens and other foreign nationals from Yemen indicate that the PLA will take action overseas when China's interests are at stake.²⁰ In the past, the lack of a dedicated logistics network limited the PLA's ability to deploy overseas.²¹ The Belt and Road addresses this deficiency through the construction of dual-use infrastructure such as ports and airfields that can support PLA operations in the Indian Ocean and beyond. Djibouti, where China obtained a military facility after building a nearby commercial port,²² could well serve as a model for how the Belt and Road will pave the way for a more global PLA.

U.S., ally, and partner militaries will confront new risks. The Belt and Road presents a number of military challenges, starting with China's overseas military expansion. In Djibouti, where China now operates in close quarters with U.S. forces as well as those of Japan, France, and Italy, there is a possibility of accidents in an increasingly cluttered operating environment given the proliferation of bases near the Bab-al-Mandeb.²³ China's proximity also poses a threat to U.S. military activity, ranging from intelligence collection concerns to the harassment of American forces, as demonstrated by the

The "New Digital Silk Road" has the potential to compromise the networks of U.S. allies and partners.

recent lasing of a U.S. pilot.²⁴ Looking beyond Djibouti, the Belt and Road could also facilitate the permanent stationing of Chinese submarines in the Indian Ocean.²⁵ This increased undersea presence would primarily affect the U.S. and Indian navies but would also pose a concern to Japanese and European warships operating within the Indian Ocean Region (IOR). More broadly, to the extent that China deploys anti-ship cruise missiles and integrated air and missile defense capabilities to military access points or bases developed under a Belt and Road banner, it could more credibly hold at risk U.S., ally, and partner forces operating well outside the Western Pacific in a crisis or conflict scenario. Last, but importantly, China's growing involvement in the information technology ecosystems of both developed and developing countries through its activities under the "New Digital Silk Road" has the potential to compromise the networks of U.S. allies and partners.²⁶ This could complicate operational security at forward U.S. bases and access points and constrain opportunities to enhance American interoperability with foreign militaries.

China will attain lasting diplomatic leverage. By lending to some governments at a level beyond their ability to repay, China has created debt traps that place recipient countries in a position of dependence and vulnerability. The diplomatic leverage that China obtains from this approach is long-term. Financial obligations transcend changes in political leadership and constrain the room to maneuver of successive governments – even those inclined to move away from Beijing. Further, debt burdens translate into a flexible form of influence that China can wield to obtain control of foreign assets, press for military access, and compel support – or at least curtail opposition – to its position on issues ranging from maritime disputes in the South China Sea to human rights. China's successful parlay of Sri Lanka's financial obligations into a debt-for-equity swap that yielded a 99-year lease of the strategic Hambantota port is one example. Another is Greece's new role as a defender of Beijing against human rights condemnation by the European Union (EU) after a surge of Chinese investment.²⁷

European divisions on China will deepen. The Belt and Road is weakening European cohesion on China policy as less-wealthy countries in Southern and Eastern Europe unabashedly welcome Chinese investment while Western Europe and Brussels – the seat of the EU – remain cautious.²⁸ Leaders in Western Europe, such as the U.K.'s Theresa May and France's Emmanuel Macron, have refrained from unequivocally endorsing the Belt and Road, and instead have emphasized the need for China to meet

international standards and avoid transforming countries into vassal states.²⁹ The EU has taken a similar approach, calling for the Belt and Road to “adhere to a number of principles including market rules and international standards.”³⁰ By contrast, a number of states largely in Southern and Eastern Europe – including the Czech

The Belt and Road is weakening European cohesion on China policy.

Republic, Hungary, Romania, and Greece – have formally endorsed the Belt and Road.³¹ Looking forward, Belt and Road-related investment will limit EU action on key matters relating to Beijing, ranging from criticizing its human rights record in major international forums³² to developing a common set of requirements for screening China’s investment in sensitive industries.

China’s ability to manipulate global supply chains for geopolitical benefit will grow. Through its overseas investment activities, Beijing will play an increasingly influential role in the distribution networks linking suppliers to consumers worldwide. This is most pronounced in major container ports. According to the *Financial Times*, Chinese-owned or -invested ports in 2015 handled two-thirds of all container traffic,³³ a figure that has likely grown since then as Beijing embarked on a new port-buying spree.³⁴ Beyond ports, China also plays a leading role in the shipping industry. With multiple points of leverage over global supply chains, if trade tensions further escalate, or in the event of a military crisis or conflict, China would have the ability to influence market prices by limiting the availability of manufactured goods and nonrenewable commodities such as critical minerals. This could take various forms, from slow-rolling deliveries to letting cargo sit dockside to denying loading/lifting rights. In this way, the Belt and Road will expand Beijing’s economic coercion arsenal.³⁵ In peacetime, China could more subtly leverage its growing presence in global supply chains for advantage, for example, by introducing inefficiencies into the supply chains of a geopolitically significant foreign company to reduce its competitiveness.

China’s perceived energy security will improve.

Beijing today relies overwhelmingly on seaborne trade for its energy imports and fears the economic impact of a maritime blockade during a future conflict.³⁶ It intends the network of pipelines and ports forged by the Belt and Road to create alternatives to the Strait of Malacca,

a potential choke point that carries approximately 80 percent of oil imported to China.³⁷ When combined with the PLA’s expanding footprint in the Indian Ocean, Belt and Road projects such as the planned oil pipeline connecting Gwadar, Pakistan, to Kashgar – a key city located in China’s westernmost province of Xinjiang – could come to symbolize a new level of energy security for China. In reality, however, the pipelines and ports constructed under the umbrella of the Belt and Road may do little to reduce China’s dependence on maritime choke points, given its growing energy demands and the vast scale of its fossil fuel imports from the Middle East and Africa.³⁸

Commerce

International commercial standards will come under pressure.

As China races to fund and execute infrastructure projects across Asia, the Middle East, Africa, and Europe, its activities at times deviate from existing commercial standards. These standards – such as transparent investment procedures, alignment with social and environmental responsibility guidelines, and debt sustainability³⁹ – reflect decades of lessons learned both by investors and recipient countries. To be fair, the Belt and Road is not a monolith, and some of the investments associated with it adhere to global norms.⁴⁰ Other investments, however, have channeled projects to companies blacklisted by the World Bank,⁴¹ involved highly unfavorable lending rates, or have inflated costs.⁴² For example, China’s initial estimate to build the Myanmar Kyauk Pyu deep-water port reached \$7.3 billion; an outside entity estimated the same project could be completed for \$1.3 billion.⁴³ Local civil society groups have also expressed concerns that the project is disregarding established World Bank best practices on environmental and population resettlement matters.⁴⁴ Beijing’s announcement that it intends to establish a new Belt and Road dispute settlement mechanism indicates that its strategy will also pose a growing challenge to existing international legal standards. As proposed, this mechanism would sit under China’s Supreme People’s Court and provide Beijing with a more malleable tool to resolve Belt and Road legal disputes than local courts in recipient countries or established international arbitration frameworks.⁴⁵

China’s ability to compete in the digital domain will improve.

