CHAPTER 3

CHINA AND THE WORLD

SECTION 1: BELT AND ROAD INITIATIVE

Key Findings

- In 2013, Chinese President and General Secretary of the Chinese Communist Party Xi Jinping inaugurated the Belt and Road Initiative (BRI), his signature economic and foreign policy project designed to finance and build infrastructure and connectivity around the world, with a focus on Eurasia and the Indo-Pacific region.
- Although there is no official definition for BRI, after five years, China's objectives for BRI are discernable: fueling domestic development and increasing control in China's outer provinces, expanding markets while exporting technical standards, building hard and digital infrastructure, bolstering energy security, expanding China's military reach, and advancing geopolitical influence by moving China to the center of the global order.
- Strategic interests are central to BRI, even though the Chinese government denies that BRI advances its geopolitical ambitions. At the same time, BRI will also expose China to major risks, including terrorism and instability, and political fallout in partner countries. BRI could pose a significant challenge for U.S. interests and values because it may enable China to export its model of authoritarian governance and encourages and validates authoritarian actors abroad.
- Beijing sees BRI in part as an externally oriented development program to boost China's slowing economy and help it move up the global value chain through economic integration with neighboring countries. Chinese planners believe infrastructure development in BRI countries can open new markets and boost foreign demand for Chinese products, particularly in higher-end manufactured goods. Despite Beijing's rhetoric about BRI being open and inclusive, Chinese state-owned enterprises are winning the lion's share of contracts for BRI projects.
- As China increases its international economic engagement through BRI, Chinese companies are seeking to define and export standards for a broad set of technological applications, including through the so-called Digital Silk Road, which taken together could alter the global competitive landscape. BRI

potentially threatens U.S. businesses and market access as well as the broader expansion of free markets and democratic governance across the globe.

- BRI offers partner countries much-needed infrastructure financing, but also presents significant risks. Chinese engagement with BRI countries has largely been through infrastructure projects financed by Chinese policy and commercial banks rather than direct investment. Chinese lending poses debt sustainability problems for a number of BRI countries while providing Beijing with economic leverage to promote Chinese interests, in some cases threatening the sovereignty of host countries. Beijing's response to problems of debt distress in BRI countries has ranged from offering borrowers additional credit to avoid default to extracting equity in strategically important assets.
- A growing People's Liberation Army presence overseas, facilitated and justified by BRI, could eventually create security problems for the United States and its allies and partners beyond China's immediate maritime periphery. China is trying to use BRI to bolster its influence and presence in the Indo-Pacific through access to port facilities and other bases to refuel and resupply its navy, while expanding operations and exercises with regional militaries.
- China does not have a monopoly on plans to facilitate connectivity and spread influence across Eurasia, and BRI is not unfolding in isolation. Other major powers—including the United States, Japan, India, European states, and Russia—are executing their own initiatives that variously compete and collaborate with BRI. More broadly, skepticism of BRI's purposes and methods appears to be growing worldwide as projects are implemented and the initiative's challenges become more apparent.

Recommendations

The Commission recommends:

- Congress create a fund to provide additional bilateral assistance for countries that are a target of or vulnerable to Chinese economic or diplomatic pressure, especially in the Indo-Pacific region. The fund should be used to promote digital connectivity, infrastructure, and energy access. The fund could also be used to promote sustainable development, combat corruption, promote transparency, improve rule of law, respond to humanitarian crises, and build the capacity of civil society and the media.
- Congress require the U.S. Department of State to prepare a report to Congress on the actions it is taking to provide an alternative, fact-based narrative to counter Chinese messaging on the Belt and Road Initiative (BRI). Such a report should also examine where BRI projects fail to meet international standards and highlight the links between BRI and China's attempts to suppress information about and misrepresent reporting of its human rights abuses of Uyghurs in Xinjiang.

- Congress require the Director of National Intelligence to produce a National Intelligence Estimate (NIE), with a classified annex, that details the impact of existing and potential Chinese access and basing facilities along the Belt and Road on freedom of navigation and sea control, both in peacetime and during a conflict. The NIE should cover the impact on U.S., allied, and regional political and security interests.

Introduction

China's expansive Belt and Road Initiative (BRI) is the signature foreign policy and geoeconomic project of Chinese President and General Secretary of the Chinese Communist Party (CCP) Xi Jinping, who has extolled it as the "project of the century."[1] Since its inception in 2013, BRI has climbed to the top of Beijing's foreign policy agenda as a well-resourced, whole-of-government concept for regional and global connectivity. What BRI means in practice is still coming into focus, but Beijing's aspirations for the initiative are clear: encouraging domestic development and increasing control in China's outer provinces, expanding markets and exporting technical standards, building hard and digital infrastructure, bolstering energy security, expanding the reach of China's military to protect overseas interests, and advancing geopolitical influence. The initiative has security implications for the United States and its allies and partners, including expanding China's military influence, overseas presence, and access to foreign ports.

China is using BRI to challenge U.S. and allied interests and the international rules-based order predicated on open markets and democratic, transparent governance. Many countries have raised concerns about threats BRI poses for participating countries, including exacerbating debt burdens and undermining transparency, good governance, and sovereignty. The U.S. government and like-minded governments are working to develop responses that strike a balance between engaging BRI as a means for meeting global infrastructure needs while countering its economic and strategic risks.

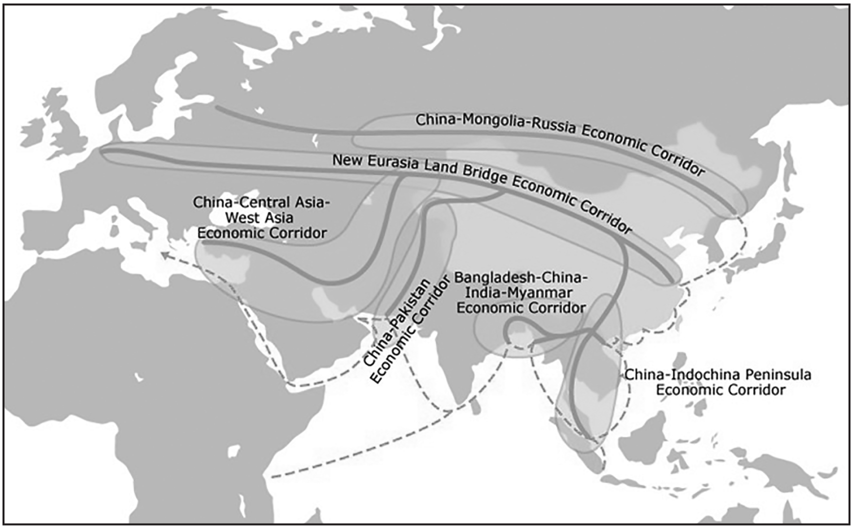
This section analyzes the status of BRI five years after its inception and the degree to which BRI is reshaping global economic norms and diminishing the United States' influence in the process—or how BRI could do so in the future. This section also documents other countries' connectivity and trade plans that alternately compete with and complement BRI. In doing so, this section draws on the Commission's January 2018 hearing on "China's Belt and Road Initiative: Five Years Later," briefings with U.S. officials, the Commission's May 2018 research trip to Taiwan and Japan, consultations with experts on regional politics and U.S. policy, and open source research and analysis.

China's Objectives for BRI

Launched in 2013 with the stated aims of "promoting policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds," BRI has become the keystone of President Xi's foreign policy and a major component of China's economic development plan.[2] The Chinese leaders demonstrated the importance they place on BRI when, in October 2017, they wrote BRI into China's constitution.[3] Broadly, BRI's land-based "Belt" crosses from China to Central and South Asia, the Middle East, and then Europe. The sea-based "Road" connects China with South Asia, the Middle East, East Africa, and Europe via sea lanes that traverse the South China Sea, Indian Ocean, Red Sea, Suez Canal, and Eastern Mediterranean (see Figure 1).[4] However, BRI's ambitions are not confined to just two geographic paths. China's vision for BRI also includes Latin America and the Caribbean, the Arctic, and even space—although plans for projects in these areas are less developed.[5]

China is developing BRI in regions with huge infrastructure needs, and the initiative promises a reach that dwarfs earlier visions of regional connectivity. The Asian Development Bank estimates developing countries in Asia collectively will need $26 trillion in infrastructure investment from 2016 through 2030.[6] Five years on, BRI has expanded to more than 80 participating countries (see Addendum I) that account for about 30 percent of global gross domestic product (GDP).[7]

Figure 1: Map of BRI Eurasian and Indian Ocean Corridors



Source: Hong Kong Trade Development Council, "The Belt and Road Initiative," May 3, 2018.

BRI is closely intertwined with and intended to serve Beijing's goals to revise the global political and economic order to align with China's geopolitical interests and authoritarian political system.[8] Some economic goals—such as fueling domestic development, expanding markets and exporting technical standards, and building hard and digital infrastructure—are explicitly stated in China's official policy communiques. Other goals—such as furthering China's strategic ambitions by bolstering energy security, expanding the reach of China's military to protect overseas interests, and advancing geopolitical influence—are less publicly articulated. Chinese leaders frequently dismiss arguments that BRI has strategic aims that go beyond its economic footprint. As President Xi said in his speech at the Belt and Road Forum in May 2017, "In pursuing the Belt and Road Initiative, we will not resort to outdated geopolitical maneuvering."[9] However, subsequent statements demonstrate how China clearly views BRI as a testing ground for moving China to the center of the global order. In a speech marking BRI's fifth anniversary in August 2018, President Xi emphasized that the initiative "serves as a solution for China to participate in global opening up and cooperation, improve global economic governance, promote common development and prosperity, and build a community with a shared future for humanity."*

Five years on, the realities of BRI—including growing international skepticism, funding and execution challenges, and pressing domestic tradeoffs—are forcing Beijing to consider recalibrating the project. However, there is no sign yet that China has plans to fundamentally change course rather than tweak its mechanisms for choosing and implementing BRI projects. As foreign observers debate the quality and impact of BRI projects, some Chinese citizens have begun to criticize the country's foreign development spending, arguing BRI money would be better spent at home.[10] Other domestic critics assert that President Xi's ambitious foreign policy, with BRI as its centerpiece, has thrust China into a global leadership role that it is not yet ready to handle, and that will ultimately cause other powers to take actions to counter Beijing.[11]

Building Hard Infrastructure and Exporting Overcapacity

Infrastructure has been a major component of BRI, with the transportation and energy sectors receiving about 80 percent of total BRI-related investment.[12] Through the construction of large-scale infrastructure projects, BRI also provides an opportunity to absorb some—though not all—of China's massive excess industrial capacity.[13]

The American Enterprise Institute and Heritage Foundation's Chinese Global Investment Tracker put BRI's footprint at roughly $340 billion between 2014 and 2017.[14] The value of new engineering and construction contracts signed by Chinese companies in BRI countries has grown strongly: in 2017, Chinese enterprises signed more than 7,200 new overseas contracts worth $144 billion with BRI countries, up from nearly 4,000 new contracts valued at $92.6 billion in 2015.[15] Despite the high volume of contracts signed, BRI projects outside of China have progressed slowly. According to Jonathan Hillman, director of the Reconnecting Asia Project at the Center for Strategic and International Studies (CSIS), China itself is the biggest part of BRI and where most of the investment is going.[16]

In testimony to the Commission, Mr. Hillman noted there is no official definition for what qualifies as a BRI project, adding that "by design, BRI is more a loose brand than a program with strict criteria."[17] Although there is no publicly available official list of BRI projects, after five years some trends can be discerned.[18] A large

*The phrase "community with a shared future for humanity" is used by Chinese leaders as coded shorthand for what may be a China-led global order. *Xinhua*, "Xi Pledges to Bring Benefits to People through Belt and Road Initiative," August 27, 2018.

