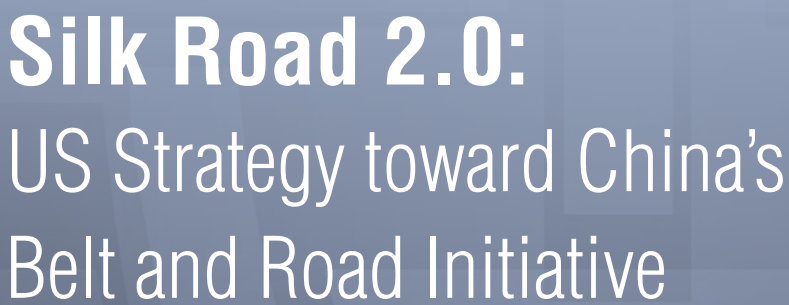




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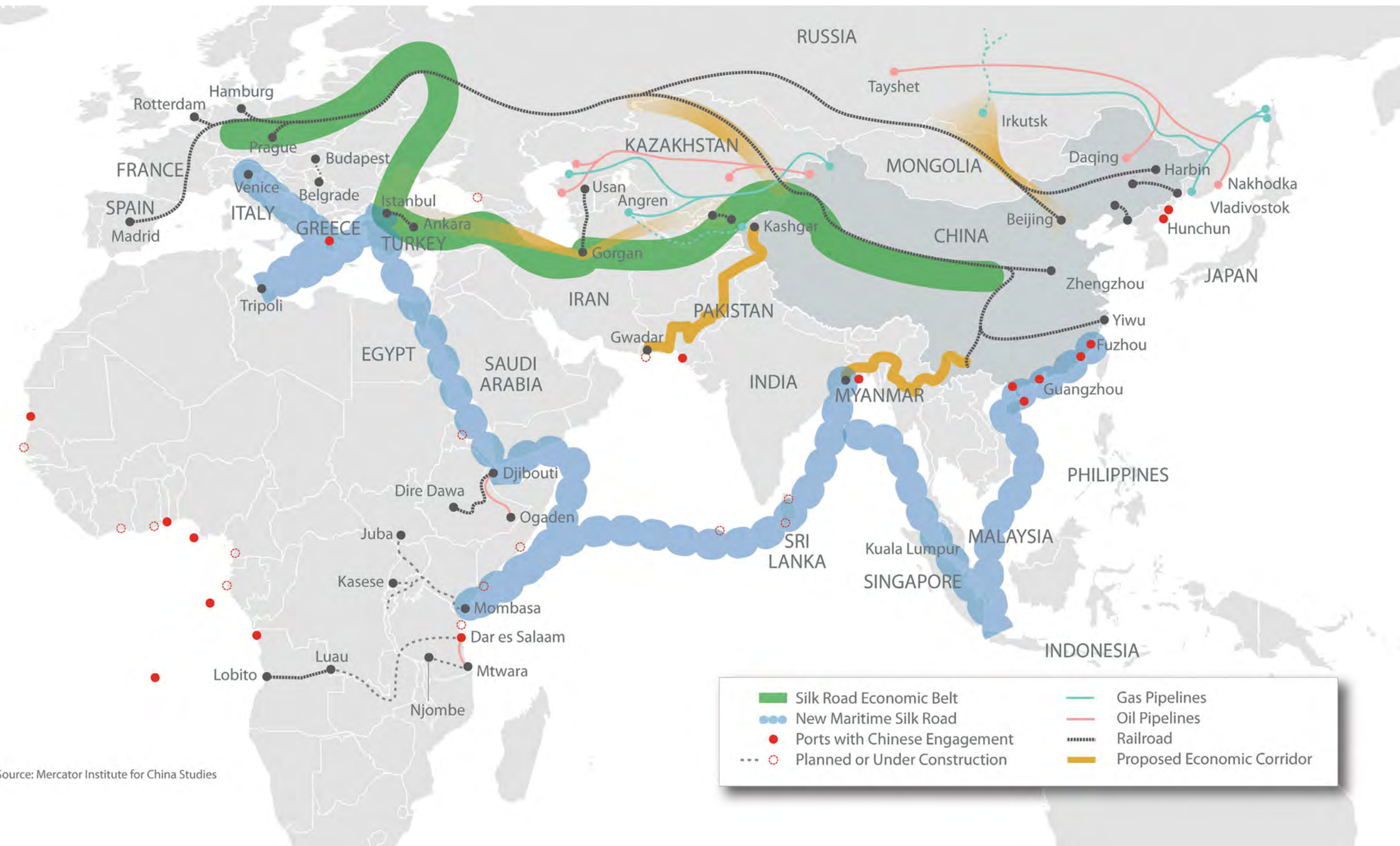


Foreword by Joseph S. Nye, Jr.

REVIVING THE SILK ROAD

Announced by Chinese President Xi Jinping in 2013, the Silk Road Initiative, also known as China's Belt and Road Initiative, aims to invest

in infrastructure projects including railways and power grids in central, west, and southern Asia, as well as Africa and Europe.



Silk Road 2.0

US Strategy toward China's Belt and Road Initiative

Atlantic Council Strategy Paper No. 11



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Foreword

The balance in Eurasia is shifting. China's President Xi Jinping has ambitious visions for Asia, while the rest of the world reshuffles to find its place in the rapidly changing global order. Each nation guesses at the United States' new role in the world, while China broadcasts its own role across the globe, ready to challenge those who stand in opposition to its vision. China's impact is global: reaching from the perils of the Korean peninsula; stretching across Asia, the Middle East, and Africa; and influencing regimes along the way. During this historic moment, the importance of Asia to US interests grows all the greater.

Launched in 2013 by President Xi, the One Belt and Road Initiative (BRI, also called One Belt, One Road, or "OBOR") is more than an infrastructure-development plan. The network of roads, high-speed rail, power lines, ports, and pipelines aims to connect China to Europe while boosting economic development, stimulating growth, and, importantly, enhancing Chinese influence in more than sixty countries. The development of soft power need not be a zero-sum game. As I have argued throughout my career, conflict between the United States and China is not inevitable. If China's rise remains peaceful, this promises great benefits to China itself, its neighbors, and others across the globe, including Americans. The United States is facing a world full of complex networks of power resources, wielded by both states and non-state actors. Increasingly, the task for the United States will be to organize coalitions that can be mobilized to effectively address new transnational problems; trying to isolate or reject China would make this even more difficult. In this Westphalian-Plus world,¹ it is important that the United States recognizes that it is the leading actor, but not the sole actor on the world stage.

Xi's vision is impressive, but will it succeed as a grand strategy? China is betting on an old geopolitical proposition. A century ago, the British geopolitical theorist Halford Mackinder argued that whoever controlled the world island of Eurasia would control the world. US strategy, in contrast, has long favored the geopolitical insights of the nineteenth-century Admiral Alfred Mahan, who emphasized sea power and the rimlands. At the end of World War II, George Kennan adapted this approach to develop his Cold War strategy of containment of the Soviet Union, arguing that if the United States allied with the islands of Britain and Japan at the two ends of Eurasia, and with the peninsula of Western Europe, the United States could create a balance of global power that would be favorable to US interests. The Pentagon and State Department are still organized along these lines, with scant attention paid to Central Asia. The United States is still betting on Mahan, but can nonetheless welcome China's BRI.

In this context, the Atlantic Council's Brent Scowcroft Center on International Security rises to the occasion, armed with the knowledge that how the United States interacts with this sweeping strategic initiative defines the nature of US-Chinese relations for decades to come. Gal Luft's practical analysis, strategic approach, and recommendations fit this turning point. Luft's paper examines the tenor and aims of both the Chinese and American governments, providing invaluable recommendations to help the United States navigate the dense web of the BRI project. The United States must envision a strategy that acknowledges and cooperates with China, while also balancing geostrategic and political tensions. The recommendations in this paper work for this purpose. As Luft demonstrates, the futures of both China and the United States must be navigated with foresight and care.



Joseph S. Nye Jr.

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Executive Summary

Launched in 2013 by China's President Xi Jinping, the Belt and Road Initiative (BRI or OBOR) is poised to be the most ambitious and all-encompassing economic development program in human history. The multi-trillion-dollar initiative will connect China and Europe over land, and will traverse the South China Sea, the Indian Ocean, the Red Sea, and the Mediterranean Sea.

Despite the game-changing nature of the initiative, and its relevancy to almost every region where the United States has vital interests, the administrations of both Barack Obama and Donald Trump have more or less ignored it. So has the US Congress. Since the launch of the BRI, not one congressional hearing has been convened to discuss it. The same is true for the US-China Economic and Security Review Commission, which Congress mandated to monitor US-China relations. In some cases, the United States even tried to use soft-power tactics to undermine the BRI. But shunning the BRI is a strategic mistake.

For all the reservations the Trump administration might harbor about the rise of China, it must accept the fact that the United States—especially with the prevailing “America First” isolationist mood—is not willing to rival China as the world's leader in financing and executing infrastructure projects. As such, the United States should rethink its approach toward the BRI, and chart a new course that is conducive to Eurasian growth, yet protects vital US interests. The United States would be better off engaging with the BRI and trying to influence its design and mechanics from within, rather than staying on the sidelines and witnessing its allies gravitating toward China. To realize this goal, this paper recommends that the United States neither reject nor fully embrace the BRI. Instead, it should adopt a third strategy: *constructive participation*. The United States will publicly embrace the overall vision of regional connectivity and energy security. However, it will only actively support cherry-picked projects that correspond with its geopolitical rationale and ideological worldview, while resisting those elements of the initiative that undermine its strategic interests. The constructive participation strategy will position the United States as a willing and pragmatic team player—rather than a spoiler—while also allowing it sufficient flexibility.

Recommendations:

1. **Acknowledge, Engage, Adjust:** The United States should acknowledge the BRI and the potential benefits it offers to humanity. It should then establish mechanisms within the US

government to understand the initiative, monitor it, and assess its progress. Congressional committees and the US-China Economic and Security Review Commission should hold periodic hearings about it. Washington should seek a proper forum to discuss with China the US role in the BRI, air concerns, and identify areas of cooperation. This could be done as part of the newly established US-China Comprehensive Dialogue, which was established by Presidents Trump and Xi in their April 2017 meeting in Florida.

2. **Articulate Red Lines:** The United States should stay away from, and even oppose, initiatives that are geopolitical in nature, or are used as a smokescreen to mask China's geopolitical ascendance. It should also resist the use of BRI as a pretext for military expansion, or for the deployment of destabilizing military forces or equipment to BRI territories. It should ensure that any project in a disputed area should only be pursued with agreement of all countries involved in the dispute. Furthermore, it should ensure that the BRI is not used as a cover for policies that are detrimental to US values, which include democracy promotion, human rights, anticorruption, transparency, and freedom of navigation.

Such clarity is not only needed toward China, but also toward US allies—particularly in Europe. Washington should work with Europe to establish common understandings in terms of policy toward the BRI. The United States and Europe should also agree on common policies regarding privatization of state assets, and on guidelines for the type of assets that can be sold to China and under what conditions.

3. **Carve a Role for the United States:** The United States should identify areas in which it can offer unique contributions to Asian economic development, and to the implementation of the BRI. With superior force projection, homeland security, and cyber-defense capabilities, the US government and American companies can play vital roles in protecting critical infrastructure along the BRI corridors. US companies can provide “soft infrastructure” services, such as consulting, legal services, research, and financing—which can make the difference between failed and successful projects. Additionally, the United States can share best practices regarding environmentally friendly design and engineering of infrastructure projects, building efficiency, waste processing, and energy-efficient transportation hubs. It can also facilitate increased private-capital participation.
 - *Leverage US Leadership in Multilateral Development Banks (MDBs):* The United States should encourage the MDBs it dominates (such as the World Bank and Asian Development Bank) to provide BRI financial outfits access to their facilities, services, tools, and methodologies, which can improve the bankability and sustainability of projects.
 - *Rethink the Asian Infrastructure Investment Bank (AIIB):* To date, Washington has opposed the AIIB. But, since its establishment, the AIIB has taken encouraging steps

to demonstrate its commitment to transparency and high standards of governance. The United States should consider changing its approach toward the bank. Joining it as a member would be an uphill battle, as this would require congressional appropriation of funds. However, joining the bank as an observer would be a realistic goal, and would signal to private-sector players that it is safe to invest in projects co-financed by the AIIB.