The Belt and Road is advancing Beijing’s intention to become the world’s leading information technology power.⁴⁶ As China’s national technology

champions go abroad to construct the “New Digital Silk Road,” Beijing’s audacious bid to set international standards and establish new platforms for online connectivity will gain additional momentum. Deepening China’s involvement in the information technology ecosystems of developing countries that remain ambivalent about future models of internet governance will bolster Beijing’s ability to advance a new online model in which state power and sovereignty prevail.⁴⁷ To compete globally, China’s fast-growing technology companies require greater access to foreign data. The telecommunications infrastructure of the “New Digital Silk Road”

The Belt and Road is advancing Beijing’s intention to become the world’s leading information technology power.

potentially could yield large amounts of data that ultimately will enable Chinese companies to more effectively target consumers in markets across the Indian Ocean rim and Eurasia. This data also could boost China’s artificial intelligence (AI) industry, reinforcing the advantage it already enjoys given China’s population size and supportive government regulations.⁴⁸ Beyond data, the Belt and Road likely will serve as a mechanism for China to enlist foreign scientists and engineers in cooperative technical projects.⁴⁹ Through such technology cooperation, China could harness talent across a large part of the globe even as it remains a relatively unattractive destination for high-skilled immigration.⁵⁰

Key countries will struggle to service their Belt and Road-related debt. Most of China’s financing for Belt and Road projects involves loans rather than grants. Many of the countries receiving Chinese investment also lack the technical capacity to assess their repayment ability – a particular challenge given Beijing’s willingness to ignore debt sustainability standards, which normally serve as guardrails for investors and recipient countries. According to a recent study, future financing related to Belt and Road projects puts eight countries at significant risk of debt distress: Djibouti, the Maldives, Laos, Montenegro, Mongolia, Tajikistan, Kyrgyzstan, and Pakistan.⁵¹ Of these eight, a debt servicing crisis in Djibouti, the Maldives, or Pakistan would create particularly dire geopolitical consequences for the United States and its allies and partners. Except for China, the

world’s major lenders are members of the Paris Club, which finds coordinated and sustainable solutions to the payment difficulties experienced by debtor countries.⁵² In a restructuring scenario, China could potentially extract nonstandard concessions that infringe upon debtor countries’ sovereignty. In exchange for debt relief, China could further expand its military presence in Djibouti or secure ownership of strategic commercial assets. With the Maldives, China could write off debt for a military facility. A financial crisis in Pakistan would present Beijing with additional leverage to pursue a military presence near Gwadar – not to mention further destabilize the country with potential spillover effects for India and Afghanistan. This would be consistent with China’s approach to addressing Sri Lanka’s debt through securing a 99-year lease over Hambantota port. Replicated elsewhere, such an approach would enable Beijing to construct a growing network of dual-use facilities that could provide a foundation for its military to complicate American military operations in the IOR.

Non-Chinese companies will compete on an uneven playing field. On its face, the vast infrastructure spending that China plans to dedicate to the Belt and Road presents a massive commercial opportunity for companies headquartered in the United States, Japan, Europe, and other highly developed economies. Although Chinese firms may have a perceived cost advantage, companies such as Bechtel and Fluor remain competitive due to their superior supply chain management, technology, and efficiency. At the least, non-Chinese companies could conceivably supply many of the specialized services that go into supporting Belt and Road projects as well as high-value components. Yet one recent study found that 89 percent of the contractors working on Chinese-funded transportation projects in Asia and Europe were Chinese companies.⁵³ In competing for Belt and Road contracts, Chinese firms have multiple advantages. Many Belt and Road projects are opaque until formally announced, giving government-connected Chinese firms an information edge that allows them to secure deals before foreign companies have an opportunity to bid.⁵⁴ Moreover, Chinese firms can tap a vast pool of state-directed funding distributed through opaque institutions such as the China Development Bank.⁵⁵ Foreign companies typically lack this easy financing. This does not mean that China will exclude foreign companies from Belt and Road projects;

In a debt restructuring scenario, China could potentially extract nonstandard concessions from debtor nations.

they will participate and indeed profit. However, this participation will be on Beijing's terms, through structures such as joint ventures designed to extract foreign technology and organizational know-how. In countries where skepticism of the Belt and Road is growing, partnering with non-Chinese firms may also help Beijing to win local trust.

China will try to externalize some of the financial risk of the Belt and Road. Beijing is encouraging U.S. and European investment banks and institutional investors to put capital into Belt and Road projects. Some Western firms have responded favorably, holding conferences on the Belt and Road⁵⁶ and designating senior personnel to lead their work on it.⁵⁷ Western banks have also become directly involved in Belt and Road financing. A leading example is Standard Chartered, which has pledged by 2020 to facilitate \$20 billion in financing for Belt and Road-related projects. Early this year, Standard Chartered also concluded a memorandum of understanding with China Development Bank. Under the terms, China Development Bank will provide Standard Chartered with up to \$1.5 billion over the next five years to support loans. Standard Chartered will in turn “make the drawdown decisions, and take the credit risk of the borrowers.”⁵⁸ An emerging phenomenon is China's attempts to establish investment instruments to finance the Belt and Road that bundle together many projects, potentially obscuring the underlying risk. Although financing for the Belt and Road will remain overwhelmingly Chinese in the near term, these attempts to enlist Western capital warrant close scrutiny.

China's financial ambitions will remain unfulfilled. Beijing has long sought to transform the renminbi into a global currency and to play a more central financial role in the world.⁵⁹ Accordingly, one purpose of the Belt and Road is to promote the internationalization of the renminbi, and China has actively pressed countries receiving investment associated with the Belt and Road to make transactions in its currency. However, the usage of the renminbi across these states remains uneven, and the renminbi actually has seen its share of all international transactions fall in recent years.⁶⁰ The Belt and Road could benefit China's position in international debt issuance markets. China's Securities Regulatory Commission recently allowed foreign companies and government-backed institutions to issue official Belt and Road bonds on the Shanghai and Shenzhen stock exchanges.⁶¹ Yet the criteria distinguishing these bonds remain vague, as does the ability of foreign issuers to

repatriate capital.⁶² In the near term, at least, the Belt and Road is unlikely to overcome structural constraints on China's global financial role that range from capital controls to a lack of renminbi convertibility. Where it might on the margin advance China's financial clout is to further promote the adoption of Chinese payment systems that are already expanding internationally.

Governance and Development

The quality of governance in some countries taking Belt and Road investment will decline. Many of the countries involved in the Belt and Road feature high levels of corruption and low levels of democracy. Despite enacting an anti-foreign bribery law in 2011, China has demonstrated minimal interest in enforcing compliance by its companies operating overseas. In states with weak governance, Chinese enterprises will face a strong temptation to engage in graft and other dishonest business practices, particularly given the political credit they can reap at home by rapidly advancing the Belt and Road.⁶³ The geopolitical dimension of the Belt and Road will further exacerbate the problem of corruption; the capture of political elites potentially can serve as a potent tool in countries where China seeks control of strategic commercial assets or military access.⁶⁴ Hardly a champion of democracy and human rights, China has shown a willingness to defend authoritarian leaders in increasingly far-flung locations closely linked to its Belt and Road. The Maldives is a case in point, where Beijing supported President Abdulla Yameen after his declaration of a state of emergency and jailing of judges and opposition politicians.⁶⁵

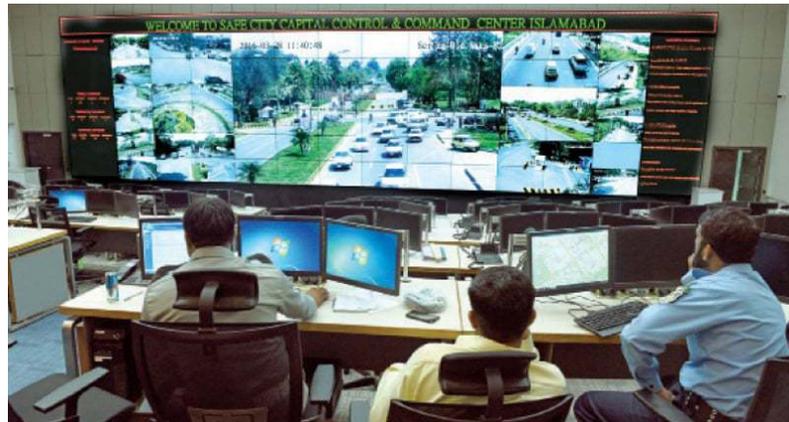
China's digital surveillance regime will spread. Beijing is leveraging ubiquitous video cameras, facial recognition software, online monitoring, and the ability to process vast amounts of data through new advances in AI to build the world's most comprehensive digital surveillance regime.⁶⁶ The Belt and Road will export elements of this regime as Chinese companies construct the telecommunications infrastructure underpinning the “New Digital Silk Road.” Chinese technology firms have few qualms about partnering with repressive regimes. In Ethiopia, likely before the advent of the Belt and Road, China's ZTE Corporation “sold technology and provided training to monitor mobile phones and Internet activity to Ethiopia's repressive government,” according to Human Rights Watch.⁶⁷ Today in Kenya, Indonesia, the United Arab Emirates, and likely elsewhere across the Indian Ocean rim and Eurasia, Huawei, which has close linkages to the Chinese government, is partnering with local authorities on what it

has branded as “Safe Cities” – a platform that provides comprehensive city surveillance.⁶⁸ In some Chinese cities, this platform has become fully integrated with national police databases that enable authorities to track residents’ travel and personal associates and label some individuals as predisposed to commit crime.⁶⁹ Even if the exported version of “Safe Cities” does not immediately reach this level of effectiveness, privacy and freedom will pay a toll along the “New Digital Silk Road.”

