

# SPECIAL REPORT

A S P I

**Too big to ignore:**  
Assessing the strategic implications of  
China's Belt and Road Initiative



James Bowen

August 2018

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AUSTRALIAN  
STRATEGIC  
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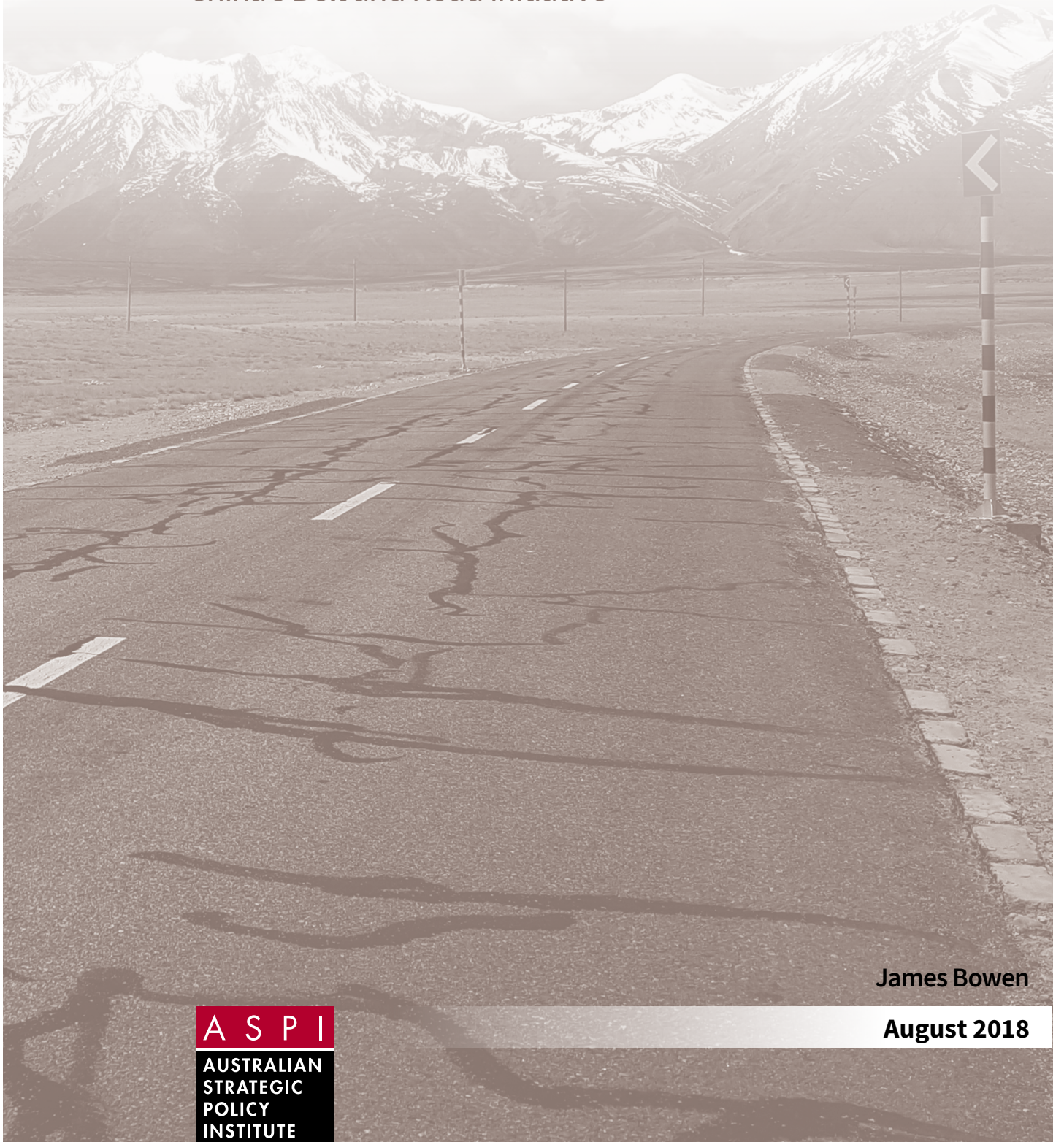
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# INTRODUCTION

First articulated by Chinese President Xi Jinping five years ago,<sup>1</sup> the Belt and Road Initiative (BRI) is, on the surface, a vision for massively enhanced regional and global economic integration, with China at the centre of activity and providing its initial finance.

The plan's land-based 'belt' stretches from China's western periphery through Central and Western Asia and on to the valuable markets of Europe. Its maritime 'road' of shipping routes and ports, pipelines and other developments passes through South and Southeast Asia, the Middle East and Africa before also reaching Europe.

Planned activity is concentrated in six corridors (see Figure 1) and encompasses five goals: policy coordination; connectivity of infrastructure and facilities; unimpeded trade; financial integration; and closer people-to-people ties.<sup>2</sup> China now counts more than 80 countries as formal participants, including those as far-flung as South Africa and Panama, which have signed partnering agreements, alongside a number of international institutions.<sup>3</sup>

