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The Belt and Road Initiative: Insights from China's Backyard

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Abstract

This article examines Xi Jinping's Belt and Road Initiative (BRI), previously known as the One Belt, One Road (OBOR) Initiative. It argues that, in the context of South and Southeast Asia, the BRI represents China's strategic effort to gain predominance in the Asia-Pacific by advancing its influence over countries in the region, overcoming its "Malacca Dilemma," and gaining access to or establishing new ports with the potential to serve commercial and military purposes. The discussion centers on the implementation of the BRI in two South Asian and two Southeast Asian countries that are among those most closely aligned with China. It demonstrates how China's BRI-related actions in these countries represent a strategic effort to improve China's diplomatic, economic, and security interests. Moreover, it includes a review of leading BRI project funding sources to date and potential adjustments moving forward. The discussion closes with a few insights for BRI partner countries as well as recommendations for the United States as it considers a strategic approach to compete with China in the Asia-Pacific.

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The One Belt, One Road (OBOR) initiative, which China retitled the Belt and Road Initiative (BRI), is shorthand for the Silk Road Economic Belt (丝绸之路经济带) and the 21st Century Maritime Silk Road (世纪海上丝绸之路). The BRI is the cornerstone of President Xi Jinping's foreign policy. It is the vehicle through which China intends to increase its connectivity with over 100 countries and international organizations based partly on the historic Silk Road land and maritime routes. The initiative aims to build these linkages through investing in infrastructure, opening transport and economic corridors, and connecting China to other countries "physically, financially, digitally, and socially."[1] The BRI is wide-ranging both geographically and functionally. Geographically, the BRI spans many countries across Asia, Africa, Europe, and the Middle East, as well as parts of Latin America. While the BRI is linked to trade routes associated with China's historical greatness, the initiative is not geographically constrained and has continued to expand. Also, while infrastructure is a critical element of the BRI—particularly infrastructure that increases China's security and access to resources—so too is increased cultural and social connectivity between China and BRI partner countries.[2]

Early BRI infrastructure investments have resulted in criticism of some of China's practices. The most common complaint is China's use of debt and market traps to "reshape international relations in its favor" by creating BRI partner country dependency.[3] Due to internal political and economic weaknesses, the debt of "more than half the nations listed under BRI are rated 'junk' or not graded."[4] Because of limited options, many of these countries are vulnerable to dependency and economic coercion. Unlike loans from multilateral financial institutions that insist on accountability and reforms, Chinese loans typically lack such strings but instead often require that projects be given to Chinese companies and "at least 50% of material, equipment, technology, or services" be sourced from China.[5]

An October 2018 special report in *China Today* meant to assuage criticisms of the BRI describes the initiative as the embodiment of China's commitment to its international responsibilities. The BRI is further explained as a response to "trade protectionism, unilateralism, isolationism, and other virulent trends" that have damaged the global economy and multilateral trading system, a thinly veiled effort to paint China as a positive alternative to the United States.[6] Likewise, Xi Jinping's speech at the 19th Party Congress argued for shared community and international cooperation, particularly between China and its neighbors—including through the BRI.[7]

Understandably, China intends to use the BRI to improve its economic, political, and security situation. The BRI is praised as a potential economic boon for partner countries, highlighted as China's means of rising peacefully, or criticized as a strategic ploy to gain assets and build influence through diplomatic and economic coercion. Viewed objectively, the BRI deserves both praise and criticism. China has offered loans in environments where other lenders are reluctant to engage. While doing so places some BRI countries in a weak bargaining position, it offers infrastructure investment that otherwise may not be available. The long-term success of the BRI will depend on the ability to strike an equitable balance between China's interests and those of partner nations. The ability of BRI countries to strike that balance depends on their political and economic health, as well as their ability to hedge against excessive dependence on China.

This article argues that, in the context of South and Southeast Asia, the BRI represents China's strategic effort to gain predominance in the Asia-Pacific by advancing its influence over countries in the region, overcoming its "Malacca Dilemma" (the vulnerability of sea-lanes through the Malacca Strait), and gaining access to or establishing new ports with the potential to serve both commercial and military purposes.[8] The article begins by exploring China's shift to a more assertive foreign policy under Xi Jinping. Next, it explores the funding of BRI projects, particularly examining BRI investments in two South Asian and two Southeast Asian countries to illuminate China's approach. It also projects future BRI trends and the potential value of the Asian Infrastructure Investment Bank (AIIB) to improve China's image. Finally, it draws lessons to provide insights for BRI nations while providing recommendations for the United States as it faces increasing competition with China.