Real infrastructure needs will be met. The Belt and Road addresses a significant gap between the future infrastructure requirements of countries across the Indian Ocean rim and Eurasia and their current level of investment. In developing Asia alone (excluding China), this gap is estimated at 2.4 percent of gross domestic product projected from 2016 to 2020.⁷⁰ The Belt and Road will not close this gap but represents a major source of infrastructure spending, which will supplement what multilateral development banks (MDBs) and advanced-economy donors can bring to the table. Although some high-profile Belt and Road projects amount to white elephants that will do little to promote long-term growth in recipient countries,⁷¹ it would be a mistake to dismiss most Chinese-built infrastructure as economically nonviable. Many countries desperately need to improve their transportation, power, and telecommunications infrastructure – and the Belt and Road offers them an opportunity to do so, particularly if they have low sovereign credit ratings⁷² and lack the domestic stability that many non-Chinese companies require to operate.

Countries will experience a “China First” development model. Although the infrastructure needs addressed by the Belt and Road are real, China’s approach advances a model of development tailored to maximize its economic interests. To start, most financing for projects will come from loans rather than grants. China often has brought in its own workers to construct infrastructure, denying locals employment opportunities, and compared with other multinationals, its companies have done little to build human capital or transfer skills, though this is beginning to change.⁷³ Belt and Road projects also may lock countries into one-sided revenue sharing agreements. For example, in Pakistan, China is projected over the next four decades to receive 91 percent of revenue

China’s approach advances a model of development tailored to maximize its economic interests.



Huawei’s “Safe Cities” platform, pictured here in Islamabad, Pakistan, is one example of how China is exporting elements of its domestic surveillance regime through the Belt and Road. (The Dawn)

created by the port of Gwadar.⁷⁴ In executing Belt and Road projects, Beijing also has ignored local concerns regarding environmental damage and resettlement.⁷⁵ Lastly, in its push to export coal-fired power plants under the umbrella of the Belt and Road, China has promoted a pollution-intensive form of electricity generation in recipient countries even as it seeks to transition to clean energy at home.⁷⁶

Multilateral development banks will largely cooperate with China. The world’s major MDBs will not serve as a counterweight to the Belt and Road. In fact, many support it given Western countries’ limited interest in participating in MDB recapitalization efforts. The World Bank has been especially forward-leaning, with its president offering a full-throated endorsement: “The World Bank Group very proudly supports the Government of China’s ambitious, unprecedented effort. ... The Belt and Road will improve trade, infrastructure, investment, and people-to-people connectivity – not just across borders, but on a trans-continental scale.”⁷⁷ The Asian Development Bank and the European Bank for Reconstruction and Development likewise seek to cooperate with China on the Belt and Road.⁷⁸ Provided that MDBs insist on upholding international standards such as transparent procurement procedures and debt sustainability, their future co-financing of Belt and Road projects could raise the bar and help dilute the current “China First” development model. Yet given the comparatively modest resources that MDBs currently dedicate to infrastructure – though they are beginning to spend more in this area – co-financing of some projects is unlikely to fundamentally change the character of the Belt and Road, which derives the majority of its funding from Chinese state institutions.

CHAPTER 3

The United States and China's Belt and Road

America's response to China's Belt and Road strategy has evolved from ad hoc policies implemented by President Barack Obama to a more holistic but unevenly executed approach under the Trump administration. Despite growing concerns about the Belt and Road, the United States has yet to address it through a systematic and well-resourced effort that seeks to shape it where possible, compete when required, and offer countries an alternative vision of economic development and global infrastructure connectivity.⁷⁹

The Obama Administration

During Obama's time in the White House, the Belt and Road occupied a minor role in American China policy, which focused on solidifying areas of cooperation, such as preventing Iran's development of nuclear weapons and combating climate change, and competing with Beijing in its maritime periphery. The Obama administration never formulated a comprehensive approach to the Belt and Road, but in practice, pursued a series of initiatives that amounted to a de facto response.

The centerpiece was the Trans-Pacific Partnership (TPP). As a high-quality trade and investment agreement intended to elevate commercial, labor, and environmental standards, TPP functioned as the cornerstone of an American vision for the future economic order in Asia. Obama and his foreign policy team were clear-eyed that TPP would help the United States offset growing Chinese economic influence.⁸⁰

The Obama administration also made limited forays into promoting infrastructure connectivity, largely without the explicit intent to compete with China's Belt and Road strategy. The most prominent was the New Silk Road Initiative. Launched by Secretary of State Hillary Clinton in 2011,⁸¹ the New Silk Road Initiative aimed to bolster Afghanistan's economy by rebuilding transportation and energy linkages with neighboring countries and was publicly framed as an opportunity for U.S. cooperation with China, as well as India.⁸² In 2013, the Obama administration introduced the U.S.-ASEAN Connectivity Through Trade and Investment Initiative (USACTI), a joint effort by the State Department and the U.S. Agency for International Development (USAID) to boost economic integration within Southeast Asia and galvanize nontraditional business actors.⁸³ The same year, the State Department unveiled the concept of an Indo-Pacific Economic Corridor (IPEC).⁸⁴ Objectives of IPEC included establishing new regional energy linkages and enhancing trade and transportation corridors.⁸⁵

As the Obama administration came to a close in January 2017, America's approach to the Belt and Road

remained piecemeal. Within the executive branch, the siloed nature of regional and functional offices rendered a coherent response to China's crosscutting strategy difficult to formulate. Despite Obama's championship of TPP, Congress refused to ratify it, and presidential candidates from both parties heavily criticized the agreement. Lastly, other well-intentioned connectivity efforts such as the New Silk Road Initiative, USACTI, and IPEC never received sufficient resources to emerge as partial alternatives to the Belt and Road.

As the Obama administration came to a close in January 2017, America's approach to the Belt and Road remained piecemeal.

The Trump Administration

Under the Trump administration, the United States has taken a more strategic perspective on the Belt and Road, viewing it as part of a global competition with China for power, wealth, and influence.

Accordingly, the Trump administration has devoted more senior-level attention to staking out a position overtly critical of China's Belt and Road strategy. On multiple occasions, Secretary of Defense James Mattis has publicly remarked that there are "many belts, many roads," alluding to structural problems with a regional order featuring China at its core.⁸⁶ In President Donald Trump's speech at the Asia-Pacific Economic Cooperation (APEC) CEO Summit in November 2017, he delivered a thinly veiled critique of the Belt and Road, calling for alternatives to "state-directed initiatives that come with many strings attached."⁸⁷ The Belt and Road has also shaped official U.S. strategic documents. The Trump administration's National Security Strategy warns of a "geopolitical competition between free and repressive visions of world order taking place in the Indo-Pacific region," noting that "China's infrastructure investments and trade strategies reinforce its geopolitical aspirations."⁸⁸ The National Defense Strategy explicitly references China's predatory economic policy, which is notable given that economic issues typically fall outside of the purview of the Department of Defense.⁸⁹

Despite adopting a tough public line on China's Belt and Road strategy, the Trump administration has thus far refrained from expressing wholesale opposition. Nor has it called for U.S. allies and partners to universally boycott Belt and Road projects. Indeed, when Xi convened the inaugural BARF in May 2017, the United States participated by dispatching the most senior U.S. official working exclusively on Asia policy.⁹⁰ In this

way, the Trump administration threaded the needle of avoiding the appearance of U.S. government support for China's strategy while having an official on hand at the forum to critique the opaque standards and unsustainable financing practices associated with the Belt and Road.