4. **Integrate the BRI into the Framework of Overall US-China Relations:** The BRI provides the United States with a platform on which it can deepen its cooperation with China. As of this writing, the single bonding issue in US-China relations is North Korea, which is certainly not strong, nor stable, enough to carry the relationship. The BRI offers a new platform of cooperation—one that can provide a degree of calm when other elements fail.
 - *Enhance Security Cooperation with China:* The BRI will increasingly compel China to project power on land and at sea, creating new friction points with the United States and its allies. Instead of being entangled in an economically ruinous arms race to maintain its hegemony over the world's oceans and maritime trade routes, the United States should seek ways to incorporate China's naval and ground forces in international alliances, joint sea patrols, and antipiracy, antismuggling, and counterterrorism operations.
 - *Use the BRI as a Platform for the Rebuilding of the Middle East:* The expeditious and efficient reconstruction of the war-torn Middle East will be one of the biggest tasks for the international community in the years to come. Washington should consider using the BRI and its institutions to support the reconstruction effort, while securing the interests of American companies vying to take part in the reconstruction effort.
 - *Make Energy Security the New "Glue":* Since climate change can no longer be the bonding factor in US-China relations, other bonding factors are needed. Energy security should be one of them. The United States and China should expand the scope of their existing collaboration on electrification of rural communities, decentralized energy, nonpetroleum transportation fuels, renewables, unconventional energy development, critical energy-infrastructure protection, cybersecurity, and energy-management systems. Coal can be an important area of cooperation. The Trump administration is committed to reviving the coal industry, while China is strongly interested in upgrading and optimizing its coal use. The United States and China should, therefore, focus on improvements in the way coal is produced, transported, and used—rather than on crowding it out as an energy source altogether.
5. **Present America's Own Vision for Infrastructure Development:** The United States should not let China "own" the task of international economic development. It should articulate its own vision for Asia's economic development, and promote collaboration with its allies' homegrown initiatives. Washington would be able to build on the BRI, and augment it by developing its own projects—especially in new territories, such as those parts of Africa that are not covered by the BRI, as well as Latin America.

Introduction

Launched in 2013 by China's President Xi Jinping, the Belt and Road Initiative (BRI or OBOR) is poised to be the most ambitious and all-encompassing economic development program in human history. It aims to connect China and Europe in a web of roads, high-speed rail, power lines, ports, pipelines, fiber-optic lines, and other infrastructure. Its stated goal is stimulating growth in the scores of developing countries in the space between China and Europe, and lifting from poverty hundreds of millions of people in developing Asia who are currently disconnected from reliable energy, water, transportation, and telecommunications networks. The scope of this initiative is breathtaking. The BRI territories make up two-thirds of the world's landmass, and the BRI could affect as many as 4.4 billion people in sixty-five countries with a collective GDP of more than \$20 trillion. The price tag: from \$1-6 trillion over the next two decades, according to different estimates and scenarios.²

The BRI comprises two main parts: a series of land-based economic corridors, which China refers to collectively as the Silk Road Economic Belt (SREB); and the Twenty-First Century Maritime Silk Road (MSR), which will traverse the South China Sea, the Indian Ocean, the maritime routes along East Africa, the Red Sea, and the Mediterranean Sea. The first of the SREB's corridors, the China-Pakistan Economic Corridor (CPEC), will link China's western province of Xinjiang to the Pakistani deepwater Port of Gwadar, on the Arabian Sea. The second, the Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC), will open up China's southwestern provinces to the Bay of Bengal and the Indian Ocean by investing in rail, highways, ports, pipelines, and canals. To the south, China is developing what it has termed the China-Indochina Peninsula Economic Corridor (CIPEC), connecting Southeast Asia's six hundred million inhabitants to China's economy through investments in ports and high-speed rail. To its north, China is building the China-Mongolia-Russia Economic Corridor (CMREC) to connect northeastern China to energy-rich Mongolia and Russian Siberia by means of a modernized rail network. And, finally, two major rail projects will connect China and Europe. One, the China-Central Asia-West Asia Economic Corridor (CCWAEAC), will run through Central Asia, Iran, and Turkey into the heart of Europe, while the other, the New Eurasian Land Bridge (NELB), will run to Western Europe by way of Russia. The SREB and the MSR are connected to each other in multiple interconnectors, which enables trade between inland and littoral territories.

In recent years, China has trumpeted the BRI relentlessly in every possible channel and venue. This promotion culminated in the May 2017 Belt and Road Forum for International Cooperation, which was chaired by President Xi and brought to Beijing delegations from

nearly one hundred countries, including twenty-nine heads of state. So far, China has signed cooperative agreements concerning the BRI with at least sixty-eight countries and international organizations, and has announced hundreds of projects. More importantly, China has completely retooled its foreign, trade, and financial policies in support of the BRI, and has created dedicated institutions to finance it. How much of the rhetoric will actually translate into action is too early to determine. However, China's plan is too big and too seminal for Washington to ignore, especially because the BRI runs through most of the world's hotspots—the Middle East, the South China Sea, India-Pakistan, Eastern Europe, and Central Asia, to name a few—in which the United States has vital interests. After years of snubbing the BRI, the United States can no longer sit on the sidelines while its allies become increasingly charmed by China's vision and dependent on its largesse. As steel and concrete are put in the ground, redrawing the world's map, Washington should formulate a clear policy toward the initiative—one that is sensitive to Asia's growing need for infrastructure investment, yet protects US interests and upholds the US role as a leader of the global-development agenda and guarantor of security and stability. An "America First" policy means that US companies should be best positioned to benefit from any business opportunity worldwide, and the BRI is no exception. This entails US participation in and engagement with the initiative and its institutions, with the goal of influencing them from within.

This paper will examine China's motivations for launching the BRI, concluding that—while the initiative aims to, first and foremost, serve China's domestic and global interests—it offers significant benefits to the developing world and the global economy writ large, and is therefore worthy of US consideration. Clearly, there are many question marks when dealing with an initiative of such magnitude, and not every element will be a net positive from an American perspective. This is why the US response should involve a nuanced approach. Hence, this paper will analyze the BRI's various components, and their implications for US strategic interests. It will offer several approaches Washington can adopt toward the BRI, each with its own pros and cons. Finally, it will detail a US strategy that, if implemented, could turn the BRI from a source of tension between China and the United States to a platform on which US-China cooperation can continue to grow in the years to come.



“An ‘America First’ policy means that US companies should be best positioned to benefit from any business opportunity worldwide, and the BRI is no exception.”

China's Agenda, the US Response

Other than providing a shot in the arm to the stagnating global economy by sparking growth in many developing countries, the BRI serves several important purposes for Beijing. First, it is a critical part of President Xi Jinping's domestic economic agenda. In the past two decades, through bold economic policies, the Chinese government has lifted hundreds of millions from poverty to the middle class. Yet, much is left to be done in China's inner and less-privileged provinces, where the so-called "Chinese Dream" is not within reach. But, while China is getting richer, low-wage industries are migrating to less-developed countries, where labor costs are lower. China cannot fight this trend. Instead, it hopes to position itself as the hub of global supply and manufacturing chains. To do so, it must connect its manufacturing hubs—specifically in the second-tier provinces—to both domestic and international markets via transnational infrastructure.

The Chinese government is also under pressure to address the needs of its numerous state-owned enterprises, many of which specialize in engineering, procurement, and construction. In recent years, those enterprises have accumulated large surpluses of raw materials, machinery, and infrastructure-building capabilities, and their excess capacity begs for new projects and markets. National companies are an extremely important part of China's economy and sociopolitical fabric, and opening new markets to keep them in business and content is a high priority for the regime. The BRI also provides a lifeline for China's banks, allowing them to boost the usage of the renminbi (rmb) as a vehicle to raise capital in overseas financial centers. Those banks can offer loans and other debt instruments to developing countries, which would, in turn, contract Chinese enterprises for major infrastructure projects. In sum, by helping its neighbors grow, China recognizes that it will also, in turn, become more stable, secure, and prosperous.

Second, the BRI is China's mechanism for reallocation of its large foreign-exchange assets from buying US debt to investment in foreign economic development. Over the past fifteen years, China has seen its share of US foreign-held treasuries balloon from 6 percent in 2001 to 25 percent today. Over the same period of time, interest rates on the debt were sliced by two-thirds. For all those years, the deal was acceptable to China, allowing it to prop up the dollar and keep its currency relatively low, in order to ensure the competitiveness of its products and boost its growth. But, the world's new economic and geopolitical conditions have triggered new thinking in Beijing regarding the sustainability of this arrangement. Under the baseline scenario of the Congressional Budget Office (CBO), US federal debt will grow by \$10 trillion in the next ten years, on top of the already-unsustainable US debt of close to \$20 trillion.³

This means that, in the coming years, China will be called upon to nearly double its US debt holding—something Beijing is unwilling to do. But, China understands that slowing down its debt buying—or calling in its US debt altogether—will be self-defeating. It would weaken the dollar sharply, making China's debt less valuable on the one hand, and slowing its growth on the other. China can only begin to unshackle itself from US debt if it creates sufficient alternative markets for its goods, primarily in developing Asia, as well as in its own domestic economy. This is exactly what the BRI aims to achieve. In other words, the BRI is China's mechanism for withdrawing from its role as the United States' banker, shifting its capital expenditures from bonds to bridges, from IOUs to BTUs.

“In other words, the BRI is China's mechanism for withdrawing from its role as the United States' banker, shifting its capital expenditures from bonds to bridges, from IOUs to BTUs.”

Third, the BRI serves as the organizing principle of China's foreign policy and, as such, should be viewed as the backbone of what will be China's grand strategy for the twenty-first century. Since the BRI's introduction, China's political, diplomatic, financial, and military echelons have become fully mobilized in supporting it. Beijing has already announced multibillion-dollar infrastructure initiatives spanning the Malay Peninsula to the Mediterranean, and traversing South, Southeast, Central, and Western Asia. Beijing also made significant acquisitions in Europe. It created dedicated financial institutions like the Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund, and the New Development Fund (formally known as the BRICS Development Bank), with cumulative registered capital of more than \$300 billion, to offer loans to developing countries that would—Beijing hopes—contract Chinese enterprises for major infrastructure projects. Over this period of time, China's foreign policy has begun shifting away from its traditional isolationism and noninterventionism: China attempted to mediate between the rival factions in the Syrian civil war; it took a side in the Yemeni civil war; it positioned itself as a link between Shia Iran and the Sunni Gulf states led by Saudi Arabia; it passed a new counterterrorism law that would allow its military, for the first time, to participate in counterterrorism efforts abroad; and it beefed up its participation in United Nations (UN) peacekeeping operations, becoming the largest contributor of peacekeepers among the five permanent members of the UN Security Council.⁴ China also used its leadership role in international organizations and forums like the UN, the Shanghai Cooperation Organization (SCO), the ASEAN plus China (10+1), Asia-Pacific Economic Cooperation (APEC), and the China-Arab States Cooperation Forum (CASCF) to promote the initiative. It also hosted the 2016 Group of Twenty (G20) summit in Hangzhou, to increase global awareness of and exposure to



its vision for the BRI. The May 2017 Belt and Road Forum for International Cooperation—which will be replayed in 2019—and the September 2017 BRICS Summit in Xiamen provide additional opportunities for China to rally international support for its project. To date, seventy countries have joined the AIIB, which has announced hundreds of projects. This flurry of diplomatic activity reflects an understanding in Beijing that the success of its flagship project depends on its ability to forge friendly relations and economic interdependencies with all the BRI countries, and on its ability to ensure the stability of the territories through which the BRI corridors traverse (the latter of which will be a major challenge).