BRI = No Longer Biding Time

China's foreign policy under Xi Jinping is more assertive than that of his predecessors, particularly in Asia. During past decades, Chinese leaders followed Deng Xiaoping's guidance to "hide one's capabilities and bide one's time," which they frequently referenced in speeches.[9] In Xi's speech at the 19th Party Congress, that language was nowhere to be found. Instead, Xi used more assertive language, noting that China will "take an active part in reforming and developing the global governance system" and warning that "no one should expect us to swallow anything that undermines our interests."[10] China's more aggressive posture comes at a time when other nations perceive the United States to be stepping back from globalization and multilateral institutions.[11]

Although the term "core interests" is not used in Xi's 19th Party Congress speech, it cites China's "interests" approximately 30 times.[12] While not clearly defined, China's core interests are generally viewed to include Chinese sovereignty, development and security, national reunification, territorial integrity, and the continued centrality of the Chinese Communist Party (CCP).[13] China's regional strategy is more assertive toward core interests and more benevolent toward secondary interests intended to enable China to "achieve its main strategic goal of rising peacefully."[14] This strategy is particularly true in South and Southeast Asia, where sea-lanes, roads, rail, pipelines, and countries that will support Chinese positions in multilateral institutions are all vital to China's economic, political, and security well-being.

The fact that China is no longer biding time is likely related to two factors. First, China's rapid economic growth of the past two decades is beginning to slow. The BRI is an opportunity to reinvigorate growth, reduce energy vulnerability, and increase global presence and prestige while China remains positioned to self-fund many of the initial BRI projects. Also, the BRI is a lifeline to inefficient state-owned enterprises (SOE). Since 2016 SOEs have received 83 percent of loans, mostly from state-owned banks. This statistic is a reversal from 2013, when 57 percent of loans went to private companies.[15] Second, the BRI is a result of China's dissatisfaction with the status quo—at least in its own region—that can be linked to the Obama-era pivot to Asia announced by the United States in 2011. China's military buildup, consolidation of what one author calls the "China model" of control over political and economic decisions, and behavior toward regional institutions all indicate its dissatisfaction with the status quo. [16] The recent US-China trade dispute has only exacerbated China's dissatisfaction with the current state of affairs.

Some scholars argue that China is using "energy mercantilism," facilitated by the BRI and the encouragement of overseas energy sector investments by Chinese companies, as a means to neutralize the United States' ability to use access to oil as a weapon of coercion.[17] Securing multiple energy supply sources and routes, as well as improving the ability to protect sea-lanes and vessels, is important to China's security. With respect to vessels, China is reportedly developing a fleet of "Chinese-owned and Chinese-flagged oil tankers" that some scholars argue may serve as a deterrent by creating potential encounters with Chinese vessels at sea. The argument is that, unlike foreign-flagged vessels, the unwillingness of Chinese vessels to comply with potential blockades would escalate matters to the point it gains the attention of multilateral bodies.[18] China is building relationships both within the region and globally, including Africa, which accounts for around 25 percent of all members of the United Nations General Assembly. Ensuring favorable votes in the United Nations and other multilateral bodies is an element of China's long-term approach to protect its actions in the Asia-Pacific and elsewhere.

Overcoming the Malacca Dilemma is a primary goal of the BRI in South and Southeast Asia. The term "Malacca Dilemma" became widely used after Hu Jintao declared in 2003 that "certain major powers" were intent on controlling the Malacca Strait, which would give them the ability to cut off energy supplies to China.[19] The solution to the Malacca Dilemma described more than a decade ago included "reducing import dependence through energy efficiencies and harnessing alternative sources of power, investment in the construction of pipelines that bypass the Malacca Strait, and building credible naval forces capable of securing China's SLOCs [sea lines of communications]."[20]

"Overseas strategic pivots" (海外战略支点) in places like Gwadar Sea Port are an important means of addressing SLOC vulnerability.[21] These pivots are described as "support facilities" designed to expedite escort operations and reduce the risk of China's SLOCs "being harassed or blockaded by hostile naval forces."[22] The dual commercial and military purpose of these strategic pivots correspond to the civil-military integration described in China's 2015 Military Strategy.[23] Such ports can serve as important enablers for People's Liberation Army Navy (PLAN) vessels in terms of ship maintenance and oil replenishment, thereby allowing China to increase its reach, presence, and prestige. From India's perspective, these port projects—particularly in Myanmar, Pakistan, and Sri Lanka—appear to confirm the "string of pearls" theory, which argues that China endeavors to establish a string of facilities in the Indian Ocean region that can support the PLAN.[24]