Figure 1: The six BRI economic corridors

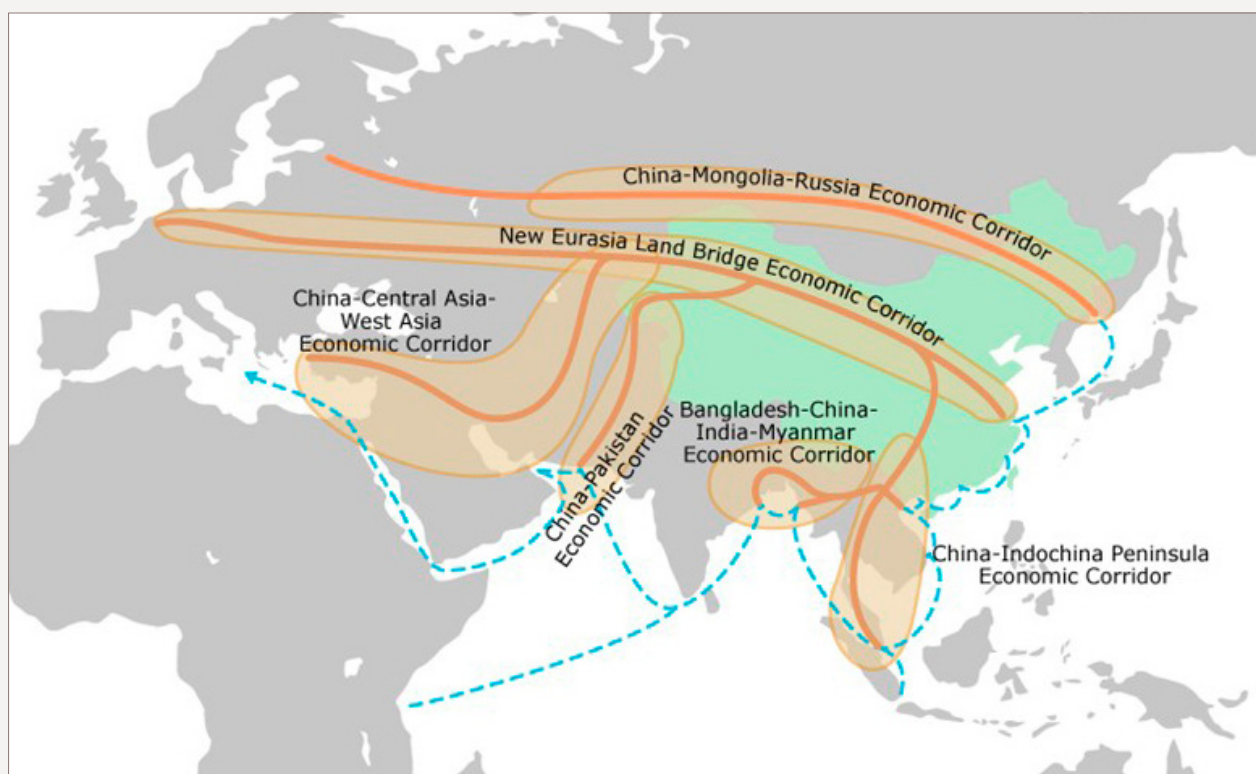


Image source: HKTDC Research, [online](#).

The most visible feature of the BRI is expected to be a network of physical and digital infrastructure servicing transport, energy transmission, communications and other avenues of connection and development potentially worth more than a trillion dollars,<sup>4</sup> although, as this report outlines, there are legitimate doubts about whether much of that might be realised.

In recent years, the BRI has become increasingly centralised in Chinese Communist Party (CCP) planning, in which policy decisions on trade and investment are typically couched in terms of their level of BRI harmonisation, including during China's international diplomatic efforts.

The culmination of this centralising process was the BRI's insertion into the CCP charter at the party's 19th Congress in October 2017.<sup>5</sup> In his landmark report to the congress, Xi Jinping committed to pursuing it as a priority and said he hoped to 'make new ground in opening China further through links running eastward and westward, across land and over sea'.<sup>6</sup>

Despite that promise, the fact that the BRI represents an overarching vision not only for the development of China but for much of the globe has led many analysts in foreign governmental, policy and academic spheres to view it with caution, if not outright alarm.

While substantial criticism focuses on the BRI's capacities for increasing debt loads among developing countries, many observers, including in Australia, ultimately see it as a means for the Chinese state to advance its strategic, political and economic influence at the expense of other states' interests. One element of this is the CCP's drive to reduce the role of the US and its alliance and security partners in the Indo-Pacific region and beyond.<sup>7</sup>

Given the divergent orientations of the Chinese and American systems of governance, such an eventuality might challenge not only relative balances of power, but the liberal internationalist system of international relations that the US has helped forge and protect since 1945.

The current Australian Government hasn't typically voiced such concerns so explicitly, although Canberra's 2017 Foreign Policy White Paper did warn that trade, investment and infrastructure development in the Indo-Pacific region were being 'used as instruments to build strategic influence, as well as to bring commercial advantage'.<sup>8</sup> It noted that, while the pursuit of closer economic relations between countries had previously often diluted strategic rivalries, current geo-economic competition could instead accentuate them.

Canberra has nonetheless taken some initial steps to engage with the BRI (Table 1), including through a memorandum of understanding with Beijing that seeks to give Australian companies access to opportunities in formally participating countries. Unlike nearby nations, such as Papua New Guinea, Singapore and New Zealand, it has forgone any formal alignment of national economic priorities. This includes rejecting a suggested direct connection to the Developing Northern Australia economic agenda, which similarly focuses on trade- and investment-boosting infrastructure and policy development.

Table 1: Timeline of Australian BRI engagement

<b>November 2014</b>	Chinese President Xi Jinping addresses the Australian Parliament and speaks of Oceania as a 'natural extension of the ancient maritime Silk Road'. <sup>a</sup>
<b>May 2016</b>	Xi calls for the alignment of the BRI with Australia's Developing Northern Australia plan. <sup>b</sup>
<b>March 2017</b>	Australia reportedly rejects the Northern Australia connection ahead of an Australian visit by Chinese Premier Li Keqiang. <sup>c</sup>
<b>March 2017</b>	New Zealand signs a cooperation agreement with China on the BRI—the first Western nation to do so. <sup>d</sup>
<b>May 2017</b>	Trade, Tourism and Investment Minister Steven Ciobo and other Australian federal and state representatives attend the international BRI Forum in Beijing.
<b>September 2017</b>	At the bilateral Strategic Economic Dialogue, Ciobo discusses closer Australia–China engagement on trade and infrastructure investment opportunities with Hi Lifeng, Chairman of the lead BRI agency, the National Development and Reform Commission. <sup>e</sup>
<b>September 2017</b>	Australia signs a memorandum of understanding with China on cooperating with Australian companies in third-party BRI countries. <sup>f</sup>
<b>February 2018</b>	Anonymous US official reports that Australia plans to work on a BRI alternative with US, India and Japan. <sup>g</sup>
<b>March 2018</b>	Announcement of ASEAN–Australia Infrastructure Cooperation Initiative. <sup>h</sup>

a Xi Jinping, Speech to the Parliament of Australia, *Hansard*, 17 November 2014, [online](#).

b 'China, Australia seek to make bigger "cake" of shared interest', *Xinhua*, 15 April 2016, [online](#).

c J Laurenceson, S van Nieuwenhuizen, E Collinson, *Decision time: Australia's engagement with China's Belt and Road Initiative*, Australia China Relations Institute, November 2017, [online](#).

d Governments of China and New Zealand, 'Memorandum of Arrangement on Strengthening Cooperation on the Belt and Road Initiative between the Government of the People's Republic of China and the Government of New Zealand', 31 March 2017, [online](#).

e Email correspondence with Department of Foreign Affairs and Trade spokesperson, 4 January 2018.

f J Laurenceson et al., *Decision time: Australia's engagement with China's Belt and Road Initiative*.

g P Coorey, 'Australia mulls rival to China's "belt and road"' with US, Japan, India', *Australian Financial Review*, 18 February 2018, [online](#).

h G Earl, 'Australia joins infrastructure game with alternative to China's "Belt and Road"', *Financial Review*, 18 March 2018, [online](#).

