A SYMPOSIUM OF VIEWS

Will China's New Trade/Debt Diplomacy Strategy Reshape The World?

A century ago, the British Empire dominated global trade, and now China appears to be making a solid play to assume a similar leadership role, with one key difference: China's goal seems to be a projection of power through infrastructure building, not military force. Its Belt and Road Initiative already has nearly $1 trillion in projects planned or underway in the form of roads, ports, rail, pipelines, and power generation across Asia and reaching into Europe and Africa. Another $1 trillion is planned for the coming decade, spanning over sixty countries.

Because China's financing generally comes in the form of loans, not aid, observers have coined the term "debt-trap diplomacy," by which China gains favorable access to the projects it finances as a form of loan repayment, thereby expanding its influence and relative advantage.

Will China's "Belt and Road" strategy lead merely to dominance in trade, with eventually significant worldwide political backlash? Or will the Belt and Road Initiative eventually reshape the international landscape, affecting the dollar's role as reserve currency, the regulation of financial markets, the traditional role of the U.S. military, and even the role of NATO? Will China use debt diplomacy to successfully dominate the world? Or will China's own domestic problems of massive debt and bloated state-run corporate giants, combined with a rapidly aging society, stymie its plans?

Three dozen important observers offer their views.

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It's Mackinder vs. Mahan, and I would bet on Mahan.

JOSEPH S. NYE, JR.
University Distinguished Service Professor, Harvard University, and author,* Is the American Century Over? *(2015)

Xi Jinping has said his Belt and Road Initiative would promote Chinese economic and political power around the world. China plans to lend more than $1 trillion for infrastructure projects over the next decade, while the United States is cutting back on aid and contributions to international institutions. Does this mean China will win its geopolitical competition with the United States?

"One belt, one road" means many things to many people, including China's leaders. As an aid program, it means preserving jobs in industries where China has serious overcapacity; insuring Chinese access to energy and resources; and using economic carrots to increase China's influence in recipient countries. In that sense, it is less a revolutionary challenge to the current international order than an organic growth of Chinese power within that system.

In these terms, the Belt and Road Initiative faces a number of predictable problems. Some countries, such as Britain, have objected to signing written memorandums of understanding of support. In Sri Lanka, debt and unpaid loans plagued projects that turned out to be "white elephants." Security conflicts bedevil projects that cross tense borders as in Pakistan. India is not happy to see a greater Chinese presence in the Indian Ocean, and Russia, Turkey, and Iran have their own agendas in Central Asia.

But the larger question is whether the Belt and Road Initiative will serve as a grand strategy that reshapes the international landscape. A century ago, British geopolitical theorist Halford Mackinder argued that whoever controlled the world island of Eurasia would control the world. American strategy, in contrast, has long favored the geopolitical insights of the nineteenth-century admiral Alfred Mahan, who emphasized sea power and the rimlands.

Even in the age of the internet, geography still matters. In the nineteenth century, geopolitical rivalry revolved around the "Eastern Question" of who would control the area ruled by the crumbling Ottoman Empire, and infrastructure projects like the Berlin-to-Baghdad railway roused tensions among the Great Powers.

With the Belt and Road Initiative, China is betting more on Mackinder. But the overland route through Central Asia could revive the nineteenth-century "Great Game" for influence that embroiled Britain and Russia, as well as former empires like Turkey and Iran. At the same time, the maritime "road" through the Indian Ocean accentuates China's already fraught rivalry with India, with tensions building over Chinese ports and roads which India sees as political rather than economic ventures.

Asia has its own balance of power, and many countries worry about the rise of Chinese power. India, Japan, Vietnam, and others do not want Chinese domination. They see America as part of the solution. American policy is not containment of China—witness the massive flows of trade and students between the countries. But as China becomes more nationalistic and enthralled by Xi's vision of national greatness, it will tend to drive many countries into America's arms. I would still bet on Mahan.

It's safer to bet on the China dream than not.

IAN BREMMER
President and Founder, Eurasia Group, and author,* Us *vs.* Them: The Failure of Globalism *(forthcoming)

China is set to become a global superpower. It has surprising political stability and resilience. Yes, its debt and demographic issues are big problems (not to mention their environmental woes), but there's no reason to believe that these concerns are about to implode China's state-capitalist model. If anything, China's state-capitalism has proved its durability and strategic advantages in recent years while American (and European) liberal democracy lurches ever further from leading by example. Put another way, it's safer to bet on the China dream than not.

China expresses power in dramatically different ways than the United States, and its Belt and Road Initiative is one of those ways. Eventual economic dominance of other countries around the world brings influence and "reciprocity," but unlike the Americans, the Chinese aren't trying to promote an ideological system of governance. They aren't building a global military, and they don't have a convertible currency and aren't moving with any rush to create one. So I don't see the rise of China and its strategy of debt diplomacy as being the end of NATO; if the U.S. military and/or NATO erode significantly, it's likely to come more because of decisions the Americans will make (and are continuing to make) than because of Chinese power.

Where we are likely to see a sea change is in the sphere of technology, which will be the most important for determining who controls the future. In the tech sphere, China's busy setting up standards that are most clearly in opposition to those of the West. It's an increasingly zero-sum system, and China is already on the road to being a superpower, if it isn't already. If there's a true threat to America's status (and there is), that's where it comes from.

The challenges of the Belt and Road Initiative go far beyond the economics.

CHRIS LEUNG
Chief China Economist, DBS Bank (Hong Kong)

The Belt and Road Initiative is a brilliant foreign policy idea blending with an ambitious long-term outbound investment plan. It is unprecedented in scale and geographical coverage and potentially a game-changer for the global order in the long run.

This is a tremendous task but not entirely impossible. Less-developed countries are tempted to accept loans from China due to the absence of stringent human rights conditions imposed by Western institutions, despite the high interest rate charged by Chinese banks. In return, they offer either management rights on ports and harbors to China, or in some cases, even direct equity investment in strategic assets. The deals are usually mutually beneficial in the short term. Sustaining such relationships into the longer run is, however, a daunting challenge.

In fact, the challenges of the Belt and Road Initiative go far beyond the economics, as evidenced by the cases in Myanmar and Sri Lanka. The change of ruling government to a new democratically elected government in Myanmar has subsequently led to the termination of several Chinese infrastructure projects, potentially interrupting one of the three major rail routes—the Bangladesh-China-India-Myanmar (BCIM) corridor, with a total length of 2,800 kilometers. It originates from Kunming province in China, and will have to pass through Myanmar to complete the BCIM with an end destination in Kolkata, India. Even in Pakistan, the rising activism of Balochistan independence parties located in Gwadar could complicate the project progress of the China-Pakistan Economic Corridor. Hiccups of a similar nature also happened in Sri Lanka and Africa. Obviously, the common cause of these debacles stems from a rising phobia about Chinese influence.

These challenges confirm the limited potency of China's "mercantilist" approach in driving the Belt and Road Initiative in the medium term. Termination or postponement of mega-infrastructure projects consequentially inflicts heavy financial losses on Chinese state companies. Not all countries are willing to make concessions in lieu of debt repayment to China.

The hard lessons should ensure China comprehends that deepening economic inter-dependency with client states via credit is only one of many steps. China needs to pay more respect to environmental protection, pay more attention to the voices of the local population, pay more compassionate and equitable monetary compensation for land taken away from local residents, and partner with companies from other countries to reduce the image of "China-centric" investments. Last but not least, China should offer lower interest rates for participating countries to ease their worry over mortgaging their future to China. This will take some time for China to digest because her political institutions are not accustomed to such considerations in executing political imperatives. China will learn quickly. Time will eventually tell.

You don't have to be white to be a neo-colonialist.

ROBERT A. MANNING
Senior Fellow, Brent Scowcroft Center on International Security, Atlantic Council

China does not need the Belt and Road Initiative to dominate in trade: it is an outgrowth of economic success. China is the world's largest trading and capital-exporting nation and the source of nearly two-thirds of the U.S. global trade deficit in 2017. China already is the largest trading partner of every U.S. ally and partner in the Asia-Pacific. By rejecting the Trans-Pacific Partnership and activating parts of U.S. trade law (sections 232 and 201) to impose import tariffs and/or quotas regardless of whether the exporter is acting unfairly, and by proposing bilateral trade deals for which there are no significant takers, the Trump administration is by default in the process of vacating the Asian economic space.

The flawed concept of "America First," baffling to foreigners, is no answer to the glimmering vision Xi Jinping has laid out of Reconnecting Eurasia. Trump has bestowed an unintended gift to China's ambitions. China's investment-driven, state-directed economy and predatory industrial policies (for example, Made in China 2025) lie behind Belt and Road. The initiative is in part an effort to export China's overcapacity in order to delay politically difficult economic reforms, and in part repackaging of projects already planned overlaid with new infrastructure projects with some $1.2 trillion in subsidized finance.

If past is prologue, less than 25 percent of planned projects are likely to be completed. The problem in infrastructure is less lack of funding than lack of good projects. In the process, China is demonstrating that you don't have to be white to be a neo-colonialist. It is turning clients such as Pakistan, Sri Lanka, Venezuela, and Zimbabwe into long-term debtor states. This is likely to trigger a political backlash, and second thoughts by would-be recipients of Chinese largesse. Since the 2008–2009 financial crisis, Beijing has greatly overplayed its hand, seeking to bury two centuries of humiliation with the grandeur of Middle Kingdom resurgence.

I hesitate to speculate whether the Belt and Road Initiative will bring China a Mackinder-like dominance of the Eurasian landmass. More likely, we will see growing political/strategic pushback by a coalition of the United States, European Union, Japan, India, Korea, and Australia against China's nationalistic protectionist/industrial policies designed to game the system from which it has hugely benefited and dominate emerging fourth industrial revolution technologies (artificial intelligence/big data, robotics, genomics, self-driving vehicles, and so forth).

I am not convinced there is a necessary correlation of Belt and Road with the internationalization of the renminbi, a very incremental process. The renminbi will not rival the dollar before 2035–2040 at the earliest. The renminbi's use in trade is down, and even after being included in the IMF SDR basket of currencies, the renminbi accounts for roughly 1 percent of globally traded currencies. Ironically, it is China's own internally contradictory economic and financial policies, and fear of capital outflows, that are the major obstacles to the further internationalization of the renminbi.

Many have bet against China over the past four decades and all have lost. I would avoid straight line projections as well as forecasts of doom, with China being sunk by massive corporate debt, property bubbles, and demographic and environmental decline. I suspect China will muddle along with half-measures and partial successes unless there is a perfect storm of its internal contradictions and external pressures/conflict undoing the status quo.

Pax Sinica cannot be realized in a foreseeable future.

MAKOTO UTSUMI

Chairman of Global Advisory Board, Tokai Tokyo Financial Holdings, Inc., and former Vice Minister of Finance for International Affairs, Japan

While the United States under President Trump is abandoning the world's leadership role, Chinese leader Xi Jinping declared, in October 2017, that it was time for China "to take center stage in the world."