While China seeks to strengthen its position in the Asia-Pacific through the BRI and other means, some of which are aggressive, terms like "collaboration," "shared benefit," and "equal partnership" dominate Chinese government pronouncements. At the 19th Party Congress, Xi argued in favor of those attributes espoused by liberal international relations theorists, such as cooperation, globalization, trade, and international institutions.[25] While these efforts are intended to improve China's influence and image, a look at some of its actions appear to indicate that China often desires shared community and cooperation only to the extent that others are willing to defer to it. As Mohan Malik of the Asia-Pacific Center for Security Studies (APCSS) notes, "China's goal in its foreign relations is not usually conquest or direct control, but freedom of action, economic dominance and diplomatic influence through coercive presence."[26]

China behaves according to what theorists of realism would expect of regional hegemons when its neighbors do not acquiesce on issues such as its claims in the South China Sea. China has used a divide-and-conquer approach to keep certain issues from appearing on multilateral agendas.[27] By its insistence to deal with countries on an individual basis, it is able to use its overwhelming economic power in an effort to bring countries into compliance. According to one scholar, "China is already following the strategies of previous regional hegemons. It is using economic coercion to bend other countries to its will."[28] Examples related to the BRI include Sri Lanka's handover of Hambantota Port in a debt-equity swap and

Cambodia's willingness to serve as China's proxy within the Association of Southeast Asian Nations (ASEAN) in exchange for economic benefits.

Chinese scholar Yan Xuetong agrees, noting that "China will decisively favor those who side with it with economic benefits and even security protections. On the contrary, those who are hostile to China will face much more sustained policies of sanctions and isolation."[29] The use of economic dependency and coercion to advance interests, though, should not be interpreted as complete disregard for the interests of BRI partner countries. For the BRI to be effective, partner countries must also benefit. The level and type of benefits necessary for BRI projects to be deemed worthwhile will vary by partner country as will each country's susceptibility to coercion. Moreover, the willingness of China to lower interest rates on loans and convert loans to grants will also vary by country, depending on how closely projects are linked to China's core security and development interests.

Chinese Financing of BRI

China is advancing its regional and international influence through its financing of BRI projects as well as the establishment of new multilateral institutions. Examples of multilateral and domestic Chinese institutions that are key financers of BRI projects include the China Development Bank, the Export-Import (Exim) Bank of China, China's four leading commercial banks, the AIIB, and the Silk Road Fund. Estimates for Chinese investment under the BRI range from $1 to $8 trillion US dollars, with $1 trillion being the most frequently cited number.[30] To date, South and Southeast Asia have received the majority of BRI investment, which is indicative of the region's importance to China's security and development interests.[31]

Much of the impetus for China's creation of the AIIB developed from dissatisfaction with the governance of existing international financial institutions, particularly an insufficient "focus on infrastructure and growth."[32] There were early fears in the West that China would use the AIIB for its own political and economic ends, including as a means to dispose of excess SOE capacity through BRI projects.[33] While these practices have occurred in relation to BRI projects funded by China's commercial and policy banks, the AIIB, while complementing the BRI, has thus far been a minor player. And although China holds a sufficient percentage (26.6 percent) of the AIIB's shares to effectively veto "decisions requiring a super majority," it has not used that veto power to date.[34]

The AIIB is constrained by its multilateral structure, governance, and operating procedures, mirroring those of other multilateral development banks.[35] Therefore, it could be argued that the AIIB, as one of China's first efforts to establish a major multilateral institution, is primarily a tool to promote a positive image. If so, this would serve as an incentive for China to avoid using its veto power in the AIIB. As the BRI expands into countries more cautious in their engagements with China or having multiple funding options, the AIIB will likely be used more frequently to fund BRI projects.[36]

In contrast to the AIIB, China's policy and commercial banks offer a less constrained option to fund BRI projects, which is particularly important for BRI projects vital to China's security interests. Policy banks, in particular, function as "agents of Chinese state-capitalism that employ subsidized capital to achieve a combination of commercial and geopolitical aims."[37] China created three policy banks in the 1990s, two of which are closely related to the BRI and either directly or indirectly under Chinese government control. The China Development Bank finances infrastructure, energy, and transportation projects.[38] The Exim Bank focuses on trade financing and promotion of Chinese products and services, which are critical to China's SOEs.[39] Based on a 2018 report, the AIIB has only loaned a little more than $3.5 billion to date, and just one-third of that appears to be BRI related. In contrast, the China Development Bank and Exim Bank reported lending approximately $102 billion and allocating "hundreds of billions in BRI-related credit."[40]