proportion of BRI projects remain in the planning phase and will take years to complete. Of BRI's six trade corridors, the China-Pakistan Economic Corridor (CPEC) is the furthest along, though many CPEC projects predate BRI.[19] Geographically, most BRI construction contracts and investments have gone to South Asia (e.g., Pakistan and Bangladesh) and Southeast Asia (e.g., Malaysia and Indonesia) (see Table 1).[20] Political and security risks, financing difficulties, environmental concerns, and a lack of political trust between China and some host countries pose considerable challenges for Beijing and have stalled some of BRI's most high-profile projects, such as high-speed rail in Malaysia and the Kyaukpyu port in Burma (Myanmar).[21] According to research and advisory firm RWR Advisory Group, about 270 out of 1,814—or 32 percent of the total value of—Chinese infrastructure projects across 66 BRI countries announced since 2013 have run into problems.*

Table 1: Largest BRI Projects by Estimated Cost

Country (BRI Corridor)	Project	Companies	Cost (US$ billions)	Financing	Status
Russia (New Eurasian Land Bridge)	Moscow-Kazan High Speed Railway	Contract not yet awarded	$21.4	n/a	Construction expected to begin in 2018; to be completed by 2022
Malaysia (China-Indochina Peninsula Economic Corridor [CICPEC])	East Coast Rail Link	China Communications Construction (China)	$20†	Export-Import Bank of China (China Exim Bank) to provide 85% funding through 20-year concessional loan	Contract awarded November 2016; project under review‡
Malaysia (CICPEC)	Melaka Gateway	PowerChina (China); KAJ Development (Malaysia)	$11	Privately financed; terms unknown	Memorandum of Understanding (MOU) signed September 2016; to be completed by 2025

*RWR Advisory Group's analysis did not include BRI projects in Africa or Latin America. James Kynge, "China's Belt and Road Projects Drive Overseas Debt Fears," *Financial Times*, August 7, 2018; RWR Advisory Group, "RWR Statistics Targeted by Chinese State-Run Tabloid, Global Times," July 16, 2018.

†In July 2018, Malaysia's finance minister said the government had revised its estimates of project costs to $20 billion—up from the $13 billion estimated under the previous government. The finance ministry said the basic cost of the project was around $13 billion, but costs would rise to $20 billion when factoring in land acquisition, interest, fees, and other operational costs. *Reuters*, "Major Malaysian Rail Link to Cost $20 Billion, Finance Minister Says, up 50 Percent from Estimates," July 3, 2018.

‡On August 21, 2018, Malaysian Prime Minister Mahathir Mohamed announced the cancellation of the East Coast Rail Link due to its high costs. However, on August 24, Prime Minister Mahathir said the government was reviewing the project to determine whether the project should be cancelled or deferred to see if project costs could be negotiated down. *Straits Times*, "East Coast Rail Link Not Cancelled Yet, All Options Still Being Studied: Malaysian PM Mahathir," August 25, 2018; Amanda Erickson, "Malaysia Cancels Two Big Chinese Projects, Fearing They Will Bankrupt the Country," *Washington Post*, August 21, 2018.

Table 1: Largest BRI Projects by Estimated Cost—*Continued*

Country (BRI Corridor)	Project	Companies	Cost (US$ billions)	Financing	Status
Cambodia (CICPEC)	Preah Vihear-Koh Kong Railway*	China Railway Group (China)	$7.5	n/a	MOU signed December 2012; construction delayed due to funding shortages
Pakistan (CPEC)	Karachi-Lahore Peshawar Railway Track Rehabilitation and Upgrade	Contract not yet awarded	$6.2†	China to provide 85% funding; terms unknown	Feasibility study completed July 2018; to be completed by 2022
Laos (CICPEC)	Kunming-Vientiane Railway	China Railway Corp (China)	$6.27	China to fund 70%; Laos to fund remainder	Under construction; to be completed by 2021
Thailand (CICPEC)	Bangkok-Nakhon Ratchasima High-Speed Rail	Contract not yet awarded	$5.5	Thailand in talks with China for financing	Construction expected to begin in 2019 after repeated delays
Indonesia	Jakarta-Bandung High Speed Rail	China-Indonesia consortium (KCIC)‡	$5	China Development Bank to provide 75% of funding; KCIC to raise remainder	Under construction after recurring delays; to be completed by 2019
Bangladesh (Bangladesh-China-India-Myanmar Economic Corridor)	Padma Bridge Rail Link	China Railway Group (China)	$3.14	China Exim Bank to fund 80% through preferential buyer's credit; Bangladesh to fund remainder	Under construction after repeated delays; to be completed by 2022
Pakistan (CPEC)	Peshawar-Karachi Motorway Multan-Sukkur Section	China State Construction Engineering Corporation (China)	$2.98	China to provide concessional loan; terms unknown	Under construction; to be completed by 2019

Source: Various.[22]

*The railway is part of the larger $9.6 billion joint venture between China Railway and the Chinese-owned Cambodia Iron and Steel Mining Industry Group to connect a planned steel factory in Preah Vihear Province to a new port in Koh Kong Province. Center for Strategic and International Studies, "Preah Vihear-Kaoh Kong Railway," *Reconnecting Asia Database*; Daniel de Carteret, "Lack of Funds Delays Railway," *Phnom Penh Post*, April 22, 2014.

†In October 2018, Pakistan cut the size of the project from $8.2 billion to $6.2 billion, citing concerns about the country's debt burden. Mubasher Bukhari, "Pakistan Cuts Chinese 'Silk Road' Rail Project by $2 Billion Due to Debt Concerns," *Reuters*, October 1, 2018.

‡KCIC is a joint venture between four Indonesian state-owned firms and China Railway International.

Chinese state-owned enterprises (SOEs) are winning the lion's share of contracts, despite Beijing's rhetoric about BRI being open and inclusive.[23] CSIS's Reconnecting Asia Project examined the degree to which BRI projects are subject to fair competition and found that 89 percent of Chinese-funded transportation infrastructure projects are awarded to Chinese contractors, compared to 29 percent in multilateral development bank-funded projects.[*][24] Chinese SOEs are competitive global infrastructure players in their own right,[†] but their access to state subsidies and credit guarantees allows them to take on projects foreign competitors consider too risky.

Constructing a Digital Silk Road

The "Digital Silk Road"—China's plans for integrating digital sectors like telecommunications, Internet of Things, and e-commerce into its vision for regional connectivity—is a less analyzed but critically important component of BRI. According to Chen Zhaoxiong, China's vice minister of industry and information technology, the Digital Silk Road will help "construct a community of common destiny in cyberspace"—a phrase mirroring language China uses to describe its preferred vision for global order aligned to Beijing's liking.[25] The 2015 action plan on BRI called for the construction of cross-border optical cables and other communications networks to improve international communications connectivity.[26] The joint communique from the 2017 Belt and Road Forum spoke of "strengthening cooperation on innovation, by supporting innovation action plans for e-commerce, digital economy, smart cities and science and technology parks."[‡][27]

While the concept lacks specifics, the Digital Silk Road aims to channel investment in technology and consumer-oriented sectors to create new markets for Chinese tech companies, enable Chinese companies to lead those sectors, and promote Chinese technical standards.[28] As Chinese companies lay fiber optic cable, supply smart city projects, and expand e-commerce offerings, they are expanding China's influence over the global digital economy to align more closely with Beijing's vision of internet governance.[29]

- *Building telecommunications infrastructure:* Chinese telecommunications companies are expanding their efforts to build telecommunications infrastructure, provide network services, and sell communications equipment in BRI countries.[30] There is high demand for digital infrastructure in many BRI countries: in 2015, Hou Weigui, former president of the Chinese telecommunications giant ZTE, said internet speed in most countries along the Belt and Road is less than 10 percent of that in developed countries.[31] According to estimates from the Asian Development Bank, developing Asian countries will need $2.3 trillion in telecommunications infrastructure investment

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*This aligns with research from the American Enterprise Institute, which finds that Chinese SOEs account for over 95 percent of BRI construction activity. Cecilia Joy-Perez and Derek Scissors, "The Chinese State Funds Belt and Road but Does Not Have Trillions to Spare," *American Enterprise Institute*, March 2018, 1.

†In 2017, seven of the top ten global contractors (measured by contracting revenue outside their home country) were Chinese. *Engineering News-Record*, "ENR 2017 Top 250 Global Contractors," August 2017.

‡Smart cities are urban areas that incorporate advanced information and communications technologies and the Internet of Things to improve a range of city services such as energy, public safety, and transportation.

from 2016 through 2030.[32] ZTE and Huawei have a longstanding presence in Central Asian mobile networks and are making inroads in Africa, Latin America, and Southeast Asia.[33] In 2015, China signed an agreement with the EU to explore joint research opportunities in 5G development.[34] Chinese telecommunications companies like China Unicom, Huawei, and ZTE are also playing an increasing role in building undersea fiber optic cables and land-based cable links across BRI countries.[35] In 2017, Huawei was awarded a contract to construct a cable system linking Pakistan to Kenya, which may be extended to South Africa and Europe.[36]

- *Expanding e-commerce offerings:* Chinese e-commerce giants like Alibaba and JD.com have linked their global expansion to BRI, identifying countries along the Belt and Road as among the most important markets for their expansion plans.[37] Chinese companies have focused in particular on Southeast Asia and India—home to some of the world's fastest-growing e-commerce markets—where Chinese and U.S. technology companies are competing to draw new consumers into their respective digital ecosystems.[38] In these markets, Chinese companies have poured significant investments into expanding their e-commerce, cloud computing, logistics, and payments capabilities, laying the digital infrastructure to dominate consumer markets.[39] Alibaba has gone a step further, partnering with regional governments to facilitate crossborder e-commerce for small and medium-sized enterprises. It launched the world's first digital free-trade zone in Malaysia in November 2017, followed by a second one in Thailand in April 2018.[40] The digital free-trade zones provide a one-stop shop for small- and medium-sized enterprises to access foreign buyers and suppliers, logistics services, customs clearance, trade finance, and payment platforms.[41] However, some analysts fear such public-private partnerships—developed in close collaboration with host country governments—afford Alibaba too much control and could allow the company to effectively monopolize regional e-commerce markets.[42]
- *Supplying smart city projects:* At the Belt and Road Forum held in May 2017 in Beijing, President Xi said, "We should advance the development of big data, cloud computing and smart cities to transform them into a 21st century Digital Silk Road."[43] China aims to export its smart city technologies abroad.[44] The country has launched several smart city projects under the banner of BRI at both government and private sector levels. The Chinese and Filipino governments have partnered to create a new smart "city within a city" called the New Manila Bay City of Pearl.[45] Alibaba and Malaysia signed a deal in January 2018 to deploy its smart city platform City Brain in Kuala Lumpur; the platform leverages big data collection and processing capabilities, cloud computing, and artificial intelligence to improve traffic operations and emergency services response.*

*City Brain was first adopted by the Hangzhou municipal government in 2016. Malaysia marks the platform's first use outside China. Jon Russell, "Malaysia's Capital Will Adopt 'Smart City' Platform from Alibaba," *TechCrunch*, January 2018.

Chinese leaders' plans for a Digital Silk Road dovetail with their plans to advance "military-civilian fusion." This strategic concept has emerged as a means to integrate China's military and commercial capabilities, and support economic growth. Although Chinese leaders have promoted military-civilian integration since Deng Xiaoping in the 1980s, President Xi has elevated the concept to a national strategic priority and expanded the concept beyond the defense industry to include all areas of the economy.[46] (For a discussion of China's emphasis on military-civilian fusion, see Chapter 2, Section 2, "China's Military Reorganization and Modernization: Implications for the United States.")