While this report doesn't discount the potential for significant economic benefits to be derived from countries choosing to embrace the BRI, including Australia, it's primarily concerned with further demystifying Beijing's major motivations for enacting such a broad agenda, and the implications they have for China and its wider region.

Although many of these factors have been studied in depth before now, they still appear poorly understood, or elided, by some sectors of the Australian community. For example, a September 2017 speech to the Asia Society by Shadow Treasurer Chris Bowen was criticised for failing to take stock of any national security concerns, while otherwise pledging that, if Labor won the next federal election, it would come to power with:

an open mind as to how Australia and China can best collaborate on the Belt and Road Initiative, with a clear eyed approach to our respective national interests. We will examine proposals on a case by case basis including considering how the Northern Australia Infrastructure Facility [a funding arm of Developing Northern Australia] and the Belt and Road Initiative can best complement each other.<sup>9</sup>

There is a great and continuing need to continually question conceptions of the BRI that may be overly informed by Beijing. This is particularly so, given that the agenda is supported by a network of supportive think tanks and promotional bodies designed to advance international involvement.<sup>10</sup> Moreover, recent controversies about the prevalence of pro-China influence campaigns in Australia and elsewhere can't be separated from this issue.

As well as seeking to illuminate the geo-economic and geostrategic logic of the BRI, this report looks to assess the soundness of China's planning. This includes outlining the many challenges that the plan currently faces, as well as some of implications of current and mooted future responses by countries, such as Australia, that hold concerns about the agenda. These will be critical factors in informing future policy for all concerned.



# MOTIVATIONS AND MACHINATIONS

CCP pronouncements on the ultimate motivations for the BRI typically attribute an altruistic nature to the plan. Xi Jinping, for example, often describes it as a ‘road for peace’ and as advancing a spirit of ‘win–win cooperation’.<sup>11</sup>

Beijing rejects alternative conceptions of its agenda as incommensurately benefiting Chinese interests. This fits with the CCP’s wider criticism of what it often calls a ‘Cold War mentality’ that sees policymakers in the West inevitably view relations with Beijing through the lens of great-power contestation.

For example, Chinese Foreign Minister Wang Yi rejects repeated comparisons of the BRI to the Marshall Plan, which the US implemented to rebuild Europe in the wake of World War II. According to Wang, because the BRI is ‘born in the era of globalisation’, it’s ‘not a tool of geopolitics’.<sup>12</sup>

Yet, a comparison of the two plans ultimately seems to highlight the BRI’s sense of self-serving nationalism rather than revealing its generous internationalism. Where the Marshall Plan was composed of almost 90% aid the BRI is at present primarily financed by Chinese loans from institutions including policy banks, the Asian Infrastructure Investment Bank and Silk Road Fund. Those loans are firmly expected to either be repaid, or, as this report outlines below, result in some other strategic gains for China.

Another point of contrast with the Marshall Plan is the scale of the BRI, the wide-ranging intentions of which are estimated to be worth about twelve times as much as the US vision and to take in about 65% of the world’s people, a third of its GDP and a quarter of its trade.<sup>13</sup> The BRI thus has the potential to be far more transformative—a fact that applies equally whether the plan is assessed as likely to have a negative or more positive net impact.

The similarities between the two plans are starkest in their ultimate potential for advancing the interests of those states that developed them. In this respect, what the official Chinese rejection of the historical example wishes most to avoid is the way in which the American-led campaign in Europe not only helped to rebuild the continent’s economy, but also to deepen its trade and investment ties with Washington, defend it against Soviet expansion, and protect many of its countries’ liberal democracies.<sup>14</sup>

Yet an objective analysis of the BRI similarly reveals an agenda in which the economic and strategic elements, and subsequent repercussions and policy implications, are similarly not easily separated. They’re instead the intertwined double-helix of its DNA, supporting, at the most fundamental level, a geo-economic and geostrategic code for consolidating the power and influence of the CCP at home and abroad.

Despite its ostensibly globalised considerations, the BRI is intimately tied to Xi Jinping’s nationalist program of regional and global rejuvenation known as the ‘China Dream’. This extends even to the BRI’s allusions to restoring the ancient Silk Road trading routes. Those routes were also revived and expanded during the Tang Dynasty, the so-called ‘golden age of Chinese civilisation’, and, it bears noting, often by force.<sup>15</sup>

Reflecting more recent history, the BRI is a potential tool for alleviating Xi's and the CCP's anxiety over recent popular uprisings, such as those in the Middle East and Eastern Europe, China's own experiences of internal turmoil and fragmentation, and the structural causes of regime collapse in the Soviet Union and other authoritarian regimes.<sup>16</sup>

Looking to the future, the BRI has a decades-long time frame stretching out to the envisioned 2050 culmination of the China Dream.<sup>17</sup> It incorporates actions aimed at achieving set targets within that time, including the so-called 'two centenary goals' of a moderately prosperous Chinese society by 2020 and an essentially fully developed one by 2035.<sup>18</sup>

First and foremost, the BRI suggests a new economic model that might aid in China's attempts to escape the so-called 'middle income trap', which has prevented other previously impoverished states from becoming truly developed.<sup>19</sup> The country's slowing annual GDP growth—down from 14% in 2007 to 6.9% in 2017<sup>20</sup>—points both to changes already underway in this regard and to the expedience of further action, as the CCP's legitimacy in the past few decades has been derived largely from those more rapid gains.

Efforts to achieve this transition include those aimed at increasing global opportunities for China's advanced manufacturing and innovation-based companies, which align with the Made in China 2025 industrial development strategy and also serve as an extension of Beijing's Go Global policy of the 1990s.<sup>21</sup>

These types of goals, Beijing expects, will be achieved by a system of interconnectivity of both assets and policy, allowing for the achievement of the export of Chinese standards, increased internationalisation of the renminbi and creation of cost-saving synergies through greater control of supply-chain assets such as ports and industrial parks.

