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One Belt, One Road, One Big Mistake

China's signature foreign-policy project is a failure that the U.S. shouldn't copy.

By Tanner Greer

The headlines coming out of this year's APEC conference in Papua New Guinea focused on the conflict between America and China that kept the forum from issuing a joint communiqué. Less noticed were two short memorandums released on the sidelines of the conference by the island nations of Vanuatu and Tonga. In return for renegotiating existing debt, both agreed to become the newest participants—following other Pacific nations like Papua New Guinea and Fiji—in Chinese President Xi Jinping's signature foreign-policy venture, the Belt and Road Initiative (BRI).

As Xi's trillion-dollar development strategy has snaked away from the Eurasian heartland and into the South Pacific, western Africa, and Latin America, concern has grown. Many Americans fear that the Belt and Road Initiative is an extension of efforts by the Chinese Communist Party (CCP) to undermine the security and economic architecture of the international order. China's growing largesse, they worry, comes largely at the expense of international institutions and American influence.

This angst lies behind another announcement made at last month's APEC gathering: Australia, Japan, and the United States declared that they had formed their own trilateral investment initiative to help meet infrastructure needs in the Indo-Pacific. For some this is not enough: In its most recent report to the United States Congress, the bipartisan U.S.-China Economic and Security Review Commission recommended that Congress create an additional fund "to provide additional bilateral assistance for countries that are a target of or vulnerable to Chinese economic or diplomatic pressure."

This is the wrong response to the Belt and Road Initiative. Ignore the hype: For the Chinese, this initiative has been a strategic blunder.

By buying into the flawed idea that barrels of money are all that is needed to solve complex geopolitical problems, China has committed a colossal error. Xi's dictatorship makes it almost impossible for the country to admit this mistake or abandon his pet project. The United States and its allies gain nothing from making China's blunders their own.

In Xi's speeches, the phrase most closely associated with the Belt and Road Initiative is "community of common destiny." Xi's use of this term is meant to link the BRI to the deeper purpose party leaders have articulated for the CCP over the last three decades. China's leaders believe that not only is it their "historic mission" to bring about China's "national rejuvenation" as the world's most prestigious power, but that China has a unique role to play in the development of "political civilization" writ large.

It is the Chinese, Xi maintains (as Hu and Jiang did before him), who have adapted socialism to modern conditions, and in so doing have created a unique Chinese answer to "the problems facing mankind." Though this answer began in China, Xi is clear that the time has come for "Chinese wisdom and a Chinese approach" to benefit those outside of China. The Belt and Road Initiative is intended to do just that. By using the Chinese model of socialism to develop the world's poorer regions, the initiative justifies Xi's grandiose claims about the party's historic mission on the international stage.

To match these lofty aims, Chinese academics and policy analysts at prestigious party think tanks have articulated more down-to-earth goals for the initiative. According to them, the BRI promises to integrate China's internal markets with those of its neighbors. Doing so will bring its neighbors closer to China geopolitically and bring stability to the region. By increasing economic activity in China's border regions, such as Xinjiang and Tibet, the Belt and Road Initiative will lessen the appeal that separatist ideology might have to the residents. Another projected benefit is the energy security that will come through the construction of BRI-funded transport routes. Finally, by articulating and then following through on an initiative that puts common development over power politics, China will gain an advantage over other major countries (read: Japan and the United States) who present the world as a black-and-white competition for hegemony. The community of common destiny, these analysts have claimed, is a community that will immensely benefit China.

As the Belt and Road Initiative is only five years old (and many of its main members have been involved for a far shorter time) its full results cannot yet be judged. However, a preliminary assessment can be offered for BRI projects in South and Southeast Asia, the region described by Chinese leaders as the "main axis" of the Belt and Road Initiative. It is here that BRI investment is strongest and has been around longest. The picture is not promising. The hundreds of billions spent in these countries has not produced returns for investors, nor political returns for the party. Whether Chinese leaders actually seek a financial return from the Belt and Road Initiative has always been questionable—the sovereign debt of 27 BRI countries is regarded as "junk" by the three main ratings agencies, while another 14 have no rating at all.

Investment decisions often seem to be driven by geopolitical needs instead of sound financial sense.

In South and Southeast Asia expensive port development is an excellent case study. A 2016 CSIS report judged that none of the Indian Ocean port projects funded through the BRI have much hope of financial success. They were likely prioritized for their geopolitical utility. Projects less clearly connected to China's security needs have more difficulty getting off the ground: the research firm RWR Advisory Group notes that 270 BRI infrastructure projects in the region (or 32 percent of the total value of the whole) have been put on hold because of problems with practicality or financial viability. There is a vast gap between what the Chinese have declared they will spend and what they have actually spent.

There is also a gap between how BRI projects are supposed to be chosen and how they actually have been selected. Xi and other party leaders have characterized BRI investment in Eurasia as following along defined “economic corridors” that would directly connect China to markets and peoples in other parts of the continent. By these means the party hopes to channel capital into areas where it will have the largest long-term benefit and will make cumulative infrastructure improvements possible.

This has not happened: one analysis of 173 BRI projects concluded that with the exception of the China-Pakistan Economic Corridor (CPEC) “there appears to be no significant relationship between corridor participation and project activity… [suggesting that] interest groups within and outside China are skewing President Xi’s signature foreign policy vision.” This skew is an inevitable result of China’s internal political system. BRI projects are not centrally directed. Instead, lower state bodies like provincial and regional governments have been tasked with developing their own BRI projects. The officials in charge of these projects have no incentive to approve financially sound investments: by the time any given project materializes, they will have been transferred elsewhere. BRI projects are shaped first and foremost by the political incentives their planners face in China: There is no better way to signal one’s loyalty to Xi than by laboring for his favored foreign-policy initiative. From this perspective, the most important criteria for a project is how easily the BRI label can be slapped on to it.

