



NATO PARLIAMENTARY ASSEMBLY

ECONOMICS AND SECURITY COMMITTEE (ESC)

CHINA'S BELT AND ROAD INITIATIVE: A STRATEGIC AND ECONOMIC ASSESSMENT

General Report

Christian TYBRING-GJEDDE (Norway)
General Rapporteur

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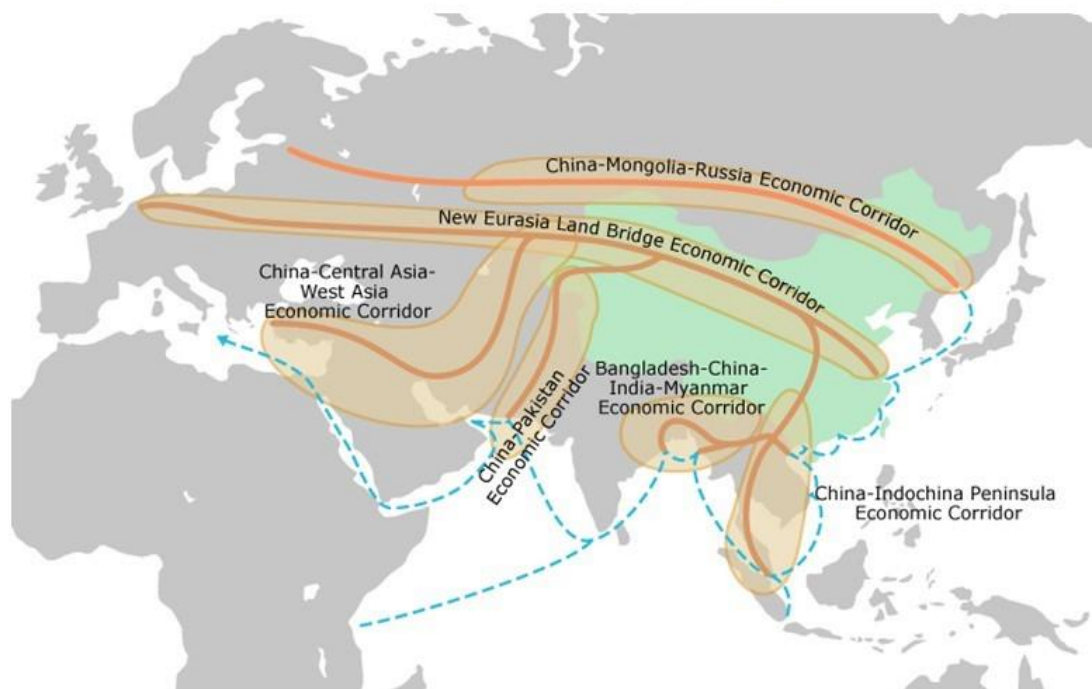
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I. INTRODUCTION

1. In 2013, Chinese President Xi Jinping announced perhaps the most ambitious investment and infrastructure programme ever conceived. The 'Belt and Road Initiative' (BRI) that he laid out starkly demonstrated China's soaring global economic and strategic ambitions. Though Xi has cast the BRI as a win-win opportunity for those countries targeted for new investment, it has come to be seen both as an opportunity and as a threat among many of the countries targeted by China. Despite myriad hesitations, 125 countries have signed BRI cooperation agreements, including several European countries. Not surprisingly, a great deal of financial capital has been staked on the effort. A 2018 US-China Economic and Security Review Commission report estimated that BRI debt and equity funding had exceeded half a trillion dollars by the end of 2017 with funds channelled through Chinese policy and state-owned commercial banks, the Silk Road Fund, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (Segal, 2019).

2. Although the extent of China's aspirations for the Belt and Road Initiative are not entirely clear, it is evident that this project could shape the coming geopolitical landscape in ways that the transatlantic community simply cannot ignore. It is important to recognise that over the last thirty years, China has re-emerged as the world's largest trade and shipping nation. It is also now the world's second biggest economy, controls the world's third most powerful military, and is a technological giant that plays a key role in global value chains. While it is clearly a challenger to the West, it is also an important commercial partner and a key link in the global economy. China, of course, cannot be easily isolated from the world economy and any attempt to do so would inflict very high costs on the West and on the global trading system more generally. The BRI is thus seen as both a challenge and an opportunity by many of China's trading partners, although it is viewed with greater suspicion by China's rivals including the United States and increasingly by a number of European governments. They will accordingly need to work collectively and in a focused manner to ensure that any commercial ties that they forge with China do not compromise basic security interests.

The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa



Source: [CSIS](#)

3. Even though interpretations of the project's wider geostrategic significance abound, in practical terms, the BRI can be essentially understood as three inter-linked initiatives: the Silk Road Economic Belt, the Maritime Silk Road, and more recently the 'Digital Silk Road' which, for all intents and purposes, includes a space component. The former two consist, at least in theory, of six economic corridors through which China aspires to connect to East Asia, Central Asia, the Middle East, Eastern Africa and Europe.

4. Along these corridors, a broad array of infrastructure projects is envisioned including oil pipelines, roads, railways, and ports, as well as a host of industrial investments facilitated by this infrastructure. But one would be mistaken to conceive of the BRI exclusively as a physical phenomenon. Under its broad rubric, projects can also include legal arrangements like trade and transportation agreements with partner countries, including related efforts to "improve the efficiency of customs clearance, enable interoperability across different rail gauges, reduce tariff barriers, assure security along transport corridors, and harmonise institutional, financial, and regulatory structures" (Freeman, n.d.).

5. China also intends to set up at least 50 special economic development zones: small sub-regions within a country's border governed by special commercial and trading rules that collectively aim to facilitate investment and deepen China's trading ties with these regions. There are already several such zones within China. But establishing them in partnering countries represents an innovation that would theoretically, at least, benefit both China and the host country (Mauk, 2019).

6. China's vision also includes extensive people-to-people exchanges, including new scholarship programs to bring foreign students to Chinese colleges and universities. The Chinese government has created several state media entities to engage directly with media companies and journalists in recipient countries through a variety of mechanisms. The goal here is to encourage favourable reporting both on the BRI and on China's benign intentions more generally. Chinese state media companies are also increasing their own airtime in participant countries' television markets, where they are, "working hard to overtake local competitors and flood viewers with pro-Chinese coverage" (Montague, 2019).

7. The third 'pillar' of the BRI, the 'Digital Silk Road', is more recent and potentially inordinately consequential insofar as the digital economy will play a dominant role in the global economy over the coming decades. Announced at the first BRI forum in May 2017, the Digital Silk Road will include laying undersea internet cables and delivering an "advanced IT infrastructure to BRI countries, including: broadband networks, e-commerce hubs and smart cities." (El Kadi, 2019) It is driven, in large part, by Chinese technology companies seeking to extend their market share and establish a dominant position in emerging as well as more developed markets.

8. China's digital ambitions include the construction of telecommunications networks and smart cities, e-commerce, nano-technology, quantum computing and a comprehensive multi-functional satellite system. Beijing's *Made in China 2025* sets out to establish Chinese leadership in an array of high-tech fields while its *China Standards 2035* initiative makes clear that it is determined to be a global standard setter in emerging technologies including 5G, artificial intelligence and the Internet of Things. An article in the state press described Beijing's ambitions for the BRI as focused on 'five connectivities and three communities': connectivity in infrastructure, trade, finance, 'people's hearts' and policy; and the community of interest, destiny and responsibility. The Digital Silk Road, in turn, seeks to improve regional and international connectivity in infrastructure, trade, finance and 'people's hearts' (Dekker et al., 2020). Beijing now aspires to play the role of rule-maker in standardisation and expects to become a leader in determining how technologies will be commercialised in the global marketplace. China sees this as fundamental to its emergence as a full technological competitor to the United States (Dekker, Okano-Heijmans, and Siyi Zhang, 2020).

9. This aspect of the BRI has become a source of mounting concern in the West for a plethora of reasons. China has a worrying track record both in illegally acquiring digital technology and

incorporating these technologies into its own products and using technology for espionage and domestic surveillance. Another concern is China's vast collection and possession of so-called Big Data, which many analysts suggest will constitute the most significant strategic national resource in the future. Big data is increasingly the object of a geo-economic and geo-political fight to secure global economic and technological leadership. The Digital Silk Road is slated to play a role in this struggle and, in this way as well, constitutes a strategic challenge for the West both in security and in commercial terms.