To date, the most developed aspect of the Trump administration's evolving response to the Belt and Road is its emphasis on cooperation with allies and partners. This has most prominently taken the form of new bilateral agreements. In November 2017, the Trump administration formalized an official partnership between the U.S. Overseas Private Investment Corporation (OPIC) and its Japanese equivalent, the Japan Bank for International Cooperation (JBIC), "to offer high-quality United States-Japan infrastructure investment alternatives in the Indo-Pacific region."⁹¹ A similar memorandum of understanding was signed between OPIC and the government of Australia on the margins of Prime Minister Malcolm Turnbull's February 2018 visit to Washington.⁹² These agreements and conversations have begun to yield joint bids for infrastructure projects. Most recently, at the Indo-Pacific Business Forum convened by the Trump administration in July 2018, the United States, Japan, and Australia announced a new trilateral partnership for infrastructure investment.⁹³

The Trump administration has evinced limited interest in other potential elements of an American approach to China's Belt and Road strategy. Speaking at the APEC CEO Forum in 2017, Trump affirmed that the United States would update its development finance institutions.⁹⁶ His administration released a formal statement of support to advance legislation in Congress that would consolidate OPIC and private sector-oriented activities by USAID into a more agile and better-funded U.S. development finance corporation.⁹⁷ At the Indo-Pacific Business Forum, the Trump administration unveiled a series of new U.S. initiatives relating to infrastructure, including a new "Transaction Advisory Fund to help partners access private legal and financial advisory services" and a "Digital Connectivity and Cybersecurity Partnership."⁹⁸ These and other initiatives announced at the Indo-Pacific Business Forum – supported by a modest \$113 million in new funding – amount to a "down payment"⁹⁹ on America's economic engagement with the region. While taking a more proactive approach to U.S. investment in infrastructure, Trump has remained opposed to reviving U.S. participation in TPP as the deal is currently drafted and maintains that bilateral free trade agreements are a more effective way to engage regional stakeholders.

WHERE THE BELT AND ROAD INTERSECTS WITH A "FREE AND OPEN INDO-PACIFIC"

The Trump administration has regularly championed a "Free and Open Indo-Pacific" (FOIP). It would be a mistake to interpret FOIP as America's response to China's Belt and Road. Rather, FOIP is best understood as the Trump administration's attempt to craft a cohesive strategy for future U.S. engagement in Asia. In articulating FOIP, the Trump administration has, at least rhetorically, remained open to collaboration with China: Secretary of Defense James Mattis noted during his remarks at the 2018 Shangri-La Dialogue that there is room for China to shape the regional order and welcomed bilateral cooperation between Beijing and Washington wherever possible.⁹⁴ Perhaps the most tangible intersection between China's Belt and Road and Washington's newest Asia strategy is the increased level of attention the administration and Congress place on infrastructure.⁹⁵ If anything, FOIP will serve as the broader policy umbrella under which the United States will deploy concrete responses to specific Belt and Road projects within the Indo-Pacific region.

CHAPTER 4

Views of the Belt and Road From Select U.S. Allies and Partners

Given the scope of China's Belt and Road strategy and the level of financing behind it, an effective U.S. approach will require cooperation with allies and partners, particularly those with large-scale capital and significant influence in the Indian Ocean rim and Eurasia. The following is a snapshot of how select U.S. allies and partners perceive the Belt and Road and have responded to it, drawing on research trips to Japan, India, Europe, Saudi Arabia, and the United Arab Emirates conducted during the first half of 2018.¹⁰⁰

Japan

Tokyo views the Belt and Road as a Chinese power play but judges that a posture of wholesale opposition would be counterproductive. Japanese concerns surrounding the Belt and Road run the gamut from creating debt dependency on China to eroding international commercial standards to paving the way for a more global PLA. Elements of the Japanese government are closely watching the "New Digital Silk Road" and worry that it will position China to dominate the information technology ecosystems of third countries, particularly in Southeast Asia.¹⁰¹

Tokyo views the Belt and Road as a Chinese power play.

Since 2015, Japan has moved to aggressively compete with China's Belt and Road strategy. In May of that year, Prime Minister Shinzo Abe launched the Partnership for Quality Infrastructure, which in concert with the Japanese-led Asian Development Bank will provide more than \$100 billion in infrastructure financing to Asian countries by 2020.¹⁰² The Japanese government has also increased engagement with India and the United States on third country infrastructure projects. The Asia-Africa Growth Corridor (AAGC) proposed in November 2016 envisions a cooperative development scheme in which both Japan and India leverage their respective strengths to enhance connectivity in the IOR.¹⁰³ With the United States, Japan has sought to establish new platforms for collaboration through the signing of agreements between JBIC and OPIC and the U.S. Trade and Development Agency (USTDA).¹⁰⁴ The Japanese government is currently exploring partnerships with Europe on connectivity projects in Asia, and potentially in the Middle East and Africa as well.¹⁰⁵

Japan remains unwilling to sign a memorandum of understanding with China codifying support for the Belt and Road. At the same time, Tokyo opted to dispatch the ruling Liberal Democratic Party's Secretary-General

Toshihiro Nikai to the May 2017 BARF.¹⁰⁶ More recently, during a summit between Abe and Chinese Premier Li Keqiang, the two countries announced the creation of a bilateral public-private council to evaluate the possibility for infrastructure cooperation in third countries.¹⁰⁷

Tokyo intends to keep this type of cooperation outside the umbrella of the Belt and Road and regards selective engagement with China on third country infrastructure projects as a useful mechanism to gain information and encourage China to align more closely with international commercial standards. Also motivating Japan's approach is generating business opportunities for its companies and diluting Beijing's influence over specific projects through direct participation.¹⁰⁸

India

New Delhi remains firmly opposed to China's Belt and Road strategy.¹⁰⁹ India perceives the Belt and Road as an affront to its national sovereignty, as the effort's China-Pakistan Economic Corridor (CPEC) extends through the disputed Kashmir region. Seen from New Delhi, the dual-use infrastructure associated with the Belt and Road raises the specter of Chinese encirclement.

India has taken a number of diplomatic steps to express its antagonism toward the Belt and Road. New Delhi rebuffed Beijing's invitation to participate in the 2017 BARF, refused to offer even a tepid endorsement of the Belt and Road during Prime Minister Narendra Modi's April 2018 summit with Xi, and was the lone dissenting voice refraining from endorsing the Belt and Road in the June 2018 joint official communiqué of the Shanghai Cooperation Organization.¹¹⁰ India has also articulated a clear set of principles to backstop its opposition to the Belt and Road.¹¹¹

New Delhi's competitive approach involves multiple lines of effort. India has moved to shore up its relationships in South Asia by signing a land transportation agreement with Bangladesh, Bhutan, and Nepal and resolving a territorial dispute with Bangladesh.¹¹² India is also developing its own regional network of infrastructure and military access to reduce the geopolitical benefits that China derives from its Belt and Road investments.¹¹³ To this end, New Delhi is pursuing commercial projects in Sri Lanka, Bangladesh, Iran, Burma, and Indonesia.¹¹⁴ With France, India in March 2018 concluded a replenishment agreement that will potentially enable its navy to use French facilities in the Arabian Gulf, Djibouti, and elsewhere.¹¹⁵

Recognizing that its resources remain limited and that its influence tapers off sharply outside South Asia, India is strengthening its strategic partnerships with other powers skeptical of China's Belt and Road. Its outreach to Japan has yielded diplomatic statements emphasizing shared commitment to a "free and open Indo-Pacific"¹¹⁶ and the launching of the AAGC. More concretely, companies from India and Japan are jointly undertaking infrastructure projects in Sri Lanka and Bangladesh.¹¹⁷

India is strengthening its strategic partnerships with other powers skeptical of China's Belt and Road.

