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THE BELT AND ROAD INITIATIVE:

INSIGHTS FROM CHINA'S BACKYARD

by

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A Research Report Submitted to the Faculty

In Partial Fulfillment of the Graduation Requirements

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27 February 2019

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Biography

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Abstract

This paper examines Xi Jinping's Belt and Road Initiative (BRI), previously known as the One Belt One Road (OBOR) Initiative. It argues that, in the context of South and Southeast Asia, BRI represents a key aspect of China's strategy to overcome its "Malacca Dilemma" and establish predominance in the Asia-Pacific region. Moreover, it argues that China's creation of the Asian Infrastructure Investment Bank (AIIB) is important in relation to China's efforts to improve its image internationally. Specifically, the paper examines the implementation of BRI in two South Asian and two Southeast Asian countries. The examination includes a review of leading BRI project funding sources to date and potential adjustments moving forward. Moreover, the paper identifies how China's BRI-related actions in the four countries examined represent a strategic effort to improve China's political, economic, and security interests. It closes with a few insights for BRI partner countries as well as recommendations for the United States as it considers strategies to compete with China in the Asia-Pacific.

Introduction

The One Belt One Road (OBOR) initiative, which China retitled the Belt and Road Initiative (BRI), is shorthand for the Silk Road Economic Belt (丝绸之路经济带) and the 21st Century Maritime Silk Road (世纪海上丝绸之路). BRI is the cornerstone of President Xi Jinping's foreign policy. It is intended to increase connectivity between China and over 100 countries and international organizations based on the historic Silk Road land and maritime routes. The initiative aims to build these linkages through infrastructure investments, transport and economic corridors, and by connecting China to other countries "physically, financially, digitally, and socially."[1]

Early BRI infrastructure investments have resulted in criticism of some of China's practices. The most common criticisms are that China is utilizing debt and market traps to "reshape international relations in its favor" by creating BRI partner country dependency.[2] Due to internal political and economic weaknesses, "more than half the nations listed under BRI are rated "junk" or not graded."[3] Because of limited options, many of these countries are vulnerable to dependency and economic coercion. Unlike loans from multilateral financial institutions that insist on accountability and reforms, Chinese loans typically lack such strings, but often do require that projects be given to Chinese companies and "at least 50% of material, equipment, technology, or services" be sourced from China.[4]

An October 2018 special report in *China Today* meant to assuage criticisms of BRI described the initiative as the embodiment of China's commitment to its international responsibilities. BRI is further explained as a response to "trade protectionism, unilateralism, isolationism, and other virulent trends" that have damaged the global economy and multilateral trading system,[5] a thinly veiled effort to paint China as a positive alternative to the United States.

Likewise, Xi Jinping's speech at the 19th Party Congress argued for shared community and international cooperation, particularly between China and its neighbors, including through BRI.[6]

Understandably, China intends to use BRI to improve its economic, political, and security situation. BRI is praised as a potential economic boon for partner countries, highlighted as China's means of rising peacefully, or criticized as a strategic ploy to gain assets and build influence through political and economic coercion. Viewed objectively, BRI deserves both praise and criticism. China has offered loans in environments where other lenders are reluctant to engage. While this places some BRI countries in a weak bargaining position, it offers infrastructure investment that otherwise may not be available. The long-term success of BRI will depend on the ability to strike an equitable balance between China's interests and those of partner nations. The ability of countries to strike that balance depends on their political and economic health, as well as their ability to hedge against excessive dependence on China.

This paper argues that, in the context of South and Southeast Asia, BRI represents a key aspect of China's strategy to overcome its "Malacca Dilemma"[7] and establish predominance in the Asia-Pacific region. The paper begins by exploring China's shift to a more assertive foreign policy under Xi Jinping. Next, funding of BRI projects is explored. A few significant BRI investments in two South Asian and two Southeast Asian countries are then examined as a means of illuminating China's approach. Projections are made regarding future BRI trends and the potential value of the Asian Infrastructure Investment Bank (AIIB) as a means to improve China's image. Finally, lessons are drawn in an effort to provide insights for these and other BRI nations, as well as recommendations for the United States as it faces increasing competition with China.

