



Institute for China-America Studies

Special Issue: The Belt and Road Initiative

Part of an Ongoing Series

In Collaboration with the West Asia Council

The Belt & Road Forum

President Xi Jinping's Remarks:

"We should build the Belt and Road into a road of prosperity. Development holds the master key to solving all problems. In pursuing the Belt and Road Initiative, we should focus on the fundamental issue of development, release the growth potential of various countries and achieve economic integration and interconnected development and deliver benefits to all."

The Belt & Road Forum Communiqué

Joint Statement of World Leaders:

"We reaffirm our shared commitment to build open economy, ensure free and inclusive trade, oppose all forms of protectionism including in the framework of the Belt and Road Initiative. We endeavor to promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system with WTO at its core."

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Highlighted Publications

China's Belt and Road Forum lays Groundwork for a New Global Order

Jessica Meyers

Los Angeles Times, May 15, 2017

At China's Belt and Road Forum for International Cooperation, President Xi crafted a compelling story about the initiative as the "project of the century," and how he hopes to create "a big family of harmonious co-existence" for all countries that participate. He emphasized the importance of globalization at a time when global order and long held political ideals are being destroyed. President Xi showcased an "alternate economic order" with China at the forefront as the United States and other European countries have turned inward. Leaders from several countries signed a comprehensive communiqué promoting economic growth and global trade.

What is China's Belt and Road Initiative?

J.P.

The Economist, May 15, 2017

The Belt and Road Initiative is Beijing's trillion-dollar bet on infrastructure development spanning 68 countries and connecting China to an even more globalized market. At the Belt and Road Forum, President Xi met with 29 heads of state or government; however, many Western leaders chose not to attend the forum because of uncertainty around China's motives. The initiative would strengthen China's influence through the creation of new markets for Chinese corporations, heighten economic stability in neighboring countries, and bolster its South China Sea claims. Moreover, President Xi faces backlash from some ASEAN leaders about the profitability of certain projects, but he "is determined to push ahead."

Behind China's \$1 Trillion Plan to Shake Up the Economic Order

Jane Perlez and Yufan Huang

The New York Times, May 13, 2017

Belt and Road is China's attempt at "refashioning the global economic order, drawing countries and companies more tightly into China's orbit." However, statistics from the Peterson Institute for International Economics (PIIE) show that so far, only a modest \$50 billion has been spent, which is a small amount relative to the pledged \$1 trillion (though *The Economist's* estimate place the number at \$4 trillion) and to China's domestic investment program.

U.S. Firms Want In on China's Global 'One Belt, One Road' Spending

Keith Bradsher

The New York Times, May 14, 2017

Despite Belt and Road's many uncertainties, many companies believe the plan creates opportunities for unparalleled prosperity. The initiative has encouraged several American companies, like General Electric, Honeywell International (technology and manufacturing), and

Caterpillar (construction and energy solutions) to actively join China's economic sphere in the hopes of future prosperity. However, there are concerns that Chinese businesses will be favored under BRI to the detriment of foreign and local companies.

How Will the Belt and Road Initiative Advance China's Interests?

CSIS, May 11, 2017

CSIS' China Power Project has released a detailed interactive that breaks down the Belt and Road initiative. The site also includes an interview by director Bonnie Glaser with David Lampton, (in [this podcast](#)) on the strategic implications and motives behind the Belt and Road Summit. Lampton sees this as China's new signature project, which symbolizes China's willingness to be a proactive player in international affairs.

China Now Has a Rail Link Into the Heart of Europe

Trefor Moss

The Wall Street Journal, May 11, 2017

While the momentum of the Belt and Road initiative is undeniable, significant challenges remain. Challenges include whether the rail component of the initiative can eventually thrive without the subsidies it currently receives from the central government, and whether Beijing can persuade European companies to import more goods than they sell to China. Moreover, China's slowing economy and mounting debt may hinder Beijing's ability to finance the promised infrastructure projects and secure trade routes that would connect two-thirds of the world's population.