India is also deepening its relationship with the United States around addressing the Belt and Road. Focusing on the IOR, the two countries are working to identify concrete initiatives to offset the strategy's geopolitical impact. Lastly, India has expanded its relationship with France through a new "Joint Strategic Vision"¹¹⁸ and pursued closer ties with members of the Gulf Cooperation Council (GCC).¹¹⁹

European Union

Perspectives on the Belt and Road differ across the EU. The foreign policy apparatus of the EU, along with Paris and Berlin, and to a degree, London, view China's strategy with skepticism. In less-wealthy Southern and Eastern Europe, the Belt and Road holds significant appeal.

The EU has sought to shape the Belt and Road through engagement while advancing its own infrastructure vision. The 2016 EU Global Strategy called for addressing "China's connectivity drives westwards" via a combination of cooperation with Beijing and multilateral Asian groupings.¹²⁰ Since then, the EU has pursued collaboration with China predicated on its willingness to uphold principles such as "market rules, transparency, open procurement and a level playing field for all investors."¹²¹

EU frustration with the Belt and Road is growing.

With China seeking to weaken European cohesion through its investments, EU frustration with the Belt and Road is growing. In early 2018, a leaked report signed by 27 of the 28 EU ambassadors in Beijing stated that the Belt and Road "runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies." Although not conceived

in Brussels as a counter to the Belt and Road, the EU this year is set to unveil a "Euro-Asia Connectivity Plan" that enshrines its principles.¹²²

Among the major powers that will remain within the EU, France has taken the most active approach toward the Belt and Road. During a visit to China in January 2018, President Macron expressed France's openness to engaging China on infrastructure but emphasized that "these roads cannot be those of a new hegemony."¹²³ French actions have mirrored Macron's words. Although unwilling to sign a formal memorandum of understanding endorsing the Belt and Road, Paris has welcomed cooperation on specific, high-quality projects – though expectations are low based on prior experience partnering with Beijing in third countries. Concerns in Paris about the military dimension of the Belt and Road run deep given France's territory in the IOR and military presence and operations in Africa.¹²⁴ To mitigate the geopolitical impact of the Belt and Road, France has elevated its defense partnerships with India and Australia¹²⁵ and increased its military presence in the Indo-Pacific.¹²⁶

At the governmental level, Germany views the Belt and Road primarily through the lens of maintaining EU solidarity in the face of growing Chinese economic leverage and political influence.¹²⁷ Secondarily – but still a major source of concern – is that Beijing's strategy will advance a new set of international rules that privilege Chinese interest. Major German companies well-connected to the Chinese government see opportunity in the Belt and Road, while most firms are less sanguine. Germany's private sector also worries that China will use the Belt and Road to export its commercial standards.¹²⁸ In practice, the German government has taken a measured approach. At the BARF in 2017, Germany's representative set down standards for participation that China ultimately rejected.¹²⁹ Prominent German politicians have called for a "One Europe" approach to China¹³⁰ – but policies to realize this remain forthcoming.

As the United Kingdom struggles with the economic implications of Brexit, some onlookers have hailed China as a possible new economic partner.¹³¹ However, the U.K. has simultaneously become more aware of the national security risks associated with Chinese-inbound investment.¹³² The current government of Prime Minister May has diverged from her predecessor's overtly accommodationist approach to China and instead opted to cautiously engage and shape the Belt and Road where possible.¹³³ During May's early 2018 visit to Beijing, she refrained from outright endorsement of the Belt and Road,¹³⁴ owing in part to the U.K.'s continued skepticism that China will adopt internationally recognized standards to govern its infrastructure activities.

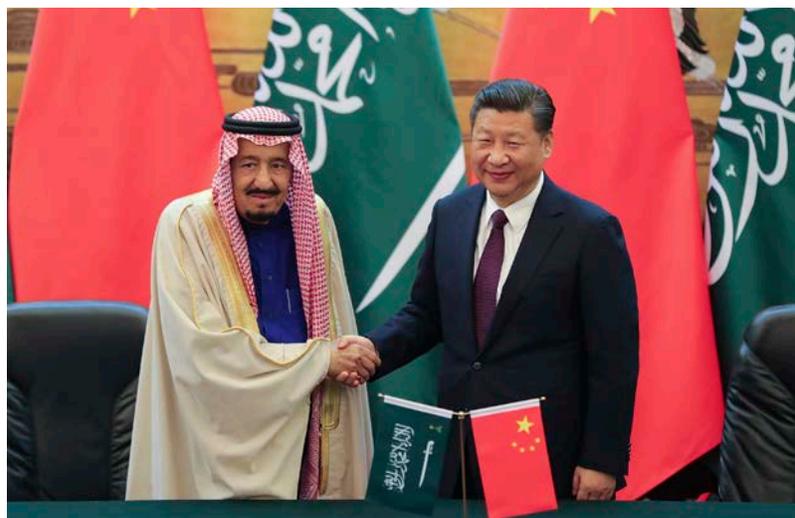
Gulf Cooperation Council

The GCC has emerged as one of China's primary partners on the Belt and Road within the Middle East. In fact, all six members have signed memorandums of understanding with Beijing to jointly build the Belt and Road, which has become the basis for close relationships between China and the GCC's two most influential countries, the Kingdom of Saudi Arabia and the United Arab Emirates.¹³⁵

Saudi Arabia is in talks with China to align Vision 2030, its domestic development roadmap, with the Belt and Road.¹³⁶ The kingdom's leadership views Chinese investment under the banner of the Belt and Road as a step toward realizing its aspirations for economic transformation. Notably, the Saudi government perceives that it can cooperate with China from a position of strength, due to its significant financial resources and its investment rules, which require a local partner and capacity building by foreign companies. That Iran, the kingdom's fierce rival, is China's other primary regional partner on the Belt and Road¹³⁷ has not discouraged Saudi Arabia from embracing the initiative.¹³⁸

The United Arab Emirates regards the Belt and Road as a potential boon for its domestic economic development and as an opportunity to invest jointly with China abroad. In particular, Abu Dhabi is keen to promote the maritime connectivity elements of the Belt and Road – it sees Chinese activities in this area as largely complementary to its own commercial interests.¹³⁹ For example, the United Arab Emirates has launched a \$10 billion joint investment fund in conjunction with China, in part to support Belt and Road projects overseas, primarily in East Africa.¹⁴⁰ China has also taken a leading role in development projects within the United Arab Emirates, exemplified by China's involvement in the Khalifa Industrial Zone.¹⁴¹ Insofar as the United Arab Emirates harbors concerns about the Belt and Road, they are mostly commercial – that a future China-Iran land corridor could diminish its role as the primary regional transshipment hub.¹⁴²

To a significant degree, GCC members remain ignorant of the geopolitical dimension of China's Belt and Road strategy, as Beijing has successfully kept the focus on potential economic benefits. Inside Saudi Arabia and the United Arab Emirates, there is no consensus on whether China will seek to translate dual-use facilities associated with the Belt and Road into military access, and whether this would ultimately contribute to or detract from regional stability.¹⁴³



Saudi Arabia has welcomed the Belt and Road as an opportunity to accelerate its own economic development. Pictured here is King Salman bin Abdulaziz Al Saud during his visit to China in March 2017. (Lintao Zhang/Pool/Getty Images)

The GCC has emerged as one of China's primary partners on the Belt and Road.

CHAPTER 5

Addressing China's Belt and Road Power Play

The United States must work with its allies and partners to address China's Belt and Road strategy. Washington should avoid taking a purely oppositional approach, attempt to shape where possible, compete when required, and offer a positive vision of economic growth and infrastructure connectivity. The United States need not match the level of resources China has dedicated to the Belt and Road; it must simply present credible alternatives that give countries a choice beyond relying solely on Beijing for their infrastructure needs.