This is symbolically embodied in the "One Belt, One Road" initiative, which includes a network of roads, ports, tracks, and pipelines tying more than sixty countries across Asia, Africa, and Europe.

The scheme reminds us of the famous statement, "all roads lead to Rome," and it is not unnatural to imagine that the Chinese leader would reminisce about the times when the surrounding countries were regularly visiting the Chinese capital to pay tribute to the Emperors of the Middle Kingdom. This plan dramatically displays the leadership role of China in the world. Colossal projects would absorb excess steel, cement, and so forth, and would relieve the excess capacity of state-owned enterprises, the two sources of China's current structural distress.

In such a way, One Belt, One Road seems to be a formidable tool for China, enabling her to kill two birds with one stone, while opening the way toward the hegemony of China in the world.

One Belt, One Road, however, cannot become the panacea for China on her road to global leadership.

Among the many obstacles to the successful realization of this scheme, let us focus on the problem of financing.

The total budget for the construction of a high-speed rail system connecting Beijing and Moscow is estimated at $242 billion. One Belt, One Road also includes a network of roads, ports, tracks, and pipelines. The total cost would unquestionably be astronomical.

Now, here is the fundamental question: Can China finance a major part of this total cost?

Although the Chinese government declares that its current budget deficit stands at 3 percent of GDP, according to the International Monetary Fund that deficit is much larger: 12 percent of GDP. And China's rapidly aging population has started to add millions of people to an aging cohort which has no option but to rely on the underfunded social system, which Beijing must urgently tackle.

Concurrently, over the last decades, an estimated $3.8 trillion in capital fled China. To prevent this capital flight, the Chinese government, while enforcing strict capital controls, has been selling dollars from its foreign exchange reserves. By doing so, China's capacity to finance One Belt, One Road has been trimmed somewhat.

The worrisome debt overhang in the country would not allow private capital in China and elsewhere to go along with public resources to be invested in these magnificent projects.

Consequently, One Belt, One Road will finally fall short of achieving Beijing's desire of "global domination."

In modern history, we have never seen a sustainable global leadership by a nation with a non-existent civil society and where a majority of the wealthier population wants to migrate, seeking to move "my children, my money, myself" out of the country.

Pax Sinica cannot be realized in a foreseeable future.

China's vision is unlikely to become the world's vision.

PATRICK M. CRONIN
Senior Director, Asia-Pacific Security Program, Center for a New American Security

The nationalistic China Dream represents the ambitious choreography of the Chinese Communist Party. Sino-centrism is apparent in the original formulation of "One Belt, One Road," a phrase subsequently replaced after it became apparent that other actors might want a voice in determining their destinies. The more ambiguous "Belt and Road Initiative" still appears a means by which China may dominate twenty-first-century global supply chains by leveraging its advantages in foreign exchange reserves and surplus industrial capacity.

The Belt and Road Initiative also needs to be placed in a strategic and not just economic context. Xi Jinping may tout infrastructure to attract others to rally behind Beijing, but his open quest for military modernization will repel many worried about China's future intentions. Small countries whose leaders are subject to foreign influence may buy into long-term indebtedness and foreign policy bandwagoning. But most sovereign states will wish to hedge their future security through economic diversification and networked security.

Xi's mid-century goal of restoring China's place at the center of world power is predicated on being able to commandeer the most valuable global supply chains. But the Belt and Road Initiative is just one part of a strategy for building slow-motion hegemony, in which China advances its power through a sophisticated campaign supported by all instruments of policy—from technologies such as blockchain and quantum computing to a global, area-denial military capability.

The smart *TIE* reader should take forecasts of China's long-term future with a dose of skepticism. What seems more sensible to project is a balance sheet of China's strengths and vulnerabilities. Any assessment that only looks at one side of the ledger is far more susceptible to surprise.

China has numerous advantages, and the Belt and Road Initiative may be its ticket to becoming a middle-income country. At a minimum, the Belt and Road Initiative is a winning narrative and China is rapidly expanding its influence. Moreover, China already is a top trading partner with virtually every regional actor and major economy worldwide. China not only has finance and surplus capacity, but its technology is marked by rapid investment and achievement, including in important areas such as artificial intelligence, autonomous robots, nanotechnology, and bioengineering.

Still, China's vulnerabilities deserve closer scrutiny. Nations are not keen to cede sovereignty to advance their wealth; they are more likely to seek both security and prosperity. Additionally, China may not always be an exemplar as a successful surveillance state. As technology advances, national interests diffuse, and personal wealth ascends, China may be subject to overstretch. Further, an inability to contain myriad disruptions may apply internally, as deep fissures emerge.

In short, how much China adapts to tomorrow's world may well be as important as how much the world adapts to China.

China will soon be in the position of Britain in the late nineteenth century.

BERNARD CONNOLLY
Former CEO, Connolly Insight, LP

China's trade surpluses began as a reaction to its households' need for financial savings given the absence of a social security system and the presence of the one-child policy, which ruled out the Indian model of saving for old age by having several children and spending on their food, housing, and education. Investment had to fill the gap between consumption and rapidly growing productive potential. And net exports had to boom in order to induce that investment (much of it by state-owned enterprises, to whom the policy banks channeled the savings of households).

The big question for the authorities was that of where to invest the current account surpluses. For a long period, much of the surplus was invested in Treasury bonds. Had the strategy not changed, the ultimate collapse of the U.S. Ponzi game—or, alternatively, Chinese acceptance that its loans to the United States had in fact been gifts—would have had dramatic sociopolitical effects in China as retirees discovered that the savings which the state system had channeled to the United States could not provide for retirement consumption. A U.S. government which pursued a strategy of defaulting on debt could have produced a revolution in China.

However, the Belt and Road Initiative still involves Chinese lending, largely state-directed, this time to infrastructure projects in emerging market countries. So China remains subject to default risk. But the diversification of risk via the Belt and Road Initiative reduces the danger of a sudden realization shock to the Chinese population—but with a caveat. While China had, and for now still has, no hope of exerting military pressure directly on the United States to honor its Treasury bonds, it might well be able to exert military or at least diplomatic pressure on its debtors in its geographical "sphere of influence." And China might need to exert such pressure to avoid a "demonstration" effect of a country thumbing its nose at its Chinese creditor.

China will soon be in the position of Britain in the late nineteenth century: running substantial trade deficits financed (over-financed, in the British case) by the flow of income from its overseas investments (and it is that period, not the Palmerstonian era and the Second Opium War, which provides the relevant analogy).

But China's demographics mean that the future need for such a pattern will be much more pressing than that of late-Victorian Britain. It is that need, coupled with the potential political and/or financial instability in many of the countries (few of which, significantly, are common-law countries) receiving Chinese loans, the bulk of them state-directed, that produces the risk of diplomatic or even military conflicts within China's expanding sphere of influence. If the example of U.S. gunboat diplomacy in much of the twentieth century—sending the Marines into small countries to protect the interests of Wall Street and American big business—is followed by China in the modern world, the dangers posed by that, and by possible U.S. reaction, will be very great.

I am cautiously pessimistic about China's plans to "take over the world."

JOHN POMFRET
Former Beijing Bureau Chief,* Washington Post, *and author,* The Beautiful Country and the Middle Kingdom: America and China, 1776 to the Present *(2017)

I am cautiously pessimistic about China's plans to "take over the world" if such plans do, indeed, exist.

Having first gone to China in 1980 and having lived there and around its periphery for more than thirty years since then, I count myself lucky to have witnessed first-hand China's emergence as a great power. It has been an incredible story to watch, not just in terms of China's national power but also in terms of the amazing transformation of the lives of many Chinese friends who went from near-poverty to wealth beyond the dreams of avarice. China's economy grew 43-fold between 1980, when I first studied there, to 2017.

That said, I believe the road forward for China is full of potholes. At its root, the Belt and Road Initiative is a program designed to absorb the excess capacity of China's economy. It seeks to use massive infrastructure projects abroad to stoke the fires of China's manufacturing sector.

So any comparison between it and the U.S. Marshall Plan following World War II is spurious. The Marshall Plan spread American influence because it was at its heart a plan to bolster European nations by strengthening their economies so they could fend off the lures of Soviet-style communism. China's Belt and Road Initiative is at its core a program designed to bolster China's economy. So inevitably—whether because of "debt trap" diplomacy or the use of Chinese firms and labor at the expense of local businesses and labor—there will be a backlash.

Second, while China on the surface appears stable, there remain big questions about the ability of its current system of government to respond to the demands of its people. To be sure, China has proved wrong those who have, since 1989, predicted that China's one-party system was about to collapse. That said, China's Communist Party clearly understands its country better than most of us do. And it devotes more money to ensuring domestic security than the $100-plus billion it spends on national defense. If it is indeed so stable, why?

Finally, China's demographic pressures militate against any future world dominance. The recent state decision to loosen the one-child policy has not resulted in a mini-baby boom. Indeed, births dropped from 2016 to 2017, according to official statistics released in January. China's workforce peaked in size in 2015. Its median age this year will surpass that of the United States. It will soon have a higher percentage of its population above the age of sixty than America. And in a nation with a social safety net that remains a work in progress, the cost of one hundred million people above the age of eighty will inevitably sap resources needed elsewhere.

The same forces driving Belt and Road's early success are also sowing the seeds for longer-term challenges.

JONATHAN HILLMAN
Director, Reconnecting Asia Project, Center for Strategic and International Studies

The Belt and Road Initiative would reshape the international landscape if fully implemented, but its lofty aims face major challenges on the ground. Politically, the effort is already succeeding. Some thirty foreign leaders traveled to China to endorse the effort last year, multinational companies are eager to participate in its projects, and academics are busy studying its implications.

As the United States and Europe have turned inward, China is reaching out. It is offering a positive economic vision, centered on development, which is the top priority for many countries in Asia and beyond. The allure of Chinese economic incentives makes this vision attractive to many countries, even though it is plainly China-centric.

But the same forces driving the Belt and Road Initiative's early success are also sowing the seeds for longer-term challenges. This tension is clearest in Chinese infrastructure projects, which are a major feature of the initiative. China's approach to infrastructure is flexible and fast, as compared to that of the multilateral development banks. Chinese firms are willing to work with any government, build to budget with fewer safeguards, and accept a wider range of payment terms. China offers funding, often at higher interest rates, as well as its own contractors, which benefit from generous state subsidies. All these incentives encourage starting projects first and dealing with risks later. Time will tell how many of these projects are truly economically viable.

If quality takes a backseat to quantity, what looks like boldness today will eventually look like hubris. Large infrastructure projects are usually delayed, over budget, and under-deliver promised benefits—even in the best business environments. At the same time, developing countries are taking on significant debt. Many are counting on high growth rates that leave little room for error or unexpected events.

