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Belt and Road Initiative: Emergence of a parallel international order?

Report on the Forum “*The Belt and Road Initiative: Risks and Responses*” organized by China Institutes of Contemporary International Relations (CICIR), 6 – 7 April 2017, Beijing

Where is India?

The conference brought together a high-ranking group of national and international think tank representatives. Of the 26 international scholars most came from partner countries of the Belt and Road Initiative (BRI), for example Pakistan, Nepal, Sri Lanka, Philippines, Laos, Myanmar, Iran, Indonesia, Uzbekistan, Tajikistan, Russia, Belarus, Egypt, Ethiopia and Djibouti. The OECD world was represented by South Korea, USA, Australia, Poland, Israel and Germany (myself).

Participants of the meeting immediately noted and commented on India’s absence. According to conference organizers, Indian think tanks had been invited but declined to participate. Throughout the conference India was a recurrent topic. Chinese participants regretted that the South Asian country has, so far, kept at a distance or has even openly shown a hostile attitude. Several reasons for this were mentioned. Indian observers interpret China’s growing engagement with Central Asia (e.g. Afghanistan) and South Asia (e.g. Sri Lanka, Nepal, Myanmar, Maldives) as intrusion into their sphere of influence. India has reacted particularly negatively towards the China-Pakistan Economic Corridor (CPEC) since this comprehensive project strengthens the regional rival and encompasses the contested territory of (West) Kashmir. One particular example of where the rivalry between India and China plays out refers to the ports of Gwadar (Chinese-built, Pakistan) and Chabahar (Indian-built, Iran), only 60 km apart. The unease of India’s government with BRI also shows in the fact that it is determined to restrain Indian participation in the upcoming Beijing Summit on BRI, 14-15 May 2017 (“Government advises firms, autonomous bodies to seek clearance before participating in OBOR forum”, *Economic Times/India*, 13 April 2017). Conference participants from countries of the region rejected Indian reservations and interpretations, emphasizing the positive developmental impact of BRI.

Several speakers expressed regret that the Indian-Chinese conflict disregards historical links around the original Silk Road and severely limits complementarities and synergies between the two neighbors. Compared to such tensions between the world’s two most populous countries, Chinese-Russian rivalry in Central Asia only played a marginal role in the debate. It appears that Russia does not (any more) challenge the growing presence of China in the region, probably as a result of objective power differentials and her current economic woes. There is, however, an awareness of the

growing competition between Chinese and Russian enterprises in Central Asia. Russian discussants repeatedly referred to their government's strong desire to link the Eurasian Economic Community with BRI and underlined the importance of the Shanghai Cooperation Organization (SCO) for security, stability and economic progress in the Post-Soviet space.

Project for a century

Participants agreed that the phase of announcements is over for BRI which was first introduced by President Xi Jinping in 2013. Now, the period of implementation has begun and it is facts on the ground that count. There was a general uneasiness at the conference caused by the fact that geographic contours, strategic purposes and operational modalities of BRI have not yet been clearly spelled out. While this was seen, in a positive interpretation, as a condition for welcome flexibility, the resulting insecurity was understood as risk for potential investors and for the outside world in general. Serious analytical work and appropriate policy advice would certainly require a more defined and elaborated concept of BRI. In this context, Chinese voices repeatedly underlined that BRI is an initiative offered to all interested countries on the basis of voluntary engagement. According to Chinese understanding, the Belt and Road Initiative does not represent a grand scheme or a strategic master plan with geopolitical, geo-economic or geo-military intentions. Some international participants responded that while this may be the genuine intention of China, some countries/societies still feel threatened and would continue to question China's ulterior motives.