10. Although it is not often discussed, the BRI also has implications for space policy, an arena of mounting strategic importance and international rivalry. The weaponization of space, including rules governing the deployment of space based ABM systems, the protection of satellites and conflicting views on possible rules governing space have been a source of debate and tension among the United States, Russia, and China in recent years. Satellites are an area of particular concern as both commercial and military digital networks, surveillance and communications systems increasingly rely on satellites which are potentially vulnerable to attack.

11. China sees developing a space capacity to rival that of the United States as central to its ambition to rise to a full economic and military super-power. President Xi Jinping made this explicit as early as in 2013, when he noted that "the space dream is part of the dream to make China stronger." China, he said, is no longer "hiding capabilities and keeping a low profile," it's "striving for achievement." (Aluf, 2020) In 2019 China led the world in the number of space launches and notably conducted a test attack on one of its own satellites in 2007. In the process, it scattered dangerous debris in low orbit. The test signalled Chinese strategic ambitions in space, but it also displayed a disregard for the global commons. In 2019 the U.S. Defense Intelligence Agency published a report suggesting that Beijing was prepared to deploy a laser weapon to blind low-orbit satellites equipped with sensors. China has also apparently deployed electronic jamming equipment in the Spratly Islands to jam GPS signals used by U.S. drones (Nakamura and Ogawa, 2020).

12. Like the BRI, China's space program is driven by closely intertwined economic and strategic ambitions. The program aspires to reinforce Chinese research in quantum communications, robotics, artificial intelligence, and aviation. Its navigation satellite system aims to support transportation along the land and maritime corridors that China is constructing for both commercial and naval purposes. China's ambitions extend to the construction of a moon base, space mining, an extensive array of navigation satellites, and it sees this, at least partly, as contributing in a synergistic fashion to the BRI.

13. Many of the space related technologies China is developing have both commercial and military applications. Satellites are essential for commercial navigation and missile targeting for example. China has built its own Navigation Satellite System to rival the U.S. GPS and European Galileo systems and is making this service available to partner countries (Clingendael Report). Beijing has also participated in a range of international space initiatives, including the PakSat Multi-Mission Satellite – a joint development and launch by China and Pakistan – and the upcoming AfghanSat 2 system in Afghanistan.

14. Some analysts suggest that the BRI will only accelerate China's space program by expanding the market for its space-related services and technology. China has been partly hindered in this area by the U.S. International Traffic in Arms Regulations (ITAR) that has restricted technology transfer to China. China will encourage countries participating in BRI to use its satellite launch services, and will provide a full range of services including finance. The terms of these commercial and financial arrangements could prove attractive to some countries. Over the last decade, China has signed a range of contracts with countries such as Venezuela, Algeria, Pakistan, and even Nigeria. In December 2017, for example, a Chinese rocket put an Algerian satellite into orbit. It has recently signed contracts with Cambodia and Indonesia and is engaged in a joint satellite program with Brazil. China has an ambitious agenda for the longer-term including the development of orbital solar power plants, space tourism, and even a nuclear-powered space shuttle.

15. Despite – or perhaps because of its ambition, the BRI is also a highly flexible and somewhat amorphous undertaking. China has left many aspects of this grand scheme undefined, transforming it into a kind of rubric under which myriad initiatives might be included even if these were not initially conceived as part of the BRI. There is no sanctioned map defining its limits, no “guidelines on what it means to be a participant”, and no publicly available list of ongoing or envisioned projects (Mauk, 2019). In some cases, Chinese companies have initiated their own infrastructure projects, only to have the BRI ‘label’ applied post-facto (Hillman, September, 2018). Even the extent to which China’s Communist leadership controls the BRI is not entirely clear. This lack of clarity introduces a range of practical difficulties that might blunt its effectiveness as an overarching strategic project.

16. Indeed, Chinese ambitions for the BRI are also not entirely clear. Official Chinese government documents list a range of predictable and benign goals for the project: fostering greater regional connectivity in Eurasia; enhancing trade, investment, and economic prosperity; deepening political trust; and maintaining closer economic ties among nations (The State Council of the People’s Republic of China, National Development and Reform Commission, 2015). International observers and analysts, however, have ascribed many other drivers more aligned with China’s national objectives including its grand ambition to achieve global superpower status.

17. Of course, many of BRI’s objectives are economic in nature: to access new markets, to solve China’s problem of industrial over-capacity in consumer good production; to evade the ‘middle-income gap’ that often troubles developing countries; to foster economic development in neighbouring countries to the long-term benefit of Chinese traders; or to increase global use of the renminbi (Chatzky, 2019). Other justifications focus on geopolitical motives: improving China’s reputation in its neighbourhood; securing reliable flows of energy to China from Central Asia and the Middle East that the US Navy, for example, cannot obstruct; gaining port access or new military bases to help project Chinese surface and underwater naval power; or simply using the BRI to symbolise China’s definitive emergence as a global power (Chatzky, 2019; Ratner, 2018; Tata, 2017).

18. Some analysts warn that Beijing’s goal is to increase the economic and strategic dependence of a range of countries on China. As these countries become increasingly dependent on Chinese investment, infrastructure and trade, and as China’s capacity to project power mounts, they will be ever more reluctant to criticise China in international fora on sensitive subjects like China’s human rights abuses, unfair trade practices, and imperial ambitions (Mauk, 2019). The reach of China’s ambition is extraordinary. China’s Foreign Ministry has sought to foster cooperation between China and Central and Eastern European Countries in the so-called 17+1. Although it has characterised this as a win-win arrangement, it might also be understood as a divide and conquer strategy that undermines general European unity (Kavalski, 2019).

19. There is evidence the Belt and Road Initiative is on its way to meeting some of its goals. The Council on Foreign Relations estimates China has already spent USD 200 billion on BRI projects, and Morgan Stanley predicts that number may grow to somewhere between USD 1.2 and 1.3 trillion by 2027 (Chatzky, 2019; Morgan Stanley, 2018). Furthermore, as of May 2019, 65 countries had confirmed their actual or intended participation (Chatzky, 2019). China has also had success in securing support for this endeavour from powerful countries like Russia and Turkey (Lukin, 2018; Tavsan, 2019).

20. At the same time, however, some participant countries are becoming increasingly wary of China’s intentions. As a result, elements of the program are subject to intensifying scrutiny. The Center for a New American Security identifies seven serious risks that participants are assuming as a result of their participation: “erosion of national sovereignty; lack of transparency; unsustainable financial burdens; disengagement from local economic needs; geopolitical risks; negative environmental impacts; and significant potential for corruption” (Kliman, 2019).

21. The sheer expanse of the BRI makes it difficult either to catalogue its myriad dimensions or to fathom its ambitions. Its very ambiguity may be undermining its strategic objectives: individual

projects do not all correlate easily with the investment corridors illustrated in the map above. Similarly, projects that seem unrelated to the project's core goals – “fashion shows, art exhibits, marathons, domestic flights, dentistry, and other unrelated activities” – have been improbably categorised as BRI activities. This might appear to broaden the scope of the grand scheme, but it certainly does not say much about its coherence (Hillman, September 2018). Enterprising Chinese business people or local government officials have exploited the state's apparent ambitions to extend the project by ‘repackaging’ existing or planned projects so that they somehow fall under the broad rubric of the BRI. In this way, they can secure political support, win procurement deals, or gain access to preferred investment. This tendency, in turn, has led to substantial duplication and waste (Hillman, September 2018).

22. Without clear metrics for success – or even a comprehensive list of which projects fall under the purview of the BRI – participating countries find it difficult to evaluate Chinese activities on their territory. This lack of clarity hinders accountability and may also foster suspicion about China's motives. In some cases, as researchers have documented in Cambodia, host-country citizens are unable to distinguish between BRI and non-BRI projects – and when Chinese projects trigger negative side effects in their communities like soaring rent prices, untenable debt load or environmental degradation, anti-BRI sentiment can rise).

23. Despite these challenges, there is evidence that China is learning from its missteps. Understanding that public anger risks undermining the BRI's apparent diplomatic ambitions, the Chinese have begun to restructure and refocus a range of BRI programmes. For example, in response to criticism that the BRI's obscure procurement process tends to award projects to Chinese companies and workers, as opposed to employing local populations, China announced it would shift away from exclusively big, government-to-government projects and focus more on local needs (Horsley, 2019). At the 2019 BRI Forum, Chinese Communist Party officials also promised greater transparency and more environmentally friendly projects (Rolland, 2019). Although some analysts have dismissed this rebranding effort as a ‘whitewashing exercise’, it seems to have had an effect: some participating countries that had initially balked at Chinese overtures have returned to the bargaining table – even Mahathir bin Mohamad's Malaysia (Rolland, 2019; Kliman, 2019).