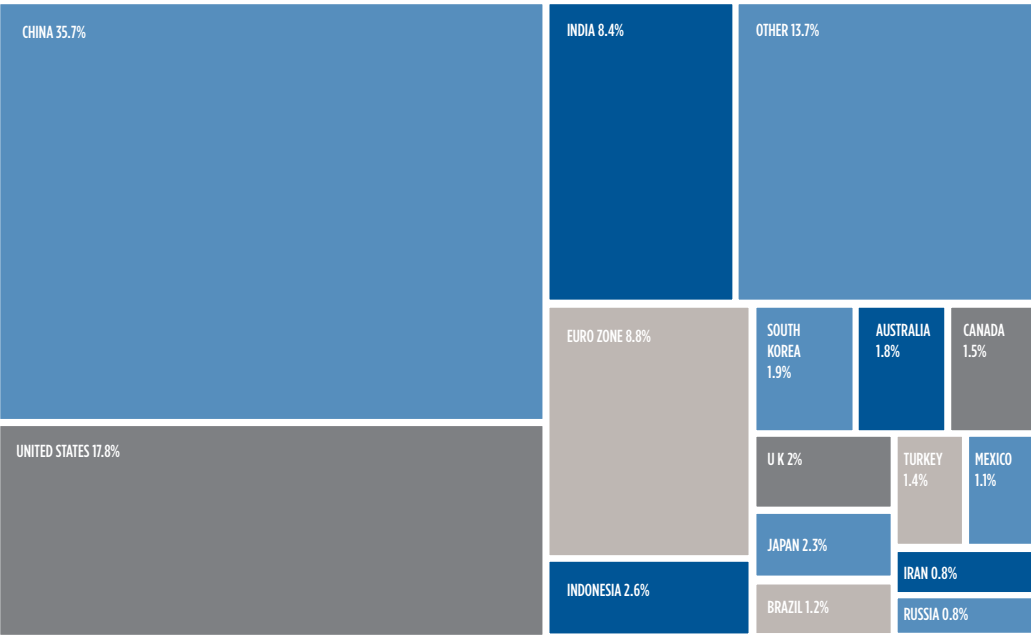
The US Response So Far

With the BRI countries accounting for 70 percent of the world's energy reserves—and almost all the world's Muslim countries, many of them politically unstable—China's plan stands to significantly impact the US position abroad. Curiously, to date, Washington has more or less ignored it. The Obama administration never publicly acknowledged the BRI. And, while the Trump administration issued a statement that the US "recognizes the importance" of the BRI and sent a last-minute delegation, headed by a White House staffer, to the Belt and Road Forum in Beijing, it has not yet stated a clear position on the matter.⁵ In the US Congress, not one hearing has been held to examine the BRI. The same is true for the US-China Economic and Security Review Commission, which was created by Congress to monitor and investigate

national security and trade issues between the United States and China. The US-China Strategic and Economic Dialogue, the highest-level annual meeting of the two governments during the Obama years, detailed in each of its meetings more than one hundred areas of bilateral cooperation, but did not mention the BRI even once.

In some cases, such as when Washington unsuccessfully lobbied against the formation of the AIIB, the United States used soft-power tactics to try to undermine the BRI. This opposition to the AIIB was a “strategic mistake,” in the words of former World Bank President Robert Zoellick.⁶ Despite Washington’s pleading, most US allies, one by one, joined the new bank: the United Kingdom, Germany, Israel, and Taiwan (though, due to obstacles placed by Beijing, the latter did not end up joining). And, in August 2016, Canada applied to join the AIIB, becoming the first North American country to do so. The opposition to the AIIB ended up being a diplomatic blunder that demonstrated the consequences of Washington’s petulance toward the BRI. This episode, which former US Treasury Secretary Lawrence Summers described as “the moment

Percentage of Estimated Global Economic Growth (2017-2019) in Real GDP



Over the next two years, nations such as China, India, Indonesia, and developing nations will account for larger proportions of global GDP growth. *Source: IMF and World Bank.*

the US lost its role as the underwriter of the global economic system,” demonstrated that US allies are torn between their traditional strategic allegiance to the United States and their dependence on China’s money to satisfy their urgent need for foreign direct investment and infrastructure development.⁷

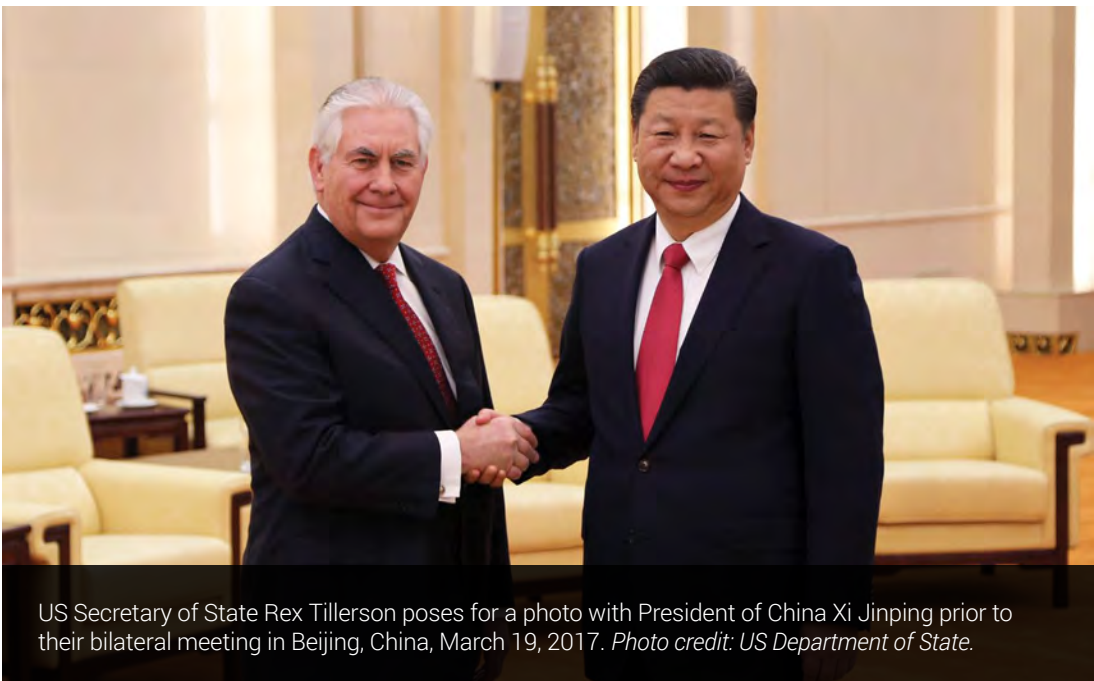
With the global economy remaining in the doldrums, countries are increasingly likely to opt for the latter. With the BRI becoming a key part of China’s foreign policy, and a top priority for President Xi, the present path of ignoring it or trying to disrupt it at the margins is counterproductive. Pursuing such a path, the United States is not only missing an opportunity to take part in drawing the contour lines of the geopolitics and geoeconomics of the emerging international system, but also denying American businesses and investors the opportunity to partake in the creation of what could be one day the world’s biggest economic bloc.

The Case for Engagement

Before contemplating a US response to the BRI, one should reflect on the impact American military, diplomatic, economic, and environmental policies have had on China’s thinking, and their contribution to the genesis of the BRI. The Obama administration’s policy of strategic rebalancing from Europe and the Middle East toward East Asia—also known as the Pivot to Asia—enhanced China’s sense of physical encirclement, while the exclusion of China from the Trans-Pacific Partnership (TPP) was perceived as an act of economic containment that would deny China tariff reduction and the preferential market access that partnership members would enjoy. So did the United States’ use of existing multilateral development banks (MDBs) in which Washington exercises a degree of control, such as the World Bank, the International Monetary Fund (IMF), and the Asian Development Bank (ADB). For years, Washington led the opposition to granting China (and India) a share of votes proportional to its increased economic weight. The US Congress blocked an IMF agreement to shift 6 percent of US voting rights and quota to emerging economies, primarily China. For some time, Washington also stood alone in opposing the inclusion of the renminbi in the list of reserve currencies of the IMF, on the grounds that China needed to undergo necessary reforms before its currency could be qualified. Former Fed Chairman Ben Bernanke claimed in 2015 that those actions were the trigger for the establishment of the AIIB.⁸ Washington also used its leverage over MDBs to impose lending restrictions on infrastructure and energy projects that did not meet its environmental standards. This is particularly true for the use of coal. Despite the fact that coal is the workhorse of developing Asia, and is likely to play this role for the foreseeable future, the Obama administration used its influence over the World Bank to pass a ban on financing for most coal-power plants abroad.⁹ Washington’s tone-deafness on matters related to Asia’s infrastructure and energy requirements created a need for an alternative financing mechanism, and a leadership vacuum that China was quick to fill. India’s Additional Secretary of Ministry of Finance Dinesh Sharma best described the sentiment that led to the genesis of the AIIB: “We have been banging our heads for reforms at the IMF and World Bank, but they are

delaying. We wanted an infrastructure development fund, but the World Bank finally created a small fund for technical assistance...If this wasn't the case, there would not have been a need for another institution."¹⁰

The election of Donald Trump has changed thinking about China, America's role in the world, and, more specifically, the US contribution to global economic development. If one is to judge from the administration's 2018 budget proposal, Trump's "America First" approach to foreign policy will result in deep cuts in the funding for economic development in numerous countries, many of them in the BRI territories. Trump considered to folding the United States Agency for International Development (USAID) into the State Department, and to cut contributions to the World Bank and other multinational organizations. With fewer US development resources, the world's poor will turn their eyes to China for help. Lack of American engagement with the initiative will essentially allow China to spearhead the global development agenda, and to shape the future of Eurasia in ways that may be detrimental to US interests. For the time being, the Trump administration's relations with China have been more positive than expected, mainly due to Washington's dependence on Beijing's support in the effort to crack down on North Korea. But, down the road, China's BRI could generate many points of friction. History shows that transnational infrastructure projects can evoke suspicion, hostility, and jealousy, and can even trigger war among great powers. The past two centuries provide ample examples for that. In the late nineteenth century, Britain's Cape Town-to-Cairo Railway project conflicted with the



US Secretary of State Rex Tillerson poses for a photo with President of China Xi Jinping prior to their bilateral meeting in Beijing, China, March 19, 2017. *Photo credit: US Department of State.*

French-planned East-West Railway, almost leading to an Anglo-French war in Africa. The Russo-Japanese War of 1905 was precipitated, in part, by the Japanese determination to strike before the Trans-Siberian Railroad, which would considerably strengthen Russia's hold in East Asia, could be completed. Imperial Germany's scheme to build the Berlin-Baghdad Railway to solidify its leverage over the crumbling Ottoman Empire certainly helped trigger World War I. Those examples serve as reminders of how consequential transnational infrastructure projects can be in altering the global landscape. Therefore, Washington's response to the BRI will, to a large extent, determine not only the course of US-China relations, but the shape and fate of the global system.

An Opportunity for the Trump Administration

To keep US-China relations on an even keel, the two countries must seek areas of cooperation, even as they agree to disagree regarding areas of conflicting interest. Without a new agenda for Sino-American cooperation, there is always a risk that the relations between the two countries will spiral downward. This is particularly true because the main issue that served as a bonding factor during the Obama years—climate change—can no longer be treated as one. Throughout the eight years of the Obama administration, climate change injected US-China relations with a degree of calm when things went the wrong way on other issues. For the Trump administration, however, climate change is not a priority, and can therefore no longer be part of the framework of US-China relations. A new rapport, enabling areas of cooperation that reflect commonalities in the worldview of both presidents, is urgently needed. The BRI—or, more generically, the theme of infrastructure development—can be such a glue. Centering US-China relations on infrastructure development would fill the vacuum created by the exit of climate change, and give the two governments a common goal toward which to work. The result will not only be a more connected world, where more people can have access to energy, communication, and transportation networks—generating economic activity, prosperity, and growth—but also US-China relations that are more resilient in the face of the many pitfalls that will no doubt come.

“Lack of American engagement with the initiative will essentially allow China to spearhead the global development agenda, and to shape the future of Eurasia in ways that may be detrimental to US interests.”

Reshaping the Conversation on Trade

Such cooperation can also reduce the tension around trade—perhaps the thorniest issue in US-China relations under the Trump administration. The White House has made it clear that it will adopt a principled and enduring toughness toward China with respect to trade, through renegotiation of existing deals, abrogation of others, and stiff protectionism. The risk of such an approach is that it could erode the half-trillion-dollar annual bilateral trade between China and the United States, with detrimental impacts on both economies, not to mention the rest of the world. An even greater risk is that an escalating trade war may—as has happened in history—lead to a shooting war. To avoid such a scenario, Washington and Beijing should broaden the conversation on trade, and seek commonality of interest in an area marred by fundamental, and mostly irresolvable, disagreements.