China's Global Power Projection Hit with "Strategic Overdraft"

Willy Wo-Lap Lam

The Jamestown Foundation China Brief, May 11, 2017

Some liberal Chinese academics believe that China's expansionist moves in security and economic realms may result in "strategic overdraft." Beijing faces many challenges in fulfilling its infrastructure pledges. For example, Sri Lanka and Myanmar have requested renegotiation of infrastructure projects due to nationalist opposition forces within the two states. Moreover, Beijing's attempt to showcase its industries' compliance with global standards could also be obstructed by actual standards of practice, as illustrated by China Railway Corporation's failure to pass EU standards on its 350-km high-speed railway connecting the Serbian capital, Belgrade, to Budapest in Hungary.

Commentaries

Belt & Road: An Appraisal of the Chinese-Led “Project of the Century.”

By Alidad Mafinezam

The Belt and Road Forum for International Cooperation, attended by representatives from close to 100 countries, was held in Beijing on May 14-15. Among the participants were 29 heads of government, most notably those of Russia, Pakistan, Turkey, Indonesia, Vietnam, Italy, Spain, as well as numerous African and Latin American countries. President Xi Jinping opened the forum by delivering a detailed historical view of the deep cultural and economic connections that have bound the countries of Europe and Asia and Africa together along the historic Silk Road, dating back over 2000 years. Xi pledged an additional \$100 billion of financing through the myriad of Chinese policy banks, and the multilateral Asian Infrastructure Investment Bank (AIIB).

The vision of the Silk Road Economic Belt and the corresponding Maritime Silk Road (jointly referred to as the Belt and Road Initiative or “BRI”) was expounded by Xi in 2013, the year he assumed China's highest political office. The current Chinese leadership view BRI as their signature mega-project with major implications for China's domestic and foreign policies and practices. BRI is especially important at a time when China's decades-long double-digit economic growth rate has slowed to single digits. Xi's use of the term “Project of the Century” to describe the project shows the level of ambition and long-term vision that have underpinned BRI.

BRI's Track Record to Date

In his remarks, President Xi outlined the progress that has been made over the past four years in realizing the ambitions of BRI, as well as the need to continue along this path with greater resolve.

Policy Coordination and Connectivity.

Xi stressed that BRI should not be seen in zero-sum or competitive terms and is not meant to “reinvent the wheel” of development. Instead, BRI aims to complement the current development strategies of countries by leveraging their comparative strengths. In particular, BRI has complemented the work of the Eurasian Economic Union of Russia, the Master Plan on ASEAN countries, Kazakhstan's Bright Road initiative, Turkey's Middle Road Initiative, Mongolia's Development Road Initiative, as well as the corresponding development initiatives of Mongolia, Vietnam, and farther west, the UK's Northern Powerhouse Initiative and the corresponding efforts of Poland and Hungary. China has signed cooperation agreements with over 40 countries and international organizations and carried out framework cooperation on production capacity with more than 30 countries.

Infrastructure Development and Connectivity

An intensive drive to build roads, railways, sea and airports, and other urban and regional infrastructure projects is key to prosperity in all sectors. Xi stated that China has accelerated the construction of the Jakarta-Bandung high-speed railway, the China-Laos railway, the Addis Ababa-

Djibouti railway and the Hungary-Serbia railway. It has also undertaken a massive upgrading of the Gwadar Port in Pakistan and the Piraeus Port in Greece. China has also instituted new economic corridors such as the New Continental Eurasian Bridge, the China-Pakistan Economic Corridor, and the China-Mongolia-Russia Economic Corridor, which include sea, land and air transportation routes and Internet and telecommunications expressways.