This is why many of the more promising BRI projects were already slated or under construction well before Xi announced his vision for the initiative. These projects have simply been rebranded with the BRI label to curry favor with the party leadership. (Sometimes this rebranding reaches comical proportions: Turkey’s Marmaray rail tunnel, for example, was recently lauded by the World Bank as an exemplary BRI investment, even though it is funded by a Turkey-EU-Japan consortium and appears to have no Chinese involvement.) It is easier to rebrand a successful project as part of the Belt and Road Initiative than it is to create successful projects from scratch.

This reality helps explain the coolness with which private investors have treated the initiative. Despite stringent capital controls on non-BRI investment, only 12 percent of Chinese foreign direct investment has been directed to the countries participating in the Belt and Road Initiative (and one third of that goes to the developed economies of South Korea, Israel, and Singapore). Government calls for participation from international partners and private investment have been ignored: large state-owned enterprises and government policy provide more than 95 percent of BRI funding. BRI is not a brand investors trust.

This might not matter if BRI projects were driving favorable political outcomes. They aren’t. Prolonged exposure to the BRI process has driven opposition to Chinese investment and geopolitical influence across the region. In the Maldives, the pro-Beijing Progressive Party of Maldives was unseated this year by the Maldivian Democratic Party, which ran on an explicitly anti-BRI platform. The Maldives’ new president calls the BRI “a big cheat” and a “debt trap” that must be abandoned or renegotiated.

He has a kindred spirit in Mahathir Mohamad, the new prime minister of Malaysia, who has described BRI projects as a form of “new colonialism” that must be rejected. Beijing’s quest to create a stable pro-China tilt in Sri Lanka has only spawned political instability, with President Maithripala Sirisena sliding up to and away from Sri Lankan politicians connected to China as the situation demands. In Bangladesh authorities recently blacklisted China Harbour Engineering Company, one of the region's most active BRI construction firms, on accusations of corruption.

Burma was so alarmed by regional trends that it put a hold on its own BRI-funded port project in Kyaukpyu until the Chinese agreed to cut its scale by 80 percent. Nepal and Pakistan have also demanded that China cancel or completely retool ongoing projects in their countries. In western Pakistan opposition to the initiative has turned violent. Last week Baluchi separatists attacked the Chinese consulate in Karachi, treating Chinese infrastructure investment in their region as a threat to their dreams of independence. Chinese analysts who hoped that the BRI investment would help stabilize China's borderlands and ease the threat it faces from ethnic separatists inside China now must come to terms with an initiative that is embroiling China in conflict with separatists outside of it.

The problems China has had with the BRI stem from contradictions inherent in the ends party leaders envision for the initiative and the means they have supplied to reach them. BRI projects are chosen through a decentralized project-management system and then funded through concessional loans offered primarily by PRC policy banks. This is a recipe for cost escalation and corruption. In countries like Cambodia, a one-party state ruled by autocrats, this state of affairs is viable, for there is little chance that leaders will be held accountable for lining their pockets (or, more rarely, the coffers of their local communities) at the entire nation's expense. But most BRI countries are not Cambodia. In democracies this way of doing things is simply not sustainable, and in most BRI countries it is only so long before an angry opposition eager to pin their opponents with malfeasance comes to power, armed with the evidence of misplaced or exploitative projects.

If the party leadership was willing to pour extra resources into target countries each time power changed hands, they might be able to blunt this sort of opposition. Beijing has not proven willing to do this. The helter-skelter nature of BRI investment has caused other problems for party leadership: while local Chinese governments and state-owned enterprises are willing to lend so much that BRI investments threaten to drive some countries towards default, the central government is not willing to be the lender of last resort for the countries thus driven. Like Pakistan last month, most countries forced to this extremity will have only one option left: come crawling to the International Monetary Fund in hopes of a solution. For such countries, the end result of Chinese investment is an even stronger dependence on the Western-led financial system.

Far from being a strategic masterstroke, the BRI is a sign of strategic dysfunction. There is no evidence that it has reshaped Asia's geopolitical realities. The countries that have benefited most from it are those that already had strong geopolitical reasons for aligning themselves with Chinese power, such as Cambodia and Pakistan. The expansion of the Belt and Road Initiative across the globe is deeply worrisome not because of the strategic threat it poses to the standing international order, but because of what it tells us about the internal workings of the world's most powerful authoritarian state.

These problems are not new. For the last three years even China's state-run banks have been trying to extricate themselves from spending more on the initiative. Yet despite these problems, the initiative expands to new countries and continents. Why this is happening is clear enough—no other foreign policy program is associated personally with Xi like this one is. Xi's apotheosis to permanent leadership at the 19th Party Congress this spring meant that his signature foreign-policy initiative also had to be elevated—and so it was, written directly into the constitution of the Chinese Communist Party. Now to attack the Belt and Road Initiative is to attack the legitimacy of the party itself. The Belt and Road Initiative is evidence that the party's once responsive policymaking system is breaking down. The rest of the world must recognize that BRI persists only because it is the favored brainchild of an authoritarian leader living in an echo chamber.