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THE BELT AND ROAD INITIATIVE: **HOW TO WIN FRIENDS AND** **INFLUENCE PEOPLE** Jane Golley and Adam Ingle

THROUGHOUT THE 1980s, Deng Xiaoping famously counselled Chinese Communist Party (CCP) officials that in international affairs, China must ‘bide [its] time, be good at maintaining a low profile, and never claim leadership’. Under each successive leader through to Hu Jintao (2002–2012), the CCP largely followed Deng’s counsel. In the era of President Xi Jinping, however, Chinese leadership on such global issues as free trade, emissions reductions, and the establishment of the Asian Infrastructure Investment Bank represents a strategic shift, which is epitomised by the centrepiece of Xi’s foreign policy, the Belt and Road Initiative (BRI) 一带一路. Although Xi first touted the BRI in 2013 (then known in English as One Belt One Road), it was in 2017 that the whole world took notice. China’s low-profile era is well and truly over.

A still from the music video 'The Belt and Road is How'
Photo: YouTube

In mid-January 2017, during his keynote speech at the World Economic Forum in Davos, Switzerland, Xi pledged China's ongoing commitment to free trade, including 'open, transparent and win-win regional free trade agreements'. He adamantly rejected the 'pursuit of protectionism', which he likened to 'locking oneself in a dark room. While wind and rain may be kept outside, that dark room will also block light and air. No one will emerge as a winner in a trade war.' Xi said China was committed to 'addressing problems facing the global and regional economy, creating fresh energy for pursuing interconnected development and making the Belt and Road Initiative deliver greater benefits to people of countries involved.'¹

In preparation for the inaugural Belt and Road Forum on International Cooperation in Beijing on 14–15 May, Xi took his vision for the BRI a step further. In a promotional video released on YouTube under the title of 'Why I proposed the Belt and Road', subtitled in English, Xi says he 'feels that [he] can hear the sound of the camel bells ringing in the mountains and see plumes of smoke rising over the desert'. He then voices his concerns about the future of lands that were once prosperous and bustling but whose names are now synonymous with difficulty, conflict, and crisis.

Against a CGI-enhanced backdrop of camels travelling across the desert and eagles soaring above oceans dotted with seafaring junks, Xi explains that:

The Belt and Road Initiative draws inspiration from the ancient Silk Road and aims to help realise the shared dream of people worldwide for peace and development. Shining with the wisdom from the East, it is a plan that China offers the world for seeking common prosperity and development 共同繁荣发展.²

This conceptualises BRI as the culmination of two of Xi's other favourite tropes: the 'China dream' and a 'shared destiny' (the title of the *China Story Yearbook 2014*).

In case this was not convincing enough, a second video features ukulele-playing children from many of the BRI partner countries singing 'The Belt and Road is How' (a pun on the Chinese word for good, *hao* 好). The children explain how the BRI will enable us all to share in a world of prosperity. To top it off, the *China Daily* launched its 'Bedtime Stories' campaign online, in which an American staffer at the paper explains the initiative to his young daughter to put her to sleep!³

Meanwhile, the world was waking up to a very different global order, with the election of Donald Trump as the president of the world's other largest economy. The contrast between his and Xi's visions could not have been starker. In one of Trump's first acts as president, in December 2016, he created the National Trade Council to implement the 'Buy America Hire America' program.⁴ He did not fulfill his election promise to slap forty-five per cent tariffs on all Chinese imports (and his daughter's business continued to manufacture goods in China). But, in January, he did deliver on his promise to withdraw the US from the Trans-Pacific Partnership (TPP), the ambitious trade liberalisation initiative proposed by his predecessor, Barack Obama. Throughout the year, Trump continuously tweeted his determination to 'make America great again' and place 'America first', offer-

ing very little to assure the global community of America's commitment to any international common cause. His decision to withdraw from the Paris Agreement on Climate Change in June was a significant case in point.

Goeconomics: Sticks and Carrots

'Goeconomics' is a useful concept for understanding Xi and Trump's two distinct approaches to the global political economy. In their 2016 book *War by Other Means: Goeconomics and Statecraft*, Robert Blackwill and Jennifer Harris, senior fellows at the US Council on Foreign Relations, define goeconomics as 'the use of economic instruments to promote and defend national interests and to produce geopolitical results; and the effects of another nation's economic actions on a country's geopolitical goals'.⁵

Blackwill and Harris lament the decades-long demise of the US's goeconomic strategy, in which they saw the TPP as the overriding component, 'tying together America's friends in Asia and negotiating terms of engagement between US collaborators in the Western and Eastern Hemispheres'.⁶ Trump's TPP withdrawal no doubt dismayed Blackwill and Harris — with little to make up for it as the year unfolded.