The economic failure of projects could produce political backlash for China. Events within or outside China could lead to enough of these loans failing as to impact the broader global economy. Far from helping write the next chapter in global integration, a failing Belt and Road would harm global growth.

Belt and Road supporters and skeptics alike should want the effort to succeed, but on terms that strengthen rather than undermine the rules-based order. Supporters should require more transparency for projects and insist that social and environmental safeguards play a bigger role early in project planning.

Skeptics can help by raising international standards for infrastructure and providing better financing alternatives. Developing Asia alone requires $26 trillion in infrastructure investment between 2017 and 2030 to maintain current growth rates and adapt to climate change. Even wildly optimistic estimates about the Belt and Road come nowhere near filling that gap. There is plenty of room for competing visions.

DANIEL H. ROSEN
Partner, Rhodium Group

LOGAN WRIGHT
Director, Rhodium Group

China's Belt and Road Initiative is more a political rebranding of prior policies than a new grand strategy.

Reshape the world? Hardly. China's Belt and Road Initiative is more a political rebranding of prior policies than a new grand strategy. The initiative is an outgrowth of two Chinese commercial trends: the acceleration of outbound investment, and the need to export industrial overcapacity because of saturated domestic markets. Framing it as a globally minded developmental enterprise does not change the fact that these realities, and not development for its own sake, are Beijing's categorical imperative.

Most Belt and Road countries run trade deficits with China; China is essentially offering funding to sustain or expand that trade. The bulk of Belt and Road project contracts will be enjoyed by Chinese firms. China typically does not offer reciprocal treatment for exports from Belt and Road countries in China, nor does it offer convertibility of its currency or attractive opportunities to invest in its financial markets. These are fundamental limitations to a grand strategy to reshape the world and project power: most countries promised Belt and Road investments will have reservations and concerns about the terms.

The initiative is not really new, and past activity has been troubled. Broadly speaking, Belt and Road is a program of outbound lending to fund infrastructure development in targeted countries. However, China's development banks have been doing this for more than a decade, with no significant uptick in trend since Belt and Road was announced. Beijing's preoccupation with defending the renminbi is at odds with Belt and Road as well, and contributed to China's jarring 2017 pullback in outbound investment. China's experience to date with policy-driven overseas lending has not been a happy one, with huge financial losses in Venezuela and political losses in Sri Lanka and other countries.

It is easier to understand the Belt and Road Initiative as a political campaign associated with President Xi Jinping. Because of this linkage, the Belt and Road concept has become prominent in China's diplomacy and in external affairs. The initiative is largely shielded from criticism internally because of this political significance, and externally an extraordinary effort is made to conclude memoranda of understanding to demonstrate foreign enthusiasm, while opposition is taken to signify opposition to a positive relationship. The proliferation of bank-hosted Belt and Road conferences and overseas university Belt and Road-related research centers is driven as much by public relations as confidence in plans to replicate China's infrastructure-heavy model abroad.

Despite all this study, the Belt and Road Initiative lacks a meaningful design beyond the commercial objective of a wider window for Chinese direct investment and exports—flows that are huge and hugely important, but not world-changing nor a novel Chinese contribution. There are limits to how much excess capacity China can export, and how much debt to China countries are willing to incur.

Belt and Road is a challenge to the global economic governance system that has evolved since World War II.

ARTHUR R. KROEBER
Head of Research, Gavekal Dragonomics, and author,
China's Economy: What Everyone Needs to Know
(Oxford, 2016)

The Belt and Road Initiative is not an infrastructure plan, but rather China's vision for international economic integration and political influence. It is likely to be implemented with patience and prudence. Chinese leaders present it as a useful addition to existing global economic arrangements—the "China option"—rather than as a substitute for them. And although media headlines have made much of the initiative's speculative US$1 trillion price tag, it is by no means a blank check. The development of specific projects will be constrained by the absorptive capacity of target countries, and by Chinese financial institutions' need to generate returns on their investments.

No doubt, Belt and Road is in some sense a challenge to the global economic governance system that has evolved since the end of World War II. That system is built around legal agreements that reduce trade and investment frictions through jointly agreed rules. Many system standards are developed and enforced by multilateral institutions (such as the World Trade Organization, International Monetary Fund, World Bank, various UN agencies, and the OECD), which also build the system's shared intellectual capital through their research and information-sharing.

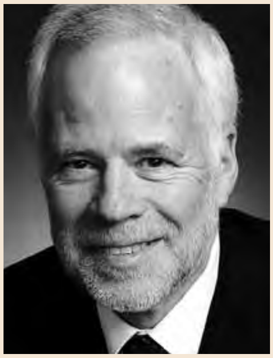
China's Belt and Road approach is simpler. It proposes to reduce trade and investment frictions not through improved rules but by better physical connectivity: more roads, railways, ports, and pipelines that will make it easier to move goods around, catalyzing economic activity and investment. It extends China's own development experience of the last quarter-century, in which massive infrastructure investments knit together a previously fragmented continent-sized national market.

Economic and political strategic concerns also play a role. Chinese institutions will take the lead in financing Belt and Road projects, and the lion's share of construction and engineering contracts will go to Chinese companies. These engineering firms and their suppliers will get the chance to set construction and equipment standards, giving them an inside track on projects in future decades. Without doubt, all this activity will enable Beijing to increase its political influence.

This China-led vision is gaining momentum while the traditional American-led vision is flagging—especially after the Trump administration's ill-considered decision to exit the Trans-Pacific Partnership. Yet we should not over-interpret this shift in relative momentum.

On balance, Chinese willingness to finance and build infrastructure, and to take on more country risk than traditional lenders have been willing to do, is beneficial. Scare stories about developing countries falling into debt traps or neo-colonialist dependency are overblown. Well-governed countries will be able to negotiate terms that preserve their sovereignty and financial independence. Poorly governed countries will be no worse off with the Belt and Road than without it, and may gain some marginal benefit from better infrastructure.

Most important, Belt and Road is in essence a hardware project that depends on the extensive software of the existing global trade and investment system. It will not work unless the global rules-based order stays in place, since otherwise the hoped-for economic spinoffs from better infrastructure will be slow to materialize. Developed nations and multilateral institutions should work to ensure that Belt and Road projects adhere to high governance, environmental, and transparency standards. If these conditions are met, the Belt and Road Initiative will be a welcome addition to the global economic system.



The Chinese economy is not going to grow as fast in coming decades as it did in the last two or three.

BARRY EICHENGREEN
George C. Pardee and Helen N. Pardee Professor of Economics and Political Science, University of California, Berkeley

I am going to try to chart a middle course with my answer. China has made very considerable progress in recent years in projecting diplomatic, economic, financial, and political influence not just in Asia but also in other parts of the world, and we should expect this trend to continue. That said, the Chinese economy is not going to grow as fast in coming decades as it did in the last two or three. At market exchange rates, which are what matter for international transactions, whether those transactions are strictly economic or also have a strategic/diplomatic/military component, China is still only a middle-sized economy, roughly the same size as Canada. China only has two aircraft carriers, whereas the United States has nineteen. So while it is quite right to contemplate growing Chinese strategic and diplomatic influence, we shouldn't (yet) exaggerate the extent of the power shift. At least as important for that balance as China's aspirations and achievements will be whether or not the United States, under Trump, burns its geopolitical bridges and abrogates its global role. In that case, all bets are off.

China's Belt and Road investments will foster trade between China and the recipient countries and also encourage political cooperation, at least potentially. But we know from the experience of the British Empire and then from the reaction of the Third World against the United States after World War II that political dominance by a foreign financial power can provoke a backlash from the countries under its yoke. The Chinese are keen students of this history, however, and one suspects that they will take this tradeoff into account when deciding how hard to push for debt repayment from countries in difficulty. The Chinese authorities have extended forbearance to domestic corporates with repayment problems because of larger political imperatives; to the extent that Beijing is interested in maintaining economic and political links with China's developing country partners, they may well respond likewise. Loans that currently lack concessionary elements may therefore turn into grants.

If they want to be serious, the Chinese should propose a free-trade area with all the Belt and Road countries.

JIM O'NEILL

Former Commercial Secretary to the Treasury, United Kingdom, and former Chairman, Asset Management, Goldman Sachs International

As important as the Belt and Road strategy appears to be for China, it is important for people, including the editors of *TIE,* to get things into the right perspective. In this regard, what happens to the Chinese economy is more important than the Belt and Road Initiative.

Just recently, data released for the fourth quarter of 2017, and therefore now the full year, show that in U.S. dollar terms, the Chinese economy is standing around $12.7 trillion. This is a mammoth increase of $1.5 trillion in just twelve months since the end of 2016. Amongst many superlatives, a truly under-commented one is all the previous shallow comparisons with Japan—which this magazine often tried to make—seem as wide of the mark as I thought they did when it was so fashionable at the time. Nominal GDP rose by around 11 percent last year in China, and at least for now, China has stopped any obvious sign of deflationary pressures. To focus on the $1.5 trillion even more, this increase is bigger than the absolute size of all the world's economies outside the top twelve. It is bigger than the size of Australia or South Korea. It is more than twice the size of Switzerland, or three times the size of Sweden.

While so many people—yet again—obsess about the apparent reliability of Chinese official data, the fact that China had already become Germany's number-one trade partner at the end of 2016 says it all. More and more countries will soon have China as their number-one export market, and I would like to point out they are already number three for the United States. I hope President Trump's advisors can get their head around this in their mistaken attempts to try and challenge China about aspects of their trade. It is something the United States might have been better served thirty years ago, but today, as China's economy becomes more and more service-oriented, the United States is in an extremely good position to benefit. The much-derided Chinese consumer is now close to 40 percent of their GDP, and has crept higher from 35 percent at the start of the decade. This translates into nearly a $3 trillion increase—a lot of iPhones and other U.S. consumer goodies. I doubt we will see Chinese consumption get to anywhere near the U.S. 70 percent level any time in the next couple of decades, but it will certainly head to 50 percent. This is much more important for the world, and international trade, than the Belt and Road initiative.

Now with this context, obviously the Belt and Road initiative is a great unknown. It is clear that China's President Xi Jinping regards it as a huge priority, but unless or until there is some specific tangible policy, it isn't easy to consider its magnitude. Perhaps if they want to be serious, the Chinese should propose a free-trade area with all the countries along the Belt and Road. In this regard, two of the other so-called BRICS countries are involved, and if the Belt and Road idea was itself the instrument to catapult trade between China and India, for example, that in itself would be massive.