Expanded Investment and Trade Connectivity

Over the past few years, China has paid particular attention to its land neighbors to expand trade and investment links. For Kazakhstan and other Central Asian countries, customs clearance times for agricultural exports to China have been cut by 90 percent. Most telling is that trade between China and other Belt and Road countries in 2014-2016 has exceeded \$3 trillion, and China's investment in these countries has surpassed \$50 billion. Over the past four years, Chinese firms have launched 56 economic cooperation zones in over 20 countries, generating some \$1.1 billion in tax revenue and creating 180,000 jobs.

Greater Financing Connectivity and Collaboration

The challenge of accessing timely financing for large-scale projects is especially poignant now as hundreds of major projects in multiple countries vie for limited development finance funds. While China is currently the world's leading source of finance capital for such projects, its commitments alone are incapable of meeting global development financing demand. The Asian Development Bank (ADB) estimates the demand to be in the high-single-digit trillions of dollars. The Asian Infrastructure Investment Bank has already provided \$1.7 billion of loans for nine projects in participating countries. The Silk Road Fund has gathered \$4 billion of investment, and the 16+1 financial holding company between China, and Central and Eastern European countries, has been launched to devise joint-financing solutions.

Deepening People-to-People Ties and Connectivity

President Xi declared that human bonds of empathy and friendship hold the key to reliable and mutually beneficial state-to-state relations. Guided by the "Silk Road spirit," countries participating in the Belt and Road Initiative have resolved to build an "Educational Silk Road," a "Health Silk Road," and are looking to further expand their cooperation in the area of joint knowledge development through scientific and artistic collaboration.

Filling the Gaps

By almost any measure, BRI's progress over the past four years has been exemplary for its speed and ability to deepen the "connectivity" of countries along the historical Silk Road with each other and, especially, with China. Despite its great ambition and its notable achievements to date, the Belt and Road Initiative is only likely to gain greater traction among Western countries if greater attention is paid to the following issues going forward.

First, President Xi's long discussion of the ancient ties of countries along the Silk Road is far less relevant than the history of the post-World War II global order over the past seven decades. A more relevant discussion of history would have highlighted the profound developments of the past few decades since China's reform and opening-up under Deng Xiaoping and China's

reemergence as a world power in record time. A discussion of China's top-down development model could have been useful in highlighting China's vast achievements, but also in shedding light on some of the challenges the country faces as it aims to export its development model.

Second, multilateralism and the current performance of international institutions that act “on behalf of humanity” to promote peace and development around the world remain an issue. President Jim Kim of the World Bank and Secretary General Antonio Guterres of the UN gave laudatory remarks at the Belt and Road Forum. These remarks highlighted the acute need for close collaboration and coordination among the world's leading countries in addressing global challenges. It would have been useful to mention that as one of the Forum's major achievements, the World Bank has signed new agreements with other multilateral lenders to expand collaboration and improve performance by cutting red tape.

Similarly, UN Secretary General Guterres' remarks highlighted the important role that China has played in promoting a global order in which problems can be tackled in a collaborative manner.

The third crucial point that Xi did not address was the acute need for peace and understanding at a time when the post-World War II order gives way to a climate of uncertainty that is often defined by short-term thinking and ideological extremism of all types. Countries along the Silk Road, especially those in North Africa, as well as West, Central and South Asia, have been torn apart over the past few decades because of religious extremism and the cynical geopolitical competition of regional and world powers. International leadership must begin the process of reconciliation and rebuilding in countries such as Iraq, Syria, Yemen, Afghanistan, Pakistan, and numerous others, where people are in dire need of support and effective political mechanisms for reconciliation.

China is the world's most populous country, and heir to one of the world's richest and oldest civilizations. China will find that the world, particularly the West, would be more eager to join the “Project of the Century” if China heeds their concerns more directly. China would ideally discuss the need for reform not only in international institutions and the global distribution of power, but also within China itself.

A transparent exploration of China's own deficiencies and a candid discussion of where it might need help in building a more open and environmentally responsible society will go a long way in building a better 21st century for all.

Alidad Mafinezam is the President of the West Asia Council.