Instead, throughout the year, Trump tweeted erratically on the subject of how the US would or could use its economic might to achieve its diplomatic goals. He focussed primarily on China's role in dealing with an increasingly recalcitrant North Korea, sometimes offering carrots and other times threatening it with sticks. For example, on 11 April, he tweeted: 'I explained to the President of China that a trade deal with the US will be far better for them if they solve the North Korean problem!' Less than five months later, on 3 September, however, he warned that 'The United States is considering, in addition to other options, stopping all trade with any country doing business with North Korea'. (See Information Window 'Trump's Tweets', pp.50–51).

US President Donald Trump
Photo: Gage Skidmore, Flickr

As Blackwill put it to *The Washington Post* in April prior to Xi Jinping's US visit: 'It is very dangerous for presidents to be utterly extemporaneous in their interactions with major powers'. He observed that by contrast Xi Jinping would undoubtedly be arriving 'with a very clear set of strategic objectives and strategies'.⁷ Likewise, in a *Foreign Policy* article in July, Jamie Fly, a senior fellow at the non-partisan American think tank the German Marshall Fund, criticised Trump's China policy as short-sighted, calling his approach to China and North Korea the 'geopolitical equivalent of tic-tac-toe'.⁸

The US was not the only global superpower playing geoeconomic games in 2017. Following South Korea's decision to deploy the US-supplied THAAD (Terminal High Altitude Defense) missile defence system in March, China's state media encouraged a boycott of South Korean goods, culture and tourism, inflicting high costs on the South Korean economy. This method of punishing countries for acting against its foreign policy interests is not new to China. Previous campaigns have targetted Japan, the Philippines, and Taiwan, and other countries are justifiably concerned about who might be next. This kind of behaviour will not help China win friends in the region. But the BRI just might.

TRUMP'S CHINA TWEETS⁹

17 March: North Korea is behaving very badly. They have been 'playing' the United States for years. China has done little to help!

13 April: I have great confidence that China will properly deal with North Korea. If they are unable to do so, the U.S., with its allies, will! U.S.A.

16 April: Why would I call China a currency manipulator when they are working with us on the North Korean problem? We will see what happens!

21 April: China is very much the economic lifeline to North Korea so, while nothing is easy, if they want to solve the North Korean problem, they will.

28 April: North Korea disrespected the wishes of China & its highly respected President when it launched, though unsuccessfully, a missile today. Bad!

5 July: The United States made some of the worst Trade Deals in world history. Why should we continue these deals with countries that do not help us?

5 July: Trade between China and North Korea grew almost 40% in the first quarter. So much for China working with us — but we had to give it a try!

29 July: I am very disappointed in China. Our foolish past leaders have allowed them to make hundreds of billions of dollars a year in trade, yet ...

29 July: ... they do NOTHING for us with North Korea, just talk. We will no longer allow this to continue. China could easily solve this problem!

Trump tweets

Photo: Marco Verch, Flickr

The Belt and Road Initiative: The Big Carrot

During the last four decades, economic growth has been the cornerstone of the CCP's legitimacy for retaining sole stewardship over the state. President Xi Jinping's 2013 statement on the 'Chinese Dream' expressed this in concrete terms by committing the Party to delivering better education, stable employment, higher incomes, greater social security, improved medical care, a healthier environment, and work satisfaction for the Chinese people. Creating a global environment favourable to continued domestic growth aligns perfectly with this goal.

3 September: The United States is considering, in addition to other options, stopping all trade with any country doing business with North Korea.

25 October: Spoke to President Xi of China to congratulate him on his extraordinary elevation. Also discussed NoKo & trade, two very important subjects!

9 November: In the coming months and years ahead I look forward to building an even STRONGER relationship between the United States and China.

9 November: I don't blame China, I blame the incompetence of past Admins for allowing China to take advantage of the U.S. on trade leading up to a point where the U.S. is losing \$100's of billions. How can you blame China for taking advantage of people that had no clue? I would've done same!

