Gateway to the globe

China has a vastly ambitious plan to connect the world

What is behind the Belt and Road Initiative?

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GROWING up in a military dictatorship, Than Swe, a young member of Myanmar's business elite, saw the Western world as a protector and model. Even when Western governments imposed ever-tighter trade and travel bans to punish the junta that ran his country from 1988 to 2016, Mr Than Swe, along with many compatriots, saw them as upholders of a moral order. Some swagger about Western values could be grating. Visiting America as a teenager, Mr Than Swe remembers being congratulated on reaching a country with good human rights. But as an alternative to local despotism, the West offered hope.

"The people still think that the Western countries are the best," Mr Than Swe, who is 26, says softly, sitting in a university meeting room in the Chinese port city of Xiamen. As one of the 2.5% of Myanmarese who are ethnic-Chinese, though, he increasingly sees an alternative in investment and assistance from a rising China next door. To his dismay, many in his country disagree. He recalls how a proposal to build dams on the Irrawaddy river was blocked in 2011 amid angry protests about flooding villages and wrecking ecosystems to produce electricity for China, not Myanmar. China was likened to colonial powers that "just take everything and go".

After centuries of uneasy relations, imperial demands for tribute and occasional wars, much of Asia must now reckon with a giant Chinese neighbour that is much more than a trade partner. With wealth and success has come new confidence in a Chinese model and ambitions to share it.

Debate in Myanmar now focuses on plans for a $7.3bn deepwater port at Kyaukphyu on the Bay of Bengal and an adjoining special economic zone. Subsidiaries of CITIC, a state-owned Chinese conglomerate, are taking a 70% stake, and will run the port for half a century. If Kyaukphyu grows large enough to handle 4.9m containers a year, as CITIC hopes, it will match Felixstowe, Britain's largest container port—a startling transformation.

Harbouring ambitions

Western economists struggle to see what Myanmar gains from Kyaukphyu, which is far from the country's commercial capital, Yangon. They have no trouble seeing what China gets: an opening to the sea for its landlocked south-western province of Yunnan. It is already a terminal for oil and gas pipelines capable of bringing in an estimated 10% of China's energy imports, bypassing the Malacca Strait, a strategic choke-point near Singapore.

Foreign diplomats fret that China sees the port as a future haven for its warships. Sceptics in Myanmar shudder at the loans covering the government's 30% stake. They point to the precedent of Hambantota, a port built by China in Sri Lanka that passed into Chinese hands in 2017, along with 69 square kilometres of land, after the Sri Lankan government could not service debts incurred in its construction. Former Sri Lankan officials have told the *New York Times* of other, secret Chinese terms, for instance a demand to share intelligence about all traffic through the port.

The development at Kyaukphyu has been under discussion for years. But now the port, like all sorts of other projects, has been swept into China's sprawling, ambitious "Belt and Road Initiative" (BRI). According to official BRI announcements, Myanmar is one of many friends that lie on a "21st-Century Maritime Silk Road" linking China to far-flung markets and energy reserves from the Arctic to the Indian, Pacific and Atlantic oceans. This is the "road". The belt is the "Silk Road Economic Belt", connecting China overland with Europe, Africa and the Middle East with railways, highways and fibre-optic cables. The two were yoked together in a pair of speeches given by Xi Jinping, China's president and Communist Party chief, in 2013.

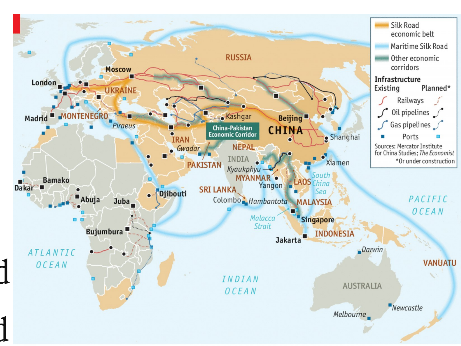
Some anxious diplomats and politicians call the BRI a master-plan aimed at turning Eurasian nations into tributary states, dependent on Chinese capital, criss-crossed with Chinese-owned railways, pipelines and roads, and increasingly bound by Chinese rules governing everything from trade to cyber-security. In October 2017 America's defence secretary, James Mattis, questioned the very idea of trade routes designed by one power. "In a globalised world", he said, "there are many belts and many roads." Visiting China in January, the French president, Emmanuel Macron, warned that a modern Silk Road could not be "one way".