Interestingly, while the latest BRICS political leaders' summit last year didn't bring any eye-catching initiatives, it did seem to lay the ground for a notable improvement in the China-India relationship. At their important Belt and Road conference a couple of months earlier, the Chinese hosts were embarrassed by the Indian no-show, but at the BRICS meeting, the Chinese publicly backed Indian security concerns involving Pakistan, and as I have said before, if India's relations with its two massive populous neighbors could be turned into a powerful positive trade relationship, the gains for the region, and as a result for the world, would be extremely large (although not as important as what happens to the domestic Chinese economy). It is also the case for many of the next ten largest populated emerging nations, including Bangladesh, the Philippines, Vietnam, and Egypt. Many of these countries have had a difficult history, and if something like the Belt and Road Initiative can help encourage them to spend more time engaged in international trade than fighting neighbors, then the initiative will turn out to be an enormously positive thing.

I don't really understand why the question tries to suggest the Belt and Road Initiative issue might add to concerns about Chinese indebtedness. It is much more important than that, and for U.S. companies, and indeed for the U.S. government, it should be seen as a huge potential opportunity.

It's easy to pick a few failed cases to make sweeping claims about "debt-trap diplomacy." But don't be fooled.

YUEN YUEN ANG
Associate Professor of Political Science, University of Michigan, and author, **How China Escaped the Poverty Trap** *(Cornell University Press, 2016)*

The term "debt-trap diplomacy," coined by Indian pundit Brahma Chellaney, is fast gaining credence. Chellaney speculates that China harbors "neocolonial designs" to ensnare other countries in excessive debt, citing the case of Sri Lanka, which sold a majority stake in the Hambantota port to China, as evidence. "It is even better for China that the projects don't do well," he adds.

Conspiracy theories are attractive, particularly those about a communist dictatorship conspiring to dominate the world. Astute readers, however, should rely on facts.

Consider two facts to put things in context.

First, while China is steadily extending more loans, it is by far not the largest creditor in many developing countries.

Take the case of Sri Lanka, often touted as a victim of China's debt diplomacy. In 2015, China was Sri Lanka's third-largest creditor, behind India (second) and Japan (first). Sri Lanka owes Japan almost four times as much in loans as it owes China. Indeed, Japan has been Sri Lanka's largest bilateral creditor since 2006.

And yet we've never heard complaints about Japan conspiring to entrap Sri Lanka in debt, have we? The reason: China is not trusted.

Second, debt risks depend not only on the amount of loans but also on whether the loans are productively used to generate long-term returns.

Debt risks depend not only on the size of debts, but more importantly, on the quality of projects funded and the ability of debtors to generate sustainable growth and exports.

Again, Sri Lanka is a case in point. Taking loans from China is not by itself a trap. What is dangerous is to borrow funds—from any country—to finance shoddy white elephant projects, and to invest in infrastructure without boosting exports.

The premier of Sri Lanka has acknowledged these problems. In his economic statement to the Parliament in 2017, he identified the need to "diversify our exports" and "integrate into international value chains" in order to tackle the country's rising debt.

The bottom line: It's easy to cherry-pick a few failed cases to make sweeping claims about "debt-trap diplomacy." But don't be fooled. Evaluate the full picture.

Conspiracy theories have obscured the real policy issue that virtually no media outlet mentions: Facing an unprecedented financing bonanza, both China and other developing countries must learn to exercise fiscal discipline. This is new to Chinese policymakers, as state banks have traditionally dealt with domestic but not foreign loans.

Working with the International Monetary Fund, the Chinese government recently established the China-IMF Capacity Development Center to train officials both from China and countries along the Belt and Road Initiative on debt sustainability analysis. This is a learning process for the entire developing world. Evidently, such news would not make sexy headlines, yet it constitutes real work being done on the ground—rather than speculation.

Beijing's Belt and Road investment scheme has imported corrupt and opaque deals to a host of countries.

DANIEL TWINING
President, International Republican Institute

China's Belt and Road Initiative is impacting nations across Eurasia in ways that place pressure on transparent, accountable, democratic politics. China's authoritarian political model and the role of the state in steering Chinese economic engagement abroad for grand strategic purposes underlines the risks to smaller countries from an influx of Chinese investment that pulls them into China's orbit in ways that undermine political pluralism. No country rejects Chinese investment, but many have an interest in ensuring that it does not suborn their independence or empower authoritarian actors inside their societies at the expense of democrats.

China's finance-powered foreign influence risks undermining democratic systems and processes, contributing to social divisions and political corruption, and risking state capture in an expanding, illiberal sphere of influence that is corrosive to democracy. China's influence once primarily targeted East and Southeast Asian countries with which it shares strong historical and cultural connections. But Chinese designs have now expanded to encompass countries well beyond China's historical zone of influence, including in Europe, Africa, and Latin America.

Chinese pressure on democratic institutions abroad does not just come from Chinese investment flows. As the National Endowment for Democracy argues in a recent study, China has expanded its "sharp power" toolkit to project its ambitions globally. Chinese influence operations are designed to create a more enabling environment for Chinese investment; silence critics of China's authoritarian political model; employ overseas citizens of Chinese origin in a "united front" to advocate for the political interests of the Chinese Communist Party; and enable China's continued geopolitical rise dividing democratic alliances and partners.

The Trump administration is attuned to the risks posed by what the recent National Defense Strategy calls Chinese efforts "to shape a world consistent with their authoritarian model." Beijing's Belt and Road investment scheme has imported corrupt and opaque deals to a host of countries. Influence operations in countries including New Zealand and Singapore have prompted domestic outrage. Beijing's political support for autocratic leaders in Africa has elicited local charges of a "new colonialism." China has moved to restrict free speech in countries with which it has close economic ties, including U.S. NATO allies.

How countries are governed, and how that governance impacts their strength and their geopolitical alignments, matters—particularly in an era when rivals are sowing discord aiming to weaken nations friendly to America and edge them away from partnership with us. Strong democracies are far less likely to be coopted by China (or Russia) than are one-party states whose leaders may be tempted to privilege personal gain over the national interest.

At the 2018 Munich Security Conference, National Security Advisor H.R. McMaster warned that authoritarian, revisionist powers were subverting the sovereignty of free nations and pledged U.S. assistance to help them defend themselves against foreign pressure. One way to help friendly nations make themselves resilient to the kinds of pressure China brings to bear through Belt and Road investments is to assist Belt and Road target countries in strengthening democratic political institutions.

This could enhance transparency and accountability within their foreign investment regimes, ensure that smaller countries don't find the will of their citizens overridden by a foreign power, and prevent unaccountable strongmen from selling elements of their country's sovereignty to the highest bidder. It would also reduce political risk for China by ensuring that its growing overseas investments are protected by rule of law and democratic legitimation in target markets.

GDP growth has fallen in half in ten years even while the country recorded the worst period of capital waste ever.

DEREK SCISSORS

Derek Scissors, Asia Economist, American Enterprise Institute, and creator of the China Global Investment Tracker

Will Belt and Road reshape the international landscape to the extent of even affecting the U.S. dollar's status? That one's easy: no. Will Belt and Road play a secondary role in a broader Chinese reshaping of the globe that could include such sweeping effects? That's more difficult, but the answer is probably still no.

First, a clarification: the 2013 Belt and Road announcement was no sea change. In the China Global Investment Tracker, we document China's investment transactions and construction projects worth $100 million in value or more (2,700 of them since 2005). Belt and Road shows a minor impact in diverting Chinese investment from more advanced economies and intensifying construction activity in target countries. The People's Republic of China was already headed toward being a major global investor and actively building dams, roads, and so on in the developing world before the marketing began.

Chinese construction activity overseas broke $100 billion in value in 2016 (2017 is still incomplete), with Belt and Road countries seeing the majority. Investment is more volatile, with a recent annual average of about $150 billion concentrated in the European Union, the United States, and Australia. Global merchandise trade, in contrast, exceeded $15 trillion in 2016. In that light, Belt and Road continues to be eclipsed by China's position as top merchandise trader. China's trade rise long precedes and dwarfs Belt and Road.

The important question is therefore not what Belt and Road will become, but whether China can maintain its famed export competitiveness while expanding imports through continued strong growth in domestic purchasing power. The answer is of course partly dependent on policy choices, but the trend is clearly negative for Chinese ambitions.

On the policy side, there is plenty of evidence President Xi Jinping intends to dominate Chinese politics for another decade. There is little evidence he believes the state must cede control of land ownership, finance, innovation, and much of industry. Being optimistic on long-term policy requires believing that state-led economic development can make China rich.

There seems to be no shortage of people who believe this, even outside China, but numbers say otherwise. At the most basic level, GDP growth has fallen in half in ten years even while the country has arguably recorded the worst period of capital waste ever, as seen in domestic debt figures. Disposable income was reported by the government at $4,000 for 2017. Slowing growth, high debt, and still-low income do not portend sustained strong import gains.

It is risky to doubt China on the export side. Automation and heavy government spending on export sectors through "China 2025" and its successors may be able to maintain competitiveness, but demography will have its say. An aging and then shrinking workforce is an export challenge the PRC has never faced.

In anticipating China's footprint, a possible export stall and a domestic economy headed in the wrong direction in important ways outmatches the comparatively small Belt and Road. China's probably not going to be able to undermine the dollar's status, curb the global preeminence of the U.S. military, or anything equally dramatic. We'll be the ones doing that.

The Belt and Road Initiative is a largely bogus concept, dressing up raw Chinese expansionism.

RICHARD JERRAM
Chief Economist, Bank of Singapore

China will reshape the world, although not particularly as a result of the trade and debt diplomacy surrounding the Belt and Road Initiative. The Belt and Road Initiative is a largely bogus concept, dressing up raw Chinese expansionism in a superficially more acceptable guise. It is best seen as a foreign policy tool, positioned imprecisely between "hard" and "soft" power, which is reflected in the reluctance of several major Western powers to endorse the program.

Moreover, many of the projects involve serious governance issues, perhaps because most are in countries with weak or no democracy, with consequent lack of scrutiny or accountability for the deals. This leaves the relationships exposed to a backlash, especially in the event of regime change in the recipient. Inevitably, there is the additional risk that the projects end up as white elephants—with Sri Lanka providing the best current example, but there will be more. In some cases, the Belt and Road Initiative could even slow the spread of Chinese influence, if actions are too heavy-handed.

The impact of the Belt and Road strategy might affect the rate of change, but is unlikely to alter the eventual outcome, as China becomes dominant in its backyard. This is inevitable as a reflection of its economic, political, and military power. Certainly the current Chinese credit bubble could burst and cause significant disruption, but the huge imbalance in any bilateral relationship is unlikely to be seriously affected. Some of China's neighbors might be wary of its dominance, but realpolitik makes it hard to resist.

Of course, another factor facilitating the rise of Chinese influence across Asia is the loss of faith in the United States' commitment to the region. Walking away from the Trans-Pacific Partnership is the most obvious example, but there are many others and this will not be easy to repair even with a different U.S. president. Naturally, and if you believe that you can no longer rely on the United States, you are more likely to be amenable to China.