9 November: My meetings with President Xi Jinping were very productive on both trade and the subject of North Korea. He is a highly respected and powerful representative of his people. It was great being with him and Madame Peng Liyuan!

15 November: President Xi of China has stated that he is upping the sanctions against #NoKo. Said he wants them to denuclearize. Progress is being made.

29 November: Just spoke to President XI JINPING of China concerning the provocative actions of North Korea. Additional major sanctions will be imposed on North Korea today. This situation will be handled!

30 November: The Chinese Envoy, who just returned from North Korea, seems to have had no impact on Little Rocket Man. Hard to believe his people, and the military, put up with living in such horrible conditions. Russia and China condemned the launch.

28 December: Caught RED HANDED — very disappointed that China is allowing oil to go into North Korea. There will never be a friendly solution to the North Korea problem if this continues to happen!

And this is where the BRI comes in. It began in 2013 with two separate proposals, for a 'Silk Road Economic Belt' and a 'Twenty-first Century Maritime Silk Road' connecting under-developed border provinces with developing countries in the region. These regional partners now include sixty-four countries that cover the entire Eurasian zone, involving a diverse range of projects with an approximate value of US\$900 billion.

The initiative calls for a multi-dimensional infrastructure network including a number of economic 'corridors' (such as the China-Pakistan Economic Corridor (CPEC), China-Mongolia-Russia Economic Corridor, and the New Eurasian Continental Bridge). It will upgrade land, sea, and air transportation routes through major railway, port, and pipeline projects.

The initiative will also create mechanisms for the Five Connectivities 五通: policy dialogue, infrastructure connectivity, tariff reductions, financial support, and people-to-people exchanges across the participating countries.

In his Belt and Road Forum speech in May, President Xi iterated the global objectives of the BRI: peace, prosperity, cooperation, openness, inclusiveness, and mutual benefit. He called for the creation of an environment that will facilitate opening up and development; establish a fair, equitable, and transparent system of international trade and investment rules; and facilitate the orderly flow and allocation of resources such as labour, capital, and energy, as well as full market integration.¹⁰ At October's Nineteenth Party Congress, these loosely defined ideas were introduced into the Chinese constitution, which now commits China to 'following the principle of achieving shared growth through discussion and collaboration, and pursuing the Belt and Road Initiative'.¹¹ Although China's constitution is a little more flexible than its Western counterparts, it is clear that China is all in when it comes to the BRI — the centrepiece of a long-term foreign policy strategy designed to make China (and the Chinese Communist Party) strong.

Domestically, the BRI aims to sustain China's economic development. GDP growth has decreased from 7.7 per cent in 2012 to 6.9 per cent in 2017. While no single factor is responsible for the slowdown — and indeed, while 6.9 per cent is still extraordinarily high from a global perspective — China's past growth model of exporting labour-intensive manufacturing goods has evidently run its course. Two clear signs of this are over-production by a number of China's industries, including coal, steel, and cement, along with excessive foreign exchange reserves (peaking at over US\$4 trillion in 2014, although on the decline since then). The BRI promises to solve both of these problems and kick economic growth back into high gear by cultivating new export markets for Chinese goods — including coal, steel, and cement — and new destinations for Chinese investment. It will also provide new sources of growth for the global economy, which for so long has sustained China's domestic growth.

'Chinese Dream' propaganda
Photo: conceptual design.
agency, Flickr

The BRI is also intended to bring both growth and economic stability to China's less-developed western regions, particularly Xinjiang and Tibet — further integrating these areas into the Chinese economy. It would transform Xinjiang into an energy corridor for Eurasia and create new opportunities to exploit its untapped resources. For Tibet, the Himalayan Economic Rim Project would connect Tibet with the Bangladesh–China–India–Myanmar Economic Corridor (BCIM), and develop border trade and economic exchange with Nepal, India, and Bhutan, with a focus on tourism, Tibetan medicine, and animal husbandry.¹² Shared prosperity could help to reduce ethnic tensions in these areas and calm the sporadic violence that has plagued these regions in the past, sparked by resentment of what is widely perceived as exploitative and repressive rule by the central government. So many prosperous possibilities — what could possibly go wrong?