24. At its core, the BRI embodies China's ambition to achieve its aspiration to become a global superpower with powerful commercial, diplomatic, and military ties to Central and Southeast Asia, Africa, the Middle East, and Europe. This vast undertaking could ultimately cost several trillion dollars and would ideally deepen Chinese links to 68 countries. Those countries collectively account for 40% of the world's GDP and 60% of its population and by reinforcing ties with these countries, China would hope to acquire new sources of international leverage while generating significant income to justify these huge financial outlays (Xinsong, 2017).

25. Of course, an ambitious project like this also has downside risks for China. History is littered with tales of overextended empires that stumbled or even collapsed because of outsized ambitions, limited means, geo-strategic vulnerabilities exploited by motivated and capable rivals, and sub-optimal decision-making structures. China will have to manage its investments judiciously so that what it reaps commercially and strategically exceeds in value these prodigious investment costs. Developing the land and sea routes that will ultimately more deeply link China to these regions will entail enormous infrastructural investments. Chinese firms are now investing in ports, industrial parks, power plants, roads, and other critical infrastructure along these routes. Doubtless the potential for development arising out of these investments is enormous, and China fully expects ultimately to generate a political and diplomatic windfall for its efforts. This, however, cannot be guaranteed, particularly if the project loses focus or if these projects are poorly administered and trigger local backlashes.

26. It will be no small challenge for China to concentrate its efforts on what it can achieve while abandoning that which is overly ambitious. China is an undemocratic government and voices of dissent, which often carry essential messages, are more often repressed than heard. Political, financial and security risks are already adding to the cost of this massive undertaking, although given

the lack of transparency in Chinese accounting, it can be difficult for outsiders to grasp fully the nature of these risks and the kinds of real costs that China is incurring. For example, Beijing is intent on creating a USD 62 billion China-Pakistan Economic Corridor that will run through very unstable regions including Baluchistan and into the Pakistan occupied portions of Kashmir (Xinsong, 2017). There is no guarantee that such a project will ultimately yield profit and strategic benefit. Indeed, it could just as well become a financial black hole and a strategic morass. The problem in authoritarian China is that resistance to bad ideas is not baked into the political order. Indeed, playing the role of naysayer can be politically risky, particularly when these kinds of projects have buy-in from the top of the Chinese state. Chinese leaders may hear only what they want to hear and may find themselves walking into costly dead ends as a result.

II. THE RISKS OF CHINESE LENDING – DEBT TRAPS, ENVIRONMENTAL DEGRADATION AND CORRUPTION

27. Chinese financed infrastructure has been generally welcomed in many of the countries participating in the BRI, particularly in those developing countries in need of investment and the kind of infrastructure that builds links to international markets. There are, however, risks involved when China steps in to finance these projects. Some of the countries and entities accepting Chinese lending are default risks and some of the credit that has been extended is lent without due diligence and on terms that are potentially injurious to the borrowers.

28. Irresponsible lending and unchecked borrowing could leave countries so indebted to China that they could be forced to make unsavoury concessions down the line on terms to which those who made the agreement would never have originally consented). Recognising these challenges, some countries – including Indonesia, the Philippines, Thailand, Nepal, Myanmar, Pakistan, Kenya, Zambia, and Sierra Leone, among others – have reconsidered, or even reneged on borrowing or project arrangements with China (Chatzky, 2019). Bangladesh, driven by these types of concerns, recently declined a Chinese offer in favour of a competitor, Japan, to help build its first deep-water port.

29. The debt burden problem has been politicized and, for example, factored into elections in Malaysia where Mahathir Mohamed was elected, in part, on the promise of revisiting some of the projects undertaken with China. These included the East Coast Rail Link and three pipeline projects, all of which Mahathir subsequently cancelled because of what were termed lopsided contracts and opaque bidding procedures (Palma, 2018). Mahathir warned that poorly negotiated contracts could usher in a kind of ‘new colonialism’, although he continues to suggest that Malaysia wants to participate in the BRI. Both Sri Lanka and Pakistan have also been critical of Chinese-led projects undertaken within their borders under the auspices of the BRI. Under the terms negotiated with China, Sri Lanka leased the Hambantota Port to China for 99 years, while Pakistan has argued that China is the primary beneficiary of the USD 62 billion China-Pakistan Economic Corridor. The problem with backing out of these projects is that doing so invariably involves penalties which can be enforced through international arbitration. Nationalisation options are also very expensive and can have very negative repercussions on future inward investment.

30. Several Pacific island nations – Tonga, Samoa, and Vanuatu – have also incurred significant debt borrowing through BRI related programs while Laos, Djibouti, Cambodia, the Seychelles, and Togo are among the countries most indebted to China. The rising level of debt to China has raised red flags in the West. Australia’s development Minister, Concetta Fierravanti-Wells has alleged that China has been underwriting “useless buildings and roads to nowhere” in the Pacific. When rising borrowing does little to bolster productivity, the burden of financing those loans mounts and can lead to greater financial problems and even to crisis.

31. Because of this problem, some have characterised Chinese practices as debt trap diplomacy, although Chinese officials claim this unfairly characterises their lending programmes. There are, however, genuine concerns about the lack of institutional brakes that might flag problems of debt

sustainability in some of these poor island countries. Moreover, if Chinese lending occurs but is unreported or even under reported, this can lead to underestimation of debt sustainability and be a factor in mispricing bond issues. (Tan, 2019) This kind of misinformation can trigger broader financial problems as other institutional lenders including the World Bank and the IMF are effectively prevented from factoring in real levels of indebtedness when conducting due diligence and risk assessments. Financial misinformation can undermine important bond markets and scare away potential investors. It also jeopardizes China's financial reputation. This raises questions about Chinese aspirations for global financial leadership and suggests that the government has a significant amount of work to do to burnish China's credentials as a bona fide global financial leader. It is worth noting here that China is not a member of the Paris Club, which tracks official lending, and it has shown no interest in joining. Not surprisingly, both the IMF and World Bank have called for substantially more transparency on Chinese lending and greater disclosure of the terms on which its loans are being made (CNBC, 2019). China seems to want to rewrite the rules on such matters but this will never inspire investor confidence and this will be a drag on the global reputation of the Renminbi.

32. The sheer scope and ambition of the BRI seems to have activated a counter-balancing instinct among a range of regional and global powers. India, for example, has raised serious objections to the initiative, focusing its complaints particularly on the China-Pakistan Economic Corridor, which is a central project of the BRI and includes investments in territory still disputed by India and Pakistan (Ayres, 2017; Ratner, 2018). Japan has begun to advertise itself as a more trustworthy and responsible alternative investment partner to some of the governments engaged in the BRI (Parameswaran, 2019). Japan's Free and Open Indo-Pacific Strategy, which includes as one of its pillars the promotion of connectivity via infrastructure, was conceived, at least, in part, as a counter-weight to the BRI (Pajon, 2019). Despite some internal division, the EU has also developed its own plan for development aid to enhance connectivity in Asia and promote the values of open trade, good governance, and transparency (EEAS, 2019). It adopted a rule-based and sustainable European-Asian digital and physical connectivity plan in September 2018 to link Europe and Asia (Sefcovic, 2019). For its part, the United States has led a campaign against China's 5G ambitions while warning allies and partners of the risks of Chinese acquisition of Western firms and technology.

33. Western governments typically engage in a higher degree of due diligence when advancing loans to vulnerable countries. Institutions like the IMF and the World Bank work with borrowers to develop programmes that aim to make debt levels sustainable. It is not clear that China has felt obliged to do so. While governments may initially appreciate the ease with which these loans are made, the absence of conditionality can actually make financing loan repayment very difficult over the long term. Multilateral lenders also tend to offer loans to developing countries at lower interest rates with grace periods for repayment and longer loan maturity terms – 25-40 years for large projects as opposed the 15-20-years maturity expected on many Chinese loans. Conditionality can help ensure repayment, for example, by making costly corruption more difficult (Smyth, 2019).

34. European countries are not immune from the risks of unfettered borrowing from China, and several countries have openly regretted accepting financing terms to underwrite Chinese administered infrastructure projects linked to the BRI. A Chinese-built highway in Montenegro, for example, caused the national debt level to move deeply into the red and was quickly identified as a source of fiscal risk in that country (Hopkins and Kynge, 2019).