Belt & Road: A Platform for Rebuilding West Asia

By Gal Luft

Despite the scope and game-changing nature of the Belt and Road Initiative (BRI), the U.S. has responded to it with a mix of silence and suspicion. During the Obama years, Washington rarely made any public comment on the issue, nor did they demonstrate support for the project. On the contrary, it used soft-power tactics to derail the initiative, such as lobbying U.S. allies against joining the Asian Infrastructure Investment Bank (AIIB), which was created with the goal of also financing BRI projects. While President Trump dignified President Xi Jinping, sending his Asia adviser to represent the U.S. at the May 2017 Belt and Road Forum for International Cooperation, he has yet to formulate a policy toward BRI. The U.S. Congress has also been apathetic. Since the launch of BRI in 2013, not a single congressional hearing has been dedicated to it. Even the U.S.-China Economic and Security Review Commission, which Congress established to monitor U.S.-China relations, has more or less ignored the issue. Whether this is the result of concern that BRI is a mechanism to mask China's geopolitical ascendancy, or Washington's reluctance to relinquish its role as the main underwriter of the global economic development agenda, America's indifference toward BRI is self-defeating.

The Belt and Road Initiative touches almost every region of the world in which the U.S. has strategic interests, including the South China Sea, South Asia, West Asia, Central Asia and Eastern Europe. America's lack of engagement in the project will allow China to draw the geopolitical lines of the 21st century in ways that could be detrimental to U.S. interests. Second, by snubbing BRI, the U.S. is sending its allies, many of whom desperately seek foreign investment, straight into China's arms. Traditional U.S. friends like the Philippines, Czech Republic, Georgia, Kazakhstan, Bangladesh, Pakistan, Turkey and Egypt will become increasingly dependent on China's benevolence. Third, in rejecting BRI, Washington is effectively denying U.S. business access to what has the potential to become the world's largest economic block. American engineering, construction and equipment manufacturing companies stand to benefit a great deal from U.S. participation in BRI projects. America's defense and cyber security companies can also help protect critical infrastructure along BRI economic corridors. With more energy terminals, pipelines, storage facilities and free trade zones constructed around the world, America's energy industry would enjoy greater access to markets for its oil, gas and coal. Surrendering this enormous potential is inconsistent with President Trump's pledge to make America great again.

Fourth, the Belt and Road Initiative is the most fitting platform for the international community to facilitate one of the most challenging projects humanity will face in the coming years - the reconstruction of West Asia (aka the Middle East). The Middle East is tucked between Europe, Asia and Africa, the three continents BRI aspires to connect. Yet the region is anything but stable. Syria, Libya, Iraq, and Yemen are effectively destroyed and need to be rebuilt from the ground up. Others, like Egypt, Algeria, Lebanon, and Jordan, are suffering from chronic social and economic ailments and could descend into chaos. While many of the conflicts are far from over, it is safe to assume that once states emerge from the chaos, they will need to rebuild. This effort, akin to the post-World War II reconstruction of Europe, will require significant resources, security, financial

management, and an orderly bidding processes.

The U.S. may no longer be heavily dependent on the Persian Gulf for its oil supply, but it is still committed to act as the main guarantor of the region's stability. Since Washington's policies in West Asia and North Africa have contributed to the region's current predicament, the U.S. bears a significant responsibility for the reconstruction effort.

For Beijing the reconstruction of the region is no less important. Half of China's oil imports originate from the Persian Gulf, and some of the Belt and Road corridors are planned to traverse West Asia and North and Eastern Africa. Connecting Asia, Europe and Africa cannot succeed without a stable West Asia. Furthermore, the rebuilding of so many countries will present more opportunities for China's state-owned construction and utility enterprises.

For all the reservations the U.S. might harbor about China's rise, exacerbated by President Trump's goal of putting "America First," it must accept the fact that it needs to work closely with China in order to execute that vision. The U.S. must also recognize that BRI and its institutions, such as the AIIB and the Silk Road Fund, are useful platforms for speedy reconstruction. China, for its part, must consider that the rebuilding of West Asia and North Africa might force it to tweak its current BRI design and divert resources from less urgent BRI projects.