Wake-up Call

More than 1,500 delegates from over 130 nations, including twenty-nine heads of state and government leaders, attended the Belt and Road Forum held in Beijing in May. The grandeur of the event reflected the scale and scope of Xi Jinping's vision. In a *New York Times* article titled 'Behind

Participants at the Belt and Road Forum, May 2017

Photo: Wikipedia

China's \$1 trillion plan to shake up the economic order', Jane Perez and Huang Yufan surmised that:

Mr. Xi is aiming to use China's wealth and industrial know-how to create a new kind of globalization that will dispense with the rules of the aging Western-dominated institutions. The goal is to refashion the global economic order, drawing countries and companies more tightly into China's orbit.¹³

While Xi and other Chinese officials have stressed explicitly that this is not China's goal, it is not hard to understand why some are suspicious. The BRI will be implemented by the world's largest one-party state, which officially defines its economic system as 'Socialism with Chinese characteristics'. It plans to direct investment into state-favoured regions by predominantly state-owned firms and financed by state-controlled banks. For all its altruistic rhetoric, the BRI is clearly not entirely compatible with the current global economic order that Xi has pledged to uphold.

This point is well illustrated by the BRI's flagship project, CPEC. (See Information Window 'The China-Pakistan Economic Corridor', pp.56-57.) This project has been the greatest concern for India, the only country with a formal invitation to have boycotted the Belt and Road Summit in May. India's resistance to China's growing prominence in the region has been increasingly apparent since 2014. That year, Prime Minister Modi intro-

duced an ‘Act East’ policy, which aims to ‘strengthen strategic and economic ties with South-East Asian countries that would possibly act as a counterweight to the influence of China in the region’.¹⁴

Likewise, in 2015, Japan announced its own US\$110 billion infrastructure fund, promoting economic integration between South-East Asia and the global economy. Its east–west orientation is a deliberate counter to China’s infrastructure projects that run from north to south, seeking to integrate South-East Asia with the Chinese economy.¹⁵ Also in 2015 came the Russian-led Eurasian Economic Union (EEU) — a customs union of former Soviet states with Moscow as the economic centre. The International Crisis Group observed in July 2017:

They [the BRI and the EEU] have divergent goals, but Russia and China have committed to cooperate politically and economically. Their initiatives offer investments and enhanced cooperation in a region beset by economic and political challenges. Poorly handled, however, these initiatives could encourage and entrench local behaviour that risks generating instability and conflict.¹⁸

This point goes straight to the crux of the issue. Geoeconomic rivalries between China, India, Japan, and Russia could translate into much-needed investment being channelled into less-developed countries, providing a substantial boost to global economic growth. Investments from India, Japan and Russia could also help the Asia–Pacific region rebalance away from the excessive reliance on China that many countries fear. Yet poorly coordinated projects with high levels of political and economic risk and susceptibility to corrupt dealings on either side could also exact dangerously high costs to both the source and host countries.

Preventing this latter outcome should be high on the list of Xi Jinping’s priorities in the years ahead, particularly if he remains committed to ‘making friends’ and a ‘community of shared destiny’ in the Asian

THE CHINA–PAKISTAN ECONOMIC CORRIDOR (CPEC)¹⁶

The China–Pakistan Economic Corridor
Image: Wikimedia Commons

The China–Pakistan Economic Corridor runs 2,000 kilometres from Kashgar in north-western China to Pakistan’s Gwadar Port, through roads, railways, and pipelines and encompasses other specific infrastructure and agricultural projects. The US\$60 billion project will provide China secure access not only to Central Asian energy sources but also the Arabian Gulf, bypassing the Strait of Malacca and dramatically shortening the time it will take for Chinese goods to reach Africa and the Middle East.

In addition to serving as a commercial hub, Gwadar may be transformed into a safe harbour for the Chinese navy. This would allow China to project its power deep into the Gulf and Indian Ocean. In return, Pakistan expects to receive much-needed infrastructure and a reliable energy supply to alleviate its persistent power shortfalls.

Two chief financiers of CPEC, the China Development Bank (CDB) and the Exim Bank of China, are well placed to fund projects that align with Beijing's geo-economic interests. Government policy guides the distribution of CDB and Exim loans, with state-owned enterprises (SOEs) the primary beneficiary. The Chinese government also holds a stake of at least sixty per cent of the commercial Industrial and Commercial Bank of China and can also direct it to provide loans to SOEs to benefit CPEC projects.