Most BRI-related loans share common characteristics. For example, Chinese loans generally come from "state-funded and state-owned policy banks," such as the Exim Bank of China and China Development Bank.[41] The loans typically come in two primary forms—concessional loans and preferential buyer's credit—and generally have higher interest rates than those granted by most multilateral agencies. The terms of Exim Bank loans typically require that the projects be implemented by Chinese companies with at least 50 percent of the equipment, materials, and services sourced from China. Such loans, according to one scholar, are concessional loans made to "less credit worthy countries to promote exports of Chinese goods and services."[42]

The most important observation about the vast majority of early BRI projects is that they are almost entirely financed by banks and funds under Chinese government control. This makes sense given the security interests involved. While the China Development Bank and Exim Bank have combined to provide around 45 percent of BRI funding, China's four largest state-owned commercial banks have provided 51 percent of BRI funding.[43]

The Silk Road Fund, which also funds BRI projects, is linked to the People's Bank of China and has total capital of $40 billion. The four Silk Road Fund shareholders include the State Administration of Foreign Exchange, China Investment Corporation, Exim Bank of China, and China Development Bank.[44] As a result of the lack of expected financial return on many projects, it is reported that some state-run banks would like to avoid more BRI spending. Yet the fact that the BRI is so closely connected to Xi Jinping and is now written directly into the Constitution means that attacking the initiative is seen as an attack against the CCP.[45] Moreover, the inclusion of the BRI in the Constitution may be an effort to consolidate central government control over the initiative, aspects of which Chinese companies, provinces, and even prefectures have taken the lead in implementing.[46]

The BRI in China's Backyard

As the "main axis" of the BRI, South and Southeast Asia are vital to China's interests.[47] Infrastructure in the region is key to the connectivity envisioned by BRI, as evidenced by the fact that the area has experienced the most significant investment for the longest period. However, there has been little financial return on investment, and it is questionable whether China is actually seeking a financial return or simply pursuing "geopolitical needs."[48] The countries that have benefitted most are those that "already had strong geopolitical reasons" to align with China.[49] Incidentally, these countries are among the most likely to allow a Chinese naval base or—even more probable—serve as overseas strategic pivots, providing support for both commercial and naval vessels.[50] Ports serving this purpose would partly address the vulnerability of one of China's most important trade routes.[51]

Within Southeast Asia, Cambodia and Myanmar exemplify China's approach. Both are strategically important because of land transportation routes, ports, and sea-lanes, as well as their ASEAN membership. Ports in Cambodia and Myanmar would give China strategic locations on the eastern and western sides of the Malacca Strait, thereby addressing one aspect of China's Malacca Dilemma, while pipelines in Myanmar enable a supply route that bypasses the Strait. Also, with labor rates much lower than China's, both countries present an opportunity to move some low-end factory production abroad as part of China's "going out" policy. This policy encourages Chinese companies to invest abroad, particularly in the energy sector.[52]

In an analysis of relations between China and the member states of ASEAN, David Shambaugh identifies ASEAN states by one of six categories along a spectrum. Those closest to and most dependent on

China are at one end of the spectrum, while those farthest from and least dependent on China are at the other end. The categories include capitulationist, chafer, aligned accommodationist, tilter, balanced hedger, and outlier. His analysis identifies Cambodia as a "capitulationist" state, meaning it is the most closely tied to and dependent on China and has a "virtual client-state relationship." Categorized as a "chafer," Myanmar is the second most closely tied to China and has no other options.[53] At the other end of the spectrum is Indonesia, described as an "outlier" that "goes out of its way to maintain distance" from China and the United States. As Shambaugh notes, this spectrum is not static; the status of states within ASEAN can change over time.[54]

Located along the Malacca Strait, Malaysia's Melaka Gateway project also figures in China's plans to strengthen its position in the region and reduce the vulnerability of the strait. However, this discussion does not pursue China's BRI investments in Malaysia and other ASEAN countries. Instead, it specifically examines two ASEAN states identified as capitulationist and chafer states, as well as two South Asian nations that appear to meet the description of either a capitulationist or chafer state. Shambaugh identifies Malaysia as an "aligned accommodationist" state, which is less closely aligned to China than capitulationist and chafer states.[55]