China and the U.S. should agree to include the reconstruction of West Asia in their overall framework of cooperation. To do so, Washington should rethink its attitude toward BRI and formulate a new policy that protects its vital interests, but is also sensitive to the regional need for growth and infrastructure development.

With the backdrop of the Belt and Road Forum for International Cooperation, the China Energy Fund Committee, leading a group of NGOs as well as representatives of several West Asian countries, announced the formation of MERCI – Middle East Reconstruction Initiative – with the goal of rebuilding West Asia and North Africa in collaboration with BRI. MERCI will mobilize governments, NGOs, private sector participants, international organizations and media to advance political solutions to the region's ailments, and prepare the ground for a subsequent reconstruction effort with focus on rebuilding and revitalizing national infrastructures.

MERCI will draw from the experiences of other post-war reconstruction efforts around the world. By integrating lessons and best practices into the reconstruction of West Asia, resources will be used more efficiently. Since oil is the only source of hard currency in some of the regions' wartorn nations, MERCI will rely on the post-war experience of other oil reliant countries like Angola, Iraq and Kuwait. MERCI will promote transparent mechanisms to convert oil revenues into capital dedicated to the reconstruction effort. Political solutions are necessary for reconstruction to succeed, but it is essential that such solutions are immediately followed by actual reconstruction efforts. To facilitate such an expeditious response, it is important to begin the process and assemble the relevant stakeholders and experts today.

As the world's two leading economic powers, the U.S. and China should both assume leadership

roles in this herculean effort, and make the reconstruction effort a bonding factor in their relations.

Gal Luft is co-director of the Institute for the Analysis of Global Security, a founding member of MERCI.

Co-financing the Silk Road By Brien Desilets

Increased outward investment by China must be recognized as a positive development on the world stage. Investment is not a zero-sum game whereby Chinese investment prevents or obstructs investment by other countries. On the contrary, Chinese investment has helped fuel the global economic recovery following the financial crash of 2008, and has advanced national and multinational programs that have been in the works for decades. Parallel financing of infrastructure by Chinese entities has been observed for many years. Recent and pending transactions show another notable development, co-financing at the project level using Chinese and Western resources.

On March 14, 2017, the \$1.7 billion 720 MW Karot Hydropower Project in Pakistan was completed. The deal represents the International Finance Corporation's (IFC) first major engagement with China Export Import Bank (Chexim), China Development Bank (CDB) and the Silk Road Fund (SRF). The project is also considered to be the first under the Belt and Road Initiative (BRI) and China-Pakistan Economic Corridor (CPEC) initiatives. In addition, Karot Hydropower is part of the World Bank Group's Transformational Energy Initiative and Joint Implementation Plan in Pakistan, which aims to mobilize \$10 billion of investment in new power generation capacity.

The project's structure is familiar to the global infrastructure finance community. It is a Build-Own-Operate Transfer (BOOT) model as authorized by Pakistan's 2002 Power Policy. The term includes a five-year construction period followed by a 30-year operational period. IFC is investing \$100 million of equity that will be matched by SRF with Chexim and CDB providing debt financing to Karot Power Company Ltd, the project's Special Purpose Vehicle (SPV). In May 2016, the project developers awarded an engineering, procurement and construction (EPC) contract to a consortium that includes the Yangtze Three Gorges Technology & Economic Development Co. and China Machinery Engineering Corporation.

Pakistan is proving fertile ground for such collaboration not only with the Karot Hydropower Project but also with the M4 Shorkot-Khanewal highway in Punjab, which is expected to be the first project co-financed by the Asian Infrastructure Investment Bank (AIIB) and Asian Development Bank (ADB). Claret Consulting is currently working to attract Western investors to Gwadar Port, the anchor piece of CPEC that has already benefitted from substantial Chinese investment.