A first big test case is Venezuela. Beijing would be well advised to join the Paris Club.

ANDERS ÅSLUND
Senior Fellow, Atlantic Council, and Adjunct Professor, Georgetown University

China has become the biggest trading power in the world. Although it is the biggest trading partner of many countries in the world and not bashful about its conditions, its foreign economic strategy contains four major flaws, which weaken China.

The first shortcoming is that China's currency is not convertible. Therefore, the renminbi cannot become a significant reserve currency or even a big transaction currency.

Second, China does not have a reliable judicial system. Therefore, the country does not have real property rights. Wealthy Chinese are all too aware of this problem, and like rich Russians or Gulf Arabs, they transfer their free wealth to countries with more reassuring property rights, such as the United States, whenever they can.

Third, China has focused on the development of infrastructure in its One Belt, One Road initiative, but infrastructure is a public good. It is excellent that China is helping the world to improve its transportation on a gigantic scale, but China is not likely to be able to maintain privileged access to these roads in the future. In the same way as Britain maintained free shipping routes in the nineteenth century and the United States in the twentieth century without extracting any particular privileges, China is not likely to be able to dominate the world through building its One Belt, One Road.

Fourth, in international relations, there is a tremendous difference between credit and equity. In the nineteenth century, the colonial powers owned their colonies and could extract resources from them at will. However, in the nineteenth century Britain and France probably exported more capital to independent Argentina as various forms of debt. Needless to say, Argentina skillfully defaulted on its sovereign debt every so often at great expense to Britain and France.

China is likely to go through the same experience. A first big test case is Venezuela. Presumably, Beijing would be well advised to join the Paris Club in a first step to defend and regularize its vast outstanding debts to developing economies.

Strains on society will force leaders to divert resources to domestic consumption, social insurance, and the environment.

MICHAEL J. BOSKIN

Tully M. Friedman Professor of Economics and Hoover Institution Senior Fellow, Stanford University, and former Chair, President's Council of Economic Advisors

The unprecedented decades-long rapid growth since Deng Xiaoping opened up China's economy has already transformed China and the world. Lifting hundreds of millions of people, one-third of the population, out of abject poverty in a single generation is one of the most remarkable human development achievements in world history. But it was partly purchased with a blighted environment, financial repression, and unprecedented low consumption shares in GDP, all of which citizens will increasingly press to redress in the next few decades. The major transformation of global trade and financial flow patterns accompanying China's role as a manufacturing and assembly hub and its large current account surpluses have already reshaped global supply chains, reduced inflation pressures, and negatively affected labor markets for less-skilled workers in advanced economies.

President Xi Jinping's Belt and Road Initiative is augmenting China's influence in Central Asia and parts of Latin America and Africa, where Chinese capital and investment were already at play. While the British in the nineteenth century and America in the twentieth century did likewise globally, with large commercial interests extending geopolitical influence under a loose symbiotic relationship between government and the private sector, the main difference is China's more direct government role. For the sake of Central Asia, let's hope that these poor economies will benefit from Chinese investment and lending much as the British helped to finance America's railroads in the nineteenth century, one of the pillars that catapulted America to global economic leadership.

But it would be wise to focus as well on other aspects of China's government economic policy that may in the long run be even more important to the functioning of the global economy, China's geopolitical influence, and tensions with other nations than Belt and Road. China's domineering technology industrial policy and protectionism, intellectual property theft, cybersecurity intrusions, increased capabilities of the People's Liberation Army, and willingness to use vast sums of public money from its large currency reserves may complement Belt and Road, but are likely to be in themselves fundamentally more important to China's global geopolitical and economic position.

All this will play out against China's own deep domestic problems—massive excess capacity in basic industries, large debt, and inefficient state-run enterprises still dominating the economy and still not free to operate on purely commercial terms. Add the unprecedented rapid demographic transformation—aging—of the Chinese population due to increased life expectancy and the decades of one-child policy. These will place great strains on Chinese society and ultimately will force political leaders to divert far more resources to domestic consumption, fund social insurance programs, and clean up the environment. Let's hope China is successful in doing so.

What the Trump administration needs is less a response than an alternative U.S. vision and strategy.

GLENN HUBBARD
Dean and Russell L. Carson Professor of Finance and Economics, Columbia Business School, Member, U.S.-China Economic and Security Review Commission, and former Chairman, Council of Economic Advisers

Originally "One Belt, One Road," combining two proposals by Xi Jinping in 2013, the Belt and Road Initiative proposes massive infrastructure building across Eurasia to bring development to disparate regions accounting for two-thirds of the world's population and over half of world GDP and soft-power prestige to China. The initiative has paid positive dividends for China, especially in the presence of recent U.S. retrenchment globally.

But a cloud remains on the horizon as China's debt burdens and managed economy run counter to the expansionary intent of the initiative. And the United States as well must reconsider Belt and Road's impact on China's global ascension.

On the economic side, the Belt and Road initiative promises continuing stimulus, opening new markets, accelerating currency internationalization, improving energy security, and reducing Chinese excess productive capacity. The initiative also seeks to use new market access and infrastructure assets to influence nations' strategic decisions in the region.

The grand strategy's implementation is scattered throughout China's bureaucracy, making tangible progress assessment difficult. It is intangible benefits that should keep the United States wary, as China's influence waxes and that of a United States withdrawing from the Trans-Pacific Partnership wanes.

Success for China is not guaranteed. Though part of realizing Xi Jinping's "China dream of the great rejuvenation of the nation," carrying out the Belt and Road Initiative confronts fiscal realities that complicate success. Chinese debt burdens will limit China's ability to fund infrastructure aggressively (a problem not unfamiliar to U.S. policymakers). At some point, China must balance initiative goals against using resources to maintain domestic economic and financial stability.

And the United States faces a wake-up call. The Belt and Road Initiative carries the mark of a tough foreign policy challenge—spanning national security and economic policy and spanning U.S. agency responsibilities. What the Trump administration needs is less a response than an alternative U.S. vision and strategy to advance a liberal international order over China's illiberal regional security order. Rejoining the Trans-Pacific Partnership and strengthening the U.S. economic role in Eurasia would be a good place to start.

When you have state-owned banks and capital control, non-performing loans are just a form of deficit spending.

JAMES K. GALBRAITH
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The thought that the phrase "debt-trap diplomacy" had to be coined to describe current Chinese behavior is a classic of projection. *TIE* itself was founded by a partnership, Smick and Medley, forged in the debt-trap crises of Latin America four decades ago. The entire purpose was to engage diplomacy to press for resolutions. And the effect was substantial.

In contrast to the 1970s bankers—let alone to the shysters who caused the Great Financial Crisis in the 2000s—the Chinese are not in this game to make money. The purposes of One Belt, One Road are to secure resources, to keep the mighty juggernaut that is Chinese construction and engineering capacity rolling, to build a unified Eurasian economic region, to become somewhat less reliant on the U.S. Navy for trade route and resource security, and (to a degree) to foster good relations through economic development, taking up a role in poor regions in which the West now engages mainly by cheap symbolism—micro-finance and randomized controlled trials—if at all.

Will China put the debt-squeeze on its new partners later on? It seems to have done so in Sri Lanka, although one notes that the Hambantota port was a failing asset. The Chinese behavior in that case is quite different from what the Germans recently did in Greece—taking over all the profitable regional airports while leaving the loss-makers alone.

No one can be sure what the next generation of Chinese bankers will be like. But if this generation is a guide, there is a chance that the next one may not be so inclined, as today's Germans, to abuse their financial power. Chinese growth since the start of market reforms has been fueled by an immense tolerance for non-performing loans—a fact that has driven western observers batty for decades but has troubled Chinese growth not at all. When you have state-owned banks and capital control, non-performing loans are just a form of deficit spending. One can fairly assume the Chinese understand this. And so, there is at least a fair prospect that the same principles will apply to the "loans" now being made.

On reflection, it could be that China will come to dominate the world precisely by refusing to follow the model that German and French bankers have inflicted on Greece and Italy, risking the destruction of Europe. The irony, in that case, would be rich.

Accusations of Beijing practicing "debt-trap diplomacy" are just "sour grapes."

FRIEDRICH WU

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Historically, all great powers practice(d) financial diplomacy. In the nineteenth century, Pax Britannica flexed the pound-sterling to fortify its dominance in international commerce. In the post-World War II era, Pax Americana has flexed the mighty greenback to reinforce its global economic and geopolitical primacies.

Thus one should not be surprised that Beijing, now with bulging financial muscle, is conducting its own renminbi statecraft around the globe. This is just part and parcel of *realpolitik* in international relations. What is disturbing is that some unfair-minded commentators and politicians in the West apply double standards to prejudge China's global intentions and behaviors—that is, what Pax Britannica did, and what Pax Americana does, is considered inherently benevolent, but when Beijing (or Pax Sinica) embarks on the same path, it is derided as insidiously conspiratorial.

Realistically, any creditor who lends to finance long-repayment infrastructural projects in weak emerging economies and fragile states must have a strong stomach to absorb huge political and financial risks. Lenders to countries beset by high economic and political volatilities—many of those lie along Beijing's Belt and Road Initiative—can never be sure whether successive governments will honor their sovereign debts. So if China is willing to take on the calculated hazards, while other more risk-averse financiers abstain, these fragile states will eventually be the beneficiaries.

Needless to say, China is not financing risky projects in these wobbly countries altruistically. So there is nothing wrong with Chinese lenders demanding higher risk premiums as well as valuable collateral from "sub-prime" borrowers and expecting timely full repayments of principal and interest for their loans. How could these customary requirements render Beijing a "rogue lender" or "imperialist creditor," since all development financing institutions worldwide also obligate their debtors to fully repay their concessionary loans?

Surprisingly to its critics, Beijing is actually behaving more magnanimously toward its borrowers. According to the most comprehensive dataset on China's development financing on a global scale compiled and recently released by AidData at the College of William and Mary, about four-fifths of China's development lending is on concessionary terms "at below-market interest rates." Furthermore, after analyzing the same dataset, David Dollar, senior fellow at the Brookings Institution and a former U.S. Treasury official, concludes that China's development financing is "indiscriminate in terms of geography and quality of governance, suggesting that it is demand-driven rather than supply-driven by a Chinese master plan."

That China's financial largesse to emerging economies confers political clout to Beijing in the recipient countries is just normal dividend in international relations. As for the accusations of Beijing practicing "debt-trap diplomacy," those are just "sour grape" talk by some jealous China bashers in Washington where their profligate and cash-strapped government needs to borrow 45 cents for every dollar it spends, is beleaguered by periodic shutdowns and "debt-ceiling" crises, yet still imprudently insists on wastefully funding the Pentagon to wage protracted, strategically goalless, and unwinnable conflicts in far-flung corners of the earth!

Analysis of the Belt and Road and its projects should include their climate vulnerability.