South Asian countries are also critical to the BRI and China's broader interests. Among the most important are Pakistan and Sri Lanka. Based on Shambaugh's spectrum of dependency, Pakistan and Sri Lanka appear to have teetered between capitulationist and chafer states in recent years. Pakistan, like Myanmar, offers China the ability to use pipelines to improve energy security by affording an alternative to traversing the Malacca Strait. Ports already constructed or currently under construction in Pakistan and Sri Lanka also improve China's ability to protect SLOCs, to increase its visible presence in the region, and to gain prestige. For example, Gwadar Port in Pakistan will provide China a port on the Arabian Sea near the Strait of Hormuz, while ports in Sri Lanka serve as important assets on the Indian Ocean.

Cambodia

Cambodia has become one of the fastest growing economies in the world due to billions of dollars in Chinese investments.[56] Cambodian president Hun Sen is now seen as China's proxy in ASEAN. In 2016 he blocked ASEAN from condemning China for its territorial claims in the South China Sea.[57] According to Dr. Sophal Ear, a leading Cambodia expert, the Cambodian government "is willing to do just about anything at this point to satisfy China."[58] He says that some so-called BRI projects are merely mechanisms to put money in the hands of government officials to buy influence.[59] During a speech at the University of Colorado, Boulder, Dr. Ear indicated that Cambodia is "increasingly looking like a province of China, if not a wholly-owned subsidiary."[60]

As of early 2017, Chinese companies were reportedly responsible for 70 percent of industrial investment in Cambodia, held at least 369,000 hectares of land concessions, and had development rights for around 20 percent of Cambodia's coastline.[61] The Koh Kong Port in Koh Kong Province is an example of a significant Chinese infrastructure investment. It is part of a pilot zone on a 45,000-hectare concession that was provided to a Chinese company for 99 years with a 100 percent equity stake.[62] The Cambodia Union Development Group originally signed the deal for the pilot zone. A review of Cambodia's corporate registry revealed that ownership was changed from foreign to Cambodian before the concession was awarded, reportedly as a cover for Chinese company Tianjin Union Development Group to circumvent Cambodia's law limiting the size of foreign land concessions.[63] Phase 1 of the Koh Kong Port project is currently underway, while two man-made lakes, a power plant, four-lane highway, resort, and golf course are already completed.[64] A recent report notes that a Chinese naval base in Koh Kong would position China to "challenge military vessels coming through the South China Sea from two directions, instead of only from the Spratly Islands."[65] Additionally, a base in Cambodia would extend China's military presence beyond the nine-dash line and position China on the doorstep of a potential canal across Thailand—a long-proposed project that has recently gained new attention—which would shorten China's path to the Indian Ocean.[66]

The Koh Kong Port and pilot zone project appears to follow the "port-park-city" (前港-中区-后城) model, involving development of a port followed by construction of an industrial park, which some argue is "then intended to lead to the establishment of a proxy Chinese city inside another sovereign state."[67] Those with an optimistic assessment note that parks with special economic or free trade zones lead to increased trade and investment, which can serve as a means to recuperate infrastructure development costs.[68] However, potential dangers include the loss of sovereignty due to long-term leases, the exclusion of the host nation and other countries from projects, and interference in a state's domestic politics.[69] While Hun Sen insists that Cambodia will not allow a foreign military base, recent reports indicate that China's Union Development Group is nearing completion of a runway in Koh Kong Province that matches the length of runways China built on islands in the South China Sea to support "military reconnaissance, fighter, and bomber aircraft." The same report reminds us that China denied that it would militarize those islands, which now host "anti-ship cruise missiles, surface-to-air missiles, and military jamming equipment."[70]

Myanmar

Unlike Cambodia, Myanmar not only borders China but also serves as an important link between South and Southeast Asia. During the 1990s, Myanmar's military junta relied heavily on China for economic survival. In return, China gained access to natural resources and "moved closer to gaining a strategic passage from southwest China to the Bay of Bengal."[71] Although there have been complaints about Chinese economic domination and illegal immigration from China that led the government to suspend several Chinese projects, Myanmar remains heavily reliant on China. After Myanmar's return to democracy, the country reopened some previously suspended Chinese projects and approved others. The Myanmar government earns billions from Chinese-owned pipelines that provide oil and gas to China's Yunnan Province. This scenario is just one example of how China uses infrastructure investments in Southeast Asia to improve its energy security by developing supply route alternatives to the Malacca Strait.[72]