35. Possible environmental risks linked to BRI projects represent another area of concern. China has a very poor track record of environmental stewardship, and its firms have routinely flouted environmental protections for the sake of quick profit. The West is not without fault here. China's lax environmental standards were also an enticement to Western investment in China insofar as Chinese companies offered significantly lower manufacturing costs precisely because its firms were not constrained by Western-style environmental regulations and were under less pressure to raise those standards. In a highly authoritarian society like China, environmental NGO's operate on a very tight leash and their leverage is limited at best. This encourages corporate habits that can carry over into the international realm. There have been charges, for example, that China has encouraged host

countries to set aside reasonable environmental regulation in order to lower the cost of investment. In practical terms, however, this means that the host country is invariably burdened with the environmental costs as well as possible clean-up costs to damaged ecosystems.

III. EUROPEAN RESPONSES TO THE BRI

36. European concerns about the Belt and Road Initiative have indeed mounted in recent years as have anxieties about the challenge China poses to European interest and values. The onset of the COVID-19 pandemic has pushed this trend even further as the crisis has exposed an uncomfortable degree of dependence on China for a range of strategic goods. China's face mask diplomacy has been heavy handed and increasingly recognized in much of Europe as an unwelcome combination of political propaganda and diplomatic pressure. Beijing warned the Dutch government, for example, that it would reduce access to certain medical goods if the Dutch altered the name of its diplomatic mission in Taiwan. Financial power invariably brings diplomatic clout, and it is interesting that it has become more difficult to achieve unified EU statements on human rights in China. This might be because recipients of substantial Chinese investment linked to the BRI have chosen to block clear and strong positions aimed at the UN Human Rights Council and the broader international community (Brattberg, 2018) Still, there is growing recognition that Europe may need to restructure relations with China in order to reduce the continent's dependence both on Chinese production and investment. This is partly predicated on disappointment that China has not evolved into the responsible international player that many had hoped—a sentiment that was widely expressed in European capitals after Beijing's crackdown on dissent in Hong Kong (Leonard, 2020).

37. A new consensus could well emerge that Europe should be more insulated from the whims of unreliable or overbearing foreign governments. Yet China is also recognized as a critical partner and a vital link in Europe's supply chains and trading system. The Global Public Policy Institute, for example, has argued that some European governments may already be adjusting their policies to favour China in acts that it ominously characterises as "pre-emptive obedience" (Benner, 2018). That said, in 2018 the European Commission for the first-time characterised China as a systemic rival and began to encourage member states to be more vigilant about China's mounting economic leverage and the strategic intent of its investment strategy. Allied heads of government also agreed to make China's "growing international influence" and military power a new area of focus at the NATO Leaders Meeting in London held in December 2019.

38. Although China's economy is the world's second largest, its GDP at USD 13 trillion is significantly smaller than the collective GDP of the EU which in 2019 stood at roughly USD 23 trillion. China's economy, however, is expected eventually to surpass that of the United States over the next 25 years, and until recently has been growing at 6% a year. It is already the world's largest trading economy. Over the past 15 years, China has also emerged as a major foreign investor. Its leverage is now financial as well as commercial, so what happens to the Chinese economy will have both immediate and long-term economic ramifications for Europe and the United States (Segal, 2019). The BRI also poses challenges to several core European values. Labour, environmental, and human rights standards in China fundamentally differ from standards in most of Europe. Procurement transparency approaches to due diligence and governance mean very different things in China than they do in Europe. The risk is that Chinese views on these matters coupled with that country's enormous financial clout could begin to erode European standards if governments are not sufficiently united and vigilant.

39. Given the extraordinary amount of resources China is throwing into the BRI and the kind of economic activity this level of cash can generate, it is hardly surprising that European governments have a complex view of the initiative and no obvious unified response to it. For Europe, as for the United States, the BRI poses a challenge to an open, global, rules-based liberal trading order that both have long championed and understood to be in their interest. China is clearly holding up a different, more patently statist and transactional model (Brattberg, 2018).

40. While many European states have agreed to participate in BRI related projects, the EU has also established what might be understood as an alternative vehicle for linking Europe and Asia. Although it does not have access to the kind of resources China is deploying for the BRI, Europe wants to improve connectivity to Asia across a range of sectors, including transport, energy, and the digital space. Europe's ambition thus has much in common with China's ambition insofar as it has identified enhanced linkages to Asia, including China, as a critical policy priority that will help ensure economic growth, prosperity, and strategic relevance. There are, however, important differences in means and in strategic outcome, which suggest that Europe's programme has been designed as much to rival the BRI as to complement it. At the very least, it spells out those areas where agreement with China is likely to prove elusive.

41. One problem is that the Commission does not have anywhere near the kind of resources available to the Chinese state nor does it have the financial and legal clout to push the private sector to align with its own policies. In an authoritarian country like China, the state exercises far more leverage over companies and confronts fewer legal hurdles in dictating the conditions under which they operate. National authorities in Europe are democratically accountable, and economic rulemaking is a far more complex process. The advantage, of course, is that open European societies build consensus through consultation, and there are myriad checks on government policies that might be flawed and rules that demand transparency and thus encourage trust. In China, the state establishes targets and can quickly mobilise society to move towards targets of its choosing, even if these are deeply flawed. The problem of consensus generation is less apparent in an undemocratic political culture, and there are few checks if the state errs in the choices it makes. Democratically structured free market societies can and do change direction when civil society, including the commercial sector, see problems on the horizon. North America and Europe thus hold out a very different political, investment and development model from the one China is deploying through the BRI.

42. That said, both Europe and North America will be highly challenged to match China's capacity. First of all, there may be an asymmetry of interests at play as geography alone suggests that China has a greater interest in cultivating ties with, for example, Central Asia than does the European Union. But the West nevertheless does have a strong interest in this extensive region's development. This bolsters the argument that Europe, the United States and other democratic powers like Japan and Korea should consider working more in concert in these regions, cooperating with China where possible and resisting it when necessary by offering alternative solutions for linking these regions up to the world economy. They will need to do so, albeit on terms more aligned with liberal internationalist principals of free markets, the rule of law, good governance, and transparency.

43. China is moving quickly in areas where it sees opportunities, even in Europe's backyard. It has, for example, set out to finance a USD 1.1 billion rail link between Budapest and Belgrade and has characterised this as a critical project to complete the Western terminus of the BRI. China offers European partners access to large pools of capital for substantial infrastructure projects ostensibly on terms that would not otherwise be available; yet, opaque lending terms are not uncommon. In what might be characterised as a divide and conquer strategy, it has created a 17+1 framework to engage directly with a range of Central and East European states and importantly without the mediation of the EU (Brattberg, 2018). Seventy percent of BRI funding to this group has gone to non-EU countries. The supposition here is that their rules on transparency, procurement, and environment are weaker and thus more attractive to Chinese investors (Segal, 2019). The EU's strong regulatory culture remains something of a barrier to Chinese market penetration – or at least, EU rules make it very difficult for China to cut regulatory corners with EU member states.

44. There are also signs that the Commission has grown more vigilant in recent years, although there are clear divisions in Europe on several outstanding issues including China's role in building 5G infrastructure. In fact, China sees the Western Balkans as an entry point into European markets and is building an ever-stronger presence in the region. The EU remains that region's dominant trading partner, and it constitutes 73% of the region's foreign trade and 60% of FDI compared to China's 5.7% and 3% respectively. China has used loans, particularly for infrastructure, rather than

investments to get a toehold in the region, and Serbia has been the favoured target for these investments. China is seeking to build a transportation corridor between Piraeus in Greece through North Macedonia, Serbia, and Hungary. The European Commission has raised concerns about the transparency and financial sustainability of this project, given the level of debt some of the borrowers are already managing. Whereas the EU, like the World Bank and the IMF, might make loans conditional on transparency and good governance, Chinese conditionality tends to demand the participation of Chinese companies and workers in the project.

45. There are also concerns that the more China invests in large European infrastructure projects, the more vulnerable Europe becomes to Chinese espionage. This concern has fuelled the debate over the use of Huawei for the construction of very powerful next generation 5G digital networks. Huawei will doubtlessly play a central role in the Digital Silk Road initiative, and this is raising alarm bells with many security officials in Allied countries as controlling telecom infrastructure could provide an opening for Chinese espionage.