Recommendations: Getting Fundamentals Right

1. Advance a positive and ambitious U.S. economic vision.

The most effective U.S. approach to China's Belt and Road will lead with a compelling American agenda for international development, trade, and investment. Hard infrastructure alone does not place countries on a path to long-term and inclusive economic growth. The United States should systematically promote a development model predicated on local capacity building, skill transfer, responsible debt management, quality, and innovation and entrepreneurship. Ideally, this should occur both unilaterally and in concert with Japan, Europe, India, and other market-oriented economies. A series of "Free, Open, and Sustainable" economic forums across the Indian Ocean rim and Eurasia involving public- and private-sector representatives from the United States and one or more of these allies and partners could serve to showcase this model.¹⁴⁴ Entrepreneurship – a U.S. strength seen by many governments as essential to job creation and moving up the value-added ladder – should receive particular emphasis at these forums.¹⁴⁵ Drawing a sharp distinction domestically between China's unfair trading practices, which have directly undermined the livelihoods of large numbers of Americans,¹⁴⁶ and the overwhelming benefits derived from economic engagement with U.S. allies and partners, American political leaders should once again pursue multilateral high-quality trade and investment agreements, whether through rejoining TPP and resurrecting the Transatlantic Trade and Investment Partnership or through new configurations of like-minded allies and partners committed to elevating standards and achieving higher levels of economic integration. As a prerequisite, the United States should recalibrate its trade enforcement strategy to focus tariffs solely on China, rather than American allies and partners essential to competing with the Belt and Road.

2. Develop and execute a counternarrative to China's Belt and Road.

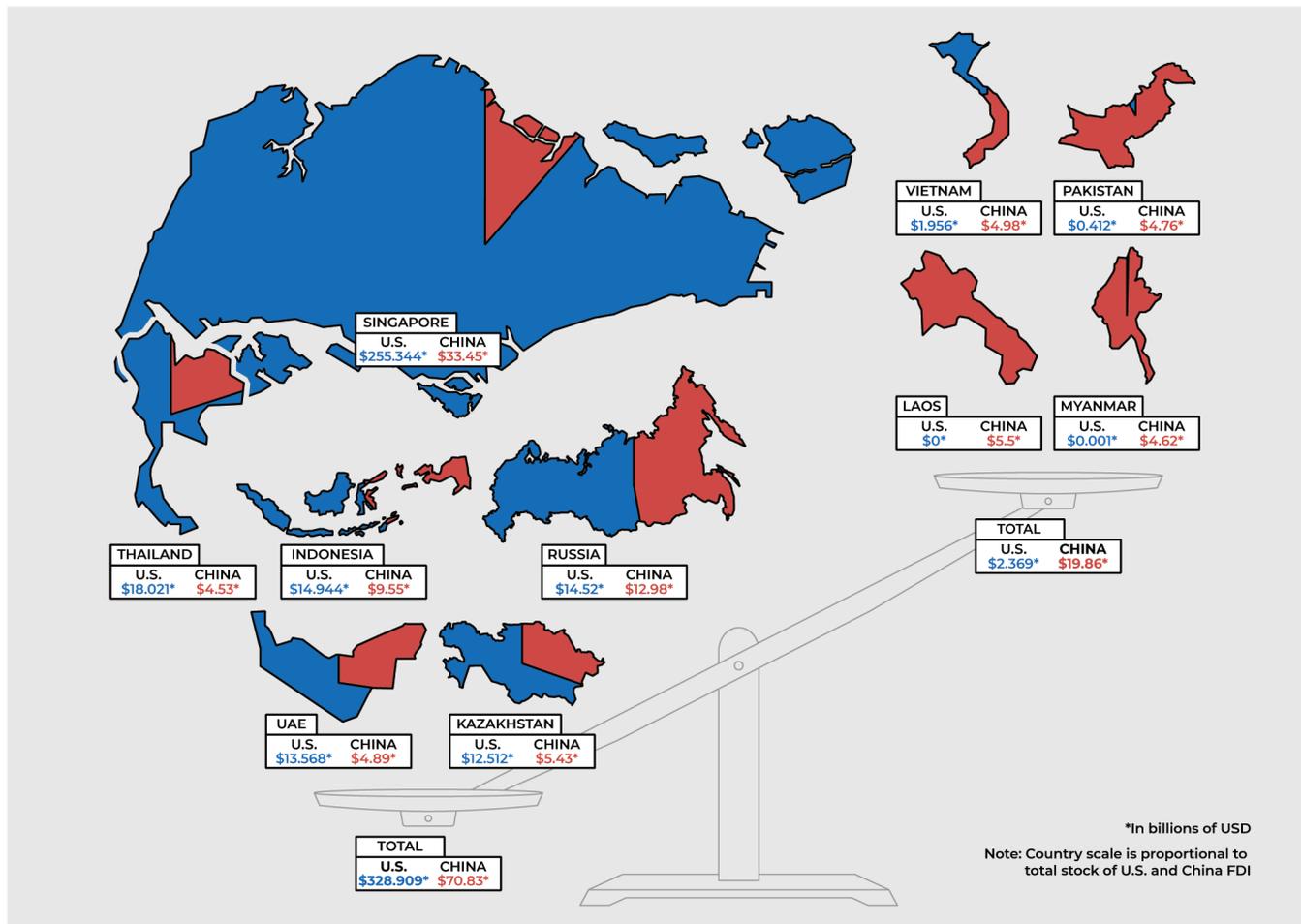
An American response to China's strategy must focus squarely on the informational domain, where Beijing has effectively played up the size and impact of its infrastructure investments and worked to portray the Belt and Road as emblematic of its inevitable rise to global primacy. The United States must forge a robust non-military public diplomacy capability, re-creating aims and functions of the U.S. Information Agency during the Cold War, but for the 21st century. This capability should be adapted for the digital age and for a far more crowded media environment in which facts are contested and non-journalists increasingly play a role as validators. Key messages the United States should communicate, highlight, and educate with and through this reconstituted capability include the magnitude of American investment in countries now looking to China, the advantages of America's "Free, Open, and Sustainable" model, the "say-do" gap between China's investment commitments and its concrete activities, and the threat to national sovereignty posed by Chinese infrastructure financing. The United States should encourage India, Australia, Japan, and like-minded European allies to introduce complementary public diplomacy efforts. It should also actively propagate information supportive of a Belt and Road counternarrative – for example, by highlighting new U.S. foreign direct investment in select countries and by making evidence of China-corrupted elites available to local journalists.

3. Resource all elements of an American response.

To address China's Belt and Road strategy, the United States will need to dedicate additional resources to its informational and economic instruments of statecraft. On the military side, Congress has already taken positive initial steps, namely the Fiscal Year 2019 National Defense Authorization Act (NDAA) requirement for the president's Fiscal Year 2020 budget to incorporate an Indo-Pacific Stability Initiative, which would expand U.S. capabilities and provide concrete assistance to partners and allies.¹⁴⁷ The NDAA's expansion of the existing Asia Maritime Security Initiative to the broader Indo-Pacific region will allow the Department of Defense to effectively reprogram existing dollars toward a wider set of countries that China is engaging through its Belt and Road strategy.¹⁴⁸ However, a U.S. response that largely directs resources to the Department of Defense is bound to fail. One promising step by Congress is the introduction of the Asia Reassurance

Envisioning a U.S. Counternarrative

Demonstrate America's Enduring Economic Centrality



It is imperative to demonstrate America's enduring economic centrality in regions now looking to China. This image depicts that America's total stock of foreign direct investment (FDI) across 10 countries prioritized under the Belt and Road remains larger than China's.

Source: U.S. Direct Investment Abroad: Direct Investment Position on a Historical-Cost Basis by Detailed Country, 2009-2017, (U.S. Department of Commerce, Bureau of Economic Affairs, 2017), <https://apps.bea.gov/international/xls/usdia-current/usdia-detailedcountry-2009-2017.xlsx>; and Chinese Ministry of Commerce, "Di Qi Zhang: Yi Dai Yi Lu Zhuyao de Guojia [Chapter 7: Important Countries in the 'One Belt, One Road' Region]," Zhongguo Duiwai Touzi Hezuo Fazhan Baogao [China's Foreign Investment, Cooperation, and Development Report], 2017, 125.