Conference organizers announced that around 65 countries are presently part of BRI. For China, this is a project for a whole century. Domestic factors are an important part of the scheme, i.e. the need to develop the poor Western sections of the country and to address excess industrial and construction capacities. On the diplomatic front, BRI represents a cornerstone of the country's ambitious plans for South-South cooperation and joint activities of BRICS (Brazil, Russia, India, China, South Africa). The Chinese-led Asian Infrastructure Investment Bank (AIIB) is designated to function as key lending institution for BRI, together with the Silk Road Fund which allows for participation of the private sector. The Initiative represents a comprehensive scheme for a new quality of trans-boundary cooperation and connectivity, particularly in the fields of energy, power generation, communication, (high-speed) rail, road, aviation and pipeline links as well as financial services.

BRI serves as an umbrella for a myriad of ongoing and planned projects with Chinese participation. Participants pointed to the potential of deepening and expanding international value chains led by Chinese enterprises. The Chinese currency, RMB, will play a leading role for transactions. Through BRI, technical standards and technological systems from China will be transferred to partner countries. Eventually, it is hoped, the development of productive capacities will become a formative element of BRI, enhancing industrialization and leading to a growing role of equity investments.

Non-economic dimensions

Participants emphasized the importance of non-economic dimensions for a long-lasting success of BRI such as people-to-people exchanges and societal discourses which would generate visions for a common future. The recognition and expression of cultural differences among the participating countries might also help to dispel the allegation of Chinese colonialism under the disguise of BRI blessings. Here tourism could play a helpful role. It was emphasized that China has no intention to export its model of development and continues to rely on the 1955 Bandung principles of non-interference, non-conditionality and peaceful co-existence. Ideas and plans promoted through BRI

should be localized so that societies understand the short-term and long-term goals as well as the benefits that they can gain by participating in BRI. However, there were no examples given as to how this approach might be put into practice.

Speakers made mention of the historic task of integrating Central Asia again into the world economy after the region had been marginalized by super power confrontation during the cold war. Reaching even further, some participants anticipated the centrality of Eurasia for the world economy in the future, possibly superseding the dominance of the transatlantic alliance after World War II and counteracting the present shift towards Asia Pacific.

However, there was a general agreement on the equal importance of terrestrial (Eurasia) and maritime (South Asia, Southeast Asia, Africa) spaces presently covered by the six corridors of BRI. Discussants considered the possibility of adding a seventh corridor, reaching out to Northeast Asia which could connect to that country's own Eurasia initiative. Chinese voices expressed interest in the option but did not expect this to happen in the near future. The particular benefits for land-locked countries, e.g. Laos, were seen as a particularly attractive developmental side effect of BRI.

Three major challenges

Chinese participants openly addressed the risks and challenges which need to be addressed by BRI. There are wide-spread suspicions in partner countries with regard to Chinese intentions and actions. BRI has to navigate in diverse complex political and cultural situations of instability where religious groups and separatist forces are often entangled in violent conflict. Infrastructure investments under BRI are soft targets with a high degree of vulnerability. Therefore, early warning mechanisms and military intervention capacities are needed for certain locations to safeguard assets. The China-Pakistan Economic Cooperation corridor was cited as a striking example for the need of military protection which, in turn, could fuel domestic and international unease about the security implications of BRI.

The debate at the conference centred on three major challenges which Chinese leadership would need to address in order to turn BRI into a success story:

- 1) Purpose and impact
- 2) Governance and institutional architecture
- 3) Working modalities

Purpose and impact

Some enthusiastic Chinese discussants billed BRI as a new paradigm of development which they termed globalization 2.0 ("China's Belt and Road Initiative ushers in 'Globalization 2.0'", People's Daily, 12 April 2017). From this perspective, BRI is an alternative model of global governance which is not introduced from the top but rather built from the bottom by creating new webs of interlinking economic relationships. BRI has also been interpreted as a counterexample to the Western-inspired concept of prosperity and wealth creation which depends on financial capitalism and virtual derivatives. In contrast, BRI focuses on real assets in economic and social infrastructure and fosters material production. Thus, in a somewhat far-fetched way, BRI could be understood as building the foundation of a new international (Eurasian-based) economic order ("Towards a new world order in Eurasia: The 21st century's Great Game", Huffington Post, 8 April 2017).