BRI = No Longer Biding Time

China's foreign policy under Xi Jinping is more assertive than his predecessors, particularly in Asia. During past decades, Chinese leaders followed Deng Xiaoping's guidance to "hide one's capabilities and bide one's time," which they frequently referenced in speeches.[8] In Xi's speech at the 19th Party Congress, that language was nowhere to be found. Instead, Xi used more assertive language, noting that China will "take an active part in reforming and developing the global governance system," and he warned that "no one should expect us to swallow anything that undermines our interests."[9] China's more aggressive posture comes at a time when the United States is perceived to be stepping back from globalization and multilateral institutions.[10] Although the term "core interests"[11] is not used in Xi's 19th Party Congress speech, China's "interests" are cited approximately thirty times.[12] While not clearly defined, China's core interests are generally viewed to include Chinese sovereignty, development and security interests, national reunification, territorial integrity, and the continued centrality of the Communist Party of China.[13]

The fact that China is no longer "biding time" is likely related to two factors. First, China's rapid economic growth of the past two decades is beginning to slow. BRI is an opportunity to reinvigorate growth and reduce energy vulnerability while China remains positioned to self-fund many of the initial BRI projects. Also, BRI is seen as a life-line to inefficient state-owned enterprises (SOEs), which have received 83 percent of loans, mostly from state-owned banks, since 2016, which is a reversal from 2013 when 57 percent of loans went to private companies.[14] Second, BRI is a result of China's dissatisfaction with the status quo, at least in its own region, which can also be linked to the Obama-era pivot to Asia announced by the United States in 2011. China's military buildup, its consolidation of what one author calls the "China model" of control over political and economic decisions, and its behavior towards regional institutions are all indicative of dissatisfaction. [15]

China's regional strategy is more assertive toward core interests and more beneficent toward secondary interests that are intended to enable China to "achieve its main strategic goal of rising peacefully."[16] BRI is an important element of China's core interest of continuing its development and advancing its security interests. This is particularly true in South and Southeast Asia, where sea lanes, roads, rail, and pipelines are all vital to China's interests. Some scholars argue that China is using "energy mercantilism,"[17] facilitated by BRI and the encouragement of overseas energy sector investments by Chinese companies,[18] as a means to neutralize the United States' ability to use access to oil as a weapon of coercion.[19] Securing multiple energy supply sources and routes, as well as improving the ability to protect sea lanes and vessels, are important to China's security. In respect to vessels, China is developing a fleet of "Chinese-owned and Chinese-flagged oil tankers," which some scholars argue would deny the United States easy victories at sea by creating encounters with Chinese vessels that, unlike foreign-flagged vessels, would escalate due to China's unwillingness to comply with potential blockades.[20]

Overcoming the Malacca Dilemma is a primary goal of BRI in South and Southeast Asia. The term Malacca Dilemma became widely used after Hu Jintao declared in 2003 that "certain major powers" were intent on controlling the Malacca Strait, which would give them the ability to cut off energy supplies to China.[21] The solution to the Malacca Dilemma described more than a decade ago included "reducing import dependence through energy efficiencies and harnessing alternative sources of power, investment in the construction of pipelines that bypass the Malacca Strait, and building credible naval forces capable of securing China's SLOCs."[22]

"Overseas strategic pivots" (海外战略支点)[23] in places like Gwadar Sea Port are a means of addressing SLOC vulnerability. These pivots are described as "support facilities" designed to facilitate escort operations and reduce the risk of China's SLOCs "being harassed or blockaded by hostile naval forces."[24] The dual commercial and military purpose of these pivots correspond to the civil-military integration described in China's 2015 Military Strategy.[25] From India's perspective, these port projects – particularly in Myanmar, Pakistan, and Sri Lanka - appear to confirm the 'string of pearls' theory, which argues that China endeavors to establish a string of facilities in the Indian Ocean region that can support the People's Liberation Army Navy (PLAN).[26]