Expanding Markets and Exporting Standards

Chinese planners believe infrastructure development in BRI countries can open new markets and boost foreign demand for Chinese products, particularly in higher-end manufactured goods (e.g., telecommunications equipment, construction machinery, and high-speed rail equipment).[47] In the process, Beijing has been using BRI to push for acceptance of Chinese technology standards in sectors such as high-speed rail, energy, and telecommunications, which challenges the ability of U.S. and foreign companies to compete.[48]

China's Trade with BRI Countries: According to data from China's Ministry of Commerce (MOFCOM), China's bilateral trade with BRI countries* reached $1.1 trillion (renminbi [RMB] 7.4 trillion) in 2017, up 18 percent year-on-year, outpacing the increase in China's overall trade growth.†[49] Exports reached $650 billion (RMB 4.3 trillion), up 12 percent year-on-year, while imports reached $470 billion (RMB 3.1 trillion), a 27 percent year-on-year increase.[50] China's top exports to BRI countries reflect its shift to higher-valued-added exports, with electrical equipment and machinery as its top export products, while China's imports from BRI countries are dominated by minerals and fuels and electrical equipment.[51]

Chinese Investment in BRI Countries: While BRI aims to strengthen investment links between China and BRI countries, Chinese engagement with BRI countries has largely been through infrastructure projects financed by Chinese policy and commercial bank loans rather than foreign direct investment (FDI).[52] Chinese investment in BRI countries remains a small percentage of its total overseas FDI; in 2017, just 12 percent of China's investment flow went to BRI countries.‡[53] China's FDI in BRI countries totaled $14.4 billion in 2017, down 1.2 percent from 2016.[54] The decline was slight compared to the overall drop in China's outbound FDI, which fell 29.4 percent year-on-year as Beijing tightened capital controls and stepped up scrutiny of overseas acquisitions.[55] China's BRI-related investment was less impacted, as such investments are often policy-driven and led by SOEs; moreover, outbound investments in BRI-related infrastructure projects fall under the "encouraged" cat-

* China's MOFCOM does not specify which countries are included in its categorization of BRI countries.

† Unless noted otherwise, this section uses the following exchange rate throughout: $1 = RMB 6.62.

‡ China's outbound investment data is an unreliable measure of total BRI investment because a significant amount of China's outbound investment passes from China through an intermediate country or territory (often Hong Kong) before reaching its final destination. Gabriel Wildau and Ma Nan, "China New 'Silk Road' Investment Falls in 2016," *Financial Times*, May 10, 2017.

egory of China's outward investment policy.[56] In the first half of 2018, Chinese enterprises invested $7.4 billion in BRI countries, up 12 percent over the same period last year.[57]

BRI as a Vehicle for Exporting Standards: As China increases its overseas investment through BRI, Chinese companies are seeking to define and export standards for a broad set of technological applications, which, taken together, could alter the global competitive landscape. According to a 2017 action plan from the Standardization Administration of China, China will promote the implementation of its national standards—including for 5G and smart cities—in countries along the Belt and Road.[58] A 2017 report from the East-West Center explains, "Standards serve as bridges between developing innovations and the marketization and industrialization of those innovations."[59] China's efforts to export technological standards could thus challenge the ability of U.S. and foreign firms to sell technology in BRI markets and beyond.[60] High-speed rail and telecommunications are notable examples of this effort.

- In Beijing's push to export high-speed rail, it is encouraging host countries to adopt Chinese technical and engineering standards, with some successes in Thailand and Indonesia.*[61] Chinese high-speed rail could become the regional standard if BRI countries hosting Chinese high-speed rail projects make the technology their national standard; this would provide Chinese firms with a key advantage over foreign competitors, particularly Japanese and European manufacturers of high-speed rail.[62]
- Chinese telecommunications companies are expanding their efforts to build telecommunications infrastructure, provide network services, and sell communications equipment in BRI countries.[63] Huawei, China Mobile, and ZTE are closely involved in developing 5G technology and have increased their participation in international standard-setting bodies for 5G.[64] (For more on China's efforts to set 5G standards and their economic implications for the United States, see Chapter 4, Section 1, "Next Generation Connectivity.")

Bolstering China's Energy Security

Chinese civilian officials and academics envision BRI helping to improve China's commercial and energy security by providing alternative shipping routes for goods and energy, both via rail lines and roads that extend all the way to Europe (the "Belt") and via maritime shipping (the "Road").[65] One goal for expanded sea routes is to reduce Beijing's reliance on energy shipments that transit through maritime chokepoints and would be vulnerable to interdiction during a conflict (see Figure 2).[66] China worries that these maritime chokepoints are nearly all patrolled and secured by the United States and its allies and partners, leaving Beijing's sea lines of communication at potential risk in the event of a conflict.

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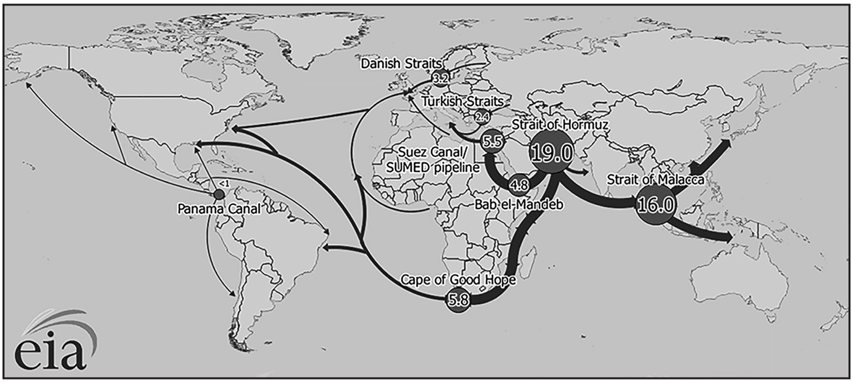
*China developed a globally competitive high-speed rail industry through strong political and financial commitments to rail development and, significantly, technology transfer agreements between Chinese state-owned rail companies and Japanese and European rail firms eager to gain access to the Chinese market. For more on China's high-speed rail development and export ambitions, see Michelle Ker, "China's High-Speed Rail Diplomacy," *U.S.-China Economic and Security Review Commission*, February 21, 2017.

Figure 2: Daily Oil Transit Volumes through World Maritime Chokepoints
(Millions of barrels per day, 2016)



Note: The Strait of Malacca, Strait of Hormuz, Bab el-Mandeb, and Suez Canal chokepoints all overlap with main BRI routes. Includes crude oil and petroleum liquids.
Source: U.S. Energy Information Administration, *World Oil Transit Chokepoints*, July 25, 2017.

New BRI routes include port investments in Burma and Pakistan and associated pipeline and transportation infrastructure to ship energy and goods to China directly from the Indian Ocean; similar land-based BRI projects include energy pipelines from Russia and Central Asia to China.* As Mikkal Herberg, research director of the Energy Security Program at the National Bureau of Asian Research, finds, BRI "expands the scale, scope, and impact of China's energy footprint and empowers Beijing to increasingly shape the future energy security environment across continental Eurasia and through the vital sea lanes of the Indo-Pacific."[67]

Promoting Domestic Development, Connectivity, and Control

Beijing sees BRI as an externally-oriented domestic development program designed to boost China's slowing economy and move it up the value-added chain. BRI has been integrated into China's 13th Five-Year Plan and is aligned with key Chinese economic development plans, such as the "Made in China 2025" and "Internet Plus" initiatives.† BRI is a way of expanding Chinese companies' international footprint and making them globally competitive, particularly in the higher-value-added industries Beijing seeks to foster (e.g., information technologies and advanced manufacturing).

BRI also aims to close the gap between China's wealthier coastal regions and underdeveloped northeastern and western provinces

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* Pipelines through Burma play a significant role in China's efforts to bolster its energy security by building infrastructure that bypasses the Strait of Malacca. U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "Chinese Economic Engagement with Continental Southeast Asia," in *2017 Annual Report to Congress*, November 2017, 286–287; Joel Wuthnow, "Chinese Perspectives on the Belt and Road Initiative: Strategic Rationales, Risks, and Implications," *Institute for National Strategic Studies*, October 2017, 11; Christopher Len, "China's Maritime Silk Road and Energy Geopolitics in the Indian Ocean: Motivations and Implications for the Region," in Erica Downs et al., "Asia's Energy Security and China's Belt and Road Initiative," *National Bureau of Asian Research*, November 2017, 41–53.

† BRI projects directly target at least half of ten key high-technology sectors in the Made in China 2025 strategy: aerospace equipment, power equipment, new information technology, rail equipment, and marine technologies. Internet Plus aligns with the "Digital Silk Road" component of BRI that will be developed through the building of information technology networks and increased regional e-commerce. U.S.-China Economic and Security Review Commission, *Hearing on China's Belt and Road Initiative: Five Years Later*, written testimony of Nadège Rolland, January 25, 2018, 5.

through domestic investment and economic integration with neighboring countries.[68] Every Chinese province has a BRI work plan and about 80 percent of Chinese provinces have signed BRI cooperation agreements with countries participating in the initiative (for more on the role of Chinese provinces in BRI, see "BRI Coordination and Financing Mechanisms").[69]

The leadership in Beijing is particularly interested in developing China's western Xinjiang autonomous region as part of its strategy to use economic growth to dampen unrest among its Uyghur population (with the other part of the strategy being systematic, technology-enabled repression).* Outside China's borders, BRI projects are intended to promote stability and good relations with neighboring countries—a concept China calls "periphery diplomacy"—while helping to combat extremism that the Chinese government views as stemming from deprivation.[70]

Xinjiang: BRI Hub and Police State

Xinjiang—a critical region for BRI that sits at a strategic crossroads where China meets the countries to its west—is the site of an extensive campaign of repression by the CCP government targeting the region's majority Islamic Uyghur population and other ethnic minorities, many of whom do not culturally or politically identify with China.[71] As Michael Clarke, associate professor at the National Security College, Australian National University, points out, "[President] Xi has declared that 'long term stability' in Xinjiang—a hub for three of the six proposed 'economic corridors' linking China to South Asia, the Middle East and Europe under BRI—is vital to the initiative's success."[72] From China's perspective, stability in Xinjiang is critical for the success of BRI, and BRI's success is essential for continued legitimacy of the Party. In the minds of Chinese leaders, the stakes for handling the restive region are high.[73] Some countries along BRI routes with significant Muslim populations—including Pakistan, India, Bangladesh, and Kazakhstan—have begun to voice concerns about Chinese mistreatment of Uyghurs.[74] Growing backlash over China's Uyghur policy could make some states unwilling to cooperate with Beijing on BRI projects.

Today, the UN estimates that more than a million Uyghurs and other ethnic minorities in Xinjiang, or 8 percent of the province's total ethnic minority population, are being held in internment camps.† [75] Detained Uyghurs are routinely forced to denounce their Muslim religious beliefs, their own actions, and the actions of their family, and to give thanks to the CCP.[76] The U.S. Department of State reported that China has "continued to extract unpaid labor, conduct indoctrination sessions, and closely monitor and restrict the movements of Uyghurs to counteract what it con-

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*Chinese authorities use cutting-edge surveillance capabilities enabled by smartphones, security cameras, and other data-tracking tools to monitor—and often arrest and imprison—Uyghur populations in Xinjiang whom they suspect of plotting against the state. *Economist*, "China Has Turned Xinjiang into a Police State Like No Other," May 31, 2018.

†Xinjiang is home to about 11.3 million Uyghurs, who comprise 48 percent of the population in the region. Statistics Bureau of the Xinjiang Uyghur Autonomous Region, *Population by Ethnicity in Major Years*, March 15, 2017. Translation. *http://www.xjtj.gov.cn/sjcx/tjnj_3415/2016xjtjnj/rkjy/201707/t20170714_539451.html*; China's National Bureau of Statistics, *China Statistical Yearbook 2016*. *http://www.stats.gov.cn/tjsj/ndsj/2016/indexeh.htm*.