46. Next generation communication networks are of mounting concern among NATO allies, with some countries like the United States now refusing to incorporate Chinese products in their 5G networks. The United States has also decided to deny Huawei access to micro-chips that are essential to Huawei smart phones and 5G networks. It has raised the issue with its allies, and this effort seems to have led to some rethinking in Europe. The United Kingdom, for example, has now backed away from a previous willingness to partner with Huawei to build a national 5G network. Huawei equipment must now be removed from Britain's 5G phone networks by 2027, although there have been calls in the UK to move this date forward. According to the government, no new Huawei 5G kit can be bought after 31 December 2020 – a decision that could delay the 5G roll out by two to three years and cost £2bn (Sabbagh, 2020). France and Germany have set a middle course, but both continue to debate the issue. For its part, the EU has recently set up a joint toolbox of mitigating measures agreed by EU Member States to address security risks related to the rollout of 5G (European Commission Press Release, 2020). With the encouragement of the United States, Estonia and Poland announced stronger limits on the inclusion of telecom equipment providers, which their national authorities have deemed untrustworthy. Recently adopted Estonian and Polish rules would hinder the adoption of Huawei's 5G technology into their telecom infrastructure (Nietsche and Martijn, 2020).

47. Belarus' strategic location near the Baltic States and Poland makes it a potential gateway into European markets. Between 2010 and 2020, China increased direct investment into Belarus 200-fold (Simes, 2020). Beijing also provided significant loans, backed infrastructure projects, and supported economic development of this isolated country, which is now gripped by political crisis in the wake of President Alexander Lukashenko's obvious rigging of national elections. Lukashenko, who has ruled Belarus since 1994, has defended Beijing in the face of international criticism of its violation of basic human rights in Hong Kong and Xinjiang. But political unrest in Belarus over the August 2020 presidential election has now unnerved the Chinese. Popular protests have raised questions about the legitimacy of the government in Minsk and increased the overall risk of doing business in that uncertain country (Simes, 2020).

48. Europe has every interest in building greater connectivity to Asia and to establishing proper sea and land routes, ports, and cyber links needed to facilitate deeper trade with some of the most economically dynamic countries of the world including China. Last October, EU foreign ministers unanimously agreed to an EU strategy for connecting Europe and Asia. It called for efforts to build energy and digital networks, enhance transport links, and foster greater human connections. Importantly, it aims to achieve these objectives by building on European liberal democratic values. The problem, again, is that whatever funding level the European Commission establishes for this outreach effort, it will represent a drop in the bucket compared to the resources that the Chinese are dedicating to the BRI. Europe wants to remain in the game so that it is positioned to help make the rules on governing infrastructure projects. Those rules need to be based on the principles of financial and environmental sustainability, transparency, good governance, and respect for individual and consumer rights. It also wants to create conditions which foster sustainable financial arrangements

for infrastructure projects rather than debt traps which initially promise much, but which can rapidly put countries into very precarious financial circumstances by imposing unsustainable repayment conditions.

IV. US VIEWS OF THE BELT AND ROAD INITIATIVE

49. The American view of the Belt and Road initiative ought to be understood in the context of its broader rivalry with China. US perspectives are strongly conditioned by security concerns linked both to the nature of the Chinese regime and its geo-strategic ambitions. Its seemingly inexorable rise to super-power status and its apparent determination to establish itself as a Eurasian hegemon are matters of concern to both political parties. On the other hand, and in contrast to America's Cold War rival, the Soviet Union, China is a serious economic player and its growth has also benefited the US economy. U.S. officials have characterized Beijing's efforts to fuse civil-military policies as a "malign agenda" that poses a "global security threat." Indeed, China is an essential part of the production chain for many leading US companies. It is also a highly consequential purchaser of US official debt. What some characterise as foreign exchange manipulation on the part of China might also be understood as foreign exchange operations that underwrite US debt through the purchase of US Treasury bills. Were China to cease purchasing that debt, not only would the renminbi dramatically appreciate, but US interest rates would as well. This complex monetary relationship thus embodies a powerful admixture of rivalry, competition, and mutual interests.

50. China has now fused its commercial and military ambitions into an integrated strategy to guide its rise to global power – a rise that many US strategic thinkers believe will invariably come at US expense. President Xi himself has overtly linked commercial activity with military power, arguing that "implementing the strategy of military-civilian integration is a prerequisite for building integrated national strategies and strategic capabilities and for realising the Party's goal of building a strong military in a new era" (Feith and Corev, 2019).

51. As illustrated in this report, there is a clear military dimension to the BRI. China is building a network of ports, many of which could serve both commercial and military logistics support functions. It currently owns and operates or plans to own and operate ports in Burma, Bangladesh, Pakistan, Sri Lanka, Djibouti, Egypt, Israel, Turkey, Greece, Italy, Spain, Morocco, France, Belgium, and the Netherlands. This port acquisition strategy has been of deep concern to the US Navy, which sees this flurry of acquisitions in terms of a greater struggle for control of the seas. US officials have made clear to its allies and partners that more care is needed when agreeing to allow the Chinese to control ports that could serve the ends of the Chinese military.

52. As the world's most consequential military power, the United States will pay very close attention to China's ambitions and any transgressions of international norms. This is not to say that it is prepared to eliminate commercial links with China. The message from several of Washington's foreign policy experts is that there is a compelling need to be smart about when to engage and when to resist engaging (Feith and Corev, 2019; Gordon and Steinberg, 2020). The US National Security Strategy identifies China as a strategic competitor and characterises the BRI as a challenge to US interests, particularly as it aims to give China a strategic foothold in Europe and Asia "by expanding its unfair trade practices and investing in key industries, sensitive technologies and infrastructure" (Segal, 2019). US trade concerns have also shaped the outlook on the BRI as Washington sees it as providing China with a means to recast the global trade map in its favour. There is no comparable official US investment programme in this extensive region, although US commercial policy is largely driven by non-state actors rather than the federal government as such.

53. The Trump Administration's response to these challenges has been mixed. On his first day in office in 2017, President Trump withdrew from the Trans-Pacific Partnership (TPP) – an Asia Pacific Trade Pact long supported by the US government, that would have opened trade among a range of Pacific countries, including the United States and Canada while excluding China. That Pact was conceived, in part, to build a dynamic multinational counterweight to China. Without the United States

playing a leading or any role in that initiative, the new trading arrangement poses a far less serious challenge to the Chinese, which is now better positioned to play smaller regional powers against each other. China quietly welcomed the US decision to withdraw from the TPP and then highlighted its own set of initiatives, including the BRI, to strengthen its place at the centre of the Asian trading order.

54. US officials and analysts recognise that the BRI has become an important vehicle for China to extend its influence beyond the Asia Pacific and to increase its leverage in Central Asia, the Caucasus, the Mediterranean, the Middle East, and Africa. They generally understand that China could well pose a long-term challenge to America's global leadership and its position as the central player in the global trading order. A door has opened for China, which is approaching these regions with the promise of greater trade, no human rights demands, higher levels of direct investment, minimal governance requirements, in some cases, aid packages that could prove a poisoned chalice for the societies that accept them, depending, of course, on the terms which these packages are offered.

55. The US military is deeply concerned about the project as much of the infrastructure that the BRI promises to build has both commercial and military applications. Certainly, new roads and a string of revitalised ports can and will facilitate trade, but they can also make possible the seamless movement of military equipment and personnel and thus could dramatically enhance the capacity of China to project hard power well beyond the China Sea in the not too distant future. The concern among some American analysts is that these networks, combined with the redirection of trade toward China would reduce American leverage in those regions which China has targeted. This could consequently reduce the capacity of the United States to advance its own economic, security and diplomatic interests. It is thus hardly surprising that US officials see the BRI with scepticism and a degree of apprehension.

56. The United States is also concerned about China's push to build 5G networks along the routes it is developing and has actively encouraged European allies and others to avoid any dependence on these networks. The Trump Administration has accordingly called for its allies to avoid procuring 5G equipment supplied by Huawei. This call was echoed by Speaker of the House Nancy Pelosi at both the Munich Security Conference and at a NATO Parliamentary Assembly Meeting in Brussels in February 2020. The Administration sees China's foray into this market as posing a clear security risk to trans-Atlantic communications and has made its views very clear in NATO circles as well.

57. At the same time, the United States has pledged funding for connectivity projects to encourage more American private investment in the greater Indo-Pacific region. It has consolidated the Overseas Private Investment Corporation (OPIC) and USAID's Credit Authority to create a USD 60 billion agency that will challenge China's more predatory approach to financing (Brzozowski, 2019). The 2018 BUILD Act founded a new government agency, the US International Development Finance Corporation (USIDFC), specifically with the competition against China in mind (Runde, October 2018). On the hard security front, the U.S., along with Japan, Australia, and India, have re-established the Quadrilateral Security Dialogue, or 'Quad', a regional forum for discussing security issues in the Pacific.