While China seeks to strengthen its position in the Asia-Pacific through BRI and other means, some of which are aggressive, terms like collaboration, shared benefit, and equal partnership dominate Chinese government pronouncements. For example, at the 19th Party Congress Xi argued in favor of those attributes espoused by liberal international relations theorists, such as cooperation, globalization, trade, and international institutions.[27] However, a look at some of China's actions appear to indicate that China desires shared community and cooperation only to the extent that others are willing to defer to China. As Mohan Malik of the Asia-Pacific Center for Security Studies (APCSS) notes, "China's goal in its foreign relations is not usually conquest or direct control, but freedom of action, economic dominance and diplomatic influence through coercive presence."[28]

When China's neighbors do not acquiesce on issues such as China's claims in the South China Sea, China behaves in accordance with what theorists of realism would expect of regional hegemons. For example, China has used a "divide and conquer" approach to keep certain issues from appearing on multilateral agendas.[29] By its insistence to deal with countries on an individual basis, China is able to use its overwhelming economic power in an effort to bring countries into compliance. According to one scholar, "China is already following the strategies of previous regional hegemons. It is using economic coercion to bend other countries to its will."[30] Examples related to BRI include Sri Lanka's handover of Hambantota Port in a debt-equity swap and Cambodia's willingness to serve as China's proxy within the Association of Southeast Asian Nations (ASEAN) in exchange for economic benefits.

Chinese scholar Yan Xuetong agrees, noting that "China will decisively favor those who side with it with economic benefits and even security protections. On the contrary, those who are hostile to China will face much more sustained policies of sanctions and isolation."[31] The use of economic dependency and coercion to advance interests, though, should not be interpreted as complete disregard for the interests of BRI partner countries. For BRI to be effective, there must also be benefits for partner countries. The level and type of benefits necessary for BRI projects to be deemed worthwhile will vary by partner country as will each country's susceptibility to coercion. Moreover, the willingness of China to lower interest rates on loans and convert loans to grants will also vary by country, depending on how closely projects are linked to China's core security and development interests.

Chinese Financing of BRI

China is advancing its regional and international influence through its financing of BRI projects as well as the establishment of new multilateral institutions. Examples of multilateral and domestic Chinese institutions that are key financers of BRI projects include China Development Bank, the Export-Import (Exim) Bank of China, China's four leading commercial banks, the Asian Infrastructure Investment Bank (AIIB), and the Silk Road Fund. Estimates for Chinese investment under BRI range from $1 to $8 trillion U.S. dollars, $1 trillion being the most frequently cited number.[32] To date, South and Southeast Asia have received the majority of BRI investment, which is indicative of the region's importance to China's security and development interests.[33]

Much of the impetus for China's creation of the AIIB developed from dissatisfaction with governance of existing international financial institutions, particularly an insufficient "focus on infrastructure and growth."[34] There were early fears in the West that China would use the AIIB for its own political and economic ends, including as a means to dispose of excess SOE capacity through BRI projects.[35] While these practices have occurred in relation to BRI projects funded by China's commercial and policy banks, the AIIB, while complimenting BRI, has thus far been a minor player. And, although China holds a sufficient percentage (26.6 percent) of the AIIB's shares to effectively veto "decisions requiring a super majority," it has not used that veto power to date.[36]

The AIIB is constrained by its multilateral structure, governance, and operating procedures, which mirror those of other multilateral development banks.[37] Therefore, it could be argued that the AIIB, as one of China's first efforts to establish a major multilateral institution, is primarily a tool to promote a positive image. If so, this would serve as an incentive for China to avoid using its veto power within the AIIB. As BRI expands into countries that are more cautious in their engagements with China or that have multiple funding options, it is likely the AIIB will be utilized more frequently to fund BRI projects. [38]

In contrast to the AIIB, China's policy and commercial banks provide a less constrained option to fund BRI projects, which is particularly important for BRI projects that are vital to China's security interests. Policy banks, in particular, function as "agents of Chinese state-capitalism that employ subsidized capital to achieve a combination of commercial and geopolitical aims."[39] China created three policy banks in the 1990s, two of which are closely related to BRI and are either directly or indirectly under Chinese government control. The China Development Bank provides financing for infrastructure, energy, and transportation projects.[40] The Exim Bank focuses on trade financing and promotion of Chinese products and services, which is critical to China's SOEs.[41] Based on a 2018 report, the AIIB has only loaned a little more than $3.5 billion to date, and only one-third of that appears to be BRI-related. In contrast, China Development Bank and Exim Bank reported lending of approximately $102 billion and allocation of "hundreds of billions in BRI-related credit."[42]