The current global trade paradigm has been based on bilateral and multilateral trade agreements, which are being negotiated over many years. But, the current climate is not conducive to new Sino-American trade deals, and renegotiation of existing deals to grant the United States more favorable terms is also unlikely. The BRI offers the two countries an opportunity to transform the conversation from one entirely focused on trade agreements to other enablers of trade—most importantly, the infrastructure allowing trade to take place in the first place. Pipelines, aviation hubs, deep-sea ports, energy terminals, and high-speed



The Bullet Train leaves Zhenjiang Station on the Shanghai-Nanjing Intercity High-Speed Railway, January 2016. Source: *Wikimedia Commons*.

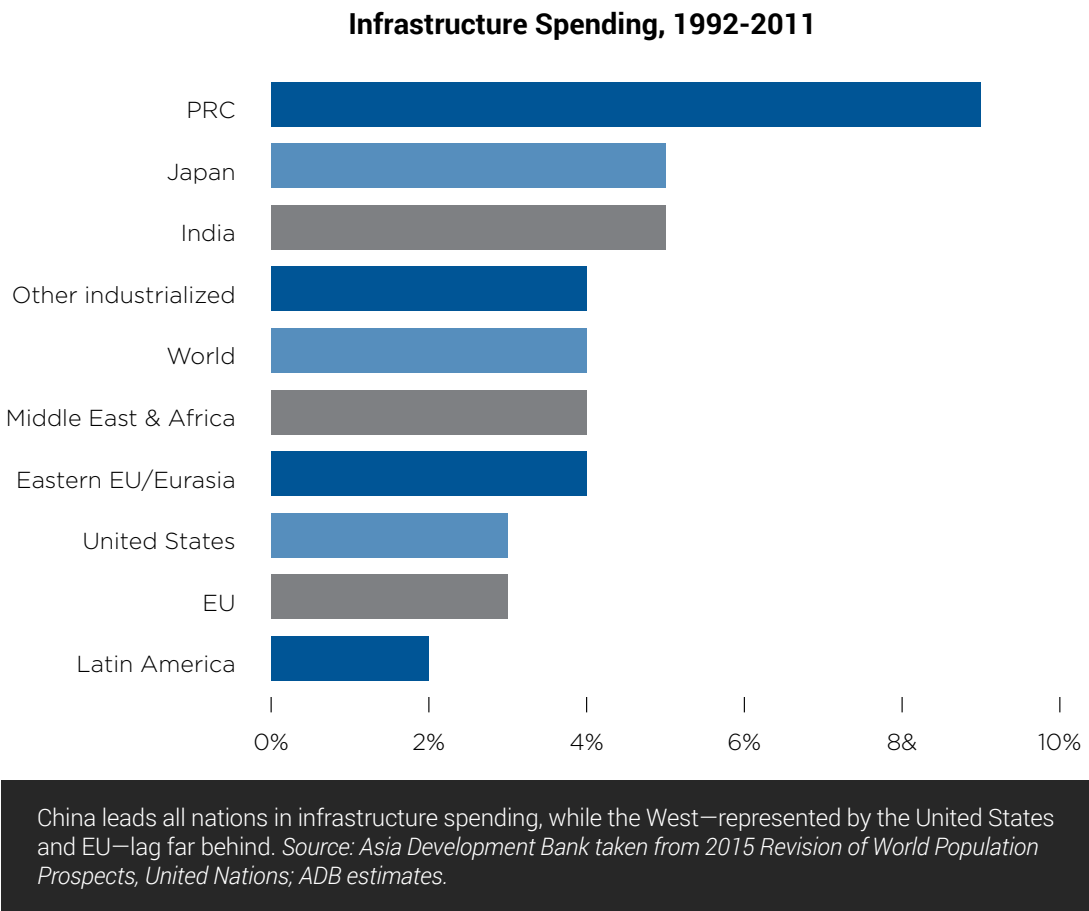
trains are all facilitators of trade. So are fiber-optic communication lines and high-voltage transnational electric grids. All of these trade nodes serve to optimize the exchange of commodities, goods, and services. Construction of numerous new trade nodes and trade routes improves competition and reduces transportation costs. New trade-enabling infrastructure will connect hundreds of millions of Asians to the global trading system, creating the prosperity that enables more exchange to take place. Connecting new communities to the Internet will boost cross-border e-commerce, and improve cooperation in the fields of customs, inspection and quarantine, information exchange, regulations, law enforcement, standards, and measurements—ensuring a smoother flow of goods and services throughout the BRI territories. All of those trade facilitators will eventually benefit US businesses, as they ultimately increase demand for American goods and services, and help integrate US corporations into what could one day become the world's largest economic bloc. By expanding the conversation on trade, China and the United States will be able to steer their discourse from a zero-sum one toward a common and mutually beneficial purpose.



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Infrastructure Investment as a Trigger for Global Growth

According to the USAID, as of the second decade of the twenty-first century, about 2.6 billion people—mostly located in developing Asia and Africa—lack access to round-the-clock electricity. Nearly 800 million people worldwide lack access to water, and about 2.5 billion lack access to basic sanitation. Approximately 1-1.5 billion people have no reliable phone service. Just over 20 percent of people in developing countries have access to the Internet.¹¹ The economic literature examining the relationship between infrastructure investment and growth generally shows strong correlation between the two, though the impact depends on many factors, including the country's level of development, the cost of labor and financing, the form of governance, and the efficiency of the capital deployed. That said, infrastructure projects that connect poor communities to energy, transportation, and the Internet are almost certain to offer a high degree of economic propulsion as they improve public health and education, create jobs, and stimulate commerce via enhanced connectivity.¹² Yet, infrastructure investment in Asia and the rest of the developing world falls short of the need. According to the Asian Development Bank Institute, future investment requirements for economic infrastructure are estimated



at around 4 percent of GDP globally and 6.5 percent in Asia. In some of Asia’s developing countries, the figure can go as high as 8 percent. But, globally, developing economies face a gap of approximately \$1 trillion per annum to keep pace with the demands of rapid urbanization and economic growth, and much of this need comes from countries in the BRI regions.¹³ The combined actual investment by the existing MDBs can barely close one-tenth of the gap. This infrastructure gap comes at a time when the global economy is begging for growth, and the BRI aims to enable just that, by connecting hundreds of millions to new markets, and by providing jobs and investment opportunities in many underdeveloped economies.

While the economic opportunity for China and the BRI countries is self-evident, the United States also has much to gain from partaking in it. The Trump administration is deeply committed to the development and upgrade of US domestic infrastructure, but little attention has been paid to the benefits for the US economy offered by infrastructure development

abroad. Increased prosperity in the developing world will enable more consumers to demand American goods and services. US engineering, construction, and equipment-manufacturing companies like Bechtel, Caterpillar, John Deere, Honeywell, and General Electric could win lucrative contracts, and US defense and cybersecurity companies can help protect critical infrastructure worldwide. With more energy terminals, pipelines, storage facilities, and free-trade zones constructed around the world, the US energy industry would enjoy more destinations for its oil, gas, and coal. And with 80 percent of the people in the developing world not connected to the Internet, American tech companies like Google, Amazon, and Facebook can win numerous new users, as more people become connected to the World Wide Web via energy and communication infrastructure. In seeking new growth engines and job-creation opportunities, Washington would be remiss to ignore the benefits to US businesses offered by the BRI.

Too Big to Fail?

One argument for stronger US engagement with the BRI is that the cost of the initiative's failure for the United States could outweigh the risks associated with its successful execution. The reason for this is allocation of financial resources. In the coming years, China will need hundreds of billions of dollars to finance the BRI. Some of this money will obviously come from commercial banks in the form of various debt instruments. Additional investment could come from private equity funds. But, under any scenario, the lion's share of the money, at least \$1 trillion, will come from the coffers of the Chinese government. Raising such a staggering amount of money—China only has \$3 trillion in cash reserves—will be a daunting task, especially at a time when most of the world's governments and commercial banks are already drowning in debt. The May 2017 downgrade of China's credit rating, from Aa3 to A1, will not make it easier for China to raise that capital.

To make things worse, China's new capital controls—requiring detailed documentation of and explanations for any investment abroad above \$5 million—are already slowing down the implementation of the initiative.¹⁴ All of this means that it is far from certain that China will be able to muster the vast resources needed to implement the BRI such a way as to deliver the desired economic dividends. Even if it does, it is less certain that the initiative will produce the stimulating economic effect on developing Asia that China is counting on. It is only prudent that a failure scenario is taken into account.

The failure of the BRI will no doubt be a blow to China's prestige—not to mention the waste of hundreds of billions of dollars that Beijing could have used for alternative purposes. But, such a scenario will hurt the United States in more than one way. As China's cash reserves dwindle, there will be less money available for Beijing to continue to finance US debt, and this will put significant strain on the US government to meet its budgetary obligations. Such a failure would depress the Chinese economy in ways that will be felt throughout the global economy. It will also kill any hope for the United States to reduce its trade deficit with China.

The Anatomy of the BRI's Impact on US Interests

The BRI comprises two main parts: a series of land-based economic corridors that China refers to collectively as the Silk Road Economic Belt (SREB), and the Twenty-First Century Maritime Silk Road (MSR). The exact lines on the map as they were published by the Chinese government should not be taken as given, as they reflect the current thinking on the architecture of the BRI. However, this thinking is evolving, and some of the lines will change as the plan morphs. The BRI is a work in process, and its execution will depend on the partnerships that take time to forge. Washington's involvement in the initiative will enable it to leave its imprint on the final configuration of the BRI, in a way that makes it more advantageous to US interests.

The BRI is not the first attempt to advance Eurasian economic cooperation. Over the years, there have been many plans and initiatives—by ASEAN (ASEAN Economic Community), by the South Asian Association for Regional Cooperation (SAARC), and by the EU, which in 1993 launched the Transport Corridor Europe Caucasus Asia. Individual countries have also offered connectivity initiatives. Russia has been promoting the Eurasian Economic Union, the Trans-Eurasian Belt Development (TEPR), and the North-South International Transport Corridor (NSTC)—the latter aiming to connect South Asian countries with Northern and Western Europe. Mongolia proposed the Prairie Road program (also known as Steppe Road); Vietnam proposed the construction of the Nanning-Hanoi Economic Corridor, the Kunming-Haiphong Economic Corridor, and the Beibu Gulf Economic Circle, collectively known as the Two Corridors and One Economic Circle initiative; India is building the India-Myanmar-Thailand trilateral highway under its Look East policy; and Kazakhstan proposed the building of a Western-China-to-Western-Europe transportation corridor, calling it “the construction of the century.”¹⁵ The United States has also offered such plans. The New Silk Road Initiative, introduced in 2011 by then-Secretary of State Hillary Clinton, proposed to connect Turkmenistan, Afghanistan, Pakistan, and India via roads and pipelines. The Indo-Pacific Economic Corridor, proposed in 2014, would connect India, Nepal, and Bangladesh with Myanmar and Thailand. Additionally, many BRI components build on existing projects and infrastructure, conceived and executed years before President Xi Jinping announced his initiative. This means that the new Silk Road is not as Chinese as some might think, and that the final configuration of the BRI will be determined, to a large extent, by China's ability to integrate its vision with those of other countries.¹⁶

One should also assume that not everything China announces will actually happen. The media often report about project announcements as a done deal, but intent does not predict execution. As Deborah Brautigam, a leading observer of China's activities in Africa, pointed out, China's actual investments and land acquisitions in Africa are significantly smaller than media reports suggest.¹⁷ Some infrastructure projects that have been announced with great fanfare, like the Altai gas pipeline to connect western Siberia and China (announced in 2015), have already come to a standstill. On the flip side, not all that will materialize will be truly in the spirit of the BRI. Since the launch of the initiative, many Chinese and foreign enterprises have labeled their projects as "Belt and Road projects" in the hope of gaining political support, as well as more favorable financing from the central government and financial institutions. The truth is that many of these projects have nothing to do with the BRI, as they contribute very little to regional connectivity. That said, this paper will analyze the initiative as it stands today, based on the pronouncements, acquisitions, and projects that have been announced and that are already under way.