In 2015 Myanmar approved "plans to develop a deep-sea port, industrial zone, logistics hub and other facilities in Kyaukpyu—all by Chinese companies."[73] Due to increasing concerns of unsustainable debt, Myanmar renegotiated the project in 2018. Doing so led to an agreement to scale the project back from its original $7.2 billion to $1.3 billion, thus better serving Myanmar's interests and also allowing China to complete a core element of its BRI plans. Myanmar will further expand the port only if usage and profits permit.[74] China's CITIC Group will take a 70 percent stake in the project while the rest will belong to the Myanmar government and several domestic companies. The CITIC Group is also investing $2.7 billion to develop an industrial park within the special zone, for which it will receive a 51 percent stake.[75]

It is unclear whether China will apply the port-park-city model in Myanmar, which has grown increasingly concerned about its excessive dependence on that country. Dr. Malik, however, suggests that China will pursue this model of development in Myanmar and Cambodia just as it is doing in Pakistan and Sri Lanka.[76] He notes that China has threatened Myanmar with an economic penalty of one billion US dollars for backing out of the Myitsone Dam project in an effort to restart the project. He adds that China's veto in the United Nations Security Council gives Myanmar diplomatic protection in relation to the Rohingya refugee issue, which is used to "make sure Myanmar does not move out of China's orbit."[77]

Pakistan

The China-Pakistan Economic Corridor (CPEC) is a key route linking China to other countries as well as to the strategically important Gwadar seaport. CPEC is BRI's flagship project.[78] The Karot Hydropower Station, a major initial element of CPEC, was the first project funded by the Silk Road Fund.[79] Valued at $62 billion overall, CPEC involves "expanding Gwadar port, and constructing energy pipelines, power plants, hundreds of miles of highways and high-speed railways, fiber-optic cables and special economic zones."[80] Gwadar Port is considered one of China's overseas strategic pivots, intended to "facilitate China's civilian and military seaborne activities" in the region.[81]

CPEC is valuable not only to China's security but also to the economic health of northwest China. Unlike BRI projects further afield, CPEC "has the potential to transform the economy of its [China's] underdeveloped, remote and restive Xinjiang province."[82] Reducing separatist sentiments in Xinjiang is a priority that China hopes CPEC can help achieve through economic development. Among other benefits, CPEC will provide Xinjiang with access to the sea. Moreover, Gwadar Port and the Gwadar-Kashgar gas pipeline that will link the Bay of Bengal to Yunnan Province in China through Myanmar are key aspects of CPEC that can help China overcome its Malacca Dilemma.[83]

While Pakistan is among the most significant BRI countries in terms of investment, and one of the biggest supporters of the BRI, concerns about unsustainable debt have led the Pakistani government to revisit some aspects of the CPEC project. Dependence on Chinese loans to "prop up its vulnerable economy," however, has made those efforts tricky.[84] One option Pakistan raised was a build-operate-transfer model, which Chinese officials indicated they would be willing to entertain.[85] For a rail component of the CPEC project, Pakistan sought funding from the Asian Development Bank. However, China indicated that the project was "too sensitive," and Islamabad reportedly "kicked out the bank under pressure from Beijing in 2017."[86] In late 2017, the Pakistani government pulled out of a $14 billion deal with China to build the Diamer-Bhasha Dam because it could not accept the "hyper strict" funding conditions: China would take ownership of the project as well as operations and maintenance. The project will reportedly move forward with Pakistani funding.[87]

Gwadar Port is an important element of CPEC. It is a Chinese-funded and constructed project that affords China access to a port at the mouth of the Persian Gulf near the Strait of Hormuz.[88] Pakistan provided China a 43-year lease for hundreds of hectares of land at the Gwadar Port for the construction of a special economic zone. Additionally, the port itself was leased to the China Overseas Port Holding Company for a period of 40 years, along with a "91 percent share of revenue collection from gross revenue of terminal and marine operations and 85 percent share from gross revenue of free zone operation."[89] Although Chinese financial institutions have reduced the interest rates on some loans and converted the $230 million loan for Gwadar Airport from a loan to a grant, concerns remain that Pakistan's dependency on China has resulted in agreements that favor China at the expense of Pakistan.[90]

China appears to be pursuing a port-park-city model of development in Gwadar similar to that planned in Cambodia. Although it may be an overstatement, one recent report claims that China plans to settle a large number of Chinese professionals in the port city by 2022.[91] Reports often stoke fears of Chinese "takeovers," and Chinese companies often exaggerate the scale of projects. Whether such development models will be fully realized remains to be seen. Still, China seeks to attract Chinese businesses to newly created free trade zones as part of its policy of encouraging foreign investment, and private Chinese citizens often seek opportunities near large-scale BRI projects.