There are characteristics that are common to most BRI-related loans. For example, Chinese loans generally come from "state-funded and state-owned policy banks,"[43] such as the Exim Bank of China and China Development Bank. The loans typically come in two primary forms – concessional loans and preferential buyer's credit – and generally have higher interest rates than those granted by most multilateral agencies. The terms of Exim Bank loans typically require that the projects be implemented by Chinese companies with at least 50 percent of the equipment, materials, and services sourced from China. Such loans, according to one scholar, are concessional loans made to "less credit worthy countries to promote exports of Chinese goods and services."[44]

The most important observation regarding the vast majority of early BRI projects is that they are almost entirely funded by banks and funds that are under the control of the Chinese government. This makes sense given the security interests involved. While the China Development Bank and Exim Bank have combined to provide around 45 percent of BRI funding, China's four largest state-owned commercial banks have provided 51 percent of BRI funding.[45] The Silk Road Fund, which also funds BRI projects, is linked to the People's Bank of China and has total capital of $40 billion. The four Silk Road Fund shareholders include the State Administration of Foreign Exchange, China Investment Corporation, Exim Bank of China, and China Development Bank.[46] As a result of the lack of expected financial return on many projects, it is reported that some state-run banks would like to avoid more BRI spending. Yet, the fact that BRI is so closely connected to Xi Jinping and is now written directly into the Constitution means that attacking the initiative is seen as an attack against the Chinese Communist Party.[47] Moreover, the inclusion of BRI in the Constitution may be an effort to consolidate central government control over the initiative, aspects of which Chinese companies, provinces, and even prefectures have taken the lead in implementing.[48]

BRI in China's Backyard

As the "main axis" of BRI, South and Southeast Asia are vital to China's interests.[49] Infrastructure in the region is critical to the connectivity envisioned by BRI, as evidenced by the fact that the region has experienced the most significant investment for the longest period of time. However, there has been little financial return on investment and it is questionable whether China is actually seeking a financial return or simply pursuing "geopolitical needs."[50] The countries that have benefitted most are those that "already had strong geopolitical reasons" to align with China.[51] Incidentally, these countries are among the most likely to allow a Chinese naval base or, more likely, serve as overseas strategic pivots,[52] providing support for both commercial and naval vessels. Ports serving this purpose would partly address the vulnerability of one of China's most important trade routes.[53]

Within Southeast Asia, Cambodia and Myanmar provide examples of China's approach. Both are strategically important because of land transportation routes, ports, sea lanes, as well as their ASEAN membership. Ports in Cambodia and Myanmar would provide China with strategic locations on the eastern and western sides of the Malacca Strait, thereby addressing one aspect of China's Malacca Dilemma. Also, with labor rates much lower than China's, both countries offer China the ability to move some low-end factory production abroad as part of its "going out" policy. This policy encourages Chinese companies to invest abroad generally, but particularly in the energy sector.[54]

In an analysis of relations between China and the member states of ASEAN, David Shambaugh identified ASEAN states by one of six categories along a spectrum. Those closest to and most dependent on China are at one end of the spectrum, while those least close to and least dependent on China are at the other end. The categories include Capitulationist, Chafer, Aligned Accomodationist, Tilter, Balanced Hedger, and Outlier. Based on his analysis, Cambodia was identified as a "Capitulationist" state, meaning that it is the most closely tied to and dependent on China and has a "virtual client-state relationship." Myanmar was identified as a "Chafer," which is the second most closely tied to China and has no other options.[55] At the other end of the spectrum is Indonesia, which is described as an Outlier that "goes out of its way to maintain distance from both" China and the United States. As Shambaugh notes, this spectrum is not static and the status of states within ASEAN can change over time.[56]

South Asian countries are also critical to BRI and China's broader interests. Among the most important are Pakistan and Sri Lanka. Pakistan, like Myanmar, offers China the ability to utilize pipelines to improve energy security, which is another means of reducing the vulnerability posed by the Malacca Strait. Ports that are already constructed or currently under construction in Pakistan and Sri Lanka also improve China's ability to protect SLOCs. For example, Gwadar Port in Pakistan will provide China a port on the Arabian Sea near the Strait of Hormuz, while ports in Sri Lanka serve as important assets on the Indian Ocean. Based on Shambaugh's spectrum of dependency, Pakistan and Sri Lanka appear have teetered between Capitulationist and Chafer states in recent years.