Another major, and related, aim is the alleviation of a troublesome legacy of the financial stimulus that Beijing enacted in response to the global financial crisis of 2007–08: a massive excess capacity in construction and other industrial sectors. If left to stand, this surplus threatens the viability of many Chinese firms and greatly increases levels of risk in the country's financial system.<sup>22</sup>

The BRI is also, and not insignificantly, concerned with guaranteeing access to the resources necessary to power China's ongoing growth and development through the creation of, and often control over, supporting infrastructure and trading routes. This includes securing sufficient energy supplies through the alleviation of what Chinese leader Hu Jintao termed the 'Malacca dilemma'—named for the strait through which more than 80% of Chinese oil imports pass, which remains prone to piracy and the threat of foreign military blockade in the event of conflict.<sup>23</sup>

It isn't difficult to assess this type of activity as incommensurately serving Chinese aims.

As the Lowy Institute's Peter Cai notes, Beijing's intentions for excess capacity are 'less about boosting exports of products such as steel and more about moving the excess production capacity out of China'.<sup>24</sup> Loans provided to BRI countries for new infrastructure are also typically predicated on contracts being awarded to Chinese companies.<sup>25</sup>

Recent opposition to Chinese trade practices has focused intensely on the pitfalls of the BRI-linked Made in China 2025 policy. A recent report from the Office of the US Trade Representative highlighted complaints about the policy's goal of 70% 'self-sufficiency', which is seen as violating World Trade Organization rules on technology quotas.<sup>26</sup>

Yet these geo-economic considerations aren't the end goal. In keeping with the longer term ambition of the China Dream, the overall strategy is ultimately the restoration of a Chinese state that, like the dynastic empires of the ancient Silk Road, is master of its own destiny in its region and potentially globally.

The CCP's intentions in this respect were again captured in Xi's report to the 19th Congress, in which he referred to the Chinese state as a 'great' or 'strong' power no fewer than 26 times and unreservedly celebrated recent assertiveness such as the militarisation of South China Sea geographical features as decisive victories for both the party and the country.<sup>27</sup>

The continued rollout of the BRI also comes at the same time as the Chinese state has launched its second, and first domestically built, aircraft carrier, seeking to further project power and close the gap with its military rivals, and goes so far in its efforts to control its external environment as to demand that foreign companies seeking to service its market cease referring to Taiwan as an independent country.<sup>28</sup>

The expected grand pay-off of the BRI is ultimately no different from that of much recent Chinese foreign policy: consolidating power and influence in the face of what Beijing sees as a formidable US effort to ‘isolate, contain, diminish, internally divide and sabotage its leadership’, as a memorandum reportedly circulated to CCP leadership in 2014 put it.<sup>29</sup>

The key is considered to be the building of more influence over demographics and geographies less touched by Washington and forging closer links to Europe in particular, as a new source of growth, development and international legitimacy.

Such a vision was first encapsulated in a 2012 *Global Times* article by Beijing University’s Wang Jisi, which encouraged China to ‘march west’<sup>30</sup> into areas of Central and Western Asia and onward towards the European continent, in an acknowledgment that it’s been effectively hemmed in by the far greater US presence in East and Southeast Asia.

The allure of such a strategy grew as the US looked to focus renewed attention on China’s broader region through the so-called ‘pivot to Asia’ of the Barack Obama presidency. This American action also consisted of both geostrategic and geo-economic elements, such as an increased US military posture, including the deployment of troops to Darwin, and attempts to conclude the Trans-Pacific Partnership trade deal with 11 other countries, not including China.

As Brookings scholar Yun Sun explains, the ‘march west’ strategy doesn’t entail neglecting areas to the east and further within Australia’s own neighbourhood. Indeed, as Table 2, illustrating regional overlap in economic and political arrangements, outlines, the BRI is intimately tied to the Indo-Pacific and relationships therein.<sup>31</sup>

Table 2: Regional economic overlap

Country	Belt and Road Initiative	Top 10 Australian trading partners	Top 10 Australian investors	Trans-Pacific Partnership	Regional Comprehensive Economic Partnership	ASEAN member	Asia-Pacific Economic Cooperation
Australia				✓	✓		✓
Brunei	✓			✓	✓	✓	✓
Cambodia	✓				✓	✓	
China	✓	✓	✓		✓		✓
Indonesia	✓				✓	✓	✓
India	✓	✓			✓		
Japan		✓	✓	✓	✓		✓
Laos	✓				✓	✓	
Malaysia	✓			✓	✓	✓	✓
Myanmar	✓				✓	✓	
New Zealand	✓	✓		✓	✓		✓
Philippines	✓				✓	✓	✓
South Korea	✓	✓			✓		✓
Singapore	✓	✓	✓	✓	✓		✓
Thailand	✓	✓			✓	✓	✓
Vietnam	✓			✓	✓	✓	✓

The plan instead seeks to avoid what Beijing considers zero-sum confrontation with Washington in these areas while seeking to amass greater economic, political and military power elsewhere as part of a broader, globally focused vision.<sup>32</sup>

Bearing the above considerations in mind, perhaps the best example of the agenda’s various strands of economic and strategic, domestic and international elements coming together, and the ultimate repercussions of that for other countries, can be found in the BRI’s response to the problem of regional economic inequality.

This is indeed a real concern. A 2016 study found that China’s provinces were diverging into two groups of high and low income: the seven eastern coastal provinces and Inner Mongolia are in the former group, and the remainder of the provinces are in the latter.<sup>33</sup> This inequality also extends to the international level, as countries on China’s periphery, save those to the east, such as Japan and South Korea, are typically far less developed than it is.

Those poorer areas inevitably pose stern challenges to the power and influence of the CCP and the Chinese state. Insufficient consumer demand and economic connectivity endangers Beijing’s new model of consumption-based growth at home and the related goal of sending higher-end exports abroad. In the case of China’s Xinjiang Province and the sovereign nations to its west, impoverished areas also sustain restive, largely Muslim populations, which the government sees as threatening security and political cohesion.