ANDREW DEWIT
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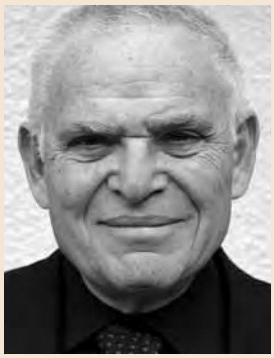
The Belt and Road Initiative includes too many players and moving parts to reduce it to "debt trap diplomacy" or any other phrase. But it does confront one ubiquitous challenge: accelerating climate change. So it seems imperative to consider the general question of infrastructure resilience before examining the initiative's effects in specific locales or on the international order.

Resilience matters, and not just for Greenpeace and the other usual suspects. The global insurance industries warn about the resilience of water, energy, transport, communications, and other infrastructures that compose the built environment. The World Economic Forum 2018 Global Risks Report lists extreme weather, natural disasters, failure of mitigation/adaptation, and water crises among the top five risks over the next decade. And the U.S. Department of Defense January 2018 report on "Climate-Related Risk to DoD Infrastructure" indicated that roughly half of 1,684 military installations surveyed are already vulnerable to drought, wind, floods, and other climate events.

Water and sewage systems, power grids, transport networks, and other critical infrastructures are central to the Belt and Road. These large-scale structures feature high upfront investments and sunk costs, with long periods of payback. They are also built to last decades, their tolerance for stress still largely based on past climate extremes. However, the shifting baseline of climate extremes is increasingly damaging infrastructure, raising maintenance and other costs. Recent sobering findings from climate science suggest these cost increases may escalate.

Hence analysis of the Belt and Road and its projects should include their climate vulnerability. The so-called debt-trap could be set more by physics and chemistry than crafty diplomacy, with significant risks for China itself. The International Monetary Fund estimates indicate that natural disasters already cost low-income economies 2 percent of GDP per year, four times the burden in developed countries. Much of China's investment is financed by sovereign debt, and infrastructure investment is generally a high-risk/low-return proposition with long periods of payback. Worsening climate hazards could compromise many Belt and Road projects. The projects' contribution to development, and thus the recipients' capacity to pay off loans, will increasingly depend upon their resilience to multiple local climate hazards.

Chinese urban infrastructure's exceptional vulnerability to climate hazards offers limited scope for optimism. Comparative research by the IHE Delft Institute for Water Education and other organizations shows that Chinese cities are poorly designed to cope with flood, drought, and other risks. The Belt and Road's effective diffusion of China's model to Asia and other regions should be informed by learning from manifest failures within China itself. Yet in its January 25, 2018, statement on "China's Belt and Road Initiative: Five Years Later," the U.S. Center for Strategic and International Studies points out that the initiative lacks transparency and is dominated by Chinese firms. It adds that China is willing to build with "less stringent requirements for meeting social and environmental safeguards." Surely it's in China's own reputational interests to forge the Belt and Road on more resilient foundations.



Those who do view Chinese infrastructure investments as threats are the usual suspects.

EDWARD N. LUTTWAK
ENL Associates

China's economy continues to grow at a faster rate than the U.S. economy. That should increase the relative power of the Chinese government in world affairs in all the usual ways—unless of course perceptions of overall "Chinese" conduct evoke adversarial reactions that negate the influence the regime could gain from its perceived control of access to an ever-richer market, of tourist outflows, and of investments.

One problem for Xi Jinping's regime that controls so much is that it cannot control all the actions of all the actors that are perceived as "Chinese"—they may even be Singaporean or Taiwanese, or just independent operators pursuing their own private aims, as with the eccentric who tried to buy 110 square kilometers of Iceland for a golf course and airfield, evoking predictable if foolish fears.

Much more damaging in that vein is the habitual resistance of state-owned enterprises to indications from Chinese diplomats *in situ* that their activities are evoking anti-Chinese reactions. That problem would of course go away if Xi Jinping or anyone else on the standing committee started to pay attention to the views of the Foreign Ministry, and therefore intervene to discipline the state-owned enterprises when necessary, but notoriously the Foreign Ministry's views are consistently ignored by Xi and company.

The consequences of this institutional autism are amplified these days by the global diffusion of negative perceptions. If a nineteenth-century British action on some West African shore was viewed as menacing by the locals, nobody would hear of it in East Africa, let alone India. Today, by contrast, if any "poor countries unable to meet their debt-servicing obligations" really were forced to hand over significant infrastructures to their Chinese creditors, strong adversarial reactions would ensue globally, or over-reactions more likely.

So far, Chinese economic activities have evoked hostile reactions in only a few places (such as Myanmar) and even the global reach of Xi's Belt and Road Initiative evokes fewer concerns than might have been expected, because many of those who pay the most attention to China view it as an excuse to keep the civil engineering state-owned enterprises busy.

By now everyone knows that China has become the world's greatest white elephant reserve (I recently admired the magnificent new road bridge across the Yalu River complete with a gigantic customs house that is accessed by a multi-lane highway on the Chinese side—with not even a discernible footpath on the North Korean side) and there are many decision-makers in many places who would love to have the Chinese build infrastructure for them, or their own pet white elephants, so long as they do not have to pay for them more than partially, and very slowly.

Those who do view Chinese infrastructure investments as threats are the usual suspects: the Russians, who are very insistent on keeping the Chinese out of Siberia (Vladivostok seafood alone could have attracted many tourists) and refused the offer of an "Astana express" high-speed rail line to Moscow and Riga; and Indian officialdom, in which the prevailing view is that not only the state-owned enterprises but any large China-based enterprise functions as a precision instrument of Chinese power, although strangely enough Huawei of all companies was readmitted, after first being expelled.

Yes, China's rulers will acquire some substantive power from the country's economic advance, but much less than they would if they did not flood the world with inane repetitions of Belt and Road slogans, and of course they must be prepared to take the losses when it is their turn not to be paid back.

The massive accumulation of debt is just one measure of the economic cost of keeping a billion people under control.

CHRISTOPHER WHALEN

Chairman, Whalen Global Advisors, and author,* Ford Men: From Inspiration to Enterprise *(Laissez Faire, 2017)

China's Belt and Road Initiative is the most ambitious foreign-policy initiative yet for paramount leader Xi Jinping and also the most misunderstood. Launched in 2013 under the slogan "One Belt, One Road," the effort involves China spending billions of dollars on infrastructure projects in countries along the old Silk Road linking it with Europe.

The ambition of Xi is immense, but it is largely driven by insecurity. Western media parrots China's propaganda about the Belt and Road Initiative. "Its ultimate aim is to make Eurasia (dominated by China) an economic and trading area to rival the transatlantic one (dominated by America)," reports *The Economist.*

But in fact the motivations for China are far more simple and direct than this grandiose vision suggests. The Belt and Road program is merely a continuation of China's massive internal investment in infrastructure—only on a larger scale. The past year saw an extraordinary amount of expenditure in the Chinese allocation economy to ensure that the coronation of Xi Jinping as God-king was not interrupted by public displays of unhappiness.

China is spending hundreds of billions annually to build roads, rail lines, and other infrastructure in sixty-plus countries that have signed up to the scheme. Foreign analysts often try to understand Chinese thinking and priorities using the commercial and economic logic of the West, but, in fact, asking whether China can afford the Belt and Road effort is to ask the wrong question.

In the minds of China's leaders, who fear political instability above all else, the real question is whether China can afford not to spend more tens of billions on infrastructure projects to keep the country's restive population under control. Going back to President Xi's meeting with President Donald Trump last year and his carefully scripted defense of free trade, the Chinese leader is clearly focused on creating new channels to absorb China's massive overcapacity.

Measured in economic terms, many of China's supposed "investments" along the Silk Road don't make a great deal of sense. But viewed from the political perspective of employing China's people and the accumulation of unused capacity inside the Chinese economy, the Belt and Road makes perfect sense.

Beijing's mixture of political and economic priorities will not necessarily result in an overall policy formula that is actually workable commercially, but it meets the short-term political priority of keeping the Chinese Communist Party in power. The massive accumulation of public and private debt in China, for example, is just one measure of the economic cost of keeping a billion people under control.

China's Belt and Road Initiative will help to expand the "global economic pie."

JAMES E. GLASSMAN
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China's Belt and Road Initiative will push the economic gains that have been lifting the Asian Rim's living standard into central Asia and Africa and even Eastern Europe—along the corridors of the old Silk Road. That will bring new economic energy to regions that have not shared in this millennium's economic development. In that sense, the Belt and Road project will be transforming. The promotion of new economic frontiers in Central Asia, Eastern Europe, and Africa will undoubtedly raise China's influence in the international arena but the new markets created by this ambitious project will open opportunities for others as well, including the United States. Just as access to markets in Europe and the United States has enabled the developing economies to rise from poverty, China's Belt and Road Initiative will help to expand the "global economic pie." In other words, a more prosperous global economy does not diminish the influence of the United States—and it may even ease the responsibility taken on by the United States to promote geopolitical stability. How the Belt and Road Initiative is financed—with loans or grants—is irrelevant; debt financing is rational and beneficial if the returns on the Belt and Road infrastructure projects exceed debt costs, as is highly likely.

China's Belt and Road Initiative—sometimes referred to as the New Silk Road—is an ambitious long-term infrastructure project that aims to build on the original Silk Road sea and land trade routes connecting sixty-eight countries where almost two-thirds of the world's population resides but that account for only one-third of global GDP. That alone offers a hint of the possibilities (the return on investment) that will come from the Belt and Road project. China's ambitious initiative will open up transportation corridors to Central Asia, Africa, and Eastern Europe. For sure, it will elevate China's influence in Asia and the world economy. But the economic opportunities opened up in these previously under-developed regions will benefit others as well, not just China, including the United States.

Fears that China's rise will diminish the place of the United States in the global economy are misplaced. They fail to consider the vast market opportunities that come from rising living standards in under-developed regions. Because the living standard of the Asian continent is roughly 10 percent to 20 percent of that of the developed economies, initiatives that open new frontiers in landlocked and impoverished regions will bring many economic rewards. In other words, global trade is not a zero-sum endeavor where one country's rise accompanies another country's demise. Instead, China's Belt and Road Initiative likely will expand global economic opportunities for everyone.

China's financial support for the Belt and Road Initiative comes largely in the form of loans rather than aid. Criticism that this "debt-trap diplomacy" will give China a dominant position in trade while saddling others with debt to finance the Belt and Road projects ignores the other side of that equation—that is, the significant return on investment that comes from developing transportation corridors in forgotten regions and from rising national prosperity such financing fosters. The same logic applies to China's heavy reliance on debt financing of infrastructure: worries about China's rising debt levels rarely consider the return such investment will deliver as the country's living standard rises from around 20 percent of the U.S. level today toward the U.S. level in a few decades, in line with China's aspiration to match the prosperity of the developed economies.