Other ambassadors, political leaders and business bosses see something less grandiose. They think China wants to crate up and export surplus cement plants, steel mills and glass works built during years of stimulus spending and reassemble them abroad—along with pollution and greenhouse gases formerly belched into its skies. More obviously, the BRI has secured contracts for Chinese firms. The most cynical see a marketing exercise, rebranding everything that China does abroad under slogans that flatter Mr Xi's global pretensions.

Master-plan or marketing?

On one point all can agree. A lot of money stands behind talk of reviving the Silk Road for the age of the container ship. Add up official announcements on the BRI and they come to 100 Kyaukphyus, maybe more. In January Randal Phillips, a former CIA station chief in China, told the US-China Economic and Security Review Commission (USCC), a congressional body, of conversations in which Chinese officials compared the initiative to the Marshall Plan with which America funded the reconstruction of post-war Europe. Such claims command interest. A BRI forum in Beijing in 2017 drew over two dozen world leaders.

Much about the BRI is reasonable. After transforming China with high-speed rail lines, roads and electricity grids, the country's firms, many state owned, are ready to export their know-how. China has capital to spare, a need to develop its western hinterlands through connections to Eurasia and a desire for closer ties with the 14 countries with which it shares a land border.



The Economist

Other aspects are more troubling. The scheme is worryingly secretive. No definitive BRI map has been published. The scheme has expanded far beyond its original core of Eurasia and the Middle East, from New Zealand to the Arctic, Africa to Latin America and even outer space. Estimates of the BRI's total intended investment range from $1trn to $8trn. "Hardly a rounding error," notes Jonathan Hillman of the Reconnecting Asia Project, a database of transport and energy projects at the Centre for Strategic and International Studies (CSIS) in Washington, DC.

China does not systematically report lending overseas, which heightens the mystery and unease about goals that may stretch well beyond the economic. In Washington politicians, scholars, soldiers and spies are digging out works by Halford Mackinder, a British geographer who in 1904 argued that global power lies in control of the "Heartland", a pivot region between the Volga and the Yangzi that offers dominance over the "world island", the combined land mass of Europe, Asia and Africa. Mr Phillips told the USCC that the maritime Silk Road is "remarkably similar" to a document that the CIA acquired some 13 years ago, showing the desire of the People's Liberation Army to build a "string of pearls" of military bases far from its shores.

Some pearls would be very far-flung. A new Chinese wharf in the Pacific island of Vanuatu lies in Australia's South Pacific backyard, 1,900km from Brisbane. The terms of Vanuatu's contract with China are not reassuring. It shows a 15-year loan at 2.5% interest with the government-owned China ExIm Bank that can be called in, in full, in the event of non-payment.

Nadège Rolland, author of "China's Eurasian Century?", a book on the BRI, urges those who doubt China's ambitions to read the statements of Mr Xi and other leaders. If even some are sincere, she writes, they reveal a plan for "a risen China sitting at the heart of a Sinocentric regional order". Xiang Lanxin, director of the Centre of One Belt One Road and Eurasian Security, a Shanghai-based think-tank, agrees that the BRI embodies Chinese strategic goals, but says those goals are both clear and respectable. He sees a plan to rebalance China's exposure to the Pacific, by which he mostly means relations with America, by deepening ties with Eurasia. He concedes, though, that clumsy BRI propaganda has alarmed neighbours unnecessarily. When Chinese officials "say there is no geopolitics involved…that's not quite convincing, because it does involve geopolitics, everybody realises that," he says.

Tread softly

The BRI is also a soft-power scheme. Mr Than Swe is proof of that. He is one of 40 officials, military officers and "special foreign talents" from Indonesia, Myanmar, Sri Lanka, Thailand and Turkey enrolled in an 11-month course in Xiamen at Huaqiao University's new Maritime Silk Road Institute studying China's approach to globalisation. China picks up the tab.

Mr Than Swe says his year in Xiamen has changed him. He now sees China as a welcome alternative to a bossy and judgmental West. Events at home have contributed to this shift. After years of international sympathy, the people of Myanmar now face Western criticism for their country's treatment of the Rohingya, a minority whose presence Mr Than Swe blames on British colonial rulers.

