ECONOMICS AND SECURITY COMMITTEE (ESC)

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

Draft General Report

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TABLE OF CONTENTS

I. INTRODUCTION...........................................................................................................................................1

II. THE RISKS OF CHINESE LENDING – DEBT TRAPS, ENVIRONMENTAL
    DEGRADATION AND CORRUPTION...........................................................................................................4

III. EUROPEAN RESPONSES TO THE BRI........................................................................................................6

IV. US VIEWS OF THE BELT AND ROAD INITIATIVE....................................................................................9

V. RUSSIA, THE BRI AND CHINA’S ARCTIC VISION...................................................................................11

VI. COVID-19 AND THE BRI: A DOUBLE-EDGED SWORD.........................................................................13

VII. CONCLUSIONS...........................................................................................................................................15

BIBLIOGRAPHY................................................................................................................................................18
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 global economic and strategic ambitions. Though it was cast 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 by a range of countries. Despite these kinds of hesitations, 125 countries have signed BRI cooperation documents including European countries. 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. In fact, the extent of China’s aspirations for the Belt and Road Initiative are not entirely clear, but it is evident that this project will shape the geopolitical landscape of the 21st century in ways that the transatlantic community simply cannot ignore. In this regard, 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 now the world’s second biggest economy, controls the world’s third most powerful military power, 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 partner and a key link in the global economy. It cannot be isolated from the world economy and to attempt to do so would inflict very high costs on the West. From this perspective the BRI might be seen as both a challenge and an opportunity for China’s trading partners. They will need to work collectively to ensure that it is more an opportunity and less of a threat.

3. Although interpretations of the project’s wider geostrategic significance abound, in practical terms, the BRI can be essentially understood as three interlinked initiatives: the Silk Road Economic Belt, the Maritime Silk Road, and more recently the ‘Digital Silk Road’. 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.

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

Source: CSIS
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 that aim 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 the laying of undersea internet cables and the delivery of “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. This aspect of the BRI has become a source of concern in the West for a plethora of reasons. China’s track record in illegally acquiring digital technology and incorporating these technologies into its own products and its use of technology for espionage and domestic surveillance make the Digital Silk Road a subject of mounting concern in the West.

8. Despite – or perhaps because of – its ambition, the BRI is also a highly flexible and perhaps ambiguous enterprise. China has left many aspects of the BRI undefined and it has become 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.

9. 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 (People’s Republic of China, National Development and Reform Commission, 2015). International observers and analysts, however, have ascribed many other drivers more aligned with national security policy and China’s ambitions to achieve global superpower status.

DRAFT General Report by Christian Tybring-Gjedde (Norway)
for the NATO PA’s Economic and Security Committee
10. Of course, some explanations 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 and thereby benefit Chinese traders over the long run; 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 naval power; or simply using the BRI to symbolise China’s definitive emergence as a global power (Chatzky, 2019; Ratner, 2018; Tata, 2017).

11. Some analysts warn that the goal is to increase the dependence of a range of countries on China. As countries become increasingly dependent on Chinese investment, infrastructure and trade, they will be ever more reluctant to criticise China in international fora on sensitive subjects like China’s human rights abuses and imperial ambitions (Mauk, 2019). 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).

12. There is evidence the Belt and Road Initiative is on its way to meeting some of these 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, 2019). 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; Taysan, 2019).

13. 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 mounting scrutiny. The Center for a New American Security identifies seven serious dangers for participants including: “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).

14. 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 businesspeople 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; Foreign Affairs, 2019).

15. 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 (Foreign Affairs, 2019).

16. 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; Foreign Affairs, 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 some 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).

17. 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 deepening 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).

18. Of course, an ambitious project like this also has downside risks for China as well. History is littered with tales of overextended empires that stumbled or even collapsed because of outsized ambitions, limited means, and sub-optimal decision-making structures. China will have to manage its investments judiciously so that what it reaps 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.

19. It will be no small challenge for China to concentrate its efforts on what it can achieve while abandoning that which is overly ambitious. 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 China is that 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.

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

20. 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 proper due diligence and on terms that are potentially injurious to the borrowers.

21. Irresponsible lending and borrowing can 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 (Chatzky, 2019). 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, for example, recently declined a Chinese offer in favour of a competitor, Japan, to help build its first deep-water port.

22. The debt burden problem even 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 as a result 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 it 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.

23. 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 flags in the West. Australia’s development Minister, Concetta Fierravanti-Wells has charged 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.