Xinjiang: BRI Hub and Police State—*Continued*

siders 'religious extremism' in Xinjiang."[77] Cutting-edge technology enables the Chinese government's repression campaign. As documented by Human Rights Watch, "authorities conduct compulsory mass collection of biometric data, such as voice samples and DNA, and use artificial intelligence and big data to identify, profile, and track everyone in Xinjiang."[78]

In addition, Chinese authorities have arrested Uyghurs to intimidate and blackmail relatives overseas in order to suppress dissent outside China; others have been forced to spy for Beijing or else have their families arrested or face longer sentences.[79] Authorities have also detained the Xinjiang-based families of Radio Free Asia Uyghur Service journalists in retaliation for their negative coverage of the situation in the region.[80] The funding China allocates to this repression apparatus illustrates its vast scale. From 2016 to 2017, spending on domestic security in Xinjiang nearly doubled from $4.6 billion to $8.8 billion.[81] In total, regional security spending has grown nearly tenfold since 2007, for a province of 23.6 million people.[82]

Expanding China's Military Reach to Protect Overseas Interests

The People's Liberation Army's (PLA) role in supporting BRI is still in the early stages of development, based on public statements and writings from PLA officials and scholars.[83] However, PLA planning, training, equipment, and operations geared toward protecting China's overseas interests have all advanced rapidly in recent years.[84] Protecting China's interests associated with BRI could require further expansion of those capabilities, although in the meantime Beijing could rely on private and host nation security forces to fill in the gaps.[85] In part to meet those demands, the PLA is preparing to carry out missions to protect growing numbers of Chinese citizens, assets, and investments overseas.* China's 2015 defense white paper, entitled *China's Military Strategy*, listed "to safeguard the security of China's overseas interests" as a core PLA task for the first time.†

Over the last five years, as BRI has taken shape, the PLA simultaneously made substantial progress in developing and fielding capabilities for force projection overseas.[86] The PLA Navy has broadened its focus to include "open seas protection" along with "offshore waters defense."[87] Official Chinese media and military scholars openly discuss preparations for more expansive missions employing a "blue

* Official Chinese thinking about and preparations for overseas operations constitute a major strategic trend with drivers that both predate and go beyond BRI. For background on how the PLA is preparing for and thinking about operating abroad, see Timothy R. Heath, "China's Pursuit of Overseas Security," *RAND Corporation*, March 2018, 33–37; U.S.-China Economic and Security Review Commission, Chapter 2, Section 2, "Developments in China's Military Expeditionary and Force Projection Capabilities," in *2016 Annual Report to Congress*, November 2016, 255–288; Ely Ratner et al., "More Willing and Able: Charting China's International Security Activism," *Center for a New American Security*, May 2015, 38–42.

†The first official mention of protecting China's overseas interests came during a 2004 speech by then Chinese President and General Secretary of the CCP Hu Jintao. Alexander Sullivan and Andrew S. Erickson, "The Big Story behind China's New Military Strategy," *Diplomat*, June 5, 2015; China's State Council Information Office, *China's Military Strategy*, May 26, 2015; Hu Jintao, Tenth Conference of Chinese Diplomatic Envoys Stationed Abroad Held in Beijing, Beijing, China, August 25–29, 2004.

water navy" that can operate in "distant oceans."[88] China plans an increase to its marine corps from the current level of 20,000; one rationale for the increase is to help secure the country's overseas interests.[89] The PLA Army conducts counterterror exercises and participates in peacekeeping operations, which would be applicable for preparing the ground forces to undertake BRI security operations should Beijing feel compelled to deploy a force abroad.[90] The PLA has increased the frequency and complexity of its peacetime overseas activities, which has allowed it to gain valuable operational experience that would apply to future overseas BRI support operations.* Additionally, the PLA derived lessons from its previous experiences evacuating Chinese citizens from unstable countries, including from Libya in 2011 and Yemen in 2015.†

The PLA has also made progress in gaining access to overseas facilities for military use—a development China claimed it would never pursue in its first defense white paper issued in 1998.[91] China's first overseas base—Beijing calls it a "military support facility"—opened in Djibouti in August 2017 and has the potential to become a regional hub for PLA operations.[92] Many analysts believe China plans a second naval base near Gwadar Port in Pakistan, although the Chinese government denies having intentions to do so.[93] As China's economic and other interests expand around the globe, Beijing will likely continue to invest in developing overseas bases, facilities, and arrangements that support increased PLA operations or even routine presence in regions covered by the Belt and Road.[94]

Chinese BRI Investments in Ports and Maritime Infrastructure

Ports and other maritime infrastructure are a major focus of BRI,[95] which has raised concerns that Beijing will try to convert economic stakes into strategic outposts or even bases.[96] Reservations about Chinese intentions grew when Beijing converted outstanding debt into a controlling equity stake and a 99-year lease for Hambantota port in Sri Lanka.[97] Colombo's experience prompted Burma's government to review a similar project with China to build a deep-sea port at Kyaukpyu.[98] Analysts from the Center for Advanced Defense Studies examined Chinese port investments and unofficial yet authoritative state- and CCP-affiliated publications discussing the rationales for those investments. They found that "these investments are generating political leverage, increasing Beijing's military presence, and reshaping the

*Those activities include antipiracy patrols in the Gulf of Aden, expanded contributions to UN peacekeeping operations, and increased military-to-military engagement through bilateral and multilateral exercises. Timothy R. Heath, "China's Pursuit of Overseas Security," *RAND Corporation*, March 2018, 66; U.S.-China Economic and Security Review Commission, Chapter 2, Section 1, "China's Global Security Activities in 2017," in *2017 Annual Report to Congress*, November 2017, 170–178, 184–186; Ely Ratner et al., "More Willing and Able: Charting China's International Security Activism," *Center for a New American Security*, May 2015, 83.

†The 2011 Libya operation was the first time China used PLA Navy ships to provide security for an evacuation operation. The 2015 Yemen operation was carried out by two PLA Navy frigates and a replenishment ship conducting antipiracy operations in the Gulf of Aden. U.S.-China Economic and Security Review Commission, Chapter 2, Section 2, "Developments in China's Military Expeditionary and Force Projection Capabilities," in *2016 Annual Report to Congress*, November 2016, 261–262; Jane Perlez and Yufan Huang, "Yemen Evacuation Shows Chinese Navy's Growing Role," *New York Times*, March 31, 2015; Gabe Collins and Andrew S. Erickson, "Implications of China's Military Evacuation of Citizens from Libya," *China Brief*, March 11, 2011.

Chinese BRI Investments in Ports and Maritime Infrastructure—*Continued*

strategic operating environment in China's favor—often at the expense of the recipient country."[99]

A report from CSIS concluded that the economic prospects for Chinese maritime infrastructure projects are mixed at best.[100] Regarding potential military benefits, the same report found that "in peacetime, these efforts will certainly expand Chinese influence in the region, possibly through access to port facilities to refuel or resupply naval vessels and in terms of antipiracy operations and familiarization with other regional militaries," but in wartime, these Chinese outposts "will likely create [for China] as many vulnerabilities as opportunities in terms of protecting trade routes, bases, and ships."[101]

Expanding China's Geopolitical Influence

China envisions BRI expanding Beijing's geopolitical influence across Asia, the Middle East, Africa, and Europe, and eventually to Latin America and the Caribbean.[102] Chinese leaders' public statements about China's strategic motivations for such expansive visions are purposefully murky. However, some Chinese strategists argue Beijing's "march west" across the Eurasian landmass—to use Peking University scholar Wang Jisi's phrase—will allow China to expand its strategic influence without provoking a confrontation with other major powers, namely the United States, over further expansion to China's east.[103] According to a review of Chinese-language BRI analyses by Joel Wuthnow of the National Defense University, a major school of thought argues "China can use the BRI to expand its strategic influence in Eurasia while avoiding direct competition with the United States."[104] In BRI's early years, Chinese scholars regularly portrayed the initiative as a geopolitical response to the Obama Administration's "Rebalancing to Asia" policy.[105]

In addition, by tying BRI to existing international institutions and inventing new institutions such as the Belt and Road Forum and Asian Infrastructure Investment Bank (AIIB), China seeks to use BRI to carve out a larger role for itself within the broader latticework of international institutions and multiply BRI's impact. By doing so, Beijing aims to reshape the structure and norms of global governance to more closely reflect its interests and values. In his speech to the Belt and Road Forum, President Xi noted, "Important resolutions passed by the UN General Assembly and Security Council contain reference to [BRI]."[106] Chinese officials have successfully lobbied to incorporate BRI references or establish formal linkages with several additional UN organizations, including the UN Department of Economic and Social Affairs, the UN Development Program, and the World Health Organization.[107] State Councilor and Foreign Minister Wang Yi publicly linked BRI to the Shanghai Cooperation Organization (SCO) in a June 2017 speech.[108] Chinese official media have also compared BRI to the Group of 20, calling BRI "one of two major platforms in the world ... propelling the world economic development."[109]

Beijing is also pushing for its dispute resolution processes to gain acceptance abroad. In June 2018, in response to the growing number of BRI-related disputes, China's Supreme People's Court launched two new courts based in Xi'an and Shenzhen to handle these cases.* The courts offer parties a range of dispute resolution services—including mediation, arbitration, and litigation—and the courts' jurisdiction covers disputes between commercial investors, not disputes between states or between investors and states.[110] While the appointed judges are all from China's Supreme People's Court, the courts may allow certain international commercial mediation and arbitration institutions and an international commercial expert committee to participate in mediation and arbitration proceedings.[111] Chinese analysts argue the new international commercial courts are needed because the existing dispute settlement regime † can be too costly and time-consuming and fails to protect the interest of Chinese companies abroad.[112]

While commercial parties have the right to choose the venue for dispute resolution, Western analysts have expressed concerns that China may pressure parties to settle disputes in the new Chinese commercial courts or to have settlement in these courts written into the dispute settlement clauses of project contracts, which may disadvantage foreign firms.[113] The courts fall within China's legal system, which is not independent of the government and is therefore subject to interference from Chinese regulators and CCP officials.[114]

BRI Coordination and Financing Mechanisms

China has created new coordination and financing mechanisms for BRI that improve Beijing's ability to align the initiative to support its broader national goals. In testimony to the Commission, Nadège Rolland, senior fellow at the National Bureau for Asian Research, described BRI as a "top-level plan [that] trickles down to all bureaucratic levels."[115] At the top level, BRI is overseen by the Leading Small Group on Advancing the Belt and Road,‡ established in March 2015.[116] An office within the National Development and Reform Commission coordinates work related to the initiative with the Ministry of Commerce, Ministry of Foreign Affairs, and other relevant entities.[117] China's International Development Cooperation Agency, created in March 2018 as part of a major government reorganization, is expected to play a key role in supporting BRI; the agency is tasked with overseeing China's

*The Shenzhen court will handle cases related to the Maritime Silk Road, while the Xi'an court will handle cases related to the land-based Silk Road Economic Belt. Yang Sheng, "China to Set up International Courts to Settle Belt and Road Disputes," *Global Times,* June 28, 2018; He Quanlin and Chen Xiaochen, "Belt and Road Requires New Global Dispute Regime," *Global Times*, February 1, 2018.

†Currently, companies can address commercial disputes through domestic courts, international arbitration institutions (e.g., the London Court of International Arbitration and the Hong Kong International Arbitration Center), or international commercial courts (e.g., the Singapore International Commercial Court and the Dubai International Finance Center Courts). Matthew S. Erie, "The China International Commercial Court: Prospects for Dispute Resolution for the 'Belt and Road Initiative,'" *American Society of International Law Insights*, August 31, 2018; Nicholas Lingard et al., "China Establishes International Commercial Courts to Handle Belt and Road Initiative Disputes," *Freshfields Bruckhaus Deringer*, July 20, 2018.

‡Leading small groups are high-level CCP bodies that coordinate policy making across the Chinese bureaucracy. The Leading Small Group on Advancing the Belt and Road is in charge of guiding and coordinating BRI-related policies. Christopher Johnson, Scott Kennedy, and Mingda Qiu, "Xi's Signature Governance Innovation: The Rise of Leading Small Groups," *Center for Strategic and International Studies*, October 17, 2017.