The Silk Road refers to an ancient network of trade routes that stretched across the Eurasian continent, from the Korean Peninsula to the Mediterranean Sea. These routes started in China and continued through India, Asia Minor, Mesopotamia, Egypt, the rest of the African continent, Greece, Rome, and Britain. Established by the Han Dynasty in China in 130 BCE, the Silk Road was used by merchants for more than 1300 years, until it was shut down as part of a blockade by the Ottoman Empire. While it derived its name from its most widely traded commodity, silk, the route was responsible for facilitating material, cultural, religious, and technological exchanges between Eastern and Western civilizations.¹

Twenty-First Century Maritime Silk Road (MSR)

Shaped after the Ming Dynasty's maritime Silk Road of the fifteenth century—which, for a brief moment in history, connected China to the Red Sea via the Indian Ocean and the Arabian Sea—the Twenty-First Century Maritime Silk Road (MSR) aims to connect the littoral Chinese provinces with the South China Sea and the Indian Ocean. From there, it will connect to Chinese-built ports in Eastern Africa via the Horn of Africa and the Mediterranean, and to European ports by means of a network of port infrastructure—including deep-sea ports, industrial and free-trade zones, oil and gas storage facilities, and railway connectors from which cargo can be shipped inland. Among other things, this maritime route is designed to boost trade volumes in port facilities and other infrastructure in which China is already heavily invested—particularly in Eastern Africa: Mozambique, Tanzania, Kenya, Eritrea, Somalia, Ethiopia, and Djibouti. The connection to Africa necessitates port facilities, fuel storage, and naval bases along the MSR route, connecting the Bay of Bengal with East Africa. To address that need, China chose two key stepping stones in the Indian Ocean: Sri Lanka and the Maldives. In both

countries, it invested in the construction of seaports, airports, bridges, and other connectivity projects. The MSR concludes in the eastern Mediterranean, where China aims to create a new trade link between Asia and Central Europe via Egypt, Israel, Lebanon, Cyprus, Greece, and the Balkans. Chinese companies have won bids to operate, and/or expand and upgrade, the Israeli ports of Haifa and Ashdod, the Lebanese Port of Tripoli, Egypt's ports of Port Said and Alexandria, Algeria's Port Cherchell, and Italy's ports at Genoa and Naples. In April 2016, China Ocean Shipping Company (Cosco) bought a 67-percent stake in the Greek Port of Piraeus, the largest container port in the eastern Mediterranean. China has already announced its intentions to extend a rail link from Piraeus to Hungary, and possibly Germany, by way of Serbia. It is also growing increasingly interested in Libya, a broken, yet oil-rich, country China is eager to rebuild once political conditions permit.

This network of ports was designed to facilitate trade throughout the BRI territories by connecting the actual ports and terminals with adjacent free-trade zones, to enable smooth customs clearance, inspection, quarantine, and other related logistical services. But, China's port-construction effort is likely to face non-trivial strategic and financial challenges. The economic performance of the Pakistani Port of Gwadar is questionable, due to insufficient cargo traffic and persisting security challenges in Baluchistan. In Sri Lanka, China's plan to take over an 80-percent share of the Hambantota Port for ninety-nine years in exchange for \$1.1 billion, and to build an adjacent fifteen-thousand-acre industrial zone, sparked riots and political controversy that threaten to sink the project altogether.¹⁸ The \$8 billion Malacca Gateway deep seaport in Malaysia—which is planned to be built with the help of PowerChina International, Shenzhen Yantian Port Group, and Rizhao Port Group—will no doubt face serious competition from the iconic, and well-established, Port of Singapore.¹⁹ Port construction is a costly and politically complex venture. China's port plot may give it a strategic edge in some locations, but it is less clear that those ports will deliver on the profitability front.

Implications for the United States

The MSR is a source of both hope and concern, not only to the scores of countries affected by it, but also for the United States. On the one hand, the initiative offers a new maritime architecture, which facilitates regional trade and aims to promote freedom of navigation. Stronger Chinese naval presence in the high seas can improve collective energy security, maritime safety, antipiracy efforts, and protection of critical infrastructure—including the world's Internet backbone, which more or less corresponds with the path of the MSR. On the other hand, the MSR challenges the existing order in many of the waters in which the US Navy has enjoyed undisputed hegemony since World War II.

Given the increased tensions in the South China Sea—particularly in light of China's land reclamation in disputed islands, and since the July 2016 ruling of the Permanent Court on Arbitration against China's historical claims in the region—China might be tempted to continue

The South China Sea Arbitration: *Philippines v. China*

In January 2013, the Philippines initiated an arbitration through the Permanent Court on Arbitration (PCA) under the dispute-settlement procedures of Annex VII to the 1982 United Nations Convention on the Law of the Sea (UNCLOS). This arbitration brought into question the source of maritime entitlements in the South China Sea, and the lawfulness of certain Chinese actions that the Philippines alleged had violated the UNCLOS. On July 12, 2016, the court ruled against China, in what was a near-unanimous win for the Philippines and a direct challenge to China's activities in the area. The verdict established that China's maritime entitlements in the South China Sea may not exceed those established by UNCLOS, and that there is no legal basis for China to claim historic rights to resources within the sea areas falling within the "nine-dash line." China, which had made it clear from the onset that it did not accept the PCA's jurisdiction regarding the matter, immediately issued a statement declaring the award to be null and void. This response ensured that tensions in the disputed area would persist.²

to change the status quo in the region, by framing its construction and land-reclamation activities as MSR projects. This is likely to escalate the situation in this explosive part of the world, prompting regional countries to strengthen their alliances with each other and with the United States, and to bolster their maritime capabilities in order to balance China's expansion. This regional realignment is already beginning to take shape. For example, in 2014 Indonesia announced a Global Maritime Axis strategy to strengthen maritime defense and improve connectivity among Indonesia's islands, as well as among the neighboring countries. The Philippines, for its part, is leading an effort within ASEAN to craft a legally binding maritime code of conduct for the South China Sea, while, at the same time, seeking US and Chinese help to guard one of its major sea lanes from Islamic militants' attacks on international shipping.

Another challenge is the Indian Ocean, the third-largest body of water on the planet, and a region believed by many to be the central theater of global competition in the twenty-first century. Spanning the Sahara Desert to Indonesia, this ocean carries half of the world's container shipments, one-third of its bulk cargo traffic, and two-thirds of its oil shipments. It is also the gateway to the Muslim world. The ocean's shores are littered with lawlessness, piracy, and terrorism, and its waters require strong international policing and maritime cooperation. To date, this job has been carried out mainly by the US and Indian navies, but, with the Indian Ocean featuring so prominently in China's grand strategy, a Chinese naval expansion in this region is inevitable. China's port construction in Sri Lanka, Bangladesh, and Maldives—all in India's sphere of influence—has already alarmed New Delhi, which has taken steps to enhance its maritime power. By 2030, the Indian Navy is projected to be one of the world's five most powerful navies, and possibly the second-largest carrier fleet after the United States.²⁰ Hence, the United States could find itself caught in the middle of a strategic competition at sea between China and India.

Approaching the Arabian Sea, the MSR will bring China's navy closer than ever to the Arabian Gulf, from which China sources half of its oil imports. China is already heavily invested in the Port of Gwadar, which is expected to soon become a foothold for the Chinese navy's repair and maintenance. Last year, Pakistani officials confirmed that China would deploy ships in coordination with the Pakistan Navy to safeguard Gwadar and the trade originating from the BRI.²¹ China also has completed construction of a naval base in Djibouti, in the Horn of Africa, where it is soon expected to deploy thousands of troops, as well as maintenance facilities and storage facilities for weapons. Such naval presence only 250 miles from the Strait of Hormuz—and near the strategic choke point of Bab el-Mandeb, leading into the Red Sea and the Suez Canal, and all the way to the Mediterranean—would force the United States and its NATO allies, whose hegemony in those waters has so far been unchallenged, to learn to accommodate the new maritime player and establish new rules of engagement to ensure China's presence augments security in those regions, rather than undermines it.

China-Pakistan Economic Corridor (CPEC)

Announced by President Xi Jinping in April 2015, the CPEC project aims to expand and modernize a land passage from China's westernmost city of Kashgar in Xinjiang Province to the Port of Gwadar on the Pakistani shore of the Arabian Sea. This corridor will include an 1,800-mile highway, rail lines, and oil and gas pipelines connecting China and Pakistan. The idea of opening China's landlocked western provinces to the Indian Ocean has been floating around for decades, but has never materialized due to the slow economic development of China's west, Pakistan's instability, and the physical challenges of the forbidding terrain and weather along the China-Pakistan border. The BRI has breathed new life into this vision, and the multibillion-dollar investment China is willing to make in Pakistan might make it a reality by the end of the decade.

China has never forgotten that Pakistan was the first Muslim country to recognize the People's Republic of China, and, over the years, Pakistan has become one of its closest allies. Chinese leaders have described Pakistan as an "irreplaceable, all-weather friend" while Pakistani Prime Minister Nawaz Sharif referred to China as "our iron brother, reliable friend, and trustworthy neighbor."^{22 23} The two countries share strong trade relations, enabled by a ten-year-old free-trade agreement, as well as tight contacts in the spheres of agriculture, energy, and defense (Pakistan is the largest recipient of Chinese weapons). The Pakistani economy has faced many challenges since the beginning of the decade. Infrastructure investment has not matched the country's rapid population growth, and parts of the country suffer from a shortage of electricity and clean water. Domestic instability and the fall in oil prices have led to a decline in foreign investment from the Arab world, as well as in remittances from Pakistani migrants in the Persian Gulf. With this background, the CPEC is viewed in Islamabad as an economic lifeline.



A key component of the CPEC is the Karakoram Highway, one of the world's highest paved international roads, which connects Xinjiang with the Gilgit-Baltistan region of Pakistan. China's investments will be used to upgrade the highway, making it more resilient to mudslides and heavy snowfall, so it can remain open year-round. The second pillar of the CPEC is the Gwadar Port, which commenced operations in 2017 under the management of the China Overseas Port Holding Company. This strategic location will allow China to export cargo from its western provinces, and cut the distance for oil shipped from the Middle East to China from 7,500 miles to just 1,500 miles. It would also allow China to increase its naval footprint in the vicinity of the Persian/Arabian Gulf, to preempt what China believes to be an imminent US withdrawal from the region. Additionally, CPEC will include: a seven-hundred-mile expressway from Karachi to Lahore, connecting Pakistan's two largest metropolitan areas; an upgrade of the Karachi-Peshawar main railway line; a railway connection between Kashgar and the Pakistani railway system; a three-hundred-acre Haier-Ruba economic zone near Lahore; and a China-Pakistan cross-national fiber-optic network. The project will also include a network of pipelines to transport oil and gas, including a \$2 billion, four-hundred-mile pipeline project, awarded to the Chinese firm China Petroleum Pipeline Bureau, to transport natural gas from Gwadar to Nawabshah in the heart of Pakistan.²⁴

The CPEC is estimated to cost \$75 billion. If all the planned projects are implemented, the value of those projects would exceed all foreign direct investment in Pakistan since 1970.²⁵ China

has already pledged \$46 billion, in what was its first significant BRI investment commitment. This pledge grew to \$62 billion in 2017.²⁶ “If ‘One Belt, One Road’ is like a symphony involving and benefiting every country, then construction of the China Pakistan Economic Corridor is the sweet melody of the symphony’s first movement,” said Wang Yi, China’s foreign minister.²⁷

Implications for the United States

From a US perspective, the CPEC can yield several benefits. It provides Pakistan a much-needed engine for economic development. The CPEC project is expected to create some seven hundred thousand direct jobs during the period 2015-2030, adding up to 2.5 percentage points to Pakistan’s growth rate.²⁸ By creating a direct trade corridor from the Arabian Sea to western China, the CPEC would also reduce traffic in the Strait of Malacca—and, hence, reduce the dependency of Asian countries on this strategic choke point. Down the road, it would also provide access to the sea for landlocked countries like Afghanistan, Tajikistan, and Uzbekistan, which will significantly enhance their trade and improve their economic development. These gains are all consistent with US interests. Pakistan is projected to become, by 2030, the sixth-most-populated country, with a quarter of a billion people. Its economic and political well-being is critical for the stability of South and Central Asia, and the United States’ ability to address the threat of radical Islam. The BRI can also have a positive impact on Afghanistan. Substantial US investment of blood and money in the effort to stabilize Afghanistan has not delivered the desired economic dividends needed to create stability. China is offering an alternative approach to the region—stability through economic connectivity—and this approach is worthy of serious consideration from Washington.