Cambodia

Cambodian President Hun Sen has increasingly relied on China for loans and investments. According to news reports, "billions of dollars in Chinese investments have helped Cambodia become one of the fastest-growing economies in the world."[57] However, Hun Sen is now seen as China's proxy within ASEAN. For example, in 2016 Hun Sen blocked ASEAN from condemning China for its territorial claims in the South China Sea.[58] According to Dr. Sophal Ear, a leading Cambodia expert, the Cambodian government "is willing to do just about anything at this point to satisfy China."[59] Referencing irrigation projects in Cambodia, he noted that some so-called BRI projects are nothing more than mechanisms to place money in the hands of Cambodian officials to buy influence.[60] During a speech at the University of Colorado, Boulder, Dr. Ear said Cambodia is "increasingly looking like a province of China, if not a wholly-owned subsidiary," while acknowledging that China's relations with some BRI countries may be more innocent.[61]

Several news reports have described the city of Sihanoukville as a Chinese outpost due to the significant and growing presence of Chinese from mainland China. According to one report, "The southern coast of Cambodia is now home to $4.2 billion worth of power plants and offshore oil operations all owned by Chinese companies."[62] Outside Sihanoukville, BRI financing is also behind a new highway from Sihanoukville to Phnom Penh and a new airport in the capital. While there are some trickledown effects, Dr. Ear notes that most Chinese investment caters to mainland Chinese, and the benefits do not circulate in a way that benefits the average Cambodian.[63]

According to one report, as of early 2017, Chinese companies were responsible for 70 percent of industrial investment in Cambodia, held at least 369,000 hectares of land concessions, and had development rights for around 20 percent of Cambodia's coastline.[64] The Koh Kong Port in Koh Kong Province serves as an example of a significant Chinese infrastructure investment. It is part of a pilot zone located on a 45,000-hectare land concession that was provided to a Chinese company for 99 years with a 100 percent equity stake.[65] The $3.8 billion pilot zone project was reportedly recognized by Hun Sen and Xi Jinping as "an important strategic manufacturing project of the BRI."[66] The deal for the pilot zone was originally signed by Cambodia Union Development Group. A review of Cambodia's corporate registry revealed that ownership was changed from foreign to Cambodian before the concession was awarded, reportedly as a cover for Chinese company Tianjin Union Development Group and as a means of circumventing Cambodia's law limiting the size of foreign land concessions.[67] Phase 1 of the Koh Kong Port project is currently underway, while two manmade lakes, a power plant, four-lane highway, resort, and golf course are already completed.[68]

The Koh Kong Port and pilot zone project appears to follow the "Port-Parks-City" (前港-中区-后城) model, which involves development of a port, followed by construction of an industrial park, which some argue is "then intended to lead to the establishment of a proxy Chinese city inside another sovereign state."[69] Those with a more optimistic assessment of potential benefits note that parks with special economic or free trade zones lead to increased trade and investment,[70] which can serve as a means to recuperate infrastructure development costs. Potential dangers, of course, are that long-term leases can result in loss of sovereignty, the exclusion of host nation and other countries from projects, as well as interference in domestic politics.[71]

Myanmar

Unlike Cambodia, Myanmar not only borders China, but also serves as an important link between South and Southeast Asia. During the 1990s, Myanmar's military junta relied heavily on China for economic survival. In return, China gained access to natural resources and "moved closer to gaining a strategic passage from southwest China to the Bay of Bengal."[72] Although there have been complaints about Chinese economic domination and illegal immigration from China, which led the government to suspend several Chinese projects, Myanmar remains heavily reliant on China. After Myanmar's return to democracy, the country reopened some previously suspended Chinese projects and approved others. The government earns billions from Chinese-owned pipelines that provide oil and gas to China's Yunnan Province. This is an example of China using infrastructure investments in Southeast Asia to improve its energy security by developing supply route alternatives to the Malacca Straits.[73]