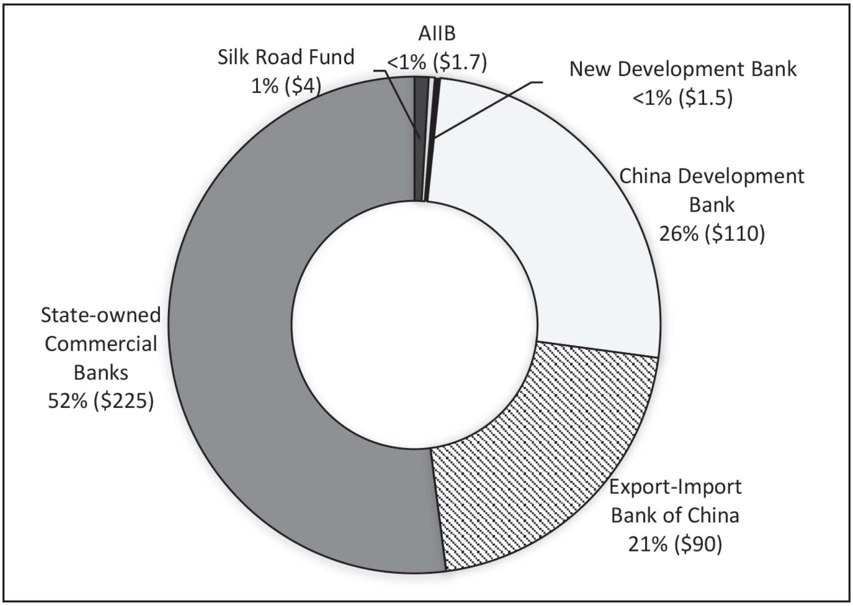
foreign aid program, and integrates the overseas aid responsibilities of foreign affairs and commerce ministries.[118]

Chinese provincial governments bear most of the responsibility for implementing BRI. Eager to capitalize on the trade and investment opportunities and central government funding tied to BRI, all of the country's 31 provincial-level regions have issued work plans on BRI.[119] Chinese provinces are using BRI to advance their interests, with the central government stepping in to mediate in cases where competition among provinces has proved counterproductive.[120]

China has marshaled considerable financial resources for BRI, most of which are provided through traditional state channels, while others are offered by new financial institutions created through Beijing's initiative, such as AIIB and the Silk Road Fund.[121] Analyzing BRI-related financing is challenging because the Chinese government does not release consistent, disaggregated statistics; private sources, likewise, are not comprehensive. However, it is possible to estimate the magnitude of BRI funding through Chinese government data. To date, China's policy banks and major state-owned commercial banks have shouldered the brunt of financing for BRI (see Figure 3). Beijing recognizes it cannot fund BRI alone and is encouraging foreign investors at both the government and private sector levels to help finance the initiative.[122] Private finance will be essential to meeting BRI's massive funding requirements, but private actors have been reluctant to invest because many of the initiative's planned projects lack commercial viability.[123]

Figure 3: BRI Funding by Source

(Outstanding loans or equity investments at year-end 2016, US$ billions)



Source: Various.[124]

- *Chinese policy banks:* China Development Bank (CDB) and the Export-Import Bank of China, both Chinese policy banks,* are major sources of finance for BRI projects involving Chinese companies. State-owned and noncommercial, they fund BRI projects through bilateral lending and can provide lower interest rates and longer-term loans than other Chinese banks—and also make it easier for Beijing to fund projects in line with its broader policy objectives.[125] CDB announced in 2015 that it would invest over $890 billion for more than 900 projects in 60 countries over an unspecified period.[126] At China's Belt and Road Forum in May 2017, CDB announced it would invest $37 billion in BRI projects over the next three years.[127] At the end of 2017, CDB's outstanding loans for BRI projects reached $180 billion, while the Export-Import Bank of China's outstanding BRI loans totaled $110 billion.[128]
- *Chinese state-owned commercial banks:* China's three largest state-owned commercial banks—the Industrial and Commercial Bank of China, Bank of China, and China Construction Bank—provided a total of $225 billion in loans for more than 800 BRI projects by the end of 2016 (latest data available).[129]
- *Silk Road Fund:* The Silk Road Fund is a state-owned investment fund established in 2014 with $40 billion in registered capital. About 65 percent of the fund's capital comes from China's State Administration of Foreign Exchange; 15 percent from the country's sovereign wealth fund, China Investment Corporation; and the rest from the Export-Import Bank of China and CDB.[130] The fund's chairman, Jin Qi, said in 2015 that the projects it backs need to be commercially sustainable, allowing the fund to "exit them once they come to market."[131] By the end of 2016, the Silk Road Fund had committed $4 billion in investments.[132]
- *Multilateral development banks:* Two China-led multilateral institutions, AIIB (established in 2015 with $100 billion in initial capital) and the New Development Bank (NDB) (established in 2014 to support infrastructure development in BRICS † countries, with $100 billion in starting capital) will play an important role in BRI funding, alongside traditional multilateral development banks. AIIB and NDB financing has been modest so far, but is expected to ramp up. AIIB extended $2.5 billion in loans in 2017, up from $1.7 billion in 2016, but plans to invest $10 billion in 2018.[133] The NDB lent $1.5 billion in 2016, and plans to lend $2.5 billion in 2017 and $4 billion in 2018.[134]

Global Reactions and Competing Visions

Some countries welcome BRI in light of China's sizable financial commitments, while others are wary of becoming economically de-

*The Chinese government established three policy banks in 1994—CDB, the Export-Import Bank of China, and Agricultural Development Bank of China—to separate out government-directed spending from commercial banking. CDB and the Export-Import Bank of China facilitate public sector investment and outbound investment, while Agricultural Development Bank of China supports the development of China's agricultural sector. Zhang Yuzhe and Han Wei, "China Steps up Supervision of Policy Lenders," *Caixin*, August 29, 2017.

†BRICS refers to the informal grouping of five emerging economies: Brazil, Russia, India, China, and South Africa.

pendent on China.[135] Some BRI countries also sense an opportunity to play regional powers against one another to their benefit.[136] For example, Pakistan and Gulf countries could play China off the United States, Eastern European countries could play China off the EU, and Central Asian countries could play China off Russia.[137]

Major powers have supported BRI in principle, having a shared interest in promoting connectivity and stability in Eurasia, but remain concerned about the initiative's commercial feasibility, transparency, and environmental impacts, as well as its strategic implications for their political, economic, and security interests abroad. China has not adequately addressed concerns from some major economies—including the United States, the EU, Australia, India, and Japan—about whether BRI projects will conform to international standards on environmental and social protection, transparency, and fair competition.[138] In part driven by those concerns, major powers have started to advance their own competing connectivity initiatives as an alternative to BRI.

Risky Business: Debt Sustainability of BRI Projects

BRI raises important questions about the debt sustainability of the initiative within BRI countries. The key concern is that the lack of commercial terms behind BRI projects will leave countries with debt burdens that will hinder sound public investment and, more broadly, economic growth. China is lending in countries with low investment grades. The sovereign debt of 27 BRI countries is regarded as "junk" by the three main ratings agencies, while another 14 have no rating at all.[139] Some BRI countries lack the capacity to conduct thorough project assessments, and in countries that suffer from weak governance and corruption, local elites may seek to leverage BRI to fund pet projects and siphon off funds for personal gain.[140] There is also concern that debt problems will foster dependence on China that Beijing can exploit for strategic ends.[141]

Further compounding these concerns, China's lending practices often depart from international standards.[142] Most of China's state lending overseas is based on commercial, nonconcessional terms; according to Aid Data—a research lab at the College of William & Mary—only a fifth of China's development finance met the OECD Development Assistance Committee's criteria for official development assistance (ODA) between 2000 and 2014.* † In addition, multilateral institutions and most bilateral development finance institutions disclose the financing terms for loans to sovereign governments; however, Chinese policy banks do not report their loans to individual countries—much less disclose the terms of their loans—making it difficult to assess the present value of the debt owed by a country to China.[143] Based on an

*The OECD Development Assistance Committee defines ODA as finance provided by official agencies (1) "administered with the promotion of the economic development and the welfare of developing countries as its main objective" and (2) "is concessional in character and conveys a grant element of at least 25 percent (calculated at a rate of discount of 10 percent)." OECD, "Official Development Assistance—Definition and Coverage."

†In comparison, between 2000 and 2014, 93 percent of official finance provided by the United States to other countries qualified as bilateral ODA, while 80.6 percent of official finance provided by OECD Development Assistance Committee countries as a whole qualified as ODA. During the same period, 35.6 percent of official finance flows from the World Bank qualified as ODA. Axel Dreher et al., "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset," Aid Data Working Paper, October 2017, 14.

analysis of press and International Monetary Fund (IMF) reports, the terms of Chinese policy banks' loans appear to vary widely, ranging from interest-free to commercial rates.* [144] Finally, unlike other major international creditors, China does not formally participate in multilateral mechanisms to address sovereign debt problems or coordinate with other major creditors. China is an observer but not a member of the Paris Club, an informal group of major creditor countries that help negotiate the terms of sovereign debt restructuring in coordination with the IMF.[145]

A March 2018 report from the Center for Global Development assessed the current debt vulnerabilities of countries identified as potential BRI borrowers. Out of 23 countries determined to be significantly or highly vulnerable to debt distress, the authors identified eight countries "where BRI appears to create the potential for debt sustainability problems, and where China is a dominant creditor in the key position to address those problems" (see Table 2).†

Pakistan, one of the eight countries identified, is headed toward a balance of payments crisis, due in part to a surge in Chinese loans and imports of capital goods for CPEC‡ projects.§ As a result, Pakistan is expected to request an IMF bailout in the months following the July 2018 election of Imran Khan as the country's new prime minister.¶ Any loan from the IMF would likely require Pakistan's new government to disclose the financing terms of existing CPEC projects as well as include restrictions on public spending, which could curtail CPEC.[146] China has kept Pakistan afloat with short-term lending—providing $4 billion in commercial loans in the fi-

*Chinese policy banks provide a mix of financing overseas, including concessional and nonconcessional loans, preferential export buyer's credits, and export buyer's credits. Concessional loans are offered at subsidized interest rates (around 2 percent) generally with a 5-year grace period and 10-year repayment period, and are denominated in RMB. Nonconcessional loans are extended with a market-based interest rate. Preferential export buyer's credits are loans to foreign borrowers to finance their purchase of Chinese goods offered at interest rates on more generous terms than commercial rates, generally with a grace period from 3 to 6 years, with maturities between 8 and 12 years; they are denominated in foreign currency, typically U.S. dollars. Export buyer's credits are offered to foreign governments to purchase goods and services from Chinese companies. China-CELAC Forum, "Introduction of the Preferential Loans Announced to Latin American and Caribbean Countries," June 2, 2015; European Parliament Directorate-General for External Policies, "Export Finance Activities by the Chinese Government," 2011, 6–7; Deborah Brautigam and Jyhjong Hwang, "China-Africa Loan Database Research Guidebook," *SAIS China-Africa Research Initiative*, 6–7.

†The 23 countries are Afghanistan, Albania, Armenia, Belarus, Bhutan, Bosnia and Herzegovina, Cambodia, Djibouti, Egypt, Ethiopia, Iraq, Jordan, Kenya, Kyrgyzstan, Laos, Lebanon, the Maldives, Mongolia, Montenegro, Pakistan, Sri Lanka, Tajikistan, and Ukraine. John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," *Center for Global Development Policy Paper*, March 2018, 8, 11.