That said, the CPEC poses several challenges. And, under certain circumstances, it could create more problems than it aims to solve. First, while the CPEC can be an engine of growth for Pakistan, it can create new security challenges. The CPEC passes some of the most dangerous grounds in Pakistan—such as Baluchistan in the south, and Khyber-Pakhtunkhwa and Azad Kashmir in the north—inviting conflict with insurgents and separatist groups waging guerilla war against the government of Pakistan. The Baluchistan Liberation Front (BLF) has announced its opposition to the CPEC, calling it a “Chinese imperialist scheme,” and has vowed that its fighters would attack anyone working on the project.²⁹ To protect the CPEC, the Pakistani government will have to intensify its crackdown on separatist movements—the government has already announced its deployment of fifteen thousand security personnel, divided into a Special Security Division (SSD) and Maritime Security Force (MSF), to protect the CPEC projects—which is likely to only bring about more domestic unrest.³⁰ After all, the main Baluchi demand for engaging in peace talks with Islamabad is demilitarization of the province. Second, the formation of a Chinese-Pakistani axis, with growing economic interdependency between the two countries, may cause Washington to lose some of its influence in Pakistan on critical matters like Afghanistan, Kashmir, counterterrorism, and nuclear proliferation. Third, it could

also disrupt the delicate balance of power between India and Pakistan, two nuclear powers with a history of wars, border disputes, and strategic competition. Fourth, the Port of Gwadar would change the balance of naval power in the Indian Ocean. To be sure, Gwadar could become a gateway to China for Central and South Asian countries, including Afghanistan, Uzbekistan, Sri Lanka, India, Iran, and, of course, Pakistan. Yet, there are concerns that the creation of a *de facto* beachhead for the Chinese Navy in the Indian Ocean will challenge US naval dominance in the waters around the Persian Gulf.

The fifth concern has to do with Iran. The lifting of international sanctions on Iran—and the subsequent 2016 visit of Chinese President Xi to Tehran, in which the two countries agreed to increase their bilateral trade tenfold to \$600 billion over the coming decade—may tempt China to try to integrate Iran into the CPEC architecture. This can be done by facilitating the connection of Iran to the Pakistani gas pipeline system, or by connecting Gwadar to the Chabahar Port on the Iranian shore of the Arabian Sea, just thirty miles west of Gwadar—which Iran is planning to build in partnership with India and Afghanistan. If built, Chabahar could be connected by road to the Afghan city of Kandahar, offering landlocked Afghanistan easy access to the sea. The same passage could also serve other Central Asian countries like Tajikistan, Uzbekistan, and Turkmenistan, halving the time and cost of shipping Central Asian cargo to Europe. Connecting CPEC to the Kandahar-Chabahar corridor would effectively turn Iran into the gateway to the world for Afghanistan and the rest of the “stans,” elevating the strategic importance of Iran at a time when the United States and its allies are struggling to contain the Islamic Republic.

Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC)

Referred to as “an international gateway to South Asia,” the BCIMEC will be an expressway and high-speed rail link between the Chinese city of Kunming, the capital of Yunnan Province, and



Karakoram Highway, one of the world's highest paved international roads connecting Xinjiang with the Gilgit-Baltistan region of Pakistan. *Source: Wikimedia Commons.*

Kolkata in India, via Mandalay in Myanmar and the Bangladeshi capital of Dhaka.³¹ In addition to the land bridge, the four countries have also agreed to build airways and waterways that connect to each other, as well as power-transmission lines and oil pipelines. The corridor will connect a collective market of more than four hundred million people, including West Bengal, India's fourth-most-populous state. If the MSR and the CPEC are sources of concern for India, the BCIMEC is the only BRI component that actually benefits India, as it brings hope to one of the country's least-developed regions—the seven East Indian states commonly known as the “Seven Sisters.” With a cumulative population of fifty million people, the Seven Sisters—Arunachal Pradesh, Assam, Meghalaya, Manipur, Mizoram, Nagaland, and Tripura—are currently connected to the rest of India via the narrow Siliguri Corridor, and are engulfed by Bhutan, Bangladesh, China, and Myanmar. In terms of economic development, the Seven Sisters are among the poorest of India's states, largely due to their limited access to the sea. The BCIMEC offers a real opportunity to connect the Seven Sisters not only to the Bay of Bengal, but also to the vast market in the Chinese mainland.

Another section of the corridor passes through Bangladesh. In his October 2016 visit to Dhaka, the first visit of a Chinese leader in thirty years, President Xi pledged \$24 billion in loans and financing of twenty-five projects including a power plant—the first project financed by the AIIB—and a deep-sea port in Sonadia Island, twenty miles north of the Bangladesh-Myanmar border.

While not officially part of the corridor, Nepal, a buffer state separating China and India, has voiced its interest in integrating its economy with the BRI. In 2017, it announced its support for the BRI and presented its wish list of projects, including cross-border rail, industrial parks, roads, and transmission lines.³²

For China, the BCIMEC offers several advantages. First, it connects China's southwestern provinces with the gigantic markets of India and Bangladesh. Second, it provides China with an outlet to the Bay of Bengal—an additional way to circumvent the Strait of Malacca, and to feed China's southwestern provinces with oil and gas. An oil pipeline already connects the Myanmar coast with a refinery in Kunming, and a parallel gas pipeline is already delivering 5 percent of China's imported gas. Third, it gives China an early-mover advantage in Myanmar as the country makes its first strides out of its international isolation. Yet, Myanmar is still fraught with violence, as multiple groups vie for control and influence, especially along the country's border with China. The fighting has caused thousands of refugees to cross the Chinese border, putting pressure on Beijing to become active in the peace process.

Implications for the United States

Just like the CPEC, the BCIMEC is a harbinger of both positive and negative developments. On the positive side of the ledger, this corridor touches some of the world's poorest and most disconnected economies. As mentioned before, it also contributes to traffic reduction in the

Strait of Malacca. The BCIMEC also gives Myanmar a special status, at a time when the country is emerging from decades of political and economic isolation. The recent lifting of sanctions and travel bans makes Myanmar one of the fastest-growing economies in the world and, with its cheap labor, it may soon become Asia's new manufacturing hub. Yet, Myanmar lacks the transportation infrastructure necessary to integrate it with the rest of the Asian economy. It also suffers from acute energy poverty. Only 30 percent of the population of fifty-five million is connected to the electric grid.³³ China is moving rapidly to address those needs. In addition to the aforementioned oil and natural-gas pipelines, China has also developed Myanmar's hydroelectric sector, building forty-three dams throughout the country. Additional regional connectivity projects are on the docket. This massive Chinese push into Myanmar will no doubt advance the nascent economy, but it also risks turning Myanmar into a Chinese vassal state, while inculcating Chinese business culture and norms. This may fly in the face of Washington's efforts to steer Myanmar in the direction of improved transparency and rule of law.

As pointed out before, this vast Chinese activity along the shores of the Bay of Bengal will change the dynamic in the Indian Ocean and confront India with a new strategic reality. Indeed, when it comes to Bangladesh, India has already taken action to confront China's growing influence. In early 2017, India offered Bangladesh a credit line of at least \$3.5 billion for infrastructure projects, on top of a previous commitment of almost \$3 billion, as well as a defense-cooperation agreement.³⁴ But, this sudden burst of interest may be too little too late. Like in the case of the MSR, the BCIMEC will force Washington to balance India's interests with China's as the strategic competition between the two countries is growing. This might also entail the United States investing more military hardware and diplomatic focus in the region, to ensure stability and freedom of navigation, all while Washington seems to be trimming its global responsibilities.

China-Indochina Peninsula Economic Corridor (CICPEC)

Also known as the Nanning-Singapore Economic Corridor, the CICPEC aims to connect eight major cities—Singapore, Kuala Lumpur, Bangkok, Phnom Penh, Ho Chi Minh City, Vientiane, Hanoi, and Nanning, the capital of Guangxi Zhuang autonomous region in southern China. From there, the network would extend to China's major economic hubs of Guangzhou and Hong Kong, thus forming a web connecting ten cities with cumulative population of more than fifty million. The CICPEC builds on existing economic cooperation mechanisms like the Greater Mekong Sub-region (GMS) Economic Cooperation, the Kunming-Singapore Railway network (also known as the Pan-Asia Railway Network), and the ASEAN Economic Community (AEC) agreement signed in November 2015. The GMS backbone already operates nine land-transportation corridors connecting Thailand, Cambodia, Laos, Myanmar, and Vietnam with China's provinces of Yunnan and Guangxi.

A number of these construction projects have already been completed. Guangxi, for example, is connected by expressway to the Friendship Gate and the Port of Dongxing at the China-Vietnam border. The province has also opened an international rail line, running from Nanning to Hanoi, as well as air routes to several major Southeast Asian cities. There is also a strong maritime component. China is working with Malaysia on a joint port project in Malacca, while working with Thailand to improve cross-border rail network connecting Laem Chabang and Map Ta Phut, Thailand's two largest ports, with Nong Khai, an industrial border area near the Laotian capital of Vientiane, and from there to Kunming in China. Another line will connect Chiang Rai, near the northern tip of Thailand, to Ayutthaya, just north of Bangkok. Additionally, China has won the contract to build Indonesia's first national high-speed rail link, connecting the capital city of Jakarta to the textile hub of Bandung. A Chinese consortium, headed by China Communication Construction Group (CCCC), is bidding for a project to build a two-hundred-mile bullet train linking Kuala Lumpur and Singapore, slashing travel time to ninety minutes from what's now more than five hours by road.

The CICPEC enables China to create a land corridor connecting its southwestern provinces to the South China Sea. Because of its complex relations with Vietnam, and due to Myanmar's unclear political future, it chose the backbone of this corridor to go through countries from which it has the strongest allegiance in the region—namely, Laos and Thailand. Landlocked and underdeveloped Laos has been China's closest ally in ASEAN. With growing water scarcity in Southeast Asia, its control over the Mekong River gives it special status. China is already Laos' leading investor. Chinese projects in the country include a 265-mile high-speed railway project, connecting the aforementioned Nong Khai near Vientiane and Kunming. This line is strategic for China and Laos, as it connects to Thailand's Map Ta Phut Port and the industrial zone in the Gulf of Thailand, providing both countries southern access to the sea.

Implications for the United States

In terms of economic growth, CICPEC no doubt offers an important mechanism for regional integration. With its total population of six hundred million and connection by land to the Chinese mainland, ASEAN is a natural extension of China's economy, and its countries have long been China's key trading partners. This is why, of all the BRI corridors, the CICPEC is perhaps the one that holds the most promise—not only for China's economy, but for global economic development writ large. The introduction of new options for land and maritime transportation and energy shipments could also reduce traffic in the South China Sea and alleviate anxiety over threats to maritime traffic in the Strait of Malacca.

However, the CICPEC has the potential to erode the current security architecture in the region, allowing China to use its economic leverage to accumulate inordinate geopolitical power in its immediate neighborhood. Since the introduction of the BRI, many ASEAN countries have amended their China policies, in the hope of being on the

receiving end of China's investments. The Philippines, a longstanding US treaty ally that shares a historical maritime dispute with China over the Scarborough Shoal in the South China Sea, has recently warmed up to China, rattling the alliance between Manila and Washington. President Rodrigo Duterte decided to put on the back burner the ruling of The Hague, which debunked China's claims in the South China Sea, and focus instead on higher priorities—the wars on drugs, terrorism, and poverty. Duterte's historic visit to Beijing in October 2016, in which he concluded funding and investment agreements to the tune of \$24 billion, marked the beginning of a new diplomatic era, in which the Philippines' allegiance to Washington can no longer be assumed. The reinvigorated relations also included a Six-Year Development Program to enhance trade and investment, arms-supply contracts, and an invitation to the Chinese Navy to help the Philippines Navy combat maritime piracy in the Sibutu Passage between Malaysia and the Philippines, a strategic deepwater channel that offers the fastest route between Asia and Australia. Vietnam, another US ally with troubled history with China—including a hot dispute over the South China Sea—is also orbiting toward China. A January 2017 visit to Beijing by Vietnam's leader, Communist Party of Vietnam Chief Nguyen Phu Trong, signaled a major shift in Sino-Vietnamese bilateral relations. Thailand is another important ASEAN country that is shifting rapidly toward China. Since the 2014 rise of the ruling military junta, Bangkok's relations with Washington have soured, due to US criticism of the government and its complicity in human-rights violations and corruption. The result has been a sharp drift toward China, which is always less scrupulous when it comes to democracy and human rights. Prime Minister Prayuth Chan-ocha has tightened Thailand's military relations with China and concluded arms deals, including a \$1 billion submarine deal, and joint military exercises.