The chosen response is ostensibly to extend economic opportunity that would otherwise prove elusive, including, for example, through the China–Pakistan Economic Corridor from Xinjiang’s Kasghar to Pakistan’s port of Gwadar.<sup>34</sup>

Yet, in doing so, the BRI also consolidates Beijing’s strategic command of those areas. For example, a more pronounced state presence in Xinjiang through BRI activity has coincided with a more intense program of political surveillance and suppression of the Uyghur population. In August 2018, a UN Human Rights Committee noted reports of mass detention of ethnic Uyghurs and other Turkic Muslim minorities, and estimated that upwards of a million people were being held in so-called counter-extremism centres and another two million had been forced into ‘re-education camps’ for political and cultural indoctrination.<sup>35</sup>

On the international front, meanwhile, many analysts hold concerns that Beijing’s influence over facilities at Gwadar is seeing those facilities evolve into a Chinese naval base that’s strategically located on the Indian Ocean and near vital supplies of Middle Eastern oil.<sup>36</sup>

This corresponding ability for the Chinese state to project more military power through the BRI represents perhaps the gravest fear for defenders of the long-existing strategic environment of the Indo-Pacific region and the broader global system in the post-World War II era, with Australia prime among them.

Beijing’s willingness to increase its global power projection is already clear to see in its ongoing militarisation of the South China Sea. Last year, it also unveiled what Washington considered to be its first *bona fide* overseas military base, in Djibouti.

Policymakers must remain vigilant of other, less obvious forms of Chinese power and influence potentially won through actions linked to the BRI.

One such potential issue is the large number of bystanders, new supporters and promoters that Beijing may be able to persuade to support its foreign policy in return for increased economic custom (stealthier means of influence are outlined below). At the very least, this might entail more China-favouring positions being advanced in multilateral forums.

Indeed, there’s already some evidence of China’s increasing international political weight playing a key role in advancing the promotion of the BRI itself, as UN officials all the way up to Secretary-General António Guterres are now talking up the agenda’s merits to foreign governments and institutions, particularly in the developing world.<sup>37</sup>

An analysis of the top 10 recipients of BRI funding so far reveals that only one, India, is rated as ‘free’ in the latest Freedom in the World Survey from Freedom House.<sup>38</sup>

Perhaps not coincidentally to its political orientation, India is also broadly opposed to the BRI in its totality, even as India’s geographical territory is frequently included in China’s plans and it has benefited from funding linked to the plan.

It’s also of interest that the Chinese state’s increasing promotion of the merits of involvement in the BRI has come at the same time as Xi Jinping has consistently celebrated the benefits of Chinese-style authoritarian economic and social development, particularly when speaking to the governments of the world’s poorer countries.<sup>39</sup>

This comes at the same time as he proselytises for the benefits of free trade and other aspects of globalisation, as in a 2017 speech to the World Economic Forum,<sup>40</sup> and promises to open up China’s economy to foreign interests, as at this year’s Boao Forum,<sup>41</sup> while pursuing the opposite direction by tightening controls on intellectual property and strategic sectors.

What must further figure in policymakers’ considerations is the way in which, in addition to the BRI’s pursuit of legitimate, economically sound investment opportunities, China may be advancing the strategic goals of the plan through more insidious means, including the practice of so-called ‘debt trap diplomacy’, which refers to Beijing’s ability to exact political concessions from countries that are unable to repay loans.<sup>42</sup> It finds one of its best

illustrations in the case of Sri Lanka. In December 2017, Sri Lankan officials handed a Chinese state-owned entity control of the BRI-linked port of Hambanota on a 99-year lease. This was in return for relief of US\$1.1 billion from a total of US\$8 billion debt that the country owed Chinese firms.

The port is a strategically located asset on the Indian Ocean, and its handover is seen as infringing on the political and economic sphere of India.<sup>43</sup> Recall China's focus on energy security: Hambanota is also already the planned site of a Chinese-controlled liquefied natural gas terminal.

The potential for further cases of this nature linked to the BRI can't be discounted. A recent Center on Global Development analysis identified eight of 68 countries—Pakistan, Djibouti, Maldives, Laos, Mongolia, Montenegro, Tajikistan and Kyrgyzstan—as potential BRI borrowers at particular risk of debt distress, and many more of significant concern.<sup>44</sup>

Large parts of the BRI network are characterised by highly risky economic propositions. Two-thirds of its member countries are reported to have sovereign debt ratings below investment grade, and many have economies smaller than those of China's larger provinces.<sup>45</sup>

While Beijing largely claims to be on an altruistic mission to invest in otherwise ignored prospects, there's another, more troubling, possibility: that, acting on CCP instruction, Chinese interests might not only be downplaying poor business cases of potential investments, but are attracted to those that will provide the best chances of exploitation.

If that indeed were true, it would nonetheless be a risky consideration for all involved, considering the Chinese economy and its constituent parts are themselves saddled with a credit-to-GDP ratio which the International Monetary Fund has described as 'consistent with a high probability of financial distress'.<sup>46</sup>

Bearing this in mind, there does seem to have been a growing CCP realisation of the dangers of capital flight, as the level of China's year-on-year outbound direct investment fell for the first time in 2017 by the not insignificant proportion of 29.4%.<sup>47</sup>

However, that was also accompanied by a move to more strategically focused outcomes, which saw the BRI's level of investment remaining essentially unchanged, meaning that its share of outbound direct investment increased 3.5 percentage points to 12% during the same period.<sup>48</sup>

Regardless, recent events in Sri Lanka and other indebted countries certainly cast a shadow over Australia's own region, even in areas not currently officially attached to the BRI. As a report for the US State Department provided to Australian media in May 2018 outlined, China has similarly increased the debt loads of many smaller island nations in its Pacific backyard and its subsequent political influence over them.<sup>49</sup> This trend even provoked recent, Canberra-troubling, speculation that Beijing might look to build a future military base on Vanuatu.<sup>50</sup>

Infrastructure-related BRI concerns also seem to justify those who preached caution in the light of the 99-year lease of Australia's port of Darwin to Chinese-owned Landbridge, which allegedly has links to the CCP and even the People's Liberation Army. The deal, facilitated by the territory government and approved by the Department of Defence, drew heavy criticism in 2015 from Washington, which had staged troops at the port.