In 2015, Myanmar approved "plans to develop a deep-sea port, industrial zone, logistics hub and other facilities in Kyaukpyu – all by Chinese companies."[74] Due to increasing concerns of unsustainable debt, Myanmar renegotiated the project in 2018. This led to an agreement to scale the project back from its original $7.2 to $1.3 billion, which better serves Myanmar's interests while also allowing China to complete a core element of its BRI plans. The port will be further expanded only if usage and profits permit.[75] China's CITIC Group will take a 70 percent stake in the project while the rest will belong to the Myanmar government and several domestic companies. CITIC Group is also investing $2.7 billion to develop an industrial park within the special zone, for which it will receive a 51 percent stake.[76]

It is unclear whether the Port-Park-City model will be applied in Myanmar, which has grown increasingly concerned over excessive dependence on China, though Dr. Malik suggested that China will pursue this model of development in Myanmar and Cambodia just as it is in Pakistan and Sri Lanka.[77] He notes that China has threatened Myanmar with an economic penalty of one billion USD for backing out of the Myitsone Dam project in order to pressure Myanmar to restart the project. He adds that China's veto in the United Nations Security Council (UNSC) provides Myanmar diplomatic protection in relation to the Rohingya refugee issue, which is used to "make sure Myanmar does not move out of China's orbit."[78]

Pakistan

The China-Pakistan Economic Corridor (CPEC) is a key route linking China to other countries as well as to the strategically important Gwadar Sea Port. CPEC is BRI's "flagship" project.[79] The Karot Hydropower Station, an important initial element of the CPEC, was the first project funded by the Silk Road Fund.[80] Valued at $62 billion overall, CPEC involves "expanding Gwadar port, and constructing energy pipelines, power plants, hundreds of miles of highways and high-speed railways, fiber-optic cables and special economic zones."[81] Gwadar Sea Port is considered one of China's overseas strategic pivots, which are intended to "facilitate China's civilian and military seaborne activities" in the region.[82]

CPEC is not only important to China's security, but also the economic health of northwest China. Unlike BRI projects further afield, CPEC "has the potential to transform the economy of its [China's] underdeveloped, remote and restive Xinjiang province."[83] Reducing separatist sentiments in Xinjiang is a priority that China hopes CPEC can help achieve through economic development. Among other benefits, CPEC will provide Xinjiang with access to the sea. Moreover, Gwadar Port and the Gwadar-Kashgar gas pipeline that will link the Bay of Bengal to Yunnan Province in China through Myanmar are important aspects of CPEC that can help China overcome its Malacca Dilemma.[84]

While Pakistan is among the most significant BRI countries in terms of investment, and one of the biggest supporters of BRI, concerns about unsustainable debt has led the Pakistani government to revisit some aspects of the CPEC project. Dependence on Chinese loans to "prop up its vulnerable economy,"[85] however, has made those efforts tricky. One option Pakistan raised was a build-operate-transfer (BOT) model, which Chinese officials indicated they would be willing to entertain.[86] In regard to a rail component of the CPEC project, Pakistan sought funding from the Asian Development Bank to fund part of the project. However, China indicated that the project was "too sensitive," and Islamabad "kicked out the bank under pressure from Beijing in 2017."[87] In late 2017, the Pakistani government did pull out of a $14 billion deal with China to build the Diamer-Bhasha Dam because they could not accept the "hyper strict" funding conditions the Chinese had put in place for the project, which involved China taking ownership of the project, as well as operations and maintenance. The project will reportedly move forward with Pakistani funding.[88]

Gwadar Sea Port is an important element of CPEC. It is a Chinese-funded and constructed project that provides China access to a port at the mouth of the Persian Gulf near the Strait of Hormuz.[89] Pakistan provided China a 43-year lease for hundreds of hectares of land at the Gwadar Port for the construction of a special economic zone. Additionally, the port itself was leased to China Overseas Port Holding Company for a period of 40 years, along with a "91 percent share of revenue collection from gross revenue of terminal and marine operations and 85 percent share from gross revenue of free zone operation."[90] Although Chinese financial institutions have reduced the interest rates on some loans and converted the $230 million loan for Gwadar Airport from a loan to a grant, concerns remain that Pakistan's dependency on China has resulted in agreements that favor China at the expense of Pakistan.[91]