All of those anglings toward China have much to do with a growing sense, shared by many countries, that the United States can no longer be trusted as guarantor of their security. Those countries understand that, to use an old adage, "a stranger living nearby is better than a relative living far away." Washington has also failed to internalize the region's urgent need for investment in physical infrastructure to fight chronic poverty. Instead, it has focused on the enforcement of environmental policies, women's rights, child-labor regulations, democracy promotion, and anticorruption measures. Important as these may be, they do little to lift millions of Southeast Asians from poverty—which is the primary focus of leaders like Duterte, Nguyen Phu Trong, and Prayuth Chan-ocha. Washington has also failed to grasp the depth of the relations between Chinese diasporas in Southeast Asia and the mainland, also known as the "bamboo network," and the influence of this network on regional foreign policy.

The problem is that, as ASEAN countries become increasingly dependent on China's money, they will be less able to resist Beijing's arm twisting on matters of trade and geopolitics. By connecting mainland China with the Malay Peninsula—strengthening economic

SILK ROAD 2.0: US STRATEGY TOWARD CHINA'S BELT AND ROAD INITIATIVE



interdependencies with ASEAN countries, while they drift away from the United States—Beijing hopes to consolidate its influence over what it views as its backyard, preempting efforts among the region's smaller players to create a strategic bloc to balance its rise. This strategy aims to create a modern version of the ancient tributary system, which historian William Callahan termed "one civilization, many systems."³⁵ In this, the main risk for the United States is that China's north-south push toward the South China Sea will add a new dimension to an already-complex security and economic environment. Washington will need to do much more than it has to reassure its allies, particularly the Philippines and Vietnam, that the BRI will not undermine their security, and to ensure that China would not use the BRI as a mechanism to change the status quo in the region. The Trump administration's rejection of the TPP has also opened the door for China to advance the Regional Comprehensive Economic Partnership (RCEP), a proposed trade agreement between ASEAN and the Pacific countries with which ASEAN already has free trade agreements—Australia, China, India, Japan, South Korea, and New Zealand. Beijing has been supportive of this agreement as an alternative to the US-led TPP, which excluded China and India. While Washington's relations with Australia and New Zealand have taken some bruises lately, Beijing aims to lure the two South Pacific nations

closer to the CICPEC. Visiting the two countries in March 2017, Chinese Premier Li Keqiang invited Australia to align its Northern Australia Infrastructure Facility—a \$3.8 billion government program—with the BRI.³⁶

Another area for Washington to watch is Southeast Asia's looming water crisis. Approximately three thousand miles long, the Mekong River is Southeast Asia's main source of water, food, and energy. More than sixty million people—mainly in Thailand, Laos, Cambodia, and Vietnam—rely on the river's basin for their freshwater supply. China's shifting to clean, emission-free hydropower, through the construction of mega dams on the upper Mekong in Yunnan Province, has compromised water supplies for irrigation and fishing in the downstream countries, where droughts are frequent. Construction of additional dams, both in China and under the umbrella of the BRI, will make the problem much worse. China currently has fourteen dams in planning or under construction, and the downstream countries have eleven such projects. Water conflicts in the greater Mekong would add a new layer of insecurity to a region that is already quite volatile. China and its neighbors would try to strengthen coordination on the amount of water released from China's reservoirs during the dry season, and to clarify the conditions under which new dams can be constructed. But, unchecked by the United States, China's needs will always come first—at the expense of its weaker neighbors. Without the right balancing mechanism, the Mekong River Basin could introduce regional security challenges that could turn the South China Sea dispute into a fond memory.

China-Central and West Asia Economic Corridor (CCWAEC)

Of all the BRI corridors, the China-Central and West Asia Economic Corridor (CCWAEC) is perhaps the most opaque. Official maps depicting the route have only done so with broad brushstrokes. What is known so far is that the CCWAEC would run from Xinjiang—via the Khorgos Gateway special economic zone in Kazakhstan, the largest dry port in the world—to join the existing, as well as newly developed, railway networks of Central Asia and the Middle East. The corridor will cover the Central Asian countries of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan, Afghanistan, Iran, and Turkey. The line will be extended to run to Ukraine via Azerbaijan, Georgia, and Russia. Some individual components of the corridor have already been implemented. For example, the eleven-mile-long Kamchiq Tunnel, the longest railway tunnel in Central Asia and a critical project along the Angren-Pap railway line in Uzbekistan, was successfully completed by China Rail Group Limited. So was the China-Kyrgyzstan-Uzbekistan highway. In September 2016, a rail connection between China and Afghanistan was inaugurated, shortening the trip to two weeks from six months by road.³⁷ Other components are being planned, like the cross-Kazakhstan railway from Khorgos to Kazakhstan's Caspian Sea Port of Aktau, as well as the China-Kyrgyzstan-Uzbekistan highway. Once those corridors are completed, a train ride from eastern China to Iran will take less than half the time of an alternative trip via the Port of Shanghai. This will provide an impetus to ship low-end and short-shelf-life Chinese goods via land, alleviating congestion in China's ports.

The completion of the Baku-Tbilisi-Kars railway, which will soon connect the Eastern Turkish province of Kars with the capitals of Azerbaijan and Georgia, will provide the CCWAEC an extension into the South Caucasus. China has expressed great interest in expanding trade with the region, and has already made several investments in Georgia and Azerbaijan, including the announcement by China Energy Fund Committee (CEFC) China Energy Company that it would purchase 75 percent of the Poti Industrial Zone on the Georgian shore of the Black Sea.

CCWAEC also has a strong energy dimension, as it runs more or less parallel to the backbone of China's natural-gas supply from Central Asia. As it is, the China-Central Asia Gas Pipeline is the world's longest. It starts at the border of Turkmenistan and Uzbekistan, runs through Uzbekistan and southern Kazakhstan, and ends at Khorgos on the Kazakhstan-China border. From there, it connects to China's West-East gas pipeline. Another pipeline will connect Tangiz and Kashagan, large gas fields in the Caspian, with Shymkent in south Kazakhstan. From there, the Chinese market—especially, those provinces currently dependent on polluting coal—can be fed from one of the world's largest gas deposits.

Implications for the United States

The CCWAEC raises several strategic dilemmas. First and foremost, like the CPEC, it has the potential to elevate the role of Iran as a conduit for trade between China, Central Asia, and Europe, at a time when the United States and its allies are still seeking ways to contain Iran. Second, Russia may view this BRI component as an attempt to undercut its Eurasian trade scheme. Moscow considers Central Asia to be part of Russia's sphere of influence. Russia's conduct over the past few years—specifically, the Ukraine crisis, as well as Vladimir Putin's 2014 remarks urging the Kazakhs to return to be part of the “greater Russian world”—has confirmed that the Kremlin is willing to go to great lengths to protect what it considers Russian sovereignty. This concern of Russian coercion and intimidation leads Central Asian and Eastern European countries to strengthen their relations with China.³⁸ For China, Kazakhstan is of great strategic importance. It is a source of oil, a conduit for Turkmen gas, and one of the world's largest reserves of uranium, which China needs to develop its nuclear-power sector. It is also a natural gateway to Central Asia and beyond. Kazakhstan is in the midst of a \$9 billion infrastructure-development plan announced by President Nursultan Nazarbayev in November 2014, and known as Nurly Zhol. China's willingness to invest in Kazakhstan is of great importance for Astana, particularly at a time of falling export revenues due to low oil prices. But, China's growing footprint in Kazakhstan may not be to Russia's liking, and could be viewed as a challenge to Putin's Eurasian Economic Union. The same is true for the South Caucasus. The East-West China-Kazakhstan railway will be a competitor to Russia's Trans-Siberian railway, and the establishment of a transportation link between Asia and Europe via the South Caucasus will force Beijing to become more involved in the conflicts in Abkhazia and South Ossetia, as well as Karabakh, in ways that may not always be supportive of Russia's positions. China has tried to allay Moscow's concerns about the BRI, insisting that its vision for Central Asia is compatible

with Russia's.³⁹ But, this will only be tested as BRI projects begin to take shape. Another reason Russia may not welcome the CCWAEC is that it stands in direct competition with an alternative strategic trade corridor championed by Moscow for almost two decades. The 7,200-mile North-South International Transport Corridor (NSTC) aims to connect South Asian countries, including India, with Northern and Western Europe via Azerbaijan and Iran. Other than facilitating a north-south flow of goods across the Russian Federation, the main benefit of the initiative is to reduce transit to South Asia via the Suez Canal—which would be highly detrimental to the Egyptian economy, and counter to American interests.

Turkey adds another dimension to US considerations. Despite the inherent tension between Beijing and Ankara—having to do with Beijing's treatment of the Turkic-Muslim minority in Xinjiang and the persecution of the East Turkestan Islamic Movement, with which Turkey sympathizes—China cannot overlook Turkey's geographical location, which makes it a natural bridge between Asia and Europe. Following the July 2016 failed coup attempt, and the subsequent crackdown on his opposition, Turkish President Tayyip Erdogan has been a target of criticism by the West. In response, he strengthened his grip on power, mended fences with Russia, distanced himself from Europe, and tightened his relations with Beijing. China has already acquired a major container terminal near Istanbul, and there are other positive aspects of the rapprochement between Ankara and Beijing. For example, in December 2016, the AIIB joined the World Bank and other commercial entities, approving a loan of \$600 million for the construction of the Trans-Anatolian Natural Gas Pipeline Project (TANAP), which will transport gas from Azerbaijan into Turkey, and, from there, to Southern Europe. The project will not only contribute greatly to the Turkish economy, but will also strengthen European energy security by providing Europe an alternative source of supply.

Of all the BRI land corridors, the CCWAEC is perhaps the most consequential one. It touches the interests of all the major powers in the Eurasian landmass, and it could have a profound impact on US policies in the Middle East, Central Asia, and Europe, not to mention its complex relations with Moscow. It is, therefore, the one that merits the closest scrutiny. Support for the CCWAEC would undermine the United States' own efforts to contain Iran, while adding a whole new layer of tension to Washington's relations with the Kremlin. Yet, it would bolster the sovereignty of Central Asian nations in light of potential Russian expansionism, while serving another US goal—the reduction of Europe's dependency on Russian gas. A tough call indeed.

New Eurasian Land Bridge (NELB)

As China's manufacturing base is beginning to shift westward, it becomes increasingly cost-beneficial to ship to Europe Chinese goods by rail, rather than via China's congested eastern ports. Train routes from Chengdu to Lodz in Poland, and from Zhengzhou to Hamburg in Germany, are already in operation. But, the voyage takes fifteen to nineteen days, depending on the number of stops and the customs procedures. The New Eurasian Land Bridge (NELB),

also known as the Second Eurasia Land Bridge, aims to shorten the transit time by fostering uninterrupted connections between major Chinese cities—like the Jiangsu Province Port of Lianyungang, Lanzhao, Wuhan, Chongqing, Yiwu, Xi'an, and Urumqi—to Western European cities like Rotterdam in the Netherlands and Duisburg in Germany. Chinese goods will be funneled into Xinjiang Province via China's internal rail system. From there, the route will traverse Kazakhstan, Russia, Belarus, Poland, and the Czech Republic, all the way to the Atlantic shore. Just like other BRI projects traversing territories of the former Soviet Union, the NELB attempts to promote cross-national cooperation by strengthening railway connectivity, and by addressing the problem of railway gauge differences between the Russian railway gauge and the Chinese and European gauge (the Russian railway gauge is 1,520 millimeters and the Chinese and European gauge is 1,435 millimeters).