Fundamental questions at the conference on the purpose and impact of BRI addressed the quality of projects and programs. There are considerable concerns in partner countries and the international community at large that BRI activities will inflict social and environmental damage on host countries. Since China as G20 presidency had, in 2016, taken a strong stand in support of the 2030 Agenda and the Sustainable Development Goals (SDGs), participants voiced the expectation that BRI in its entirety would be anchored in the 2030 Agenda and become fully aligned with the SDGs. In a similar vein, participants suggested that meaningful social and environmental standards should be applied systematically in project planning and implementation. Governments should also oblige enterprises to engage responsibly with local communities. The big question behind such reasoning referred to the overall orientation of BRI: How will Chinese leadership balance the (legitimate) pursuit of national interests with the responsibility to provide regional and global public goods?

The possibility of excessive debt generated by BRI came up in several contributions. At this stage, it does not seem that equity investments are rushing in. It is mostly credit, on market terms or subsidized by Chinese institutions like EXIM Bank, which is expected to finance infrastructure projects. Uncertain economic prospects with regard to economic viability and debt service worry a number of Chinese banks. Unsustainable debt burdens can quickly become a hot issue for partner countries (“Is China railroading Kenya into debt?”, South China Morning Post, 8 October 2016). There was also a concern that unsustainable debt towards China might be converted into equity thus extending foreign control of the economy beyond the level acceptable in a particular country. The Sri Lanka port of Hambantota was cited as a warning example of developments gone wrong. Here, the national government felt the need to sell an 80 percent stake in the port which was financed by Chinese credits to a state-owned enterprise from the same country. In addition, a large tract of land was designated as special economic zone, triggering street protest by residents (“Sri Lanka re-negotiating Hambantota port deal with China”, Indian Express, 5 January 2017). Participants also mentioned the extensive use of Chinese labour and material in foreign BRI projects as reason for popular concern. Some questioned the fairness of how benefits are distributed between China and the respective partner country. In addition, the lack of domestic counterpart funds and inadequate absorptive capacities were identified as structural impediments.

Governance and institutional architecture

At present, BRI builds on the centrality of China for each and every aspect. The Middle Kingdom brings the relevant political, economic and administrative resources to the table and negotiates bilateral agreements with partner countries under a condition of structural asymmetry. One has to keep in mind the extreme diversity of partner countries, ranging from fragile, low-income (Afghanistan) to stable middle-income (e.g. Ethiopia, Indonesia) and industrialized (Europe, Australia and New Zealand). Such structural disparities at the partner side call for a high degree of flexibility and pragmatism by China in order to cater to the specific conditions and requirements of each individual case. Still, a number of Chinese speakers emphasized that BRI needs to be a rules-based construct setting limits to the unbalanced pursuit of their country’s national interest. Also, the necessity of a dispute settlement mechanism, similar to the WTO arrangement, was mentioned which would allow for a quasi-legal process of solving conflicting claims.

With regard to the overall institutional design of BRI, discussants emphasized that China’s leadership has yet to make a strategic decision. It has to answer the question whether BRI is conceived and practiced as an instrument of bilateral (economic) diplomacy or whether the country in the driver’s

seat strives for a multilateral context. Numerous voices from China and abroad at the conference supported the multilateral option, pointing out that this would need structural transformation, possibly including the creation of a BRI Council in charge of strategic decision-making.

Basically all in favour of the multilateral option saw the Asian Infrastructure Investment Bank (AIIB) as the most convincing institutional platform since a growing number of developing countries, including from Africa and Latin America, as well as countries from the West have joined or are in the process of accession. It was mentioned that AIIB would be a good choice to act as BRI secretariat and could be called on for comprehensive analytical support, including macro-economic issues and debt frameworks.

African speakers repeatedly mentioned the positive example of the Forum for China-Africa Cooperation (FOCAC) as the largest platform for South-South cooperation which could guide in the institutional evolution of BRI. In this view, FOCAC is a well-functioning, quasi-multilateral framework which balances the interests of China and African partners on the basis of long-term funding commitments and mutually agreed principles of cooperation. African representatives, however, expressed a certain apprehension that their continent will be relegated to a marginal position within BRI context unless their countries receive special support from China.