58. There is an almost structural risk of tension between Europe and the United States over how best to cope with the BRI, China's military build-up and expanding maritime basing networks, and the commercial challenges China poses in areas like 5G, artificial intelligence, cyber operations, quantum computing and new manufacturing technologies. Although there are risks both to Europe and the United States, the United States sees China primarily as a rising power aiming to challenge its global position. Where Europe might see China's emergence as holding out a combination of commercial opportunities and competitive threats, as the reigning global power, the United States is more inclined to focus on strategic challenges. This divergence in perspective is already evident in the contrasting approaches Europe and the United States initially adopted to the role of Huawei in building 5G networks. The Trump Administration has decided that Huawei cannot participate in building these networks and it has made the case to Europe to follow suit. Europe has not uniformly

embraced this view, although it has clearly begun to move towards the U.S. position as a result of the strategic challenges China poses, out of concern that to rely on China in this core sector would have adverse long-term commercial implications and because U.S. officials have made a compelling diplomatic case (Payne and Mason, 2020). How best to engage with China could nevertheless become another fault line in the Alliance if not properly managed. Close dialogue will be essential to avoid this fate.

V. RUSSIA, THE BRI AND CHINA'S ARCTIC VISION

59. Russia is not an idle spectator in China's grand Euro-Asian endeavour. On the one hand, it sees new trading opportunities with China as well as with other countries emerging out of the BRI. But it is also gripped with a degree of foreboding insofar as the undertaking is a testament to Chinese dynamism and wealth, neither of which Russia can match. In this sense, Russia may be more a subject than a protagonist in China's great game, but it seems determined to get out of it what it can. There is also a certain symmetry between the BRI's stated goal of building connective infrastructure across Eurasia and Putin's ambition for the Eurasian Economic Union (EAEU) to create a single market among Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan. Doing so would require a range of infrastructure upgrades, which the BRI could help put in place.

60. But there are limits to what the Chinese can achieve with Russia as a result of corruption, poor governance and weak market fundamentals in Russia and the fact that it is largely a producer of natural resource-based products which constitutes an ever larger share of Russian-Chinese trade. That trade stood at roughly \$110 billion in 2019, and the goal in Beijing and Moscow is to bring this to \$200 billion by 2024, although this seems rather far-fetched particularly during a global recession. China is now Russia's second leading trade partner after the European Union. But while China accounted for 15.5% of Russia's total trade in 2018, Russia only accounted for 0.8% of China's total trade. That structural asymmetry will be difficult to overcome and, in fact, this trade has only become more concentrated in natural resources. Russia sees an opportunity to increase agricultural exports to China as a result of that country's trade tensions with the United States. But Russia's poor infrastructure, bureaucracy and rising land prices are all likely to get in the way (Hillman, July, 2020).

61. China nevertheless sees Russia as an important strategic partner and a useful supplier of critically needed raw materials. Because Russia constitutes the largest land mass between Europe and China, there has been much talk about building a network of roads, rail, bridges, and other infrastructure to move goods through that enormous space. In 2012 the two countries established the Russian-China Investment Fund, a joint venture to help underwrite these projects. As of September 2018, that Fund alone had invested roughly USD 6 billion in 25 projects and companies in Russia, China, and in other countries in the region. An array of sovereign wealth funds from the Middle East and Asia as well as commercial banks and private investors have invested in the fund. European and North American investors, however, have not. This is not coincidental and both reflects the anti-Western orientation of the Russian-Chinese partnership and the impact of Western sanctions against Russia imposed after its illegal annexation of Crimea. It is also noteworthy that there is an effort to conduct these operations in renminbi rather than the US dollar, a move that reflects both countries' preference to erode the hegemonic position of the US dollar in global financial markets.

62. There is a limit to how much China is willing to risk in Russia, where investor protections are weak, corruption levels are high and a declining population imposes a natural limit on longer-term growth prospects. Not surprisingly the list of potential investment projects is significantly longer than the list of launched projects. In 2009, leaders from China and Russia announced plans for over 200 joint projects. In 2014, less than 10 percent were underway. To bring investment to its far eastern regions, in 2014 and 2015, Russia established 20 special economic zones. Only six of these have attracted Chinese investment, totalling \$38 million between 2015 and 2018 (Hillman, July, 2020).

63. China and Russia also envision a higher level of energy trade. The partnership here is a natural one as Russia is a critical supplier of energy and China is a major consumer. Both are also interested in shielding parts of their respective economies from Western leverage. As for the Arctic specifically, China is heavily invested in Russia's LNG projects at the Yamal Peninsula. (Humpert, 2020). China's industrial boom cannot be sustained without access to secure energy suppliers while. Russian energy exports essentially generate critically needed foreign exchange, sustain consumer welfare, and underwrite the Russian military. Russia thus has a powerful interest in selling gas directly to China through pipelines and believes that building the infrastructure for doing so will enhance both its economic and diplomatic leverage in Europe. China, however, does not want to put itself in a position of energy vulnerability, and this tempers somewhat its enthusiasm for Russian energy, which Beijing has long exploited for purposes of achieving diplomatic leverage.

64. Along those lines, negotiations for the so-called Altai pipeline that would link Siberian gas fields to Northern China have been relatively slow, in part, because North-Western China is already producing significant amounts of oil and gas and China is already connected to Turkmenistan's gas fields in Central Asia (Meliksetian, 2020). In December 2019, President Putin signed an MOU to conduct a feasibility study to build a pipeline through Mongolia to China. This would circumvent the restless region of Xinjiang and help Russia outflank other proposed projects linking Central Asian gas fields to China.

65. The advances in the bilateral relationship between Russia and China over the past years will probably mean that much of China's future presence in the Arctic will be established through Russia. At the same time, the cooperation between the two countries will probably continue to face some general limitations due to differences in their geographic location, their different strategic interests and their historical lack of mutual trust.

66. China sees itself as a 'Near-Arctic State'. Although this is a concept bereft of legal significance, it is suggestive of its grand ambitions. In 2018, China published an 'Arctic White Paper' which is clearly more confident in its tone than what was previously the case for Beijing's rhetoric on Arctic matters. This paper states, among other things, that non-Arctic states like China have a legitimate role to play in the region, and that it is not solely up to the Arctic states to establish the rules and norms for the region. (The State Council of the People's Republic of China, 2018).

67. Climate change has been a primary catalyst for China's Arctic ambitions, and it is clearly looking to position itself to exploit new and shorter shipping lanes to critical markets made possible by melting Arctic ice. There are three potential routes across the Arctic of direct interest to China: the Northeast Passage around Eurasia, the Northwest Passage around North America and the Central Arctic Ocean Route. It also discerns emerging opportunities to tap into natural resources including abundant carbon energy reserves in the High North that are increasingly made accessible due to regional warming. Most of these energy reserves are within the continental shelves of the littoral states. Beijing is also interested in mining rare earth materials found in regions like Greenland, where it has proposed building a range of airports, harbours roads and a railway (Franklin, 2020).

68. China has linked these ambitions to its support for Arctic science and its active participation in various Arctic fora including the Arctic Council, where it enjoys observer status. It is also working to strengthen bilateral ties with a number of Arctic states and has established the 'Polar Silk Road' program for these purposes. China has also begun to invest strategically in Russia and Finland to reinforce its position in the region (Chun, 2020). Of course, with investment comes influence, and China is clearly working to increase its diplomatic clout throughout the High North.

69. However, the eight Arctic states with rights and obligations in governing the Arctic region – Canada, Denmark, Finland, Iceland, Norway, Russia, Sweden, and the United States - would be expected to hold China to the current body of law governing the High North. These states established the Arctic Council in 1996 for circumpolar political cooperation. In the 2008 Ilulissat-declaration, the five Arctic coastal states committed themselves to follow the rules laid out in the international law of the seas, especially in the United Nations Convention on the Law of the Seas (UNCLOS).

70. During the past year, Beijing appears to have assumed a somewhat lower profile in the region, probably due to a heightened critical focus from other Arctic states about its activities and intentions. While this is probably only a tactical adjustment and does not point towards changes in Beijing's long-term Arctic strategies, it suggests that China at least considers the opinions of the Arctic littoral states.

71. At this point, there is no concrete Chinese military presence in the Arctic. At the same time, there are few doubts that China's military-strategic interest in the region is increasing. In September 2020, NATO Secretary General Jens Stoltenberg noted that many of the new Chinese naval ships and submarines are able to operate in the High North. China also aims to increase its icebreaking capacity (Humpert 2019). NATO now needs to take this capability into account in its planning and analysis, the Secretary General stressed, (Bye, 2019). Chinese Arctic research efforts could also have potential military implications as its research centres and navigational and satellite surveillance efforts can easily generate intelligence for the Chinese military (Havnes, and Seland, 2019).