Key Themes to Communicate

America's Vision

- CREATING ALTERNATIVE CHOICES
- UPHOLDING SOVEREIGNTY
- AMERICA'S ENDURING CENTRALITY
- FOCUSING ON LOCAL NEEDS
- GENERATING LONG-TERM VALUE
- EMPOWERMENT

China's Reality

- DEBT TRAP DIPLOMACY
- SURVEILLANCE CITIES
- UNFAIR PLAYING FIELD
- CORRUPTING LOCAL ELITES
- CHINA FIRST APPROACH
- QUESTIONABLE FOLLOW-THROUGH

Initiative Act, which if enacted would dedicate \$7.5 billion over five years to promote America's regional security interests.¹⁴⁹ Another step Congress should take is to appropriate funding to stand up a 21st-century public diplomacy capability. Congress should also reallocate resources within USAID to the Indo-Pacific – the area most actively contested by China – to ensure that America can more effectively compete with the Belt and Road. Lastly, through legislation such as the Better Utilization of Investments Leading to Development (BUILD) Act, which has already passed the U.S. House of Representatives, Congress should modernize American development financing by significantly raising the cap on OPIC's lending and allowing the U.S. government to take equity in overseas projects.¹⁵⁰

Recommendations: Geopolitics

1. **Align strategic investments.** The United States, Japan, India, Australia, France, and the U.K. should prioritize locations and infrastructure projects in the Indo-Pacific based on their combined economic and military value and coordinate their respective investments. On the U.S. side, the National Security Council should spearhead this approach, bringing relevant departments and agencies together with their ally and partner counterparts, and potentially working through the newly announced interagency body to manage U.S. infrastructure engagement overseas.¹⁵¹ To complement existing coordination mechanisms such as the U.S.-Japan-Australia infrastructure partnership, one promising platform for bottom-up information sharing would be the establishment and formalization of recurring meetings among ambassadors of like-minded powers posted to states at risk of predatory Chinese investment. Such an approach would help to ensure that capitals sharing similar concerns about the geopolitical implications of China's economic statecraft are well-informed about host countries' infrastructure needs as well as Beijing's activities. The United States and its allies and partners could also use their collective influence in the World Bank, the Asian Development Bank, and the Asian Infrastructure Investment Bank to direct significant resources toward the projects that matter most. Leveraging the capabilities of these international financial institutions would partially reduce China's overwhelming advantage in infrastructure financing and enable the United States and its allies and partners to more effectively compete in locations where both their economic and military interests are at stake.¹⁵²
2. **Play defense and offense on military posture in the Indian Ocean.**¹⁵³ The Belt and Road will pave the way for a growing PLA presence overseas. The United States should work with Japan, Australia, India, France, and the U.K. to determine where future Chinese military facilities in the Indian Ocean would likely be placed and which of these would generate the most risk during peacetime, crisis, and conflict. Based on this assessment, the United States and these like-minded allies and partners should take coordinated action to constrain China's military access where possible and block it where absolutely necessary. This could be achieved through targeted outreach to possible host countries to quietly convey what PLA capabilities on their soil would prove most destabilizing and the potential impact on their sovereignty that could accompany opening the door to China's military. In countries where a PLA presence would pose unacceptable risk, the United States and its allies and partners could introduce competing bids for dual-use infrastructure and conduct educational outreach to local civil society and journalists. Beyond playing defense, the United States should also collaborate with its allies and partners to develop a long-term vision for military access in the Indian Ocean that will support a robust and flexible regional posture even if China succeeds in expanding its military presence. A key first step would be to convene defense planners from countries in the region and interested outside powers to generate such a vision and identify one or more locations that could become shared military hubs, leveraging existing bilateral agreements among countries such as India and France.¹⁵⁴
3. **Launch a supply chain dialogue.** The United States should invite its advanced-economy allies to participate in a new, quiet dialogue on how to mitigate the geopolitical risk accompanying China's growing control over global supply chains. This dialogue would focus on manufactured products and nonrenewable commodities. On the U.S. side, the Treasury and Commerce departments would jointly lead the discussion. This forum would serve as a jumping-off point for closer policy coordination, including the exchange of information on global supply chain vulnerabilities related to China's Belt and Road activities. Over time, it could provide a basis for informal harmonization of procedures to screen Chinese investment into elements of the global supply chain currently controlled by the United States, Europe, Japan, Australia, and other advanced economies.¹⁵⁵

Recommendations: Commerce

1. Expand U.S. digital outreach. America must compete in the digital domain, where the potential consequences of the information technology dimension of the Belt and Road run the gamut from exporting elements of Beijing's domestic surveillance regime to bolstering China's AI industry. The United States should work with Europe and Japan to launch a fund specializing in digital infrastructure under the auspices of the Organisation for Economic Co-operation and Development (OECD). The fund would have an advisory board with business leaders from major corporations headquartered in OECD countries. It could look to the World Bank's recent Women Entrepreneurs Finance Initiative (We-Fi) as a model for success. The fund would support project bids in developing countries by information technology companies that commit to globally recognized human rights of freedom of expression and privacy.¹⁵⁶ Companies receiving the fund's support also would have to accept a credible third-party audit of their software and equipment exported to developing countries. In parallel, the U.S. Department of Commerce should expand the Digital Attaché Program to a wider set of countries – potentially through partnering with major American technology companies to create fellowships similar to those established through the Intergovernmental Personnel Act, which permits experts from research institutions to serve temporarily as U.S. officials and then return to their parent organizations.¹⁵⁷ These “digital fellows” would serve at U.S. embassies in middle-income countries developing new digital solutions to governance and commercial questions.

2. Promote regional connectivity plans. Whereas the Belt and Road represents Beijing's top-down vision – one in which China is the primary node in a system of roads, rails, ports, pipelines, and telecommunications networks stretching across the Indian Ocean rim and Eurasia – the United States should work with its allies and partners to promote regional solutions to economic connectivity. In Southeast Asia, such a vision already exists: the Master Plan on ASEAN (Association of Southeast Asian Nations) Connectivity 2025. The United States in concert with Japan should propose a connectivity conference with ASEAN that would explore new opportunities for both governments and their private sectors to support ASEAN's aspirations to achieve greater regional integration. Furthermore, Congress and the Trump administration should revitalize the

U.S. Trade and Development Agency to ensure that small and medium enterprises are able to combat the “tyranny of distance” and invest strategically in the Indo-Pacific region. The United States should work with India and Japan to transform the Asia-Africa Growth Corridor concept into a series of concrete projects around which their respective private sectors might cooperate.¹⁵⁸ The GCC, of which two prominent members – Saudi Arabia and the United Arab Emirates – seek to become regional hubs,¹⁵⁹ is potentially well-placed to put forward a connectivity plan for the Middle East in partnership with the United States. Supporting regional concepts of connectivity will doubly benefit the United States, both by drawing an implicit distinction with the China-centric vision of the Belt and Road and by creating a benchmark to assess whether Beijing's projects align with regional goals.



Ugandan President Yoweri Museveni witnesses the signing of a pact between his government and an American-Italian joint venture. (State House Uganda)

WHAT U.S. SUCCESS LOOKS LIKE

Given the scope of China's Belt and Road, it is easy to conclude that the United States will struggle to compete. Yet even without a comprehensive strategy, Washington has gone head-to-head with Beijing on infrastructure – and prevailed. Here is what success looks like:

In 2013, the Ugandan government began soliciting bids to develop the necessary infrastructure to harness the nation's untapped reservoir of 1.4 billion barrels of oil.¹⁶⁰ After several foreign bids fell through,¹⁶¹ a Chinese consortium, seeing an opportunity, began negotiations with the Ugandan government and was reportedly

appraised as the best bidder by an overwhelming margin.¹⁶² However, an American-Italian joint venture, benefiting from the Chinese consortium's internal challenges,¹⁶³ successfully contested the initial award. The U.S. Embassy offered strong political support for the bid. In April 2018, the American-Italian joint venture was officially awarded the bid, in an upset to the possible Chinese investors.¹⁶⁴ In her public comments after the award, the local U.S. ambassador focused on the many project financing and risk-reduction benefits that the joint venture brought to Uganda, which has been increasingly concerned about its national debt burden.¹⁶⁵

This example of success presents several wider lessons. First, local U.S. embassies must remain willing to play outsized advocacy and educational roles. Second, U.S. embassy staff, including the Foreign Commercial Service, should remain attuned to possible Belt and Road-affiliated projects in order to galvanize the U.S. private sector to place a competitive alternative bid, when feasible and appropriate. Third, on infrastructure, leveraging the complementary skills and financing of companies based in Europe, Japan, and other major economies may at times maximize the competitiveness of American firms vis-à-vis their Chinese counterparts.