China appears to be pursuing a "Port-Park-City" (PPC) model of development in Gwadar similar to that planned in Cambodia. Although it may be an overstatement, one recent report claimed that China plans to settle a large number of Chinese professionals in the port city by 2022.[92] Reports often stoke fears of Chinese 'takeovers,' and Chinese companies often exaggerate the scale of projects. Whether PPC models like that described will be fully realized remains to be seen. Still, China does seek to attract Chinese businesses to newly created free trade zones as part of its policy of encouraging foreign investment, and private Chinese citizens often seek opportunities near large-scale BRI projects.

Sri Lanka

Indebtedness and international criticism of the Sri Lankan government for failing to seek reconciliation during and following its civil war were factors leading to an over-reliance on China for development assistance. During Mahinda Rajapaksa's government, Sri Lanka sought to rapidly improve economic development prospects. In 2006, a Chinese state-run company received loans from China's Exim Bank to construct a $1.35 billion coal power plant in Puttalam, Sri Lanka. The same bank provided a loan in 2008 to build the Hambantota Port in the south of the country. Following the war, Sri Lanka increasingly relied on Chinese loans to jump-start the country's post-conflict reconstruction efforts.[93]

As of 2015, Sri Lanka had accumulated billions of dollars in debt to China. The 2015 election led to Rajapaksa's fall and the election of Ranil Wickremesinghe. The new government was faced with a high debt to GDP ratio, which reached 79 percent in 2016.[94] As a result of an inability to pay debts, Sri Lanka arranged a debt-equity swap that provided China Merchants Port Holding with a 99-year lease of the Hambantota Port and an 80 percent stake, as well as 15,000 acres of land around the port to be developed as an industrial zone for Chinese investors.[95] This allowed China to secure an important port on the Indian Ocean for the next century, and harkens back to the 99-year leases unfairly forced on China by colonial powers more than a century ago.

Additionally, the Sri Lankan government allowed China Harbour Engineering Company to resume work on the $1.4 billion Columbo Port City project in 2016,[96] providing China Communications Construction Company with a 99-year lease on two-thirds of the 269 hectare land reclamation project.[97] This was after cancelling, due to Indian concerns, the planned provision of land to the company in perpetuity.[98] Although the Columbo Port City project was renamed the Columbo International Financial City by the new Sri Lankan administration as part of a renegotiation, the core of the project remains intact, though with the added focus on building a financial center and bringing in additional investors.[99] According to Mohan Malik, Beijing "acts in a piecemeal, quiet and patient fashion, only bringing the pieces together 'when the conditions are ripe.'"[100] In the case of Sri Lanka, he notes that China took advantage of the Sri Lankan civil war of the 2000s to establish a foothold in the country.[101]

BRI Trends Going Forward and China's Image

While China has pressured BRI countries to avoid non-Chinese funding sources when projects were regarded as sensitive, China will need to transition to a less mercantilist approach for BRI to be successful in the long-term. China may work to reduce escalating competition by co-opting major multinational companies when and where advantageous. A recent report on future BRI opportunities noted that many multinational corporations expect to increase their work in relation to BRI projects in coming years.[102] Increased engagement by multinational companies and multilateral institutions is most likely to occur in countries that are not as strategically important to China's security.

Though not yet operationally significant in regard to BRI, the AIIB appears to be an effort to promote China as a responsible international actor. The ability of the AIIB to fund future projects will depend partly on the success of BRI's overall image and the confidence of AIIB stakeholder nations to provide funds. AIIB funding of projects could reduce criticism by eliminating direct Chinese control over projects. Yet, if AIIB stakeholders do not provide funding, or if they lack confidence in the institution, it could become "nothing more than a shell organization through which China disburses bilateral foreign aid."[103]

As BRI moves forward, China will continue to receive criticism of select projects, particularly projects that are funded by Chinese banks with high interest loans; built with mostly Chinese labor, equipment, and materials; and owned and operated by Chinese companies as a requirement of the investment agreements. China will likely lower interest rates or forgive some loans, as it has already done for select projects, in order to avert growing criticism and to advance projects. In addition, some announced projects will fail to develop or will be halted, though China will go to great lengths to maintain BRI projects that are related to its security.