Mr Than Swe's change of heart reveals one of China's strengths. It has a genius for befriending those in need of options. As elegantly catalogued by Andrew Small of the German Marshall Fund, a think-tank, sometimes that means pariah-states shunned for corruption or abusing human rights. Sometimes it means bad credit risks, with few other sources of capital. Sometimes it means those looking for a strategic alternative. Thus China woos South Asian nations that want a hedge against India, Central Asian governments that want to keep Russia at bay, and countries on the EU's southern and eastern fringes tired of nagging or cold-shouldering by Brussels.

Mr Than Swe is not the only student at the institute to praise China's reluctance to judge. After some kerfuffle involving his business card, and much scratching out of job titles, a second student, Kamal Bombugalage, concedes that he is a commodore in the Sri Lankan navy. He thanks China for support during his homeland's civil war, and for lending his country billions of dollars to build ports and industrial zones and for other schemes. He defends the development of Hambantota as a sound investment. Colonial powers looted Sri Lanka then left, he grumbles. In contrast China comes to trade and to build. A second Sri Lankan naval officer, Fred Seneviratne, chimes in. Western countries try to impose values by linking aid or loans to strict conditions. “If you compare that with China? No conditions,” he says approvingly.

Xu Peiyuan, a bustling, busy economist and the institute’s executive vice-president, talks up the BRI’s benefits. He quotes a soothing slogan from Mr Xi about China building a global “community of shared destiny and interest”. He also names some distinctly ideological choices that he hopes that BRI partners will make. These include treating all political systems as equal and shunning “colour revolutions”— jargon for pro-democracy movements that rocked such countries as Iran and Ukraine.

Asked if the BRI promotes Chinese governance, the students enthusiastically agree. “It will introduce a new model to the world. And we are ready to accept that,” says Commodore Seneviratne. Five years into its existence, others are warier—because of politics, and because of debt.

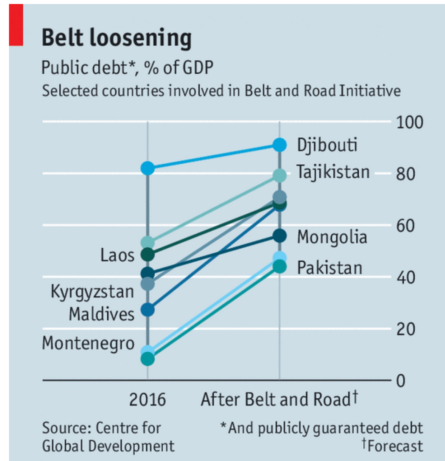
BRIng it on

Start with the money. It can be hard to grasp the aggregate numbers around BRI, as hundred-billion dollar announcements blur one into the next, but nobody doubts that huge investments are needed. The Asian Development Bank, a multilateral organisation, estimates that the continent requires $26trn in infrastructure investment between 2017 and 2030 to maintain today’s growth rates and adapt to climate change. Set against those numbers, the size of Chinese investment does not in itself signal a plan for global domination.

Where the BRI causes angst is in its effect on the most vulnerable countries. In March the Centre for Global Development, a think-tank, published a paper naming eight countries at high risk of debt distress thanks to BRI-related lending (see chart). A motorway represents over a quarter of Montenegro’s annual GDP. A China-Laos railway, begun in 2016, could cost the equivalent of almost half Laos’s GDP.

These loans are not charity. The AidData project at the College of William & Mary, in Virginia in the

United States, tracked $354bn in Chinese overseas lending in 2000-14. About three-quarters of the loans were at commercial interest rates. Officials of the Trump administration have called some Chinese loans "predatory". In a speech in Beijing in April Christine Lagarde, the boss of the IMF, raised concerns about problematic debt and urged China to ensure that "the Belt and Road only travels where it is needed."