In addition, China aims to create favourable economic conditions for Chinese firms investing in Pakistan. Multiple special economic zones (SEZs) are being established, offering investment incentives to both Pakistani and Chinese businesses. To date, it appears that mainly Chinese firms have taken advantage of the SEZs, such as a Chinese SOE operating the Gwadar Port, which recently received permission from the Pakistani government to set up an SEZ with a forty-three-year lease.

While no direct evidence suggests that the CPEC SEZs are a product of Chinese influence designed to attract Chinese firms, China does have a tradition of establishing 'strategic' overseas SEZs, in coordination with host governments. Deborah Bräutigam and Tang Xiaoyang, who have written about China's economic statecraft and the use of SEZs,¹⁷ note that the Ministry of Finance has previously financed and monitored overseas SEZs populated by Chinese firms. Past SEZ programs projected 'soft power' while increasing demand for Chinese-made machinery and encouraging the outward investment of mature Chinese firms. There is no reason to think that the strategy for CPEC SEZs will differ.

Yet the influx of Chinese firms is already stirring some trouble in their host country. According to a report by the Federation of Pakistan Chambers of Commerce and Industry, citizens of Balochistan (where the Gwadar Port is located) are concerned that Chinese workers may take their jobs. Similarly, others worry that infrastructure spending seems mainly to benefit Chinese, not Pakistani, companies as firms import equipment and technology as well as manpower from China. Reports also detail alleged violations of Pakistani laws and social customs by Chinese firms, reminiscent of longstanding problems associated with China's African investments. While Beijing is able to direct investment to Pakistan, it may lack the ability and/or will to regulate the businesses operating there, even when their actions undermine the Chinese narrative of mutually beneficial engagement.

region. There is much that he can do domestically to improve on levels of openness and transparency and to make China's state-owned enterprises and state-controlled banks compete on a more level playing field than they have in the past. Ensuring that institutions such as the Asian Infrastructure Investment Bank maintain the highest possible standards of governance will increase the likelihood that individual BRI projects succeed, with widespread benefits for the region as well.

Yet Xi Jinping — and by extension China — is not solely responsible for upholding the global economic order. Nor should he take all of the blame when certain BRI projects fail, as some are bound to do. Partner countries also need to improve their legal, regulatory, and policy frameworks to ensure that the benefits of Chinese trade and investment flow through their societies and are not just captured by political and economic elites.

One country where this challenge seems well within reach is Australia, with its relatively sound legal, regulatory, and policy frameworks, and low level of corruption compared with so many other countries on the BRI map. Yet in March 2017, the Turnbull government rejected a request made by Chinese Premier Li Keqiang (just prior to his visit to Australia) for Australia to 'formally align' its AU\$5 billion Northern Australia Infrastructure Facility with the BRI. Australia's reluctance reflects its increasingly cautious attitude towards Chinese state investment, caught as it is between a historical strategic alignment with the US and a burgeoning economic alignment with China. Yet New Zealand, facing a similar conundrum, opted into the BRI. In a world in which geoeconomic strategies are becoming increasingly important — for countries large and small — it will be worth watching how bilateral relations with China pan out for these two 'Western' economies of the Asia-Pacific region.

Meanwhile, Donald Trump's protectionist stance against the global economy, which targets China in particular and is solely concerned with American advantage, is conceivably a far greater threat to the international economic order than anything contained in the BRI. Beijing's warm reception of Trump in November, self-described by Trump as a 'state plus

plus' visit, and the apparent bromance between Xi and Trump has not softened America's rhetoric in the time since then. The Trump administration continues to threaten action against perceived 'economic aggression' by China — in December, initiating an anti-dumping investigation into Chinese imports of aluminium sheeting, and accusing China of undermining the international order in his administration's first national security strategy.¹⁹ Indeed, Trump's first year ended with no apparent resolution to the issues that provoke America's China hawks. Despite the imposition of UN sanctions throughout the year, and China's unilateral ban on North Korean bank accounts in an effort to restrict financial flows to the regime,²⁰ the 'North Korean problem' remained just that, and there was little, if anything, to suggest that Trump's tweets helped the situation. Trump would do well to wake up to the fact that, like the US, China has many geoeconomic sticks up its sleeve. And while a 'war by other means' between the world's two superpowers would be less catastrophic than an all-out nuclear war, neither is the solution for global prosperity into the future.

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