‡CPEC, which envisions the construction of roads, ports, power plants, and other large-scale infrastructure projects across Pakistan, has been touted by Beijing as a "flagship project" of BRI and is estimated to cost $62 billion. Drazen Jorgic, "Pakistan Dismisses U.S. Concerns about IMF Bailout and China," *Reuters*, August 1, 2018; *Xinhua*, "Belt and Road Initiative Reshaping Asia's International Relations: Report," April 8, 2018; Katharine Houreld, "China and Pakistan Launch Economic Corridor Worth $46 Billion," *Reuters*, April 20, 2015.

§At the end of June 2018, Pakistan's current account deficit, a broad measure of the imbalance between exports and imports, reached a record $18 billion and the country's foreign currency reserves dropped to $10 billion, an amount equivalent to less than two months of imports. Jeffrey Gettleman, "Imran Khan's First Test: Pakistan's Troubled Economy," *New York Times*, August 4, 2018; Salman Siddiqui, "Pakistan's Current Account Deficit Peaks at $17.99 Billion," *Express Tribune*, July 20, 2018; Farhan Bokhari and Kiran and Kiran Stacey, "Pakistan Seeks More Loans from China to Avert Currency Crisis," *Financial Times*, July 5, 2018; International Monetary Fund, 2017 Article IV Consultation, IMF Country Report No. 17/212, July 2017, 4.

¶Pakistan has received 12 bailouts from the IMF since the 1980s, the most recent of which was a $6.7 billion assistance package in 2013. Faseeh Mangi, "Why Pakistan Is on the Road to Another IMF Bailout," *Bloomberg*, July 26, 2018; Jeremy Page and Saeed Shah, "China's Global Building Spree Runs into Trouble in Pakistan," *Wall Street Journal*, July 22, 2018.

nancial year ending June 2018—and is reported to have lent an additional $2 billion in July 2018 to stabilize Pakistan's dwindling foreign exchange reserves.[147]

Djibouti provides another instructive example. China has provided $1.4 billion of funding for major infrastructure projects, equivalent to about 75 percent of Djibouti's GDP.[148] Djibouti's increasing indebtedness to China has raised concerns for the U.S. government that the Djiboutian government may hand over control of a strategic port to a Chinese-owned company, which would threaten U.S. national security interests, including major U.S. and allied military bases in the country.*

Table 2: Key Countries at Risk of Debt Distress from BRI

Country	GDP (US$ billions, 2016)	Public and publicly guaranteed debt † (US$ billions, 2016; % of GDP) ‡	BRI lending pipeline § (US$ billions)	World Governance Indicators-Rule of Law (Percentile rank among all countries, 2017)	Transparency International Corruption Perceptions Index (2017) ¶
Djibouti	1.73	1.50 (87%)	1.46	16.8	31
Kyrgyzstan	6.55	4.07 (62%)	4.56	14.4	29
Laos	15.90	10.78 (68%)	5.47	20.7	29
Maldives	4.22	2.78 (66%)	1.11	36.5	33
Mongolia	10.95	9.59 (88%)	2.47	45.7	36
Montenegro	4.37	3.41 (78%)	1.54	53.9	46
Pakistan	278.91	195.24 (70%)	40.02	20.2	32
Tajikistan	6.95	2.91 (42%)	2.81	10.6	21

Source: John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," *Center for Global Development Policy Paper*, March 2018, 28; Transparency International, "Corruption Perceptions Index 2017," February 21, 2018; World Bank, "World Governance Indicators, 2018 Update," September 21, 2018. *http://info.worldbank.org/governance/wgi/index.aspx#home*.

*The port is significant because it serves as the main access point for U.S., French, and Japanese military bases in Djibouti, and because of its proximity to China's only overseas military base. Josh Rogin, "Can the Trump Administration Stop China from Taking over a Key African Port," *Washington Post*, March 7, 2018; Idrees Ali and Phil Stewart, "'Significant' Consequences if China Takes Key Port in Djibouti: U.S. General," *Reuters*, March 6, 2018.

† Public and publicly guaranteed debt consists of long-term external obligations of public debtors and external obligations of private debtors that are guaranteed for repayment by a public entity.

‡ A 2015 IMF working paper examining whether there is a tipping point for government debt ratios beyond which economic growth drops off significantly finds a statistically significant threshold effect in the case of countries with rising debt-to-GDP ratios above 50 to 60 percent. Alexander Chudik et al., "Is There a Debt-Threshold Effect on Output Growth?" *IMF Working Paper*, September 2015, 5.

§ The Center for Global Development characterized a BRI pipeline project as "a project whose financing may not be captured by a country's latest public figures, which we have through the end of 2016." John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," *Center for Global Development Policy Paper*, March 2018, 10.

¶ Transparency International's Corruption Perceptions Index ranks 180 countries and territories by their perceived levels of public sector corruption and uses a scale of 0 to 100, where 0 is highly corrupt and 100 is very clean.

A growing number of international stakeholders are sounding alarms over BRI's debt sustainability risks. In April 2018, IMF Managing Director Christine Lagarde warned that BRI-related infrastructure projects can "lead to problematic increase in debt, potentially limiting other spending as debt service rises, and creating balance of payment challenges."[149] Asian Development Bank President Takehiko Nakao echoed these concerns at the bank's annual conference in May, noting, "If countries borrow too much for certain infrastructure without seriously looking at the viability and feasibility, it will bring more trouble in repayment.... We should look at debt sustainability issues very seriously."[150]

International financial institutions and major creditor countries may be particularly concerned about BRI's debt sustainability risks because they have already spent billions of dollars in providing relief to heavily indebted countries through initiatives such as the IMF and World Bank's Heavily Indebted Poor Country (HIPC) initiative.*[151] Six of the 36 countries that received debt reduction packages through the HIPC initiative are BRI countries: Afghanistan, Bolivia, Ethiopia, Guyana, Madagascar, and Senegal.[152]

An August 2018 letter from a bipartisan group of 16 U.S. senators expressed concern over bailout requests to the IMF from countries that have "accepted predatory Chinese infrastructure financing."[153] The letter detailed the "dangers of China's debt-trap diplomacy and its [BRI] to developing countries," calling on Treasury Secretary Steven Mnuchin and Secretary of State Mike Pompeo to work with U.S. partners to offer developing countries alternatives to Chinese investment and infrastructure financing.[154] According to the senators, "the goal for BRI is the creation of an economic world order ultimately dominated by China. It is imperative that the United States counters China's attempts to hold other countries financially hostage and force ransoms that further its geostrategic goals."[155] In a July 2018 interview, Secretary Pompeo warned that an IMF bailout for Pakistan should not provide funds to repay Chinese loans, saying, "There is no rationale for IMF tax dollars, and associated with that American dollars that are part of the IMF funding, for those to go to bail out Chinese bondholders or China itself."[156]

Host Country Sovereignty Concerns

As BRI projects proliferate, China's stake in the domestic politics of other countries will grow, further challenging China's long-espoused narrative of "noninterference" in other countries' affairs.[157] BRI could also expose China to political risk in host countries if projects have low quality standards, create unsustainable debt burdens, or funds get siphoned off by corrupt elites. In addition, Beijing could undermine its cooperative narratives about BRI in cases where China attempts to use its investments to coerce host countries into acquiescing to Chinese preferences.[158] China's rhetorical rejection of unequal diplomatic relationships will start to ring hollow if countries participating in BRI feel they are being treated like tributaries

*The HIPC initiative was launched by the IMF and World Bank in 1996 to provide debt relief for heavily indebted poor countries. To date, debt reduction packages under the initiative have provided $76 billion in debt service relief to 36 countries. International Monetary Fund, "Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative," March 8, 2018.

rather than partners. Statements by government and political opposition figures in Sri Lanka regarding the Hambantota port project and in Burma regarding the Kyaukpyu port project and adjacent special economic zone provide early indicators of this backlash. For example, the *Financial Times* quoted one Burmese government official who worried that "if [Kyaukpyu] doesn't do well, there is the risk of defaulting and becoming a Chinese-owned port."[159]

Debt and Sovereignty as Political Issues in Malaysia's Election

BRI projects' impacts on debt levels and sovereignty have become a controversial issue in domestic politics in some recipient countries. Chinese influence became a salient topic in Malaysia's national elections this year, where now Prime Minister Mahathir Mohamed won a victory that surprised many observers.[160] During the campaign, Mr. Mahathir specifically connected Malaysia's growing indebtedness to China with a potential loss of sovereignty, saying, "China comes with a lot of money and says you can borrow this money.... But you must think, 'How do I repay?' Some countries see only the project and not the payment part of it. That's how they lose chunks of their country. We don't want that."[161] That approach contrasted with the message of incumbent Prime Minister Najib Razak, who lost the election in part because he was seen as a cheerleader for Chinese investment and BRI.[162] After the election, the Mahathir-led government suspended tens of billions of China-linked projects pending review.[163] Still, Chinese economic heft in Malaysia and Southeast Asia overall will likely limit the degree to which Malaysia can assert its independence from Beijing.[164]

Competing Visions

China's expanding interests under BRI are generating friction and increasingly sharp criticism as Beijing encroaches on areas that other major powers consider to be their traditional spheres of influence.[165] At the same time, China does not have a monopoly on plans to facilitate global connectivity and trade. Other major powers have their own initiatives focused on bolstering economic growth and infrastructure development while maintaining or extending their geopolitical influence.[166] This section details how those powers are responding to BRI with their own competing visions.

Japan

Japan initially took a cautious stance toward BRI, but recently has signaled its willingness to participate in a limited capacity.[167] Japan's shift is guided by pragmatic considerations of the initiative's significance for regional development, and it views engagement as being necessary for building positive relations with China.[168] In July 2017, Japanese Prime Minister Shinzo Abe said Japan was willing to cooperate with BRI, provided the initiative "contribute[s] to regional and global peace and prosperity by adopting ideas held by all in the international community."[169] So far, Japanese engagement has been limited to private sector-led investment with financial support from the government.*

At the same time, as Tobias Harris—economy, trade, and business fellow at the Sasakawa Peace Foundation USA—noted in his testimony to the Commission, Japan illustrates how "it is possible and even necessary for Asia's wealthier democracies to pursue their own development strategies to help BRI members minimize their dependence on China and maximize their freedom."[170] In response to BRI, Japan—a longtime infrastructure player in Asia with decades of experience investing in Southeast and Central Asia—has increased funding to expand "high-quality and sustainable infrastructure" in the region through its Partnership for Quality Infrastructure, launched in May 2015.† In line with the Association of Southeast Asian Nations' (ASEAN) *Master Plan on ASEAN Connectivity 2025*, Japan is providing support for a number of new land and maritime corridors that would improve connectivity between the Bay of Bengal and the South China Sea.[171] Japan distinguishes its approach to building connectivity with its emphasis on the Ise-Shima Principles endorsed by the G7 in 2016, which include safety, reliability, transparency, social and environmental considerations, alignment with local development goals, and economic viability.[172]

Japan is also working with key partners to promote alternatives to China's infrastructure development through BRI. In May 2017, Japan and India launched the Asia-Africa Growth Corridor, a joint initiative to build connectivity between Africa and the Pacific.‡ In November 2017, the U.S. Overseas Private Investment Corporation signed agreements with the Japan Bank for International Cooperation and Nippon Export and Investment Insurance to "offer high-quality United States-Japan infrastructure investment alternatives in the Indo-Pacific region."[173] In July 2018, the United States, Japan, and Australia announced a trilateral partnership to mobilize investment for infrastructure projects in the Indo-Pacific region.[174]

Japan has responded to the strategic aspects of BRI by deepening security ties with countries in South and Southeast Asia. Japan agreed to a "Special Strategic and Global Partnership" with India in September 2014.[175] Tokyo has increased defense cooperation with

*In December 2017, the Japanese government announced it would support BRI through financing public-private partnerships focused on the environmental sector, industrial modernization, and logistics. Japanese assistance will include loans through government-backed financial institutions to private Japanese and Chinese firms for projects in third-party BRI countries. In May 2018, Japan and China signed an MOU to establish a mechanism for promoting private economic cooperation in third countries. Official, Japan Ministry of Foreign Affairs, meeting with the Commission, Tokyo, May 25, 2018; Chris Gallagher, "Japan to Help Finance China's Belt and Road Projects: Nikkei," *Reuters*, December 5, 2017.