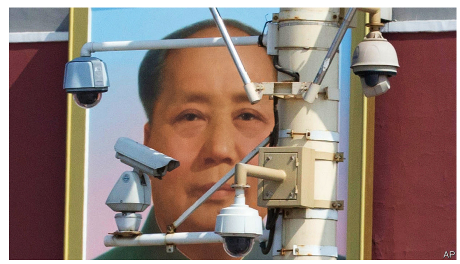
The Economist

Needed or not, there are places where BRI has been rejected. Fears of indebtedness and rows over murky payments have led to Chinese-funded projects being cancelled, suspended or referred to anti-corruption watchdogs for review in Nepal, Myanmar and most dramatically in Malaysia. There a recent election saw the incoming government of Mahathir Mohamad suspend BRI projects agreed on by his predecessor. These include a 700km high-speed railway line and oil pipelines worth a total of $20bn. In Pakistan, a longtime friend of China and home to the largest single BRI project, the China-Pakistan Economic Corridor (CPEC), projects have been curtailed, as officials reportedly sought more Chinese lending in recent months, to avoid having to turn to the IMF.

In Sri Lanka rows about China's influence in domestic politics helped topple a government. Even Commodore Bombugalage is disappointed that China's focus on infrastructure led to the building, near Hambantota, of a cricket ground and a little-used airport in the home district of a former president, whose election campaign also benefited from China's largesse. He would like "two or three universities" instead of such white elephants, so Sri Lankans can build a knowledge-based economy: "Otherwise it is not sustainable."

As well as helping favoured locals, projects also help Chinese firms. Using data which, because there is no firm definition of BRI projects, include all known Chinese-funded transport projects in 69 Eurasian countries, the Reconnecting Asia project at CSIS has found a dramatic difference between those funded by Chinese policy banks and state-run funds, and those financed by multilateral development banks. When projects were Chinese funded, CSIS found that 89% of contractors were Chinese companies. In contrast, when projects were funded by multilateral organisations, four in ten contractors were local, less than a third were Chinese and the rest came from third countries.

China did not invent tied aid. Still, the gap between Chinese rhetoric about "community and shared destiny" and projects full of Chinese workers paid for by host-government debt raises hackles.



Also available for export

China knows that it needs to clean up its image. In meetings with Western leaders, Chinese leaders have begun downplaying their ambitions for global expansion. In 2014 China invited foreign governments to join a new Asian Infrastructure Investment Bank, a multilateral lender based in Beijing that won praise for following international norms on everything from public tendering to environmental standards. Alas, the lender has kept its distance from the BRI, its squeaky-clean reputation thereby fuelling, rather than defusing, suspicions. In July the *Financial Times* reported that the China Development Bank, a BRI mainstay, is "actively co-operating" with Western institutions on joint-lending subject to international rules.

David Dollar, who served as the American Treasury's chief envoy to China in 2009-13, sees a logic to some increased lending. "A lot of countries are running trade surpluses with China because they are selling [the Chinese] natural resources. So borrowing from China makes sense." If the BRI is about building infrastructure and exporting surplus capacity, China will grow more cautious about lending to bad risks. But, "If this is primarily geostrategic, then [China] will be willing to take losses," says Mr Dollar, now at the Brookings Institution, a think-tank in Washington.

The road to empire

In truth, there has never been a neat division between the power that allows a country to open and maintain trade routes and the clout that builds empires. The term “Silk Road”, much beloved of Chinese leaders, was coined in 1877 by a German geographer, Ferdinand von Richthofen (uncle of the “Red Baron”) to describe a skein of ancient trading routes which blended commerce, diplomacy and hard power. Chinese silk was popular in Rome by the time of Julius Caesar. It frequently started its travels as gifts from Chinese rulers to vassal states, before being traded by middlemen from places like India or Parthia, in modern-day Iran. Some trade routes were protected by Chinese garrisons.

Silk Road, iron fist

Chinese leaders have drawn explicit links between national security and BRI infrastructure projects, according to a study by Peter Cai of the Lowy Institute, an Australian think-tank. The study also notes the BRI’s role in developing China’s west, including the restive region of Xinjiang, where millions of Muslims from the Uighur minority live under harsh repression. Mr Cai quotes Lu Shulin, a former Chinese ambassador to Pakistan, calling improved transport links with Xinjiang “the best medicine” for the real cause of terrorism, “namely poverty”. The huge CPEC is designed to connect Xinjiang to the Pakistani port of Gwadar.