The Darwin affair did at least highlight a need for new safeguards against ongoing Chinese interest, or any other foreign interest for that matter, in Australian strategic assets, including a requirement for Foreign Investment Review Board sign-off on any sale of critical state or territory infrastructure valued at more than \$250 million.<sup>51</sup>

Yet the deal also raised questions about what other potential back doors might be left open to outcomes, possibly linked to the BRI, that might ultimately erode Australia's sovereignty and strategic environment, particularly where there are schisms between state and federal, and private and public, decision-making processes. For example, the enthusiasm with which some in the national business community have greeted the BRI has led to at least one call, from former Australia-China Business Council president Duncan Calder, to circumvent Canberra and its concerns in seeking greater engagement with the plan.<sup>52</sup>

# COOPERATION OR COMPETITION?

Clearly, there are some strongly China-serving reasons for Beijing to seek to enact the BRI. There are also some complex and seemingly well-considered responses to them, but that's no guarantee that they'll be used.

What must also be given ample consideration is the extent to which China's actions might be derailed by a range of potential challenges. As outlined in this section, the extent to which that occurs, and the ways in which Beijing and other governments choose to respond to the evolving geopolitical context around the BRI, will have far-reaching consequences.

As well as providing the basis for a potentially revolutionary adjustment of China's domestic and international environment, the BRI's great scale is also an effective guarantee of corresponding difficulty in achieving its ambitions.

This challenge is indeed formidable when we consider that, even though the estimated US\$3 trillion Beijing holds in foreign exchange reserves is expected to provide for the initial funding of BRI activities,<sup>53</sup> that's insignificant compared to the US\$2–3 trillion per year that the likes of McKinsey & Company estimate will be needed to realise China's stated ambitions.<sup>54</sup>

Beijing is certainly working to address the potentially massive shortfalls. For example, the Bank of China is joining with institutions such as DBS Bank, Goldman Sachs and Standard Chartered Bank to support the development of a standardised Silk Road bond aimed at tapping a much wider source of capital market funds.<sup>55</sup>

The new agenda is also firmly established as the increasingly powerful Xi Jinping's primary foreign policy objective, providing some confidence that it will continue to attract high levels of political will and commensurate Chinese resourcing.<sup>56</sup>

Regardless, the highly complex set of assumptions on which the BRI is based may still prove difficult to realise. The agenda, after all, seeks to open China up to the world at the same time as ensuring that the CCP can maintain as close a control as possible on what that entails and how open the opening turns out to be.

This is a strategy at odds with those that have allowed countries such as Japan and South Korea to achieve their broader development goals, and will also be likely to render problematic any Chinese effort to eventually surpass the US as the world's premier military and political power.

First and foremost, it seriously challenges Beijing's ability to attract sufficient international buy-in to its plans and increases the likelihood that, as with other recent acts of nationalistic assertiveness, it may ultimately push other governments into outright opposition.

Indeed, there are already many signs of serious pushback against a number of the elements of the BRI agenda outlined above. They include the leaders of developing countries being angered by the BRI's mission of alleviating excess Chinese capacity, particularly in sectors in which they directly compete with China.<sup>57</sup>

No doubt aware of negative outcomes such as that witnessed in Sri Lanka, other states, including Pakistan and Nepal, have also announced that they will no longer be seeking BRI-linked money for large-scale dam and hydropower developments, citing problems with the eventual level of Chinese ownership of those projects.<sup>58</sup> More recently, the new Malaysian Government led by Mahathir Mohamad cancelled what it considers to be unfavourable deals signed by the previous administration.<sup>59</sup>

Furthermore, Chinese economic entities have also expressed their own considerable doubts about operating in line with CCP priorities, including the BRI, in recent years. As one measure, a 2016 survey by the Beijing-based Center for China and Globalization cited political risk as the primary concern of Chinese companies when investing overseas.<sup>60</sup>

Related to this, as the Center for China and Globalization's Wang Yiwei and others have warned, is the threat that the BRI, which ostensibly seeks to exert a stabilising interest among groups such as the Uygurs and insurgents in countries such as Afghanistan, could in fact help foment new extremist activity.<sup>61</sup> This could happen through increasing hostility towards newly empowered authoritarian regimes, seeking to remedy the conditions considered vital to the ability of extremist groups to recruit new members, or both.

Such outcomes not only pose a threat to the viability of the BRI, but also increase the risk that the plan will be a source of considerable instability and violence in and of itself. As I argued in a 2017 article, even where Chinese policymakers seem to realise the need to stabilise areas ahead of BRI activity, their relative lack of substantive experience in international peacemaking, and an unwillingness to become too bogged down in responding to the political intricacies of other societies, may doom any stabilising interventions to be short-term, superficial and ultimately counterproductive.<sup>62</sup>

While not welcoming increased tension anywhere in the world, Australia's decision-makers might be particularly concerned with it in areas in which the nation is politically, economically or militarily engaged. That includes Southeast Asia, the South Pacific, Afghanistan and the Middle East.

However, most critical for the ultimate viability of the BRI—and the surrounding strategic environment that it's potentially creating—is the threat that it may be opposed not only by extremists but by powerful states.

The case of India is perhaps most illustrative here. Even as Beijing continues to count India as a formal BRI member, Delhi is deeply concerned by China's seeming newfound ability to erode its security environment, including through actions in its traditional sphere of influence, as in events in Sri Lanka, and to enhance the abilities of India's strategic rivals, such as Pakistan. Delhi thus went further even than either Washington or Canberra and refused to send delegates to Xi's 2017 international forum for promoting the BRI.<sup>63</sup>

The final destination of both the belt and the road—Europe—has also been a source of considerable opposition, culminating in reports in April 2018 that 28 EU member states' ambassadors to Beijing had signed a letter describing the BRI as running 'counter to the EU agenda for liberalising trade' and saying that it 'pushes the balance of power in favour of subsidised Chinese companies'.<sup>64</sup>

Complicating matters here is the fact that most current BRI activity is directed into the east of the bloc, into countries that have tested European norms in recent years.<sup>65</sup> They include Hungary, whose ambassador to Beijing refused to sign the letter and whose government is currently under investigation for potentially contravening EU transparency requirements for a BRI-funded rail line to Serbia.

Further action could thus exacerbate existing cleavages between EU members pushing for more or sustained levels of liberalisation and democratisation and those who have taken a more authoritarian and nationalist turn in recent years.

While the Chinese state appears to be gaining increasing Russian support for the BRI as part of a broader process of rapprochement between the two powers, there's also a fine balance to be struck between their competing national interests in areas such as Central Asia and Eastern Europe.