†The initiative will spend $110 billion in Asia through 2020, half from Japan International Cooperation Agency and the Japan Bank for International Cooperation and half from the Asian Development Bank. In 2016, the initiative was expanded to $200 billion globally (including Africa and the South Pacific). David Brewster, "A Little-Noticed Player Goes Big in the Indo-Pacific," *War on the Rocks*, May 30, 2018; Official, Japan Ministry of Foreign Affairs, meeting with Commission, Tokyo, May 25, 2018; Masaaki Kameda, "Abe Announces $110 Billion in Aid for 'High-Quality' Infrastructure in Asia," *Japan Times*, May 22, 2015.

‡According to the initiative's vision document, the Asia-Africa Growth Corridor will focus on four key areas: development and cooperation projects, quality infrastructure and digital and regulatory connectivity, capacity and skills enhancement, and people-to-people partnerships. Research and Information System for Developing Countries, Economic Research Institute for ASEAN and East Asia, and Japan External Trade Organization, "Asia Africa Growth Corridor: Partnership for Sustainable and Innovative Development: A Vision Document," African Development Bank Meeting, Ahmedabad, India, May 22–26, 2017, 3–4.

India and helped finance strategic projects, such as upgrading civilian infrastructure in India's Andaman and Nicobar Islands.[176] Japan is also upping its security cooperation with Southeast Asian nations via its "Vientiane Vision" defense cooperation initiative and additional arms sales.[177]

India

India faces intense strategic pressure from BRI, both on land and at sea, especially in the Indian Ocean.[178] New Delhi has been a strong critic of BRI, boycotted the May 2017 Belt and Road Forum, and does not allow BRI projects in India. However, New Delhi is a major contributor to AIIB and a founding member of the NDB.[179] Among India's central concerns about BRI is CPEC, given New Delhi's concern over Sino-Pakistani strategic cooperation and India's objections to BRI running through the disputed Kashmir region.[180] India has responded to the geopolitical challenge BRI presents by broadening the range and scope of its "Act East" policy.* That policy aims to strengthen economic links between India and ASEAN countries, providing India's landlocked, underdeveloped northeast region better access to its southern ports and building new land corridors linking India to Thailand through Burma (e.g., the India-Myanmar-Thailand trilateral highway).[181]

India has also deepened security ties to the United States and Japan and shown a greater willingness to engage in the context of the quadrilateral or "Quad" grouping of Asian maritime democracies composed of India, Australia, Japan, and the United States.† The Quad is meant to coordinate on regional security issues in Asia in the context of the rise of China and India. Early discussions in the mid-2000s among the Quad countries fizzled as members disengaged in the face of objections from Beijing, but the idea has been revived in recent years as China has become newly assertive.[182] However, residual wariness about quadrilateral cooperation remains, as demonstrated by New Delhi's decision not to invite Australia to the 2018 Malabar exercises.‡ For his part, Indian President Narendra Modi has criticized BRI, most notably at the Shangri-La Dialogue in Singapore in June 2018, where he said:

> *There are many connectivity initiatives in the region. If these have to succeed, we must not only build infrastructure, we must also build bridges of trust. And for that, these initiatives must be based on respect for sovereignty and territorial*

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*For additional background on China's relations with South Asia, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "China and South Asia," in *2016 Annual Report to Congress*, November 2016, 314–344; Dhruva Jaishankar, "Actualizing East: India in a Multipolar Asia," *Institute of South Asian Studies, National University of Singapore*, May 23, 2017; Anubhav Gupta, "How Modi Is Broadening the Range and Scope of India's 'Act East' Policy," *World Politics Review*, June 11, 2018.

†The idea for what came to be known as the Quad was first proposed by Japanese Prime Minister Shinzo Abe in 2007. Emma Chanlett-Avery, "Japan, the Indo-Pacific, and the 'Quad,'" *Chicago Council on Global Affairs*, February 2018; Tanvi Madan, "The Rise, Fall, and Rebirth of the 'Quad,'" *War on the Rocks*, November 16, 2017.

‡The Malabar Exercises are annual trilateral exercises led by the United States, India, and Japan. The United States and India held the first installment in 1992, and Japan became a regular participant in 2015. The exercise enhances interoperability among the participating militaries and puts an emphasis on high-end warfighting skills, maritime superiority, and power projection. William McCann, "U.S., Japan Maritime Self-Defense Force, Indian Naval Forces Conclude Malabar 2018," *U.S. Navy News Service*, June 20, 2018; Emanuele Scimia, "Malabar 2018: India Deals a Blow to Australia and 'the Quad,'" *Asia Times*, May 1, 2018.

> *integrity, consultation, good governance, transparency, viability and sustainability. They must empower nations, not place them under impossible debt burden. They must promote trade, not strategic competition.*[183]

Europe

Europe has a shared interest in promoting connectivity and stability in Eurasia, and many European countries welcome BRI in principle.* However, the major European states and the supranational EU remain concerned about BRI's commercial feasibility, transparency, and environmental impacts, as well as its strategic implications for the EU's economic, political, and security interests abroad.[184] (For more on China's relations with Europe, see Chapter 3, Section 2, "China's Relations with U.S. Allies and Partners.")

European states' varying interests in relation to China have at times hampered a unified response to BRI.[185] Chinese leaders pursue a strategy of engaging European countries bilaterally or in subregional groups.[186] Most significantly, Beijing created the 16+1 grouping made up of Central and Eastern European countries plus China.† That group includes several countries, such as Hungary and the Czech Republic, whose politics have become increasingly illiberal in recent years.[187] Only 11 of the 16 Central and Eastern European countries that participate in the 16+1 grouping are members of the EU. That fact has raised concerns in Brussels that BRI infrastructure projects could weaken adherence to the EU's exacting standards, both within the bloc itself and on the EU's periphery.[188]

In addition, some analysts have warned Beijing could use BRI projects to gain support for Chinese aims—such as softening the EU's stance on human rights or lifting the EU arms embargo imposed after the 1989 Tiananmen Massacre—within the EU's internal political bodies.[189] Analysts point to Greece in particular as a potential access and influence point for Chinese entry into Europe, given the major BRI investment in the port of Piraeus and China's cultivation of Greek officials and politicians.[190] China has also courted the United Kingdom by offering potential investments and trade agreements as London tries to formulate its post-Brexit foreign trade policies.[191]

In the face of these challenges to European interests and values, major European states are beginning to take a more skeptical approach to BRI.[192] As a 2017 report from the European Council on Foreign Relations concludes, "Europe is turning to realist engagement with China, getting over the mirage of cash from China."[193] French President Emmanuel Macron has staked out a leadership

*The EU's diplomatic arm, the European External Action Service, has expressed support for BRI with certain conditions, saying, "We [EU member states] support cooperation with China on its 'One Belt, One Road' initiative on the basis of China fulfilling its declared aim of making it an open initiative which adheres to market rules, EU and international requirements and standards, and complements EU policies and projects, in order to deliver benefits for all parties concerned and in all the countries along the planned routes." Delegation of the European Union to China, "Belt and Road Forum—EU Common Messages," May 14, 2017; *World Politics Review*, "Will Europe Embrace China's 'One Belt, One Road' Vision?" May 5, 2017.

†Members of the 16+1 grouping include China, 11 EU Member States (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia), and five non-EU countries (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia). China-Central and Eastern European Countries Cooperation, "6th Summit of Heads of Government of Central and Eastern European Countries and China," November 27, 2017; China's Ministry of Foreign Affairs, *The Budapest Guidelines for Cooperation between China and Central and Eastern European Countries*, November 28, 2017.

position among European heads of state by clearly laying out the terms to which China must adhere for BRI to be welcomed in Europe. During a state visit to China, President Macron said, "The ancient Silk Roads were never only Chinese ... they cannot be one-way.... These roads cannot be those of a new hegemony, which would transform those that they cross into vassals."[194] In April 2018, 27 of 28 EU ambassadors to Beijing signed an internal EU report saying BRI "runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies."[195] In September 2018, the EU released its joint communication for promoting connectivity between Europe and Asia. EU High Representative for Foreign Affairs Federica Mogherini explained that Europe's approach seeks to "establish stronger networks and strengthen partnerships for sustainable connectivity, across all sectors and based on a respect for common rules."[196]

Russia

China and Russia compete for influence in Central Asia through their respective regional projects.* Beijing and Moscow have thus far managed the competitive aspects of their bilateral relations in order to pursue closer strategic ties.[197] Specifically, in May 2015 the pair agreed to align Russia's trade connectivity initiative, the Eurasian Economic Union, with BRI's overland component, the Silk Road Economic Belt.[198] However, Russia still worries about growing Chinese influence in Central and South Asia, especially as Russia's regional security bloc, the Collective Security Treaty Organization, struggles with cohesion and effectiveness and China continues to make economic and political inroads in the region.[199]

Implications for the United States

Trump Administration Views of BRI

Recent comments from senior Trump Administration officials suggest the Administration's "free and open Indo-Pacific" framework for U.S. regional strategy toward Asia is at least in part a response to BRI.[200] In July 2018 remarks on "America's Indo-Pacific Economic Vision," Secretary Mike Pompeo said, "The United States is committed to connectivity that advances national sovereignty, regional integration, and trust. This occurs when infrastructure is physically secure, financially viable, and socially responsible."[201] Those comments came as part of a larger U.S. policy rollout announcing "$113 million in new U.S. initiatives to support foundational areas of the future: digital economy, energy, and infrastructure."[202] In addition, on August 4, Secretary Pompeo announced $300 million in U.S. security assistance to the region to strengthen maritime security, develop humanitarian assistance and peacekeeping capabilities, and enhance programs that counter transnational threats.[203]

An editorial in the authoritative *People's Daily* responded to U.S. policy announcements by asserting that U.S. initiatives "won't cripple" BRI and claiming "the main reason [behind U.S. concerns] may

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* For more on China's relations with Central Asia, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "China and Central Asia," in *2015 Annual Report to Congress*, November 2015, 391–427; International Crisis Group, "Central Asia's Silk Road Rivalries," July 27, 2017.

be that imperialism is deeply rooted in Western countries' political thinking and they understand the era differently from emerging countries."[204] However, the same editorial also welcomed U.S. investments in the region in the service of economic development, which demonstrates the competing impulses behind BRI.