24. 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 of bond issues (Tan, Weizhen, 2019.) This kind of misinformation can trigger a broader financial problem 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. This kind of misinformation can undermine important bond markets and scare away potential investors. It also creates jeopardy for China and puts its financial reputation at risk. 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 far more disclosure of the terms on which its loans are being made (CNBC, 2019).

25. 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 also 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 counterbalance to the BRI (Paion, 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 rules based and sustainable European-Asian digital and physical connectivity plan in September 2018 to link Europe and Asia (Sefcovic, 2019).

26. Indeed, 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 encumbered 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 rate with grace period for repayment and longer loan maturity terms – 25-40 years for large projects as opposed the 15-20-year maturity expected on many Chinese loans (Smyth, 2019).

27. 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).

28. 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

29. European concerns about the Belt and Road Initiative have mounted in recent years as have anxieties about the challenge China poses to European interest and values, but it is also 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, European leaders 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. 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. The problem for Europe is that member states are not entirely on board with this appraisal or at least are not unified in their understanding of what the political implications of this condition are.

30. 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 stands at USD 23 trillion. China’s economy is expected to eventually exceed that of the United States over the next 25 years, and it is currently growing at 6% a year. It is already the world’s largest trading economy, so what happens to the Chinese economy has immediate economic ramifications both for Europe and the United States. Over the past 15 years, China has also emerged as a major foreign investor, so its leverage is now financial as well as strictly commercial, and this has emerged as a source of concern in Europe as it is in the United States (Segal, 2019).

31. The BRI 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 approaches if Europe is not sufficiently united and vigilant. There are indeed signs of growing divisions within Europe about how to best approach China and the BRI. Some of these divisions run along existing economic and political fractures within Europe and now threaten to exacerbate them.

32. 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, however, is clearly holding up a different, more patently statist and transactional model, so participating in the BRI poses something of a risk to European values and potentially to long-term European interests (Brattberg, 2018).

33. While a number of 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 outcomes 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.

34. 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 rule-making 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 policies that might be flawed. 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, but there are few checks if the state makes a mistake in the direction it chooses to follow. 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 investment and development model from the one China is deploying through the BRI.

35. That said, both Europe and North America will be highly challenged to match China’s capacity and will reach out to the countries along the Eurasian littoral and in interior regions. 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. All of 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.

36. 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, hidden and 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). 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.

37. 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.

38. There are also more palpable risks with which European governments must contend. Montenegro, for example, signed an agreement to a Chinese financed highway project that generated a serious debt problem in that country. That agreement, moreover, gave the Chinese a claim on Montenegrin land as collateral. This once again raised questions about the problem of debt sustainability, transparency, and oversight of the agreements that the Chinese are signing. 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. Serbia has been the favoured target for these investments and for example is seeking to build a transportation corridor between Piraeus in Greece through North Macedonia, Serbia, and Hungary.

39. 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. The problem of norms extends into Europe itself. Financial power invariably brings diplomatic clout and it is interesting that is 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).
40. 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.

41. This has become a topic of some debate among NATO allies as some countries like the United States are now refusing to incorporate Chinese products in their 5G networks while others, like the United Kingdom, now affirm their intention to do so although within limits. France and Germany have set a middle course. 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, 29/01/2020).

42. 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 the 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 principal 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

43. The American view of the Belt and Road initiative need to be understood in the context of its broader rivalry with China. US perspectives are strongly conditioned by security concerns about the nature of the Chinese regime, its seemingly inexorable rise to super-power status, and its apparent determination to establish itself as a Eurasian hegemon. However, 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. 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 can also be characterised as underwriting US fiscal deficits 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. The relationship represents a powerful admixture of rivalry, competition, and shared interests.

44. 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 believes will invariably come at US expense. President Xi himself has overtly linked commercial activity with military power saying 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).
45. Not surprisingly, 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.

46. US policy toward China must account for these ambitions. This is not to say that there is strong advocacy of eliminating commercial links with China, but rather there is a need to be smart about when to engage and when to resist engaging (Feith and Corev, 2019). 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). 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.

47. The Trump Administration’s response to these challenges has been mixed. Despite concerns about China’s hegemonic ambitions, 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 but excluded 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. For obvious reasons, 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.

48. US officials and analysts recognise that the BRI has become the primary 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. In this sense, it could well pose a long-term challenge to America’s global leadership role 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, 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 offer.

49. 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 in turn, would, 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 apprehension.
50. 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 a ban of 5G equipment supplied by the Chinese firm 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. The Administration also 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. The issue has become more tense in recent months, particularly after the British government announced that it would procure selected Huawei infrastructure for its own 5G networks.

51. 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.