72. One barrier to a Chinese military and security presence in the Arctic, however, is that the Arctic states would have to either endorse it or, at least, not oppose it. It is hard to envision which Arctic states would be prepared to do so. Even Russia would have serious reservations despite its strategic partnership with China in the economic sphere and its military collaboration with Beijing in other regions. Indeed, Russia remains unwilling to cooperate with the Chinese military in the Arctic, which is a region of existential strategic importance to it. These kinds of reservations among the Arctic states will impose continued limits on China's potential for regional power projection. For NATO, it will nevertheless be critical to monitor China's activities and intentions closely in the Arctic over the coming years.

VI. COVID-19 AND THE BRI: A DOUBLE-EDGED SWORD

73. China has not allowed the COVID-19 pandemic to diminish its ambitions for the BRI (and in some respects has seen the epidemic as creating some opportunities on the diplomatic front Bhaya, 2020). It was the first major economy to experience a virus-related downturn, but it was also the first to attempt a return to a relatively normal economic life after having managed to limit the spread of the disease. Beijing's apparent success in that regard confers upon it certain economic advantages, although China will not fully recover from this crisis until its trading partners begin to recuperate. The IMF forecasts that China's economy will grow by 1.2% in 2020, while the US economy is slated to shrink by 5.9% and the Euro area by 7.5% (IMF DATAMAPPER, Chipman Koty, 2020). China has substantial foreign exchange reserves and is one of the very few international actors positioned to carry out ambitious investments at a moment when asset prices are falling globally. As its strategic competitors wrestle with the pandemic, China could find itself in a unique position to further its international economic and strategic ambitions.

74. Beijing is clearly using the BRI to herald its own model of political and economic development. Its state propaganda machine has advanced the notion that the Chinese authoritarian system has somehow proven both effective and resilient in the face of the pandemic. It is important to note, however, that the origin of this pandemic is in Wuhan, China and Chinese authorities failed to disclose the problem until it was too late to contain it. The claim of systemic superiority should thus be taken with a large grain of salt as authoritarianism and accountability are concepts alien to each other and this disconnect is one reason that the Chinese government failed to act quickly when the outbreak occurred.

75. China's propaganda campaign has involved official messaging and extensive disinformation efforts. China has also engaged in "mask diplomacy", providing medical supplies to countries in need of support to fight the spread of COVID-19 and propagate the notion of China as a responsible international actor (EU-China News Brief, Wong, 2020). China is now the world's leading producer of personal protective equipment, and the state has exploited this position to carry out highly

photogenic “aid” deliveries of face masks, protective suits, ventilators and test kits to affected countries. Many Western countries have limited or even halted export of needed medical goods, and this has bestowed China with something of a propaganda coup although some of this has been rather ham-handed and thus counter-productive (Campbell and Doshi, 2020).

76. Beijing is also training officials from countries around the world on how to enact Chinese style strategic communication, propaganda, and public surveillance, and it exports a range of digital tools designed to facilitate these policies. China’s leadership believes its authoritarian model could become more attractive as the challenge of the pandemic and its economic fall-out intensifies (Shullman, 2020) There is a link here with China’s ambitions for the BRI. China is not simply seeking to deepen trade links by building infrastructure to facilitate these ambitions, it clearly sees itself as the new centre of gravity in the coming international system. Beijing is accordingly holding out a particular model of political life and inter-state relations to hasten this rise, and the BRI is integral to the image it seeks to project.

77. Nevertheless, COVID-19 also poses new risks for China and for the BRI. The BRI is premised on the assumption that global trade, and trade with China in particular, will grow inexorably. The economics of these massive investments simply will not work without this growth. But global trade has slowed considerably in recent years, in part, due to rising protectionist sentiments, even among some large trading countries. Indeed, the COVID-19 pandemic has now dramatically struck at international trade and investment flows while the United States is imposing a widening range of trade and investment sanctions on China for security purposes and to protect domestic industries. It would be mistaken to assume that trade will simply return to normal after the current medical emergency has waned. Enduring structural and political impacts could well emerge that will either reduce trade flows globally or reorient trade away from China. In both Europe and in North America, the pandemic has highlighted Western overreliance on the Chinese manufacture of an array of strategic products.

78. Some of the investments that China is making in BRI-related infrastructure are premised on very optimistic trade growth forecasts. But it is possible that a paradigmatic shift is underway as a result of the current crisis that might lead to significant trade reductions. If this were to happen, these investments would look far less attractive. If a secular decline in trade were to transpire, the BRI could become a source of mounting debt for Chinese firms and their local partners (Chang, 2020). Even before COVID-19 reared its head, many of China’s BRI partners were struggling with debt burdens related to certain projects. Some were even calling for debt relief. This situation is very likely to worsen over the coming months (Kynge and Sun Yu, 2020). In cases of default, Beijing could possibly seize strategic assets of non-paying countries like it did in the case of the Hambantota port in Sri Lanka. Doing so, however, would generate resentment in the affected countries, lend further credence to accusations of “debt-trap diplomacy” and undermine China’s broader diplomatic and commercial strategy. (Klein, 2020)

79. Beijing is theoretically capable of financing BRI projects at the level of the 2015-2016 peak when USD 50-60 billion were invested in elements of this huge project. (It is worth noting that total Chinese bank lending in 2019 stood at USD 2.6 trillion). Yet, Chinese loans have been most attractive to countries that could not or preferred not to meet IMF or World Bank standards for accounting and transparency. The growth of BRI project activity in many partner countries had slowed substantially well before the outbreak of COVID-19 (Kratz, Rosen, and Mingey, 2020). Considering Beijing’s reluctance to forgive debt and the possibility that it will feel compelled to engage in Keynesian style domestic spending to prop up domestic demand and income levels in China itself, the BRI could be put on the financial back burner until the global economy returns to growth (Tonchev, 2020).

80. For now, Chinese investors participating in the BRI will most likely focus on previously launched capital-intensive infrastructure projects. But Chinese companies might eventually double down on plans to acquire or invest in distressed foreign assets in strategic locations. The outbreak of COVID-19 in Wuhan initially brought Chinese outbound investment to a standstill. But since then,

Chinese outbound acquisitions and investments have increased substantially (Arctic Global Data, 2020). At the same time, targeted countries have begun to exercise a greater level of due diligence over Chinese investments. India, Canada, Australia, and several European countries have adopted new rules demanding greater transparency and accountability for Chinese investment. The European Union has emerged as a leader in this regard and has produced new FDI screening guidelines while urging member states to take ownership stakes in distressed companies rather than sell them to Chinese investors. China's apparent sensitivity about its handling of the pandemic in the early weeks of the crisis and its threats of retaliation against critics seem only to have amplified European concerns. All of this could limit the ambitions of Chinese companies that see the pandemic and the related recession as an opportunity to go on an asset shopping spree (Bagshaw and Massola, 2020).

81. A potentially consequential reassessment also seems to be underway on whether stronger limits should be imposed on Chinese companies aspiring to build 5G networks in Europe (Seaman, 2020). Since 5G will be the key to future information and strategic infrastructure and in light of China's increasingly aggressive strategic posture, this reassessment makes a great deal of sense. It is in this context that China has used the COVID-19 pandemic to soften its image in Europe and particularly in those countries, where Beijing could play role in the building national 5G networks. For example, Italy, a country which Huawei has identified as a critical future client, was one of the earliest and most prominent recipients of Chinese medical supplies during the COVID-19 crisis (Cheng, 2020)

82. None of this means that Beijing will soon abandon the BRI, which is such a national priority that it is now mentioned in that country's constitution. But partly due to COVID-19, changes could be afoot in how the initiative is structured. China might now consider boosting the "non-physical aspects" of the BRI such as the so-called Health Silk Road and the Digital Silk Road. Chinese officials are suggesting that the pandemic has demonstrated the benefits of enhanced international health cooperation within the framework of the Health Silk Road. But the Digital Silk Road could prove the ultimate beneficiary. COVID-19 is transforming economies around the world and has been a catalyst for a range of digital industries and platforms that have suddenly become essential because of limits on human to human contact. Like many of their Western counterparts, Chinese tech-giants like Alibaba, Tencent and Huawei stand to benefit from these changes and could help open new markets outside of China for these firms—especially in countries located in China's neighbourhood.