These Trump Administration actions build on earlier official statements. In October 2017, Secretary of Defense James Mattis commented on BRI, saying, "Regarding 'One Belt, One Road,' I think in a globalized world, there are many belts and many roads, and no one nation should put itself into a position of dictating 'One Belt, One Road.'"[205] Moreover, the Trump Administration's *National Security Strategy*, released in December 2017, states:

> *The United States will encourage regional cooperation to maintain free and open seaways, transparent infrastructure financing practices, unimpeded commerce, and the peaceful resolution of disputes. We will pursue bilateral trade agreements on a fair and reciprocal basis. We will seek equal and reliable access for American exports. We will work with partners to build a network of states dedicated to free markets and protected from forces that would subvert their sovereignty. We will strengthen cooperation with allies on high-quality infrastructure.*[206]

U.S. Economic Interests

The United States has a range of economic interests at stake, from commercial opportunities for U.S. companies to global open trade and financial systems.[207] U.S. companies see sizable BRI-related opportunities within China and beyond China's borders, despite the geopolitical, financial, and operational risks.[208] Chinese companies have been eager to partner with Western multinationals on BRI projects for their technical expertise, longer experience operating in international markets, and credibility.[209] According to a 2015 China-Britain Business Council report, initial BRI-related opportunities are in the infrastructure, logistics, advanced manufacturing, and financial and professional services sectors, while further secondary opportunities exist in the agriculture, food processing, e-commerce, education, and tourism sectors.[210]

Although Beijing has been careful to emphasize BRI's openness to foreign companies, the initiative does not provide a level playing field for U.S. and other foreign companies to compete with Chinese firms.[211] Most Chinese-financed BRI projects are not open tender and are awarded to Chinese contractors, relegating foreign companies to partnering with Chinese companies as subcontractors.[212] As Randal Phillips, managing partner at the Mintz Group, noted in his testimony to the Commission,

> *There are … quite a number of opportunities for foreign businesses to participate in the "best supporting actor" category.… The net effect thus far, and likely for the foreseeable future, is for [foreign] companies to play sub-contracting roles to leading Chinese enterprises, particularly in the services sector such as commercial insurance, consulting, logistics, technical services provision, etc.*[213]

Several major U.S. companies are participating in BRI projects (see Addendum II, "Select U.S. Firms Participating in BRI"). In 2016, General Electric received $2.3 billion in orders of equipment from Chinese construction and engineering companies to install abroad, mostly in BRI countries.* Caterpillar announced it has partnered with Chinese companies in BRI countries.[214] However, opportunities for foreign companies may dwindle in the long term as Chinese companies become more competitive in sectors currently dominated by Western multinationals (e.g., engineering, telecommunications, and logistics).[215] Moreover, to the extent that Beijing succeeds in exporting technical standards, BRI could create new barriers to U.S. trade and investment in BRI markets.[216]

Contest for Political Influence

BRI will provide China with a potent tool for political influence, albeit one with many potential pitfalls.[217] In response, the 2017 U.S. *National Security Strategy* called for constructing a realistic alternative to BRI that can help meet the demand for development and infrastructure financing in Asia, Europe, and Africa.[218] Beyond its concrete manifestations, BRI constitutes the leading edge of a more global Chinese foreign policy with ambitious aims to revise—if not replace—the U.S.-led liberal international order.[219] As Ms. Rolland explains, "BRI is also meant to serve the broader regional ambition of building a Sinocentric Eurasian order."[220]

Potential Future Security Challenges

Although the PLA's role in the initiative has yet to be fully developed, BRI could eventually pave the way for more ambitious PLA presence and operations across Eurasia and the Indian Ocean region.[221] Expanded PLA operations beyond China's near abroad could theoretically contribute to stability in war-torn places in Central and South Asia and the Middle East.[222] To advance those objectives, Beijing envisions a military in the future that is more capable of protecting its far-flung economic and political interests. However, a larger and more capable Chinese military presence enabled by BRI could also exacerbate friction and fuel geopolitical competition with the United States or other regional powers.[223] A more globally engaged PLA could have the practical effect of expanding areas of U.S.-China military competition beyond East Asia, resulting in a more globe-spanning contest with the potential for linkages across and between theaters in the event of tensions or even conflict.[224]

*In 2014, Chinese construction and engineering companies ordered $400 million worth of equipment from General Electric to install overseas. Keith Bradsher, "U.S. Firms Want in on China's Global 'One Belt, One Road' Spending," *New York Times*, May 14, 2017.

Addendum I: Countries Currently Participating in BRI

East Asia and Pacific (5)	Europe and Central Asia (31)	Latin America and the Caribbean (8)	Middle East and North Africa (17)	South Asia (7)	Southeast Asia (11)	Sub-Saharan Africa (5)
China	Albania	Antigua and Barbuda	Bahrain	Afghanistan	Brunei	Djibouti
Mongolia	Armenia	Bolivia	Egypt	Bangladesh	Burma	Ethiopia
New Zealand	Austria	Costa Rica	Iran	Bhutan	Cambodia	Madagascar
Niue	Azerbaijan	Guyana	Iraq	Maldives	Indonesia	Rwanda
Papua New Guinea	Belarus	Trinidad and Tobago	Israel	Nepal	Laos	Senegal
	Bosnia and Herzegovina	Panama	Jordan	Pakistan	Malaysia	
	Bulgaria	Uruguay	Kuwait	Sri Lanka	Philippines	
	Croatia	Venezuela	Lebanon		Singapore	
	Czech Republic		Libya		Thailand	
	Estonia		Morocco		Timor-Leste	
	Georgia		Oman		Vietnam	
	Greece		Qatar			
	Hungary		Saudi Arabia			
	Kazakhstan		Syria			
	Kyrgyzstan		Tunisia			
	Latvia		United Arab Emirates			
	Lithuania		Yemen			
	Macedonia					
	Moldova					
	Montenegro					
	Poland					
	Romania					
	Russia					
	Serbia					
	Slovakia					
	Slovenia					
	Tajikistan					
	Turkey					
	Turkmenistan					
	Ukraine					
	Uzbekistan					

Notes: China describes BRI as an open initiative not limited by geography. In an April 2017 press conference China's Foreign Minister Wang Yi said China "has no intention of designating clear geographic boundaries for the Belt and Road.... The initiative is not a member's club." The above countries are based on a list of countries maintained by China's State Information Center's Belt and Road Portal that have signed MOUs with China to cooperate on BRI. They are grouped based on the World Bank's classification of geographic regions. *Xinhua*, "Full Text of President Xi's Speech at Opening of Belt and Road Forum," May 14, 2017; Wu Gang, "SOEs Lead Infrastructure Push in 1,700 'Belt and Road' Projects," *Caixin*, May 9, 2017.

Source: China's State Information Center, Belt and Road Portal, *International Cooperation—Profiles*. *https://eng.yidaiyilu.gov.cn/info/iList.jsp?cat_id=10076*; *Xinhua*, "China Focus: Xi, Maduro Agree to Promote Sino-Venezuelan Ties to Higher Level," September 14, 2018; Embassy of the People's Republic of China in Costa Rica, *Costa Rica Signs with China the Belt and Road Initiative*, September 3, 2018; *CGTN*, "China, Djibouti Sign New Agreements under Belt and Road," September 2, 2018; Government of the Republic of Rwanda, *Rwanda and China Sign Multiple Agreements as President Xi Jinping Concludes His Visit*, July 23, 2018; Embassy of the People's Republic of China in New Zealand (Cook Islands, Niue), *China and Niue Sign Memorandum of Understanding on Cooperation within the Framework of the Silk Road and the 21st Century Maritime Silk Road*, July 27, 2018.

Addendum II: Select U.S. Firms Participating in BRI

Firm	Participation
AECOM (Engineering, procurement, and construction [EPC])	**Partnerships in EPC:** In May 2017, AECOM signed an MOU with Chinese construction 3D printing company WinSun. Under the agreement, the companies will explore opportunities to collaborate on 3D printing for building design and construction projects, particularly in the Middle East, for a three-year period.* In January 2018, AECOM was selected by China Communications Construction Company to provide site supervision services for the stations, viaducts, tunnels, and depots of the East Coast Rail Link project in Malaysia.
Black & Veatch (EPC)	**Partnerships in EPC:** In October 2017, Black & Veatch and China Tianchen Engineering Corporation (TCC) signed an MOU to cooperate on developing gas, chemical, and fertilizer infrastructure projects throughout Asia, including in Indonesia, Thailand, Vietnam, Singapore, Burma, Bangladesh, Pakistan, Kazakhstan, and Tajikistan.†
Caterpillar (EPC)	**Supplying construction machinery:** In 2016, Caterpillar released a white paper on its "vision and commitment for the shared success of [BRI]" in which the company outlined potential areas of cooperation with Chinese companies in BRI countries, including partnering on infrastructure projects and providing project finance. In September 2017 Caterpillar CEO Jim Umpleby said the company "[is] working with Chinese SOEs in 20 [BRI] countries on projects ranging from roads, ports, mines and oil fields." This includes supplying machinery, training, and maintenance services to China Communications Construction Company for the renovation of the Zhrobin-Bobruisk expressway in Belarus, which was completed in July 2016. In November 2017, Caterpillar and Chinese SOE China Energy Investment Corporation signed a five-year strategic cooperation framework agreement outlining future agreements for mining equipment sales and rentals, technology applications, and product support provided by Caterpillar. **Financing**: Caterpillar is providing project finance for Chinese companies to boost BRI sales, according to company executives. The company does not disclose data for such lending.
Fluor (EPC)	**Partnerships in EPC:** Lu Yaming, general manager of Fluor China, noted in a May 2017 interview with an energy industry publication that Fluor and a Chinese EPC company were recently awarded a project for a gas-fired power plant in the Middle East. "We're also working on a project in Indonesia that has been fueled by [BRI] and we have a number of very exciting prospects in the pipeline in other countries. All of these projects have Chinese investment or use Chinese financing," he said. Information on these projects is not available on the company's website or in other news reports.

*AECOM's move is part of a trend for large infrastructure firms to acquire specialist additive manufacturing technology. AECOM, "AECOM Signs Memorandum of Understanding with Winsun to Collaborate on 3D Printing for Building Design and Construction," May 18, 2017; Global Construction Review, "Aecom Forms Alliance with Chinese 3D Printer WinSun," May 19, 2017.

†TCC Vice President Deng Zhaojing said in the company's press release, "Black & Veach's reputation and experience in the global contracting and oil and gas sectors will help TCC create compelling international EPC solutions for our clients. This partnership is one that will allow us to continue to expand our operations in other parts of the world in line with China's One Belt, One Road Initiative." Black & Veatch, "Black & Veatch and China's TCC to Target Gas, Chemical and Fertilizer Projects," October 12, 2017.

Addendum II: Select U.S. Firms Participating in BRI–*Continued*

Firm	Participation
Honeywell (EPC)	**Partnerships in EPC:** In May 2017, Honeywell signed a partnership agreement with China's Wison Engineering Ltd. to jointly provide methanol-to-olefin technologies and EPC services to customers outside of China, particularly in countries included in BRI.*
General Electric (GE) (EPC)	**Supplying power equipment:** In 2016, GE received $2.3 billion in orders for natural gas turbines and other power equipment from Chinese EPC firms to install overseas, including in Pakistan, Bangladesh, Kenya, and Laos. In 2014, GE received $400 million in orders from Chinese firms for equipment to install overseas. According to GE China CEO Rachel Duan, "Africa is the market offering the greatest market potential for GE and Chinese EPC firms, followed by the Middle East, South Asia, Southeast Asia, and Latin America." **Financing:** In November 2017, GE Energy Financial Services and China's Silk Road Fund signed a cooperation agreement to launch an energy infrastructure investment platform to invest in power grid, renewable energy, and oil and gas infrastructure in BRI countries. Separately, Jay Ireland, CEO of GE Africa, said in 2016 that the company had set up a $1 billion infrastructure fund to help finance projects in Africa. According to Mr. Ireland, one-third of Chinese EPC companies' equipment orders with GE in 2016 were destined for projects in Africa.
Citigroup (Financial services)	**Financial services:** Citigroup provides a range of financial services (i.e., mergers and acquisitions, cash management, trade finance, and hedging) to Chinese firms and multinational corporations operating in 58 BRI countries. In June 2015, Bank of China launched the first public bond issue to fund BRI projects, raising $3.55 billion. Citigroup was one of four global financial services companies that led the deal alongside Bank of China. In April 2018, Citigroup signed MOUs with Bank of China and China Merchants Bank to strengthen cooperation on supporting clients' investments and projects related to BRI.
Goldman Sachs (Financial services)	**Financing:** In September 2016, Goldman Sachs—along with Bank of China, DBS Bank, and Standard Chartered—formed a working group to support the development of a standardized "Silk Road bond" that can be traded internationally to help BRI countries tap a wider source of funds.

Source: Various;[225] compiled by Commission staff.

*According to Honeywell's press release, "The agreement combines Honeywell UOP's advanced technologies with Wison's strong EPC service capability, allowing them to help customers further improve olefin production capacity while reducing energy consumption and production costs." Honeywell, "Wison Engineering to Collaborate with Honeywell UOP on International Methanol to Olefin Projects," May 25, 2017.

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