52. 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 rise 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 are taking to the role of Huawei in building 5G networks. The Trump Administration has decided that Huawei cannot participate in building these networks and it wants Europe to follow suit. Europe has not uniformly embraced this view, however, and the United Kingdom’s recent announcement that it will use some Huawei equipment symbolises a genuine divergence in strategic outlook even between historically close allies (Payne and Mason, 2020). How best to engage with China thus risks becoming another new fault line in the Alliance if not properly managed.

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

53. Russia is not an idle spectator in China’s grand Euro-Asian endeavour. On the one hand, it anticipates 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. 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.

54. This, in itself, is not insignificant. Russia is one of the largest recipients of Chinese investment linked to the BRI, reflecting the degree to which China sees Russia as a strategic partner, a supplier of critically needed raw materials and given its location astride both Europe and Asia. In 2018 it was estimated that China had made USD 46 billion in investments in Russia related to the BRI (Kynge, 2018). Because Russia constitutes the largest land mass between Europe and China, there are currently plans to build a network of roads, rail, bridges, and other infrastructure to move goods through that enormous space.
55. 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 poured money into the fund. European and North American investors, however, have not. This is not coincidental, and both reflects the anti-Western nature of the Russian-Chinese partnership and Western sanctions against Russia in the wake of its illegal annexation of Crimea. It is 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. Bilateral trade between China and Russia reached USD 84 billion in 2017 and grew an average of 19% per year in the decade prior. The goal has been to get this figure to USD 100 billion by 2020 (Kyne, 2018).

56. There has also been talk of establishing a ‘North-East Passage’ in the high north to facilitate shipping in arctic waters which are increasingly ice-free in the summer months due to climate change. China sees itself as a ‘Near-Arctic State’. Although this is a concept bereft of legal significance, it is suggestive of China’s grand ambitions (The State Council of the People’s Republic of China, 2018).

57. There are eight Arctic states with rights and obligations in governing the Arctic region. 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 National Convention on the Law of the Seas (UNCLOS).

58. Climate change has apparently served as a primary catalyst for these ambitions, and China 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 sees new possibilities 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 held by Russia. But it is also interested in mining a number of rare earth materials found in regions like Greenland, where it has proposed building a range of airports, harbours roads and railway (Franklin, 2020).

59. 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 permanent 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 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. China has also begun to invest in strategically situated port facilities and even sought to purchase a former US naval base that could host naval ships and submarines. It is hardly surprising that US Secretary of State Mike Pompeo noted at an Arctic Council ministerial meeting in Finland that the Arctic has “become an arena for power and competition”, adding that “China’s words and actions raise doubts about its intentions” in the region (Auerswald, 2019). From the US perspective, China poses a direct challenge to regional security and brings US-Chinese strategic competition directly into a NATO space where Russian military activity has long been a major concern. The US national Defense Authorization Act for The Fiscal Year 2020 includes a mandate to examine and monitor Chinese military activities and foreign direct investment in the Arctic (Franklin, 2020).

60. Even Chinese arctic research efforts 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). One concern is that China might someday look to
join forces with Russia in the region, and this would obviously pose a serious challenge to littoral countries and to NATO itself. Russia, however, might be very reluctant to invite China into a strategic partnership in the High North as it sees the region as its own backyard and does not want to contend with China’s apparent strategic and economic ambitions there. This points to potential limits in Russian-Chinese arctic collaboration.

61. China and Russia, however, do 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. China’s industrial boom cannot be sustained without access to secure energy suppliers and Russian energy exports essentially underwrite its own national economy, sustain consumer welfare, and provides the funding for Russia to maintain its great power ambitions. 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.

62. That said, 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. Moreover, China is already connected to Turkmenistan’s gas fields in Central Asia (Meliksetian, 2020). In December, 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.

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

63. China has not allowed the Covid-19 pandemic to diminish its ambitions for the Belt and Road Initiative (Bhaya, 2020). One could argue that the project might event benefit this massive undertaking, although much will depend on how the current crisis plays out. China was the first major economy to experience a virus-related downturn and has been the first to try to launch a return to 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, perhaps optimistically, forecasts that China’s economy will grow by 9.2% in 2021, while the US economy is slated to shrink by 5.9% and the Euro area by 7.5% (Chipman Koty, 2020). China also 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.

64. 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 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.

65. 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 (EU-China News Brief, 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 (Campbell and Doshi, 2020).