Conclusion

This paper argues that China's implementation of BRI in South and Southeast Asia is a strategic effort to gain predominance in the region while advancing political, economic, and security interests, including overcoming China's Malacca Dilemma. Furthermore, this paper has shown that China is able to acquire acquiescence on the part of some excessively dependent BRI countries. It follows, then, that the most likely nations to host future Chinese overseas strategic pivots or naval bases are those that display characteristics of what David Shambaugh has labeled capitulationist and chafer states.

While China is pushing against U.S. presence in the Asia-Pacific region, its preferred means of securing predominance is not direct confrontation, but to improve its posture by bringing countries into its orbit. China is making great strides in its efforts to develop alternative energy sources and supply routes while improving its ability to protect energy shipments through the Malacca Straits, which will allow it to diminish the ability of major powers to disrupt its energy supplies. Thus far, China appears much more likely to use economic benefits to get its way with vital BRI partner countries in the region. At the same time, China has demonstrated a willingness to use its economic clout to punish countries that take actions seen as unfavorable to China. For instance, in 2017 China used a range of actions to punish South Korean businesses due to the deployment of the Terminal High Altitude Area Defense (THAAD) system as a defense against North Korea. Likewise, in 2010 China stopped shipments of rare earths to Japan as a result of the detention of a Chinese fishing vessel captain.

Chinese investments can benefit BRI partner nations in the Asia-Pacific and elsewhere, but excessive dependency leaves countries vulnerable. Therefore, BRI partner countries like Cambodia, Myanmar, Pakistan, and Sri Lanka should diversify project funding. Moreover, they should pursue significant host-nation ownership of projects, make efforts to renegotiate the terms of inequitable existing contracts, and ensure future BRI agreements include mechanisms that guarantee local (host nation) residents directly benefit. Given the status of BRI within China, China will tailor the initiative to ensure successes, though sometimes measured in terms of security benefits rather than financial returns on investment. BRI partner countries should seek opportunities to take advantage of this 'tailoring,' which can sometimes result in favorable reductions in the scale of projects, a lowering of interest rates on select loans, or conversion of some loans to grants. Some of China's plans for BRI will fail, yet the overall initiative is, as Dr. Malik has noted, "too big to fail completely."[104]

Chinese leaders will continue to use win-win and shared development terminology as a response to criticisms of BRI. Over time, the AIIB is likely to serve an increasingly important role. China will use it as a means to improve its image and that of BRI generally. Moreover, a broader group of multinational corporations is expected to become more engaged in BRI projects, which has the potential to improve transparency. Additionally, financial returns on investment will likely be more important for projects that do not represent core security interests. Therefore, once China has improved its position in the Asia-Pacific and secured critical resources elsewhere, it is likely there will be a gradual transition to less mercantilist approaches as well as a shift away from Chinese commercial and policy banks as the primary lenders. If this transition does not occur, China's economy and international image will almost certainly suffer.

The United States and its allies in the region should coordinate based on their relative strengths and position themselves as potential partners with countries in the region. However, the United States should not directly compete with China's infrastructure investments and, instead, should work with allies to support projects that build indigenous capacities. Increased diplomatic and military-to-military cooperation in the region must be a priority, and can be demonstrated by consistent and high-level engagement with ASEAN and individual South and Southeast Asian nations, as well as through increased international military and educational training opportunities, crisis response, and humanitarian assistance.

While originally opposed to its creation, U.S. membership in the AIIB should be seriously considered, and the U.S. should revisit potential Trans-Pacific Partnership membership. Finally, in regard to increasing competition between China and the United States in the region and globally, the United States should define what long-term success looks like and coordinate efforts, both with allies and with the interagency, to achieve that success. In defining strategy, though, the United States must not only consider the current dynamics of competition in the Asia-Pacific, but also the historical similarities between China's perspective on the Asia-Pacific and that of the United States regarding the Western Hemisphere.

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