The United States, Europe, and Japan have borne much of the burden of investing in global development. China's growing role is a welcome development and one that will speed the rise of global living standards.

China's new strategy may succeed.

CHONG-PIN LIN

Former Deputy Defense Minister, Taiwan, Professor, National Defense University, and co-author,* Sunlight Through the Clouds: Cracking the Taiwan-U.S.-China Complex *(2017)

Three factors suggest that China's new strategy may succeed.

First, economy, rather than military might or political ideology, takes command in the twenty-first century. In democracies, economic performance has long swayed the voters in elections. Since the former Soviet Union, notorious for its anti-democratic governance, collapsed in 1991 due to its unsustainable economy, political leaders of all governments, democratic or otherwise, have equated the economic viability of their countries to their own political future.

That explained the 2017 about-face of British Prime Minister Theresa May on the Hinkley Point C nuclear reactor project. It was heavily financed by China, which caused a political backlash May had to face but eventually overcame. The same applies to Sri Lanka's President Maithripala Sirisena on the Hambantota Port project which, launched by his predecessor in cooperation with China, was first suspended in 2015 and then approved in 2017 for a ninety-nine-year lease to Beijing for $292 million due to the country's mounting debt to China. The port has the potential to become a naval base for China, which raised security concerns by India, Japan, and the United States. Given time, economic benefits offered by China to a recipient country may just overtake political and security reservations.

Second, China's skillful blend of hard and soft prongs in foreign policy makes its "debt diplomacy" more effective than expected. With the Belt and Road Initiative under the way, Beijing's unspoken goal seems to be dominating "Eurasiafrica"—the landmass cluster of Europe, Asia, and Africa—without war. When China was poor, it was prone to war-fighting. As China began to rise, it has become averse to bloody conflict. The People's Republic fought five wars from its founding in 1949 to 1979 when Deng Xiaoping launched the modernization drive. From 1979 to 2018, China has fought no war except the 1988 clash with Vietnam over the Johnson Reef in the South China Sea.

China's grand strategy in the new century is to deploy "extra-military" instruments—such as economic, diplomatic, and cultural ones—on the front, with the rapidly advancing military capabilities on the back, which allows China to quietly expand its influence far and wide while encountering minimum resistance. The extra-military approach transcends, but not excludes, the military one. The idea is reminiscent of Teddy Roosevelt's adage, "Speak softly and carry a big stick."

Third, China's internal economic obstacles are rooted in flawed policy, which in turn has stemmed from its problematic officialdom. Clean officials tended to be incompetent, while competent officials, corrupt. At the 19th Party Congress in October 2017, China's President Xi Jinping emerged the strongest leader since Mao Zedong. After five years of persistent and pervasive anti-corruption campaigning, Xi has appointed clean and competent officials in key positions. The Harvard-educated Liu He, touted as "the brain behind Xi's economic overhaul," has disagreed with Premier Li Keqiang's conservative approach and may succeed in reining in China's soaring debt without creating a collapse in the market.

It remains to be seen how the project will come to complement or support the world trade order.

MANSOOR DAILAMI

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In a world of asymmetric political power structure, global powers have the luxury of signaling their foreign policy direction through both action and establishment of new doctrines. Under Xi Jinping's leadership, China has done both. The doctrinal shift articulated at the recent party congress marked a departure not only in how China sees its own core economic and security interests, but also in how it should engage the world. In seeking international power status, China's grand strategy has shown features of both liberalism and realism. It has taken a globalist stance on climate change and free trade, while seeking to reshape global economic governance through ambitious foreign trade and investment ventures and regional/multilateral development initiatives, most prominently the Belt and Road Initiative and the Asian Infrastructure Investment Bank.

Envisaged as a platform for international cooperation through trade expansion, the Belt and Road Initiative calls for massive investment to build overland and maritime transport connectivity among dozens of countries in Asia, the Middle East, and Europe. Although many of the countries along the route already have close trade and investment links with China, the initiative has the potential to greatly expand China's influence and economic access.

It remains to be seen, however, how the project will complement or support the world trade order, in particular the World Trade Organization's recent Trade Facilitation Agreement, which aims to streamline customs procedures and expedite the movement of goods across borders.

The world spends, according to McKinsey, 4.7 percent of its GDP per year on infrastructure under the existing Western-dominated global institutions and practices. Nevertheless, infrastructure spending needs remain huge. An estimated $1.1 trillion per year is needed to keep pace with future growth, and an additional $1 trillion per year is needed to meet the United Nation's sustainable development goals. There is significant scope for the Belt and Road Initiative to make a meaningful contribution to closing the world's infrastructure gap.

The nub is how it is going to be financed and managed to ensure the necessary degree of independence from China's political influence. The financing landscape is still evolving: Established Chinese development banks, together with new entities such as the Silk Road Fund and the AIIB, are expected to anchor many of the difficult cross-border financing deals. For the AIIB, being in the fraternity of established multilateral institutions, such as the World Bank and the Asian Development Bank, ensures adherence to prevailing lending standards, thus lessening concern about debt overhang. Judiciously crafted articles of agreement and an initial subscribed capital base of $100 billion, of which $20 billion is paid-in, give the AIIB a strong capital capacity to fund infrastructure projects, largely in co-financing with established multilateral banks. The Silk Road Fund will also operate as a fund of funds.

For China's bilateral lending to the Belt and Road Initiative and related projects, there is valid concern that lending standards are likely to be compromised by political objectives. Issuance of RMB-denominated bonds with the Belt and Road label, which the government is actively promoting as part of RMB internationalization, has yet to grow and mature.

China has expanded its role in global infrastructure as part of an ambitious foreign policy agenda. However, exposure to an array of economically risky and politically sensitive overseas projects may be a highly sub-optimal strategy. China could more safely diversify its investment portfolio through its sovereign wealth fund, while continuing to liberalize its capital account to promote RMB internationalization. China must also focus on domestic economic reform. Three decades of investment boom have resulted in huge excess capacity in cement, aluminum, chemicals, and steel. The solution that has emerged is internationalization of infrastructure companies and banks to establish overseas footprints and deepen trade and investment ties. Whether this strategy will provide the necessary anchor for economic transition, as EU accession did for Eastern European countries in the 1990s, depends significantly on the reaction of the global community. In the case of the United States, support appears to be only conditional. The first National Security Strategy released under President Donald Trump, in December 2017, refers to China and Russia as competitors and revisionist powers. In this way, the Trump administration seems to have exercised the insurance in the past U.S. strategy of "engagement with an insurance policy" toward China.

The views expressed herein are the author's and do not necessarily reflect the views of the Rock Creek Group.

Belt and Road is a vast, mercantilist enterprise intended as successor to the world order America helped to build.

W. BOWMAN CUTTER
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It is way too early to conclude that China's evolving international economic strategy—in particular, the Belt and Road Initiative—will succeed in reshaping the world. But it is not too early to conclude that such is the intent and that the world envisioned by the strategy is fundamentally different than the rule-based strategy the United States led the way in building after World War II.

In arguably the most significant article on China published in decades, Kurt Campbell and Ely Ratner argue this month in the journal *Foreign Affairs* that basically all of our expectations, predictions, and strategies regarding China since President Nixon's opening in the early 1970s have been mistaken. Across the board, whether in terms of economic or political opening, or pursuit of a liberal economic order, or a relentless focus on state capitalism, China has pursued a set of courses that run counter to the values upon which the United States has focused for the entire post-war era.

The Belt and Road Initiative fits easily within this revised perspective on Chinese intent. It is a vast, mercantilist enterprise intended to create a different world order that will function as the successor to the order America helped to build.

Its success hinges very broadly on two questions. First, can China successfully pursue this project—an immensely ambitious undertaking whether one approves of it or not—given that its own economy is built on a state-enterprise, cronyist, highly leveraged version of capitalism (does this really work for the long run); that its own growth rate is falling; and that other nations may not be so easily corralled into the debt dependence this project envisions. Second, will there be an alternative model? Accepting the general principle that plan beats no plan, will the nations that have benefited so much from the world order built after World War II choose "no plan" and walk away from the structures they built over half a century?

There is no way yet to answer the first question. It is extremely hard for nations to maintain over decades the kind of focus that will be required.

But we may well be seeing the beginnings of an answer to the second question. As Campbell and Ratner point out, the Trump administration at the start correctly questioned the givens of previous China policies. But its answer has been to turn away from everything America built and to focus on the capillaries rather than the main game. When the administration abandoned the Trans-Pacific Partnership in its first week in office, it may very well have insured that some version of Belt and Road is the future.

China's program is sweeping in its own right and experience to date has been uneven.

GARY KLEIMAN
Senior Partner, Kleiman International Consultants

One Belt, One Road is the natural comprehensive program outgrowth to China's pilot efforts over the past decade to engage global emerging economies as a net creditor and aid provider, and to diversify infrastructure building from pure domestic fixed-asset reliance as the main growth driver. Early iterations focused on natural resource access for loan schemes in Latin America and Africa in particular, with a mixed track record. China's Export-Import and Development banks may have already written off losses on the estimated $40 billion portfolio in Venezuela, and Chinese firms faced backlashes in Angola, Zambia, and elsewhere for bringing in their own workers for energy and commodity venture construction work and allegedly mistreating local laborers. In Ecuador, Beijing became the leading bilateral financing source after traditional international financial institutions and bond-holders post-default shunned it, and in Kenya a long-running railway project sparked controversy in the latest presidential elections with the government saddled with $3 billion in debt. Prior to launching One Belt, One Road, Chinese officials recognized the need to change the model, and created venture capital funds for greater regional risk-sharing with stronger commitments to community employment and welfare despite an ambiguous stance on internationally established social responsibility standards.

Belt and Road evolved in recent years as a successor scheme incorporating these lessons and concentrating on the broader Asia-Europe-Middle East neighborhood, with an emphasis on historic Silk Road trading and financial hubs. It was coupled with the formation of a dedicated geographic and thematic institution, the Asian Infrastructure Investment Bank, with shareholders from the range of target countries. China also joined with other BRICS in founding the New Development Bank, with parallel objectives and funding and management dominance. These initiatives are in startup phase with aspirational allocation of trillions of dollars yet to be deployed on the ground, but the numbers and reach represent an outsize global development footprint as the World Bank and other twentieth-century holdovers struggle to mobilize private capital and translate "billions into trillions."

China's program is sweeping in its own right and experience to date has been uneven, and other emerging economies will replicate versions, as with Russia's Eurasian Economic Union, and investors, regardless of outcomes, rank it high in near-term decision-making criteria. To cite two examples with the One Belt, One Road initiative, Pakistan stocks after losing badly on the MSCI index last year are poised for rebound, and Mongolian bonds after skirting default rallied strongly to record low yields, as China's central bank also extended currency swap lines. The blueprint may fade over time as competing advanced and developing country visions are added to the mix and results do not match goals, but the emerging market investing narrative will get a clear bump through the end of the decade.