83. Chinese leadership may ultimately have to revamp BRI in order to translate these aspirations into reality (Ji, 2020). If and when it does, it will need to provide far more reassurance to partners about its methods and ambitions. If China were to make the BRI less China-centric and more multilateral both in terms of project financing and economic benefits, and if it were to adapt internationally recognised lending and transparency standards while engaging in good developmental practices, the project might be more welcomed by an array of partner countries (Chun Boo, David and Simpfendorfer, 2020). This is a choice that China will have to make, and the direction it takes should ultimately condition Western responses.

VII. CONCLUSIONS

84. For all its apparent flaws and uncertainties, the Belt and Road Initiative remains a central pillar of President Xi's foreign policy. NATO members should ultimately agree on a strategy for responding to this challenge. But this is easier said than done, as individual elements of this programme might make good commercial sense, while other dimensions can reasonably be understood as posing potential long-term strategic challenges. Of course, the BRI cannot be divorced from the wider geopolitical context. China's global influence is undeniably growing, its military is modernising, its government has become less tolerant of dissent and more assertive internationally, and with respect to certain key advanced technologies – particularly artificial intelligence, 5G infrastructure and quantum technology – more determined to surpass the capabilities of NATO countries (Kania and Costello, 2018; Whalen, 2019). It cannot be forgotten that China has engaged in a massive military

build-up over the last twenty years and is using its military might to project power in its immediate neighbourhood, particularly in the East and South China Seas, and beyond (Twining, 2016).

85. The apparent inclusion of naval bases and ports in the BRI's planning must be understood as part of a more ambitious project to develop power projection capabilities on a more global scale. Over the last twenty years, China has engaged in extensive naval shipbuilding, deployed aircraft carriers, amphibious ships, surface vessels and submarines, developed missiles, conducted missions of ever longer-range and built a string of international bases to support blue-water naval operations. This is emblematic of China's global ambitions and a central concern of U.S. strategic planners, in particular, who recognise all of this as a direct challenge to the West (Feith and Corev, 2019).

86. Europe, the United States, and several Asian powers are determined to build counterweights to China. They too are introducing connectivity initiatives and other programmes to forge broader linkages between the West and Asia although these are guided by a different set of values than those upheld by China. The United States, for example, has increased security cooperation with Asian countries via joint naval exercises. Overall, the United States is explicitly seeking to counter-balance Chinese ambitions while urging its allies to embrace this effort (Ives, 2019; Packham and Barrett, 2019). The United States, Japan and Australia have promoted what they are calling a Blue Dot Network (BDN). Unlike the BRI, the BDN insists on high standards in transparency, sustainability, and developmental impact of BDN-sponsored infrastructure projects (Goodman, Runde, Hillman, 2020).

87. There should be no mistake that elements of the BRI and China's related foreign policies pose a challenge to Western values. China's poor human rights record, expressed both in the crackdown on the Uighur population in Western China and in the violation of the political rights of the citizens of Hong Kong, is antithetical to core Western values. This does not mean that all of China's ambitions are illegitimate and threatening. Understanding China's rise as a simple zero-sum game is likely to be counter-productive and would more likely stoke rather than reduce global tensions. On the economic front, confident engagement premised on advancing the principals of open trade, intellectual property protection, good governance, sound investment, and targeted assistance to advance these goals is essential. But technological transfer restrictions will also be needed as well as defence of highly strategic sectors like 5G. These policies should be coordinated in a trans-Atlantic fashion.

88. The NATO Leaders Meeting in London in December 2019 recognised that a collective response to the Chinese challenge is needed and that it would be appropriate to engage NATO in the effort. "China's growing influence and international policies present both opportunities and challenges that we need to address together as an Alliance", NATO leaders agreed in the final declaration. In London, Secretary General Jens Stoltenberg noted that China has begun to invest heavily in European infrastructure and in digital architecture and that this too poses potential risks. "This is not about moving NATO into the South China Sea, but it's about taking into account that China is coming closer to us – in the Arctic, in Africa, investing heavily in our infrastructure in Europe, in cyberspace", Stoltenberg said (Brzozowski, 2019). China's huge defence budget, aggressive posture, human rights violations, lack of transparency at the onset of the COVID-19 pandemic and the dubious nature of its so-called Facemask Diplomacy have all raised concerns in Allied capitals. For all of these reasons, NATO will doubtless flag the many security challenges China poses in the NATO 2030 strategic review which is currently under development.

89. China's Arctic ambitions should also be followed by NATO as these are strategic waters in the NATO space. While the potential of China's future presence in the region is debatable, NATO countries along the Arctic littoral need to be vigilant when dealing with China as some of its commercial investments in the region do have potential military and strategic implications over the long-term that would not serve the long-term interest of allied countries.

90. Several leading Western governments as well as the European Commission are now raising questions about existing commercial supply chains and whether these remain strategically viable in light of lessons this pandemic is imparting and China's increasingly aggressive posture. Indeed, China's political and human rights crackdown in Hong Kong, including the recent passage of the Hong Kong Security Law, in violation of the 1984 Sino-British Joint Declaration, has not gone down well in the West and has led many countries to revisit their assumptions about China's intentions, its respect for international obligations and its overall reliability (Linders and Verstappen, 2020). This is a primary reason why many countries in the West are now revisiting their plans to engage Chinese companies in the construction of 5G networks.

91. Indeed, concerns about China's role in the construction of 5G networks, including those in the Belt and Road regions are clearly justified. Countries that use Huawei equipment as they build out these vital networks could be taking security and intelligence risks, and might be implicitly ceding to China the central role in a coming digital-industrial revolution that will vastly improve mobility and connectivity, reshape industry, and facilitate the Internet of Things. Totally ceding the playing field to an authoritarian strategic rival does not make economic or strategic sense. But different approaches are possible, and this has been a source of some transatlantic differences about where to set the line. A patient effort will be essential to work around Huawei and ensure that democracies and not authoritarian societies are at the helm of this paradigm-changing industrial revolution. It will require an unprecedented mobilisation of financial and technological assets as well as time, but over the long-term, such an effort will be well worth the up-front costs and potential delays. It will also mean that democratic societies will have alternative communications infrastructure on the market not only for themselves, but for those countries, including those participating in the BRI, that might be worried about overreliance on Chinese technology in sensitive sectors.

92. Indeed, any effort to counter the worst elements of China's infrastructure programmes will require significant capital injections, and the burden may actually be greater on Europe than North America, as it holds a higher stake in these projects. It is, after all, a critical link in the connectivity chain that both China and Europe are seeking to forge. European diplomats will have to convince the countries between Europe and the Far East that the standards and conditions it upholds offer a more sustainable alternative to opaque Chinese lending and commercial practices. This does not mean that it should or needs to work against China across the board, but it will need to work to move China toward more acceptable investment standards. Europe has a degree of leverage in all of this, as it both stands astride the terminus of China's great project and wields significant regulatory powers. The EU-China Connectivity Platform agreed in 2015 provides a vehicle for Europe to dialogue with China to ensure that projects conform to essential market rules and norms. Europe must work to dissuade the Chinese from engaging in more predatory investment practices (Brzozowski, 2019).

93. Europe also needs to encourage partner countries in the Western Balkans and beyond to adopt stricter standards of transparency in their own dealing with Chinese investors. These countries put themselves at peril in failing to do so, and they also put at risk their own ties with the West if their dealings with China subvert commercial norms, investment rules and values fundamental to the European project.

94. Although Europe has moved closer to US views on some of China's efforts related to the BRI, it seems more willing to establish a working relationship with China at a time when Washington has been conducting a more strident trade war with Beijing and has issued warnings about China's strategic challenges to the West. Europe has been more focused on defending an open rules-based trading order and has not readily embraced a managed trade vision that is increasingly promulgated in Washington. Despite these differences, there is clearly room to deepen trans-Atlantic cooperation on China policy with the aim of fostering a more open, transparent, and wealth-generating trading relationship with China and with Asia more generally. These are traditional ambitions of the United States and Canada as well as Europe, and more systematic dialogue is needed to foster the kind of common approaches that have been so instrumental in building a wealth-generating global trading order. This dialogue should extend to establishing shared technological standards and commercial

norms so that these standards and norms are informed by liberal market and democratic values and not those that China is advancing.

95. This effort has important diplomatic implications for the relations with developing countries that China has targeted for investment along the BRI's designated routes. Here again, more coordination is needed between Europe and North America to advance those values and norms that can put growth in these countries on a more sustainable foundation and in a manner that benefits a broader segment of the population rather than a narrow stratum of the elite. These kinds of diplomatic efforts will be essential to strengthening a rules-based global economic order rather than replacing it with a highly transactional and opaque system that is unlikely to prove sustainable.

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