Sri Lanka

Indebtedness and international criticism of the Sri Lankan government for failing to seek reconciliation during and following its civil war were factors leading to an overreliance on China for development assistance. During Mahinda Rajapaksa's government, Sri Lanka sought to rapidly improve economic development prospects. In 2006 a Chinese state-run company received loans from China's Exim Bank to construct a $1.35 billion coal power plant in Puttalam, Sri Lanka. Exim also loaned millions to Sri Lanka in 2008 to build the Hambantota Port in the south of the country. Following the war, the country increasingly relied on Chinese loans to jump-start its postconflict reconstruction efforts.[92]

As of 2015, Sri Lanka had accumulated billions of dollars in debt to China. The 2015 election led to Rajapaksa's fall and the election of Ranil Wickremesinghe. The new government faced a high debt-to-GDP ratio, reaching 79 percent in 2016.[93] As a result of an inability to pay debts, Sri Lanka arranged a debt-equity swap giving China Merchants Port Holding a 99-year lease of the Hambantota Port and an 80 percent stake, as well as 15,000 acres of land around the port to be developed as an industrial zone for Chinese investors.[94] This agreement allowed China to secure an important port on the Indian Ocean for the next century, hearkening back to the 99-year leases that colonial powers unfairly forced on China more than a century ago.

Additionally, the Sri Lankan government allowed China Harbour Engineering Company to resume work on the $1.4 billion Colombo Port City project in 2016, providing China Communications Construction Company a 99-year lease on two-thirds of the 269-hectare land reclamation project.[95] Indian concerns resulted in the cancellation of the provision of land to the company in perpetuity.[96] As part of the renegotiation with the new Sri Lankan administration, the Colombo Port City project was renamed Colombo International Financial City. The core of the project remains intact, though with the added focus on building a financial center and bringing in additional investors.[97] According to Dr. Malik, Beijing "acts in a piecemeal, quiet and patient fashion, only bringing the pieces together 'when the conditions are ripe.' "[98] In the case of Sri Lanka, he notes that China took advantage of the Sri Lankan civil war of the 2000s to establish a foothold in the country.[99]

BRI Trends Going Forward and China's Image

While China has pressured BRI countries to avoid non-Chinese funding sources when projects were regarded as sensitive, China will need to transition to a less mercantilist approach for the BRI to be successful in the long term. China may work to reduce escalating competition by co-opting major multinational companies when and where advantageous. A recent report on future BRI opportunities notes that many multinational corporations expect to increase their work in relation to BRI projects in coming years.[100] Increased engagement by multinational companies and multilateral institutions is most likely to occur in countries less strategically important to China's security.

Though not yet operationally significant to the BRI, the AIIB appears to be an effort to promote China as a responsible international actor. The ability of the AIIB to fund future projects will depend partly on the success of the BRI's overall image and the confidence of AIIB stakeholder nations to provide funds. At the Second Belt and Road Forum, held in April 2019, Xi sought to answer criticisms of the BRI by vowing "zero tolerance" for corruption, pledging increased transparency and environmentally sound practices, and reiterating China's willingness to "open up."[101] AIIB funding of projects could reduce criticism by eliminating direct Chinese control over projects. Yet if AIIB stakeholders withhold funding or lack confidence in the institution, it could become "nothing more than a shell organization through which China disburses bilateral foreign aid."[102]

As the BRI moves forward, China will continue to be denounced for certain projects, particularly those funded by Chinese banks with high interest loans; built with mostly Chinese labor, equipment, and materials; and owned and operated by Chinese companies as a requirement of the investment agreements. China will likely lower interest rates or forgive some loans, as it has already done for select projects, to avert growing reprobation and advance projects. In addition, some announced projects will fail to develop or will be halted, though China will go to great lengths to maintain BRI projects related to its security.