While Pakistan boasts some precedent transactions, it is not alone in welcoming both Chinese and Western infrastructure investment. A few examples follow:

- In Central Asia, recent Chinese investments augment more than \$30 billion of investment mobilized since 2001, under the Central Asia Regional Economic Cooperation (CAREC) Program, an initiative backed by 11 countries and six multilateral development partners.
- In the Caucasus, Chinese investment helps to complete the Transport Corridor Europe-Caucasus-Asia (TRACECA) program of multimodal transportation networks.
- In February 2016, the Anaklia Development Consortium (ADC), a U.S.-Georgia consortium, was awarded a \$2.5 billion contract to build a deep-sea port in Anaklia, Georgia, a significant addition to Silk Road transportation infrastructure. Other competing consortia included Chinese, Japanese, French, and UAE firms.
- China Ocean Shipping Company (Cosco) has invested more than €600 million in the Greek Port of Piraeus, leveraging billions of euros of cumulative investment by the Greek government and the European Union in the country's transportation infrastructure. Container handling volume increased more than 500 percent since Cosco acquired operating rights in 2008. A German-led consortium recently was awarded a 40-year concession for 14 regional airports in Greece. The nearby Athens airport is 40 percent owned by Canadian pension fund manager, PSP Investments.

As was asserted during the Silk Road Summit in Washington in September 2016, and again during the Silk Road Investment Forum in London in April 2017, the Silk Road cannot be a solely Chinese, European, or American program. It must have multinational support and participation to succeed. To this end, AIIB has signed Memoranda of Understanding for collaboration with ADB, World Bank and European Bank for Reconstruction and Development (EBRD). China became the newest shareholder in the EBRD when it joined in January 2016. In May 2017, more than 30 countries participated in China's Silk Road summit in Beijing.

China is investing in more than just infrastructure around the world. According to Rhodium Group, the U.S. attracted \$45.6 billion of Chinese foreign direct investment (FDI) in 2016, more than any other country in the world. This was triple the amount received in 2015, bringing the cumulative amount since 2000 to well above \$100 billion. Notable transactions include investments in Strategic Hotels, Omnivision, Legendary Entertainment, GE Appliances and Lexmark. The Rhodium Group similarly recorded €35 billion of Chinese FDI into the European Union in 2016, an increase of 77 percent from 2015. Among the investments were China General Nuclear Power Group's (CGN) acquisition of Espereance in September 2016, the largest onshore wind farm in Belgium with a capacity of 81 MW, and Chinese investment in the UK's Hinkley Point nuclear power plant. These infrastructure deals join a growing list of Chinese investments across other sectors, including Zhejiang Geely Holding Group's acquisition of Volvo in 2010 and Bright Food's acquisition of Weetabix in 2012.

Brien Desilets is an economist with expertise in international finance and development. He is the managing director at Claret Consulting.

Should the U.S. Join the AIIB?

By Christine R. Guluzian

To counter a worrying trend of global economic isolationism where trade agreements are increasingly coming under fire, some states are more eager than ever to participate in trade and investment projects in order to meet their economic and developmental needs. Indeed, in an unexpected twist, China's President Xi Jinping took up the mantle of globalization at the 2017 Davos Economic Forum, where typically pro-globalization countries, including the U.S., adopted more protectionist and economically isolationist rhetoric.

The New Silk Road (also known as the "Belt and Road Initiative" or BRI) and the Asian Infrastructure Investment Bank (AIIB) are two initiatives conceptualized by Xi in 2013, which aim to enhance investment and trade links regionally as well as across several countries. BRI envisages infrastructure-building projects including roads, railways, ports, pipelines, e-commerce, and industrial parks traversing Central Asia to Europe, and possibly beyond.