66. Beijing is also training officials from countries around the world on how to enact Chinese style strategic communication and propaganda, and it exports a range of digital tools designed to facilitate this. China’s leadership believes its authoritarian model could become more attractive as the challenge of the pandemic and the economic fall-out intensifies (Shullman, 2020). There is a potential link here with China’s ambitions for the BRI. China is not simply advancing the idea of deeper trade links and infrastructure to promote it, 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 facilitate this rise and the BRI is integral to the image of itself it seeks to project.

67. But 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. The Covid-19 pandemic has now dramatically struck at international trade and investment flows. It is impossible today to assume that trade will 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. 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 (Linders and Verstappen, 2020). Indeed, the pandemic has exposed critical vulnerabilities, and Western governments could well compel changes that would come at China’s expense, although it is far too early to know if this will actually transpire.

68. 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 emerges, the BRI or parts of it could become a financial albatross both for China and its investment partners. From this perspective, 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 (Kyenge, James 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 and lend further credence to accusations of “debt-trap diplomacy”. (Klein, 2020)

69. 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, resulting in a renegotiation rate of China’s overseas lending approaching 16-25%. That figure will likely rise substantially given the very poor global economic outlook. Moreover, 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).

70. For now, Chinese investors participating in BRI will most likely focus on previously launched capital-intensive infrastructure projects. But Chinese companies might also 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 (GlobalData, 2020). There is speculation that this will continue.

71. 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. The pandemic has rekindled discussions in Europe about the need to adopt a tougher common stance on China. For example, a reassessment seems to be underway on whether stronger limits should be imposed on Chinese companies aspiring to build 5G networks in Europe (Seaman, 2020). 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).

72. 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.

73. Chinese leadership may ultimately have to revamp BRI in order to translate these aspirations into reality. At the BRI Summit in 2019, Xi Jinping suggested that China intends to relaunch the BRI (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 will and should ultimately condition Western responses.

**VII. CONCLUSIONS**

74. 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 elements of this programme make good commercial sense while other dimensions can reasonably be understood as posing
long-term threats. Of course, the BRI cannot be divorced from the wider geopolitical context. China’s global influence is undeniably growing, its military is modernising, and with respect to certain key advanced technologies – particularly artificial intelligence, 5G infrastructure and quantum technology – it is determined to surpass the capabilities of NATO countries (Kania, 2018; Whalen, 2019). China has engaged in a massive military build-up over the last twenty years and is increasingly assertive, in its immediate neighbourhood, particularly in the East and South China Seas (Twining, 2016). 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.

75. 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 build broader linkages between Europe 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 and a new security pact with certain Pacific Islands, the ‘Compact of Free Association’ (Ives, September 2019; Packham, 2019). Overall, the international mood, particularly in the United States, seems to be moving towards counter-balancing Chinese ambitions by working to ensure that Western interests are properly defended in the region.

76. 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 and its model of governance are antithetical to core Western interests. This does not mean that all of its regional 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 the principals of open trade, intellectual property protection, sound investment, targeted assistance, and focused diplomacy will be essential. Advancing these values should be coordinated in a trans-Atlantic fashion.

77. The NATO Leaders Meeting in London in December 2019 recognised that a collective response to the Chinese challenge is essential 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).

78. China’s Arctic ambitions could pose a challenge to NATO as these are strategic waters in the NATO space and China clearly has long-term ambitions to build a strong presence in the region. NATO countries along the Arctic littoral need to be vigilant when dealing with China as some of its commercial investments do have potential military and strategic implications over the long-term.

79. Concerns about China’s role in the construction of 5G networks, including those in the Belt and Road regions are certainly justified. Countries that use Huawei equipment in these vital systems 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

DRAFT General Report by Christian Tybring-Gjedde (Norway) for the NATO PA’s Economic and Security Committee
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 that might be worried about relying on China.

80. Any effort to counter the worst elements of China’s infrastructure programmes will require significant capital injections, and the burden will 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. This does not mean that it should or needs to work against China, but it will need to work to move China toward more acceptable standards across the board. Europe has a degree of leverage in all of this, as it both stands astride the terminus of China’s great project, and it exercises 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 market rules and norms, but this should not mitigate the sense that Europe needs to exercise more vigilance and stronger investment rules to dissuade the Chinese from engaging in more predatory investment practices (Brzozowski, 2019).

81. The EU also needs to more strongly 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 values fundamental to the Europe project.

82. 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 the trade policies and managed trade vision of the Trump Administration. There is clearly room to deepen trans-Atlantic cooperation on China policy and in the area 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.

83. 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.

84. Finally, at the time of writing, it appears to be emerging from the worst moments of the Coronavirus crisis just as the West plunges into the depths of that crisis. This too could change the dynamics of relations with China although it is very difficult to predict how at this difficult moment.
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