As the Carnegie Endowment for International Peace's Paul Stronski writes, even as Russia continues to play a considerable regional role in the political and security spheres, the Chinese leadership clearly holds the upper hand in the bilateral relationship.<sup>66</sup> This has already seen the BRI largely sideline Moscow's own Eurasian Economic Union and may eventually also lead to Russian President Vladimir Putin questioning his level of support for the ascendancy of the Chinese state.

What the Russian example shows is that the BRI is far from *sui generis* in terms of geo-economic visions in the areas in which it operates. The extent to which those visions continue to interact with the BRI will also be key to its chances of success and, as outlined below, perhaps even the prospects for ongoing peace and security in areas in which they coincide.

Included among those other plans are contributions from the US, such as a largely Afghanistan-focused proposal for a New Silk Road and an Indo-Pacific Economic Corridor that seeks to forge connections with South and Southeast Asia.<sup>67</sup> While the immediate future of these Obama-era plans remains uncertain,<sup>68</sup> former US Secretary of State Rex Tillerson said in October 2017 that Washington would begin to develop some means of countering China's geo-economic plans with 'alternative financing measures and structures'.<sup>69</sup> New Secretary of State Mike Pompeo has since launched America's Indo-Pacific Economic Vision.<sup>70</sup>

Japan's Partnership for Quality Infrastructure is already making progress in this area. The partnership aims to provide US\$200 billion for infrastructure development projects across a large part of the region and the wider world during the period from 2017 to 2021. Official literature on Tokyo's plan offers many points of difference from the BRI that may be more appealing to policymakers in Australia and elsewhere who are currently contending with the Chinese plan. For example, it stresses that 'international rules need to be recognised to increase the supply of public funds' and promotes the involvement of rule-making bodies—in this case, the OECD—in doing so.<sup>71</sup> As American supporters of Japan's plan have argued, it might also benefit from comparison with the BRI due to its focus on building capacity in recipient nations, rather than simply advancing the industry of its state-based authors.<sup>72</sup>

Meanwhile, ASEAN continues to promote its Master Plan on ASEAN Connectivity 2025, which it adopted in 2016 and which is predicated on the need to generate about US\$110–210 billion a year in new spending.<sup>73</sup> Multilateral channels such as this might offer an inherent level of protection against the economic planning produced therein being used to further hegemonic aims.

Canberra has already embraced both the cause and the potential advantages of ASEAN in this area, announcing the ASEAN–Australia Infrastructure Cooperation Initiative in March 2018.<sup>74</sup> It has also joined Washington in forging the Australia–US Strategic Partnership on Energy in the Indo-Pacific, which has a focus on new infrastructure to facilitate imports of natural gas, which is a fast-rising source of energy in the region.<sup>75</sup>

Whether these two developments may be part of some wider regional effort to offer alternatives to the BRI is the subject of considerable speculation, particularly as they were announced around the same time as an unnamed US official told the *Australian Financial Review* that Canberra was working with the governments of the US, Japan and India—already aligned with Australia in the Quad security arrangement—on such an eventuality.<sup>76</sup>

While the incentive for Australia and its Indo-Pacific partners to pursue alternative policies to the BRI seems clear enough, what can't be ignored is the possibility of unproductive outcomes, particularly bearing in mind concerns in Canberra's Foreign Policy White Paper about the tools of investment and infrastructure development accentuating strategic rivalries.

Beijing wishes to avoid casting the current situation in a Cold War light, but there are potentially useful parallels between the BRI and the post-World War II Marshall Plan. Principally, the origins of the American-led plan shared many similarities with the way that the BRI has been conceived, just as those who opposed the Marshall Plan shared similar responses with those seemingly opposed to the BRI.

Just as the BRI has been extended to all corners of the world, including the US and its allies, so too were the Soviets and surrounding states invited to participate in the Marshall Plan. However, after identifying what its ambassador to Washington called ‘the outlines of a Western European bloc directed against us’, Moscow subsequently decided against any involvement and started to develop the rival Molotov Plan.<sup>77</sup> These conflicting geo-economic visions were soon accompanied by the rival NATO and Warsaw Pact blocs and thus represented a key dynamic underpinning the decades-long conflict to come.

The first potential lesson here is that Beijing’s statement that it has a largely altruistic and open-ended conception of the BRI doesn’t prevent the BRI being a source of potential geopolitical tension.

Second, as noted above, actions that may seek to challenge particular elements of the Chinese state’s agenda or its total strategic potential will probably need to be well calibrated if those taking action wish to avoid simply increasing Chinese suspicions about its containment and any subsequent escalations in tension.

This becomes a more pertinent warning when we recall that the BRI, including the various strategic intentions now troubling international policymakers, was at least partly designed in response to what the CCP viewed as a rejection of China’s rise by the US and its allies.

This doesn’t imply, however, that alternative pathways must be avoided, particularly not when the Asian Development Bank has identified a need for up to US\$26 trillion in new infrastructure spending to meet development needs in the Asian continent alone during the period from 2016 to 2030—a figure that the BRI, even at maximum realisation, can only hope to fund a fraction of in isolation (Table 3).

Table 3: Projected Asia–Pacific infrastructure needs, 2016 to 2030

	2015 GDP per capita (US\$, 2015 prices)	Projected average GDP growth (%)	2030 projected GDP (US\$, 2015 prices)	Projected infrastructure investments		
				Investment needs (US\$ billion, 2015 prices)	Annual average (US\$ billion, 2015 prices)	Investment need as % of projected GDP
Asia	4,737	5.0	8,822	22,509	1,500.1	6.0
Pacific	2,329	3.1	2,889	42	2.8	8.2
Asia–Pacific	4,778	4.9	11,711	22,551	1,502.9	5.1

Source: Asian Development Bank, *Meeting Asia’s infrastructure needs*, February 2017, [online](#).

This, at least theoretically, implies ample room for parallel pathways to the BRI to be developed in the Indo-Pacific region and elsewhere. While there’s cause for scepticism about such framing, what might also be acknowledged here is the Chinese state’s openness to linking its own agenda to those of other countries, multilateral blocs and institutions.

As the Center on Global Development report referred to above outlines, Beijing has at least shown some willingness to engage with institutions such as the World Bank and the Asian Development Bank, and their associated standards, as a means of addressing the troublesome debt implications of the BRI. The report thus recommends continuing to ‘multilateralise’ the agenda, including through encouraging Beijing to move past its objections to the G7-dominated nature of the Paris Club and join up.<sup>78</sup>

Adopting a similar cooperative approach that might somehow also modulate the wider strategic outcomes of the BRI appears a difficult prospect, particularly given Beijing’s past record of simply ignoring those instruments and institutions that don’t serve its foreign policy goals, including its rejection of the 2016 ruling of a tribunal in The Hague in favour of the Philippines over a dispute in the South China Sea.