These large-scale investment projects will be financed and implemented by China's state-owned enterprises and banks, including the Silk Road Fund, in partnership with host governments, international development banks, and private sector actors. China also established a multilateral development bank, the Asian Infrastructure Investment Bank (AIIB), to address infrastructural investment needs across Asia. China presents NSR and AIIB as all-inclusive and open to all countries and all sectors, public and private.

Thus far, the response from the U.S. to both initiatives has been meager. Despite proposing a "Pivot to Asia," the Obama administration viewed the NSR initiative and the AIIB with suspicion. U.S. allies were discouraged from joining the latter. The Trump administration has not yet articulated a policy stance on China's NSR initiative or the AIIB. While other countries, including most of our European allies, are looking for ways to cooperate on these projects and have joined the AIIB, Washington has yet to propose a coherent policy stance.

Even prior to the AIIB becoming officially operational in 2016, the AIIB was viewed as a potential contender to the Bretton Woods system, which includes the Asian Development Bank (ADB) and the World Bank. Instead, the AIIB, the World Bank and ADB are increasingly looking for ways to collaborate on projects in the region, and the AIIB has proven not to be the anti-establishment economic organization some initially feared it to be.

Rather than leaning toward economic isolationism, engaging in trade-building projects such as BRI could provide an opportunity to collaborate in regions that would greatly benefit from economic development. Improving living and security standards in volatile regions would benefit U.S. national security without having to engage in costly and unpredictable military operations, and would provide job growth opportunities for the U.S. private sector. In addition, rather than attempting to undermine the AIIB, the U.S.'s participation in the AIIB would assist the newly founded institution to better integrate within the international economic order, and establish a

platform for continued U.S.-China cooperative dialogue.

The New Silk Road initiative and the AIIB are still in their formative stages and do present challenges and concerns which warrant addressing. These range from local content issues, concerns regarding environmental and safety standards, corruption and non-transparency concerns, potential politicization through the involvement of Chinese state-owned enterprises (SOEs) to risks posed by partnerships with unstable political regimes. However, joining the AIIB would offer the U.S. the opportunity not only to engage in the institution-building process, but also to collaborate multilaterally with other member-states in order to address mutual development and security concerns.

Christine Guluzian is a visiting research fellow at the Cato Institute. She is the author of "Making Inroads: China's New Silk Road Initiative," which appears in the Winter 2017 issue of The Cato Journal.

What China's Belt and Road has to learn from 1920s America

By Sourabh Gupta

Perceptive China-watchers have observed that President Xi Jinping has modelled his political mission after Deng Xiaoping's "reform and opening-up" blueprint – even if his methods bear a whiff of Maoist tactics.

Deng decisively put an end to the turmoil of the Cultural Revolution and engineered China's transformation towards socialist modernization. Xi's sweeping reforms and anti-corruption crackdown aim to engineer an analogous transformation that will deliver China to the cusp of a "moderately prosperous" society by the Chinese Communist Party's centennial founding in 2021.

In one notable respect, Xi has broken with the paramount leader. Deng had counseled a 24-character strategy on his countrymen: "observe calmly; secure our position; cope with affairs calmly; hide our capacities and bide our time; be good at maintaining a low profile; and never claim leadership." By contrast, Xi has not been shy to employ assertive diplomacy in support of an ambitious, long-term and strategic foreign policy.

No single political project personifies this more than the Belt and Road Initiative, which aims to resurrect the ancient Silk Road through infrastructure projects that will link Eurasian economies into a China-centered trading and investment network. When 29 heads of state assembled in Beijing for the Belt and Road Summit, the magnitude of the imposing soft-power dimension of this "win-win" project was on grand display. By comparison, the BRICS Summit in Xiamen this September will look like a sideshow.

A variety of malignant motives, mainly economic, have been ascribed to the Belt and Road plan. It aims to channel Beijing's allegedly manipulated reserve surpluses abroad, prop up the

internationalization of the yuan, unload China's industrial overcapacity on neighbors, ensnare the recipient country in a cycle of debt, exploit the host country's strategic resources and purchase their political affiliation along the way.