Belt and Road is Xi's political ambition, but poor economic judgment.

GENE CHANG

Visiting Scholar, Department of Economics, Chinese University of Hong Kong

The Belt and Road plan initially came from Xi Jinping's dream for China's greatness and for a new geographic direction for China to increase its political and economic influence. It emulates the ancient Silk Road to reach the outside world. It is Xi's political ambition, but poor economic judgment. The countries along the ancient Silk Road are generally poor and small, and the gravity model in economics predicts there won't be much business and trade between China and these countries.

The plan was later revised and geographically reaches most of the world, although the main interests remain in the developing countries. China has an overcapacity problem, particularly in the construction, steel, and cement sectors. The plan would work as a vent for the surplus. Chinese firms, in particular those less-competitive state-owned firms, were enthusiastic about opportunities to take advantage under the plan to get business, bid projects, and obtain Chinese bank preferential funds.

In Xi's mind, Belt and Road is a global strategy to expand China's influence. However, Xi's undemocratic thinking cannot provide the sort of moral values appreciated by the rest of world; hence, the impact of these overseas projects under the plan is limited as far as Xi's ambition is concerned. From the economic side, the plan serves as China's vent for the surplus or foreign aids. Some projects of the plan will make profits, while many (probably most of them) will suffer losses. For infrastructure project recipient countries, in particular developing countries, they will gain as they need better infrastructure for growth but lack domestic funds. Debt can be serviced later from the economic returns from the projects.

In all, these projects will increase China's influence in the recipient countries, but they won't affect the dollar's status or decrease the value placed on human rights throughout the world. What the United States should do in response to China's move is to demonstrate that it can do a better job than China in infrastructure in the United States and the rest of world.

China may present Belt and Road as its version of the Marshall Plan, but recipients should be skeptical.

GREG MASTEL

Senior International Trade Adviser, Kelley Drye & Warren LLP, and former Chief Economist and Chief International Trade Adviser, U.S. Senate Finance Committee

Since the 1980s, China has been on an economic hot streak. True, the positive China news can legitimately be taken with a grain of salt because so much of it comes through apologists and cheerleaders.

Still, some impressive facts cannot be denied. Decades of mostly double-digit growth have turned China from a relative backwater to the world's largest exporter and—at least by most measures—the world's largest economy. Against that backdrop, it is to be expected that some view Chinese plans like the Belt and Road Initiative as evidence that the world is headed into a Chinese century. Certainly Beijing's leadership has been proclaiming this to be the case for years.

But is that a true picture? Economic growth has slowed over the last decade, largely due to China's enormous state-owned sector, which drains almost untold resources. Moody's suggests that China's total state-owned enterprise debt may be 115 percent of GDP and recently downgraded China's rating. And China's official statistics understate the size of the state sector by excluding firms that have a portion of private ownership, but are still state-owned/controlled for most practical purposes. Effectively, the state sector is really an enormous device to export unemployment in sectors, like steel, to China's trading partners. Endless plans for reform are spun out and some downsizing has occurred. But turning grants into loans that are never repaid from companies that do not show meaningful returns is creative accounting, not meaningful change. Even if there was political will to solve it—a point very much in question—the state-owned enterprise problem may in practical terms be simply too large to solve.

Beijing actually appears to be moving toward tightening control of the private sector in China and planning a new era of protectionism in its "Made in China 2025" plan. This suggests not a confident superpower assuming the mantle of world leadership, but a nervous country hanging tightly to control and willing to pursue "beggar thy neighbor" policies at the cost of the rest of the world.

Add to all this China's persistent territorial aggression at the expense of its neighbors in the South China Sea, and it is difficult to see China as a reliable future economic or political partner. Given any choice, it is difficult to imagine the world will be willing to embrace China in the global role that Beijing so eagerly seeks. China may present the Belt and Road Initiative as its version of the Marshall Plan, but the proposed recipients of the largess should—and almost certainly will—be skeptical.

What are Belt and Road's implications? No one yet knows.

RICHARD N. COOPER
Maurits C. Boas Professor of International Economics, Harvard University

Announced in Kazakhstan five years ago, One Belt, One Road (now Belt and Road for short) is a major international initiative of President Xi Jinping. It has been slow to get going. As President Trump has discovered, political slogans need a lot of work before they become viable policy. A major international summit of interested parties was held in Beijing in May 2017, and plans for action are only slowly being developed, along with promises of major financing by Chinese institutions.

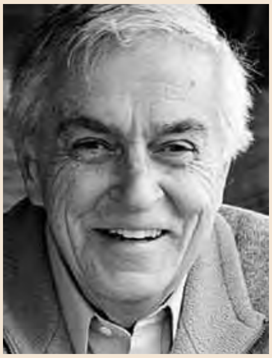
What are its implications, for China and for the world? No one yet knows. An immediate impetus is to export steel and cement and other building materials from China, which has much excess productive capacity since the recent slowdown in China's own growth. Otherwise it is much too early to tell. The government hype among other things has induced many Chinese cities to rhetorically link their destinies to the Belt and Road Initiative in the hopes of acquiring greater largess from the central government.

Major potential beneficiary countries in central Asia and those bordering the Indian Ocean generally welcome the initiative, both for financing (and probably constructive of) desired infrastructure and for providing an alternative political and economic counter-weight to their large neighbors, Russia and India respectively. But they do not want to be dominated by China, or saddled with burdensome debt for projects that have doubtful prospects for repayment.

To avoid traversing Russia, which is notorious for charging high transit fees, to reach Europe by land railroads and highways must go through mountainous Iran and Turkey to reach Balkan Europe, thence to western Europe. And with or without Russia, the distances through lightly populated and relatively poor territory are long, making the economics for servicing ordinary loans dubious.

Europe is likely to be little affected, since sea and air transportation to and from China is already good. And the renminbi is not likely to replace either the U.S. dollar or the euro as a dominant international currency for the foreseeable future, although international use of the renminbi will undoubtedly increase, mainly for invoicing and payment of imports into recipient countries of Chinese loans made in rmb.

Western countries, and the former Soviet Union, have a history of nearly seventy years of post-colonial assistance to poorer countries. It has a very mixed record, from some outstanding successes for recipient countries (and occasional expressions of gratitude to the donors), to abysmal failures accompanied by strong recriminations against the donors, often for supporting leaders against whom the public has turned. Unless the Chinese government is exceptionally clever, there is little reason not to expect the same range of outcomes from the Belt and Road Initiative in the coming decades.



Neither country will dominate the world in the future.

RICHARD D. ERB
Former Deputy Managing Director, International Monetary Fund, and Research Professor, Economics Department, University of Montana

TIE has asked questions concerning the potential impact of China on the global economy and thus China's ability to wrest global leadership from the United States.

In my view, neither country will dominate the world in the future and certainly not in the way that the United States did during most of the post-war period. I have three reasons.

First, both countries have well-known domestic challenges that unless resolved will weaken their ability to achieve a broad global leadership role. In addition to having an autocratic government, China is experiencing unresolved debt issues and a rapidly aging society. The United States is experiencing rapidly growing government debt and unfunded social programs and suffers from bipolar domestic politics resulting in erratic behavior domestically and internationally.

Second, many developing countries have reached a stage of development that gives them economic and political clout on the global stage. They want more power to shape global policies and practices. If EU members ever solve the EU democracy deficit, the European Union also could challenge China and U.S. global dominance.

Third, China and the United States face major international leadership challenges because functional linkages among countries have become more diverse and complex including not only the more traditional trade, monetary, financial, and security linkages, but also functional linkages involving the environment, energy, health, crime, human trafficking, food security, money laundering, labor affairs, nuclear proliferation, antitrust policies, and many others.

Given the diversity and complexity of functional linkages among countries, competition between China and the United States will require each to devote more energy and resources with greater skill in working with other countries in technical functional areas. The United States lost its ability to impose solutions on other countries and thus must do the hard work of developing alliances with other countries that share similar interests. Unfortunately, the "American First" movement is going in the opposite direction and undermines the ability of the United States to provide global leadership.

The complexity of functional linkages among countries requires technocratic as well as political skills. For example, the Bank for International Settlements serves as a secretariat for eight technical monetary and financial committees, including a committee on payments and market infrastructures and a committee on banking supervision. The BIS also serves as host for three independent institutions that exist to promote global financial stability.

Currently, in the United States and many other democratic countries, a disconnect between politicians and the technical "elites" needed to conduct international negotiations on highly technical matters is serving to slow down the prospects for global integration in a number of functional areas. I do not know if such a disconnect exists in China, but I would not be surprised.

The Belt and Road strategy may enable China to ascend the global stage, but its course is full of perils.

HONGYI LAI

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China's Belt and Road Initiative, also known as One Belt, One Road, would expand beyond trade and into world politics. We may well see a mixture of Chinese global political and economic advances and backlashes from a number of countries, as well as some noticeable economic gains by China and the countries joining Belt and Road, and hidden costs for these countries, especially China.

Through Belt and Road, China aims to invest in numerous infrastructure projects and expand trade ties with regions along the maritime Silk Road and with those in the economic belt along the land-based Silk Road. The former include southeast Asia, south Asia, the Middle East, east and north Africa, to southern and western Europe, and the latter cover central Asia, the Middle East, and Russia, as well as eastern, central and western Europe. Through these projects and trade ties, China would become a more important investor and trade partner for these nations. On the basis of these economic ties, China may gain economic leverage over these nations and may translate it into political influence. Therefore, China may advance its global political and economic influence via this strategy.

Nevertheless, most of these countries, including China, are developing or emerging economies, where rule of law and a proper and open market order have yet to be in place. In addition, most of these countries are not consolidated or mature democracies, and leadership or politics there can change drastically over years. Moreover, local resistance or local concerns over the environment, land rights, Chinese labor practices, distribution of economic benefits across the society, and transparency may create long delays and drive up costs for the projects. If not properly managed, these concerns could explode into anti-China protests, setting back China's relations with these host countries. Meanwhile, infrastructural projects are often profitable only in the long run. Institutional deficiencies could render political and economic risks for these infrastructural and trade projects substantial. China's domestic debts are already mounting and could become a cause for concern. If China pursues Belt and Road projects on a massive scale and in a speedy manner, a number of them may degrade into money-draining, time-consuming, and politically controversial ventures. This will lead to ever-greater mounting debts for China's state firms, state banks, and government.

Overall, the Belt and Road strategy may enable China to ascend the global stage, but its course is full of perils. Only prudent, systemic, and vigilant efforts by the host countries and especially China, coupled with institutional and regulatory overhauls, an amicable regional security environment, and vibrant regional economies, will allow them to reap the full economic, political, and social benefits. An over-ambitious and reckless drive toward Belt and Road could leave a host of side effects in these countries. ◆