Yet a key difference on this occasion is that the BRI may inevitably need to be a true multilateral concern if it's to be implemented on a level anywhere near that which Beijing desires. Despite the inherent advantages its activities in poorer countries might bring through debt-trap diplomacy, Beijing is likely to require the buy-in of more institutionally robust and market-based economies, multinational companies and financial institutions to continue to prosper economically.

Singapore, for example, is already playing an emerging role in coordinating finance, and an estimated 33% of all outbound investments related to the BRI is flowing through the city-state.<sup>79</sup> Meanwhile, even the BRI's explicit geographical design acknowledges that the more developed consumer demand of Europe will be needed to continue to sustain foreign investments, and that the fate of the plan's flow-on strategic effects is inevitably tied to them.

A BRI that becomes more open to countries and capital with stronger commitments to liberal democracy and market-based outcomes would in turn be one with more limited opportunities for China to take strategic advantage. There's thus a delicate balancing act in which Beijing—and countries such as the US and Australia—may increasingly work towards an incomplete realisation of the agenda's overarching geo-economic and geostrategic potential.

That the outwardly Sinocentric BRI can be globalised, and may indeed need to be globalised, is certainly recognised by the likes of the Australia–China Belt and Road Initiative, which is a bilateral grouping of private companies, financial institutions and industry associations formed to promote participation in the plan among Australian interests.<sup>80</sup>

For example, the group recommends that 'a clear and permanent coordination structure for the BRI's implementation should be created by the Chinese government, partnering with the United Nations and other relevant multilateral bodies' and that China create an avenue for the Silk Road Fund and other funding mechanisms to include more private sector capital.<sup>81</sup>

Bearing all these considerations in mind, the question of whether the Chinese state can make a success of the BRI, and what that would mean for others in its orbit, is a highly complex one and involves a range of parties and the interplay of their various assumptions and suspicions.

A further question that may also need to be considered by those looking at the plan and how it evolves is: What happens if it fails?

As this report has outlined, the BRI does indeed appear to respond to some very real pathogens facing China's economy and Chinese society. And, while the likes of Canberra may wish to avoid the considerable downsides that could follow a faithful implementation of the plan on Beijing's part, the alternative, given China's already considerable interdependence with Australia's own economy and political environment, could also be potentially destabilising for the nation, its region and the world at large.

# CONCLUSION

Despite Beijing's attempts to avoid such an eventuality, significantly large and potentially transformative agendas enacted unilaterally can't help but arouse suspicions among other governments and institutions. In the case of the BRI, clearly observable connections to major CCP policy concerns at home and abroad, combined with the ways in which the agenda is currently being rolled out across the world, suggest that those suspicions aren't unfounded.

While there may indeed also be tangible economic benefits of the BRI for other countries—the identified need for trillions of dollars in new infrastructure in regions such as the Indo-Pacific certainly suggests that there is—this report counsels that those benefits can't be considered in isolation from the massive strategic implications of the plan.

Those implications invariably seek to advance Chinese positions and may, as a result, either deliberately or inadvertently erode the positions of the US and its allies, such as Australia. Among the greatest threats are the potential propagation of unsustainable debt among many countries and the ways in which that may be exploited by the Chinese state to serve its own aims. The potential exploitations include, most problematically, the monopolisation of resources and the militarisation of assets around the world.

Yet, the major caveat hanging over the future of BRI is that there's also no sense of inevitability that the BRI will deliver on many of its aims. This doubt primarily results from great challenges facing the CCP as it seeks to implement what's a highly complex domestic and international agenda.

This report identifies the management of one conundrum above all else as the key to the BRI's fortunes from a Chinese perspective: the ability to retain sufficient support from the world's governments and institutions as a means of both underpinning its business case and heading off the possibility of geo-economic and geostrategic competition.

On the other side of the equation, the threat of the BRI and its after-effects echoing Cold War dynamics and more recent feedback loops of policy enacted by China and the US and its allies need not imply that countries such as Australia must avoid contesting what may be seen as outcomes that are counterproductive to their national interests.

There are certainly possibilities to learn from history and seek to avoid, or at best mitigate, the worst effects of such competition observed in the past. This includes possibilities for creative and pragmatic solutions to what are seen as pressing needs for greater economic interconnectivity and development in many parts of the world.

Indeed, Australian policymakers have recently shown a willingness to embrace such possibilities, helping to successfully revive the Trans-Pacific Partnership after the withdrawal of the founding partner and apparent linchpin, the US. Last year's Foreign Policy White Paper, meanwhile, retained an even more ambitious goal of eventually bringing China and the US together in an Indo-Pacific-wide free trade agreement that Canberra believes has the ability to 'reduce tensions and help maximise regional economic growth prospects'.<sup>82</sup>

Notions such as that increased interconnectivity and openness can contribute to the achievement of other desirable goals are common ones and have been supported by a considerable range of data points in the post-World War II era. They are in fact a feature of the BRI's own representation as a 'road for peace' by Xi Jinping and Chinese officials.

However, the key to most efforts of this nature, even where they have invariably contributed to the greater strategic success of their authors, has been the avoidance of the worst aspects of unilateralism or, at the very least, the perception of unilateralism, wherever possible.

Beijing is no doubt keenly aware of this fact and has correspondingly sought to present the BRI as focused on mutual cooperation and success. Yet increasing pushback against some of its largely China-serving and potentially destabilising interests suggests that this may become a much harder sell as the plan continues to be unrolled and evolve.

As this report has also outlined, managing pushback in a constructive way and attempting to produce an agreeable geo-economic and geostrategic environment in the Indo-Pacific region and beyond will be a major challenge for Beijing. It will also be a major task for those governments, such as Australia's, with which this ambitious 21st century agenda interacts.

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# ACRONYMS AND ABBREVIATIONS

ASEAN Association of Southeast Asian Nations

BRI One Belt, One Road Initiative

CCP Chinese Communist Party

EU European Union

GDP gross domestic product

OECD Organisation for International Co-operation and Development

**Too big to ignore:**  
Assessing the strategic implications of  
China's Belt and Road Initiative