While these claims contain merit, the redeeming arguments are more compelling.

It would be a far better for China to invest its hard currency reserves in infrastructure projects, rather than to passively deposit them in New York's financial market. At a time of volatility in liquidity provision in the international monetary system, yuan internationalization and the rise of another issuer of safe, short-term and liquid instruments should be welcomed. Moreover, the bilateral yuan swap lines and dedicated trade payments and securities settlement infrastructure that Beijing has rolled out over the past half-decade, will enable recipient countries to denominate their borrowings in local currency, thereby limiting costs and exposures.

Transferring industrial capacity, improving infrastructure and reducing transaction costs on the other hand will enable developing countries to jump-start a dynamic upward spiral of growth and development in sectors where they enjoy latent comparative advantages – on lines similar to China's own industrial jumpstart in the 1980s. A comparison of China's and the U.S.' Eximbank (Export-Import bank) loans to Africa, meanwhile, belie the oft-repeated claim that the former's loans are directed solely at natural resources. China Eximbank has contributed to almost all 54 countries in Africa – resource rich or poor – and displays no perceptible pattern of favored client-state lending. U.S. Eximbank loans, by contrast, are concentrated in energy and mining and confined to a favored few.

Finally, with developing and emerging economies forecast to account for 59 percent of world GDP in 2018 (neatly reversing the average 59 per cent accounted for by advanced economies from 1980 to 2007), as per the IMF, the rise of an alternate model of development financing that is leaner, cheaper, quicker and more flexibly attuned to host country systems and requirements should be welcomed, not stigmatized.

Development economics aside, the most consequential effects of the Belt and Road will be in international relations.

The Belt and Road's storied predecessor, the Silk Road, ushered in an age of commerce and civilizational exchange more than two thousand years ago, and afforded a set of loose principles of order and self-restraint. The Belt and Road's 'open regionalism' will similarly showcase Xi's determination to practice a "new type of international relations" that binds China's extended periphery as far out as Africa in a win-win embrace. Purposeful translation of his optimistic assessment for peace and development will realize the long-delayed promise of south-south cooperation in the post-colonial age. With luck, it will also confine the fascination with Great Power transition 'traps' – particularly the 'Thucydides Trap' (in which an established power's fear of a rising power leads them into a vicious cycle of competition and eventually war) – to the armchairs of zero-sum-minded historians and think tank specialists.

China's re-emergence at the turn of, and the first few decades of, the 21st century bears remarkable parallels to America's rise a century ago. Between 1890 and the early-1900s, the proportion of U.S. manufacturers engaged in exports rose from less than a quarter to more than two-thirds, as the burgeoning surpluses of farms and factories were absorbed overseas. By the late-1910s and through the 1920s, the U.S. became a prodigious exporter of capital as more than \$1 billion a year in loans surged out of New York. Nearly one-third as many foreign bonds floated on Wall Street as bonds of U.S. companies.

As the Belt and Road becomes a conduit for the export of Chinese capital on as prodigious a scale as the U.S. a century ago, its design and roll-out must also be informed by the cautionary lessons of that era. When boom had periodically turned to bust in the U.S. economy and subjected many of her poorer hemispheric trade partners and raw material suppliers to simultaneous capital and commodity market shocks, Washington failed to provide the public goods (international development financing; recycling of capital flight; intergovernmental institutionalization, and stabilization loans, and so on) that could have placed a floor under the crash – and misery – overseas. China's capital exports must avoid such boom-bust patterns of deployment and instead, with patience and purpose, marry hard physical capital with soft technical know-how, managerial skills and local project ownership.

During the next decade, China will replace the U.S. as the world's largest economic power. As it grows richer, it must assume the mantle of collaborative leadership and become a provider of global public goods. The Belt and Road initiative is an appetizing start, but the proof of the pudding will be in its eating, as well as its ability to draw as yet skeptical bystanders in the West and in Asia to the banquet.

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