That there should be more than one objective is natural. But some people would be happier if those objectives were open to scrutiny. European diplomats in Beijing note that China calls the BRI an open, multilateral “platform”, but built it by pressing bilateral memorandums of understanding on 60 or 70 countries—though envoys report that Chinese leaders recently stopped urging other governments to sign such documents, after several western European countries refused. Those countries that did sign are hailed as members of the initiative. “But members of what? There is no founding charter, there are no declarations of principles, everything is defined in Beijing,” a European diplomat says.

The EU has urged China to put rules on transparency, labour standards, debt sustainability, open procurement processes and the environment at the heart of the BRI. Money spent building coal-fired power stations, notably in Pakistan, is a particular concern. In April *Handelsblatt*, a German newspaper, revealed that 27 out of 28 EU ambassadors in Beijing had signed a report calling the BRI a challenge to free-trade rules and a boon to subsidised Chinese companies. Illiberal Hungary balked.

Watching China tempt selected European nations with infrastructure schemes, and lucrative shipping flows to chosen ports, leads some European politicians to see the BRI as a plot to divide the EU. Greece, which sold a majority stake in its main port of Piraeus to COSCO, a Chinese shipping giant, for €281m ($312.5m) in 2016, has blocked the EU from taking unified positions on Chinese garrison-building in the South China Sea and on tougher screening of its investments. The European diplomat, though, sees an attempt to bend Europe to China's will, not break it. Unlike Russia, China doesn't have an interest in seeing the EU disintegrate, he says.

China does not just cause alarm by playing on and exacerbating divisions. Its creation of connections is disturbing, too. Western diplomats and business leaders see China challenging the West's near-monopoly in setting standards—the common technical rules that permit high-speed trains, mobile communications or financial payments to flash across continents. China will increasingly write such standards. It will also write trading rules that suit its state-led economy, at first supplementing rather than replacing those of the World Trade Organisation.

Making Xi Jinping's dream come true

Some see such ambitions in the arbitration courts China is setting up to hear cross-border BRI disputes, a move that has set alarms jangling in Washington, Brussels and other capitals. UnionPay, a Chinese rival to Visa and MasterCard, is using the BRI to help its ambitious push into the African payment and debitcard market. Other African infrastructure works have been rebranded as BRI schemes, though they were first planned years ago.

No foreign government is suggesting that China should remain a rule-taker forever. Ordinary Chinese are justly proud of what the BRI symbolises—a chance to share Chinese expertise with the world. Just ask the domestic tourists who throng Xiamen, a wealthy port city of 3.5m people. Fujian, the province in which it sits, has been a trading hub since Arab dhows and Song dynasty junks ferried fragrant hardwoods, tea and porcelain to and from its ports. The province is the ancestral homeland of most of the world's *huaqiao*, or overseas Chinese.

During the late Qing dynasty, European gunboats opened Xiamen to foreigners as a treaty port. An island filled with the colonnaded 19th-century houses of Western merchants and consuls draws millions of Chinese tourists annually. A museum records how Xiamen was connected to the world by Danish telegraph engineers. A customs service was run by British inspectors. Today Xiamen's relations with the world are reversed. The city is officially a "core" province for the Maritime Silk Road. It plans to export technology and train foreign officials. One Chinese speciality is cyber-security software that critics call "autocracy in a box". Ru Peng, director of the Xiamen Municipal Development and Reform Commission and head of its BRI office, hails Meiya Pico, a local information-security firm whose gadgets allow police and security services to break passwords. Meiya Pico exports its kit worldwide, and trains foreign police for such BRI countries as Myanmar, Laos and Vietnam.

Belt driven

The BRI is not yet a frontal challenge to the rules-based liberal order. It is a test of it. Sooner or later the BRI will need non-Chinese money, providing outsiders with bargaining power. Western governments can work within the BRI to make it more benign. After all, several of them once led high-handed campaigns to open markets in far-off lands by working in cahoots with pliant local despots, only to learn hard lessons about colonial hubris. Or the West can compete, selling the merits of a modernised Western way. The West must do more than nag poorer nations not to take Chinese money. At a minimum they should help BRI countries assess schemes and show them how to gain from transparency, high standards and formal contracts. If the West fears a Chinese-led order, its governments have choices. There is no reason why China's entangling belts and roads should be the world's only option.

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