3. Codify an international standard for high-quality infrastructure. During the 2016 Group of Seven summit, the world's leading advanced democratic economies endorsed a set of principles for promoting high-quality infrastructure investment.¹⁶⁶ Later that same year, the Group of 20 (G20), which includes China, affirmed many of the same principles, including “economic efficiency in view of life-cycle cost, safety, resilience against natural disaster, job creation, capacity building, and transfer of expertise ... addressing social and environmental impacts and aligning with economic and development strategies.”¹⁶⁷ Using these principles as a starting point, the United States should work with Europe and Japan to codify a standard for high-quality infrastructure within the International Organization for Standardization. This standard could inform decisions by national capitals and MDBs on whether to support individual Belt and Road projects. It also could serve as the basis for developing a certification

of high-quality infrastructure that might encourage a race to the top by companies and investors, including those from China.¹⁶⁸ Lastly, using the new standard, and working through the B20, which represents corporate interests from the G20 countries, the United States should put forward a “high-quality infrastructure pledge” that companies and investors could make.

Recommendations: Governance and Development

- 1. Prepare to capitalize on moments of disillusionment with the Belt and Road.** The mounting debt, erosion of sovereignty, and uneven benefits associated with Chinese infrastructure projects are fanning a backlash that has already burst into the public domain in several countries. These moments of disillusionment present windows of opportunity to showcase economic alternatives to continued dependence on China and to curb Beijing's influence among a country's elite. To better exploit such fast-emerging windows, the U.S. State Department should leverage AI-powered sentiment analysis of local news and social media and American embassy reporting to create a database for use across the U.S. government that tracks mounting frustration with Chinese investment in countries across the Indian Ocean rim and Eurasia. This will position the United States to capitalize rapidly on moments of opportunity created by a surge of anti-Belt and Road sentiment.¹⁶⁹
- 2. Foster political resiliency in countries targeted for Belt and Road investment.** Beijing has a relatively free hand in countries where it can capture elites and secure infrastructure projects through backroom deals. Conversely, countries with robust domestic institutions are best positioned to engage the Belt and Road on their terms. Accordingly, building political resiliency in countries participating in the Belt and Road is essential. When political resiliency is in question, the United States in cooperation with international civil society actors should engage early in order to prevent Chinese long-term capture of elites.¹⁷⁰ The United States should take a comprehensive approach to governance that advances rule of law, transparency, accountability, freedom of the press, and civil society. A less-holistic approach – for example, focusing largely on supporting elections – would fail to promote many of the institutions most essential to creating an environment inhospitable to

corrupt Chinese practices. Recognizing that U.S. resources are finite, Washington should prioritize countries across the Indian Ocean rim and Eurasia that welcome American assistance. Yet Washington should not entirely neglect the large set of states involved in the Belt and Road that have little interest in improving domestic governance. In less-open societies, the United States should take a more finely calibrated approach through efforts to empower civil society and train local journalists. Washington should also champion anti-corruption measures as a way to maximize government efficiency and uphold national sovereignty against Chinese influence.¹⁷¹

3. Enhance technical capacity in countries across the Indian Ocean rim and Eurasia. Some governments participating in the Belt and Road lack the ability to assess Chinese contracts – for example, in terms of debt repayment and infrastructure life-cycle costs – and have insufficient human resources to oversee projects during the implementation phase. The U.S. Treasury Department's Office of Technical Assistance (OTA) and the U.S. Trade Development Agency's Global Procurement Initiative provide limited support to foreign governments in this area. A modest infusion of funding – OTA's budget is currently under \$50 million¹⁷² – and an emphasis on countries likely to receive Chinese investment would have an outsized impact. Multiple infrastructure centers of excellence (CoE) across the Indian Ocean rim and Eurasia could also go a long way to build technical capacity. Here, U.S. allies and partners could play a vital role. In Southeast Asia, Japan could work with Singapore to grow its existing Asia Infrastructure Centre of Excellence, with a larger focus on enhancing regional technical capacity.¹⁷³ The United States and India could partner with the United Arab Emirates to establish a Middle East and Indian Ocean infrastructure CoE that would leverage the Emirates' position as a regional hub.

Conclusion

Through the Belt and Road, Beijing is upping the ante in the U.S.-China competition to set the terms of the 21st-century international order. As a connectivity effort with a geopolitical overlay supported by a massive propaganda campaign, the Belt and Road poses a particular challenge for the United States, given America's often uncoordinated economic, diplomatic, informational, and military instruments of national power.

Yet the gap between Beijing's aspirations for the Belt



China's Belt and Road investment became a major point of contention during Malaysia's recent election. Prime Minister Najib Razak, who was enshrined in corruption allegations and criticized domestically as selling his country to China, lost to 92-year-old former Prime Minister Mahathir Mohamad. Pictured here are supporters cheering Mahathir's victory. (Ulet Ifansasti/Getty Images)

and Road and reality remains large. Countries that once enthusiastically welcomed Chinese investment under the strategy's umbrella are increasingly voicing their concerns about one-sided deals and an erosion of sovereignty. The United States and its allies have arrived at a moment of strategic opportunity.

Now is the moment to capitalize on growing dissatisfaction with China's Belt and Road. Working in concert with like-minded partners, the United States can offer a positive vision of economic growth and international connectivity that sets countries on the path to long-term growth while preserving their autonomy. In parallel, the United States should compete directly with the Belt and Road strategy where required, and when possible, shape China's activities to more closely align with international norms and standards.

The United States and its allies have arrived at a moment of strategic opportunity.

Absent a comprehensive American-led approach, China's Belt and Road will continue to pave the way for an alternative international order, current setbacks notwithstanding. Beijing's strategy is creating facts on the ground – from debt overhangs to the corruption of local elites – that will limit the ability of countries to exit China's orbit, effectively locking in its influence. The digital element of the Belt and Road will further entrench China in countries across a large part of the globe, giving

it access to data, bolstering its assault on a free and open internet, and compromising the networks of some American allies and partners.

Looking at the scope and scale of the activities under China's Belt and Road strategy, it is all too easy to succumb to Beijing's narrative of predestined ascendance. With the existing international order that has underwritten peace, prosperity, and freedom at stake, this would be a grievous error. The contest with China is eminently winnable – provided the United States can enhance its own competitiveness and come together with allies and partners to advance a coherent and compelling vision for the 21st century.

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 146. Estimates of the economic dislocation associated with Chinese imports range from employment reductions of 2.4 million from 1999 to 2011 to job losses of 3.4 million from 2001 to 2015. These figures are respectively taken from: David H. Autor, David Dorn, and Gordon H. Hanson, “The China Shock: Learning From Labor-Market Adjustment to Large Changes in Trade,” *Annual Review of Economics*, no. 8 (2016), 205-240, <https://economics.mit.edu/files/12751>; and Robert E. Scott, “Growth in U.S.-China trade deficit between 2001 and 2015 cost 3.4 million jobs” (Economic Policy Institute, January 31, 2017), <https://www.epi.org/files/pdf/114752.pdf>.
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 153. This recommendation is a more refined variant of one proposed in Kliman, "The Geostrategic and Military Drivers and Implications of BRI."
 154. China's military expansion in the Indian Ocean will require creative thinking about posture, but not a fundamental shift in U.S. force development. Given that the military challenge posed by China remains most acute in its periphery, U.S. military capabilities designed to operate in the highly contested East and South China Seas would prove more than a match in wartime against a limited anti-access and area-denial capability that China might station in Djibouti or future Indian Ocean military bases or points of access.
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