Conclusion

This article has argued that China's implementation of the BRI in South and Southeast Asia is a strategic effort to achieve predominance in the Asia-Pacific. China's increased presence and influence in the region, access to and creation of new ports, and strategic moves to overcome its Malacca Dilemma are all important steps toward achievement of this objective. China's preferred means of securing predominance is not direct confrontation, but to improve its posture by bringing countries into its orbit while gradually expanding its influence and ability to project power economically, diplomatically, and militarily. The most likely nations to host future Chinese overseas strategic pivots or naval bases, and/or serve as China's proxies in multilateral institutions, are those that display characteristics of what Shambaugh labels capitulationist and chafer states. In Southeast Asia, this category includes Cambodia and Myanmar. Extending this framework to South Asia, Pakistan, and Sri Lanka is also clearly in China's orbit. China has used the BRI in Myanmar and Pakistan to link itself with the Indian Ocean via overland routes while improving its energy security through the development of pipelines forging an alternative to shipments via the Malacca Strait and the South China Sea. In all four countries profiled here, China has advanced its economic and diplomatic influence while gaining long-term access to important ports that could serve both commercial and military purposes.

While Chinese investments can benefit BRI partners in the Asia-Pacific and elsewhere, excessive dependency leaves countries vulnerable. Therefore, BRI countries should seek to diversify project funding and avoid agreements that could result in the loss of sovereignty over key infrastructure. Chinese leaders will tailor the BRI to ensure successes, though sometimes measured in terms of security benefits rather than financial returns on investment. BRI partner countries should seek opportunities to take advantage of this "tailoring," which could offer the potential for more favorable agreements or modifications to existing agreements—particularly if China is receiving significant negative international attention due to exploitative practices. China has demonstrated a willingness to use economic and diplomatic coercion to keep some countries firmly in its orbit. Thus far, however, it appears more likely to use economic benefits to get its way with BRI partner countries in the region, especially those viewed as vital to China's security interests. While some of China's plans for the BRI will fail, the overall initiative is, as Dr. Malik observes, "too big to fail completely."[103]

Chinese leaders will continue efforts to improve the image of the BRI, as Xi Jinping recently did at the Second Belt and Road Forum when he noted that cooperation "will be open, green and clean."[104] Over time, the AIIB is likely to serve an increasingly important role, and China could use it as a means to improve the image of BRI generally. Moreover, financial returns on investment will likely become more essential for projects that do not represent core security interests and those funded in less vulnerable countries. Therefore, once China has improved its position in the Asia-Pacific and secured critical resources, it is likely there will be a gradual transition to less mercantilist approaches and a shift away from Chinese commercial and policy banks as the primary lenders.

The United States must develop a long-term strategy to compete and cooperate with China in the Asia-Pacific. In doing so, US leaders would be prudent to regard China's rising status as a reality to be wisely managed in coordination with allies, partners, and international institutions rather than as a problem to be solved. The United States should seek to maintain its status as the leading military power in the region for the foreseeable future. Moreover, it is important that the United States remain the security guarantor for treaty allies in the region as well as protect international sea-lanes vital to global trade. The definition of US success in the region must also include an increased recognition of and respect for China's growing status, along with efforts to cooperate on issues of mutual interest.

The United States and its allies should coordinate based on their relative strengths and position themselves as potential partners with countries in the region. However, the United States should not overextend itself by attempting to directly compete with Chinese infrastructure loans but, instead, support projects that build indigenous capacities. Additionally, the United States should work with multilateral organizations and partners in the region to publicly identify BRI projects failing to meet international standards regarding transparency and accountability, as well as those agreements resulting in loss of host-nation sovereignty over key infrastructure and territory. Another US priority in the region must be increased diplomatic and military-to-military cooperation, which can be demonstrated by consistent and high-level engagement with ASEAN and individual South and Southeast Asian nations.

While originally opposed to its creation, the United States should consider AIIB membership. Joining the AIIB would give the United States a voice in AIIB decisions while also signifying a willingness to engage and cooperate with China on responsible initiatives, thereby sending an important message to the region. Similarly, the United States must revisit participation in the Trans-Pacific Partnership (TPP) trade agreement. The agreement includes labor and environmental standards that are beyond China's reach in the near future. As a result, US participation in the TPP would help to maintain as well as to advance US leadership in the region.

Finally, the United States and its partners should remain cognizant that China's competition for predominance in the Asia-Pacific involves not only its influence on countries in the region but also those in other regions. As the BRI expands, China will continue to use the initiative as a tool to bring countries into alignment with Chinese positions within multilateral institutions, such as ASEAN and the UN. Future disputes between China and the United States in an ever-more-contested Asia-Pacific region will almost certainly be influenced by the votes of ASEAN and UN members. Therefore, effective engagement with multilateral institutions and their member states throughout the world will be an increasingly important element of the United States' ability to compete with China in the Asia Pacific. SSQ

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