Working modalities

Participants spoke out in favour of a rigorous management system for BRI which would be based on good governance principles to safeguard against corruption. They also supported a multi-stakeholder approach which would include the business sector as well as civil society organizations. A high degree of transparency was seen as essential, including systematic and reliable procedures for impact assessment. An easily accessible complaint procedure for affected local communities as well as an objective dispute settlement mechanism for conflict resolution was considered as necessity in order to build mutual trust. Participants also pointed out that a new multilateral agreement on investments under the BRI umbrella could be useful in order to attract private investors.

Participants favoured systematic collaboration of BRI with established regional organizations such as ASEAN and AU. The representative of the International Committee of the Red Cross admonished that BRI should not ignore human vulnerabilities, particularly in conflict-stricken regions. He emphasized the need for a multi-sectorial, humanitarian approach which gives due weight to human security including nutrition, water, education, health.

Conclusions

The conference organizers were able to facilitate a lively and partly controversial debate by focusing on the risks and challenges of BRI. As was intended, numerous contributions addressed critical aspects of the Initiative and formulated a wide range of policy proposals which could enhance the effectiveness and acceptance of BRI. The overall tendency of contributions towards BRI was positive. The Initiative was interpreted as a significant step of Chinese diplomacy to counter economic nationalism and the fragmentation of the international order. BRI was interpreted as a successful approach by which China could assert itself as “discursive power” (Antonio Gramsci).

Contrary to the post-World War II Marshall Plan, BRI is conceived as an open-ended endeavour. Participants questioned how long China would be ready to provide public resources on such a massive scale. How realistic is it to expect that the private sector would get involved in a meaningful

way? What would happen, some asked, if China's overall orientation would turn from benevolent to belligerent since economics and politics could not be separated? Some discussants spoke out for reducing the scope of BRI due to limited financial resources and existing high debt levels in the world. Not everything anybody wants to do should be granted the BRI label. Political authorities in China should be more discriminatory and selective, strictly focusing on cross-border connectivity in all its dimensions.

Speakers pointed to substantive economic and political benefits for partnering countries. They expressed the expectation that China would try to gain support for BRI from international bodies such as the United Nations and the G20 in order to fully exploit the potential. President Xi Jinping is determined to make special efforts aimed at gaining U.S. President Donald Trump's support in the context of the announced U.S. drive for a massive infrastructure overhaul. Chinese actors are also keen on linking BRI with the scheme of the European Commission for comprehensive infrastructure investment (Juncker Plan). However, such thoughts have not come to fruition so far and the existing EU-China Connectivity Platform apparently has not been able to move into concrete action.

Participants found a consensus in stating that BRI represents a major hope for regional integration and international cooperation but that successful implementation depends on certain pre-conditions. A prime concern was the need for multilateral institutionalization which would represent a rules-based regime. BRI would need to be anchored in the 2030 Agenda and the SDGs to fully promote sustainable development. And it should be guided by the principles of transparency and multi-stakeholder engagement. Western participants underlined the geopolitical implications independent of Chinese intentions since BRI necessarily infringes upon traditional spheres of influence (Russia-Central Asia, India-South Asia, USA-Asia Pacific). They insisted, however, that BRI constitutes a historic opportunity for many countries since no other government is ready to invest on such a massive scale.

Apparently, there is also the need to streamline internal Chinese mechanisms for BRI planning and implementation. Participants mentioned that presently a coordination office within the National Development Reform Commission is in charge, with the Ministry of Foreign Affairs, Ministry of Commerce and many other actors involved. There is a proposal on the table that Chinese leadership should set up a new entity solely responsible for BRI. Participants advised China to increase its understanding of different cultures and to pay more attention to countries where relations are strained. A more general take-away was the common understanding that more knowledge is needed with regard to success factors for BRI and that think tanks have an important role to play here. Therefore, China and all participating countries should invest more in knowledge creation and dissemination.