The NELB is part of an equally ambitious project to connect Moscow to Beijing via a 4,350-mile high-speed rail that would cut the journey time from six days on the Trans-Siberian line to just two. The project would cost more than \$230 billion. For starters, China and Russia are working to conclude an agreement on the construction of a \$15 billion, 435-mile high-speed rail line between Moscow and Kazan. In July 2016, China signed on to the UN Transports Internationaux Routiers, or International Road Transports (TIR), transit that enables authorized transporters to export goods through the EU without being subjected to customs inspections. This will reduce the lead time for containers shipped from China to Europe and vice versa, making surface transport—currently just 10 percent of China's EU-bound transport—more attractive.

Implications for the United States

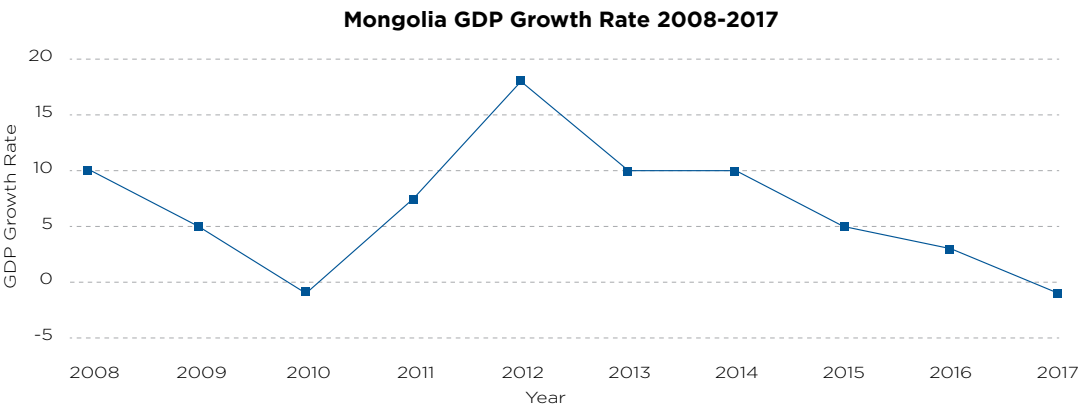
The NELB can be viewed as the alternative approach to the CCWAEC. While the latter circumvents Russia, the former crowns it as the main conduit to Europe. Therefore, the US view on the NELB would be tied to the prospects of its overall relations with Moscow. To date, the direction of US-Russia relations is not clear. Despite President Trump's initial inclination to mend fences with Russia, the rifts between the two counties are deep, and may continue to deepen. That said, the NELB project is still rudimentary, and its cost-benefit analysis has not been fully concluded. It is, therefore, premature to determine whether the multibillion-dollar investment makes financial sense, and whether it will even happen. As it is, China's high-speed rail companies are piling up debts at an alarming pace, and many of their domestic routes have proven unprofitable. While fast-rail connection between China and Europe, running through the vast and largely unpopulated Russian landmass, might be a strategic game changer, it could also give rise to one of the biggest white elephants ever built. A failure of judgment here could sink the entire BRI initiative; under some scenarios, it could break the backbone of the Chinese economy. The fate of the NELB is also tied to political and economic developments in Europe. With so many unknowns, it is likely that the NELB will be a slow-moving project that will allow Washington enough time to assess its position on it.

China-Mongolia-Russia Economic Corridor (CMREC)

Landlocked Mongolia is lodged between two giants: China and Russia. To date, economic exchange among the three Northeast Asian countries has been modest. But, with China's growing need for raw materials, both Mongolia and the underdeveloped eastern parts of Russia are gaining importance. China is interested in developing the Tavan Tolgoi coal mine in southern Mongolia, one of the world's largest untapped coal deposits. It also relies on Mongolia for food imports, primarily beef and mutton. From Russia, China seeks a stable supply of oil and natural gas for its northeastern and western provinces. Mongolia depends on mining for 86 percent of its export revenues. Therefore, it needs access to new export markets via Chinese and Russian ports. Russia sees trilateral relations as another way to break away from its isolation in the West, and to diversify its energy exports away from the stagnant European market. Both Russia and Mongolia have already presented their own visions for Northeast Asian integration. In 2015, Russia proposed the Trans-Eurasian Belt Development (TEPR), a roadway parallel to the existing Trans-Siberian Railway, along with a new train network and oil and gas pipelines. Mongolia's Prairie Road program (also known as Steppe Road) consists of a six-hundred-mile expressway connecting China and Russia, an electrified railway, the extension of the trans-Mongolian railway, and oil and gas pipelines. In 2014-2015, the three countries' heads of state met twice to hammer out an agreement on a Roadmap for Development of Trilateral Cooperation, which builds on the existing initiatives, adding a new layer of connectivity to be known as the China-Mongolia-Russia Economic Corridor.

Currently, China-Mongolia trade is restricted to two routes: one is 1,200-mile route from Mongolia's capital Ulaanbaatar to the Port of Tianjin, passing through Erenhot in China's province of Inner Mongolia; the other is a 1,400-mile route from Choibalsan in the eastern part of Mongolia to the Port of Dalian, through Manzhouli in Inner Mongolia. The proposed route of the CMREC involves high-speed rail and road links, and is divided into two lines: the first connecting the Bohai Bay Economic Circle, including the Beijing/Tianjin/Hebei region to Russia via Hohhot, Inner Mongolia; and the second from Dalian to Chita in Russia, via Shenyang, Changchun, Harbin, and Manzhouli.

If those roads are built, Mongolian cargo will not only be able to reach Vladivostok to the east via China's three northeastern provinces, but could also be handled directly in China's ports—most importantly, Qinhuangdao, the world's largest coal-export port. Here, too, railway-gauge differences must be overcome, as they entail a costly and polluting process of transshipment at the borders between China and Mongolia. The NELB the CMREC will strengthen rail and highway connectivity and construction, advance customs clearance and transport facilitation, and promote cross-national cooperation in transportation.



Mongolia has been one of the prime casualties of the slowdown in the Chinese economy.
Source: Trading Economics.

Implications for the United States

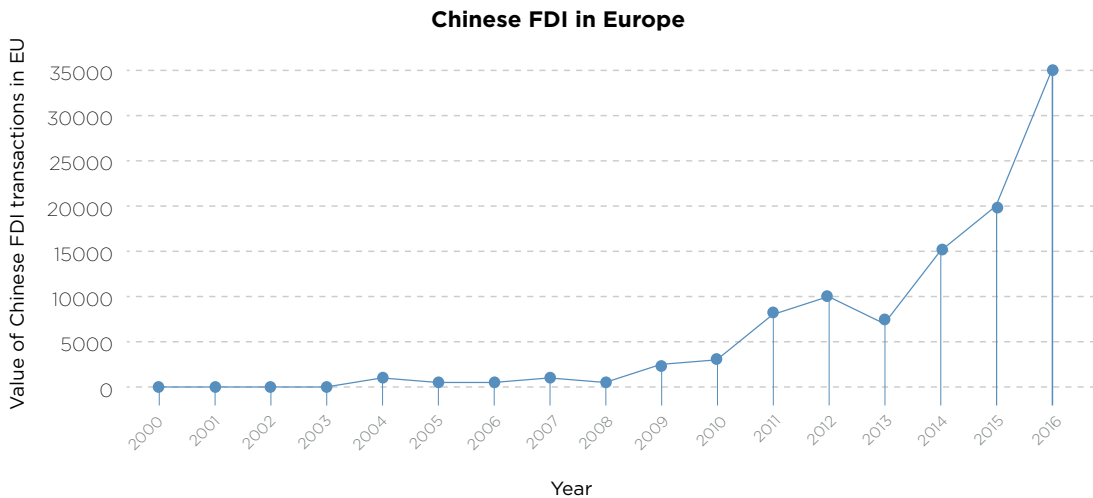
Mongolia has been one of the prime casualties of the slowdown in the Chinese economy. So bad was its predicament that, in February 2017, the IMF, the World Bank, and the Asian Development Bank, were forced to bail it out to the tune of \$5 billion. Additionally, the United States has long sought to assist Mongolia's movement toward democracy and market-oriented reform. For the United States to reject a project so critical to the country's economic development would be morally problematic. The project should be viewed in the context of China-Russia relations, and there are no discernable implications for US strategic interests that merit US active involvement.

Implications for Transatlantic Relations

Europe's economic woes—lack of growth, the weakness of the euro, high unemployment rates, and unsustainable debt—have become a real threat to its existence. The withdrawal of the UK from the European Union (Brexit) may inspire additional departures, and the deepening of the debt crisis puts the future of the eurozone in question. All of this happens as Europe struggles with an influx of millions of migrants from the Middle East and North Africa—and as Turkey, the buffer between Europe and the disintegrating Middle East, is drifting away from the West.

One of Washington's main tools for stimulating European growth has been a proposed trade agreement between the EU and the United States called the Transatlantic Trade and Investment Partnership (TTIP). There are differing views on how effective TTIP would have been, but, with the Trump administration's aversion to trade deals, TTIP is effectively dead. With no other aces in the deck, the BRI may be the only practical idea on the table to boost European growth. Indeed, China takes its role as a stimulus of Europe's economy seriously. In September 2015, it announced that it will become a contributor to the European Commission's Investment Plan for Europe. It also formed a EU-China Connectivity Platform to synergize the BRI with the EU's connectivity initiatives, such as the Trans-European Transport Network policy. Then, in November 2015, China announced the formation of a special \$11 billion fund—the China-Central Eastern European Financial Corporation, led by the Industrial and Commercial Bank of China (ICBC)—with the purpose of developing infrastructure projects in Central and Eastern European (CEE) countries.⁴⁰ China and Germany have set up a consultation mechanism to synchronize their respective industrial-development plans. China is discussing similar alignment opportunities with the UK. In addition, it has signed Memorandums of Understanding (MOUs) on economic cooperation with most countries in the CEE.

Taking advantage of Europe's predicament, China has embarked on a buying spree in the continent, seeking distressed assets and controlling stakes in national infrastructure. China Merchants Group is in the process of acquiring Lithuania's Port of Klaipėda—the biggest container port on the Baltic Sea. It also announced it would invest \$5 billion in the construction of an industrial park in Belarus. As mentioned before, Chinese corporations bought a majority stake in Turkey's largest container terminal, Kumburgaz, as well as in the Port of Piraeus and in TrainOSE, the Greek railway company. They also bought a 35 percent stake in container terminals in Rotterdam, Antwerp, and Zeebrugge. Chinese companies won bids to buy the Toulouse Airport in France, the Maribor airport in Slovenia, Albania's international airport,



Source: Merics

and the Hahn airport near Frankfurt in Germany. A Chinese consortium aims to construct a high-speed rail line between Belgrade and Budapest, and others have made significant investments in various assets in the Czech Republic and Romania. Many other deals are in the pipeline. These actions come at a time when Europe is in great need of investment. Therefore, most European countries have rolled out the red carpet for China's companies.

But, China's entry into the European economy is not free of challenges. Europe seems ambivalent about China's growing involvement. The main concern is that China's direct investment in Central and East European countries may cause rifts within the EU. The Western European countries are richer, and therefore more scrupulous when it comes to foreign direct investment. They are less likely to open sensitive sectors to Chinese investment, and are often antagonized by CEE governments' willingness to do so. They also insist that China's activities meet their high standards of transparency and sustainability, something CEE countries are less fussy about. They are also more apprehensive about the diplomatic price that might be attached to China's money—particularly when it comes to China's human-rights records, its policies in the South China Sea, and the situation in Tibet. A good example of the impact of money on European politics was the July 2016 summit of Asian and European leaders in Mongolia. Because it took place just days after the international tribunal ruling on the South China Sea, EU leaders were unable to speak in one voice about the matter. While the UK, France, and Germany wanted to make it clear that Beijing must uphold international law, smaller EU members—which rely on Chinese investment—were unwilling to criticize Beijing. As a result, the summit's closing statement did not mention the South China Sea.⁴¹ Europe's ambivalence

toward China's investment is also rooted in deep cultural gaps between Chinese and European business cultures. Chinese corporations engaged in Europe often struggle to conform with the regulatory requirements imposed by European institutions. In many countries, Chinese investment faces regulatory hurdles, mostly due to lack of transparency and murky corporate governance of some of the Chinese companies participating in tenders. The result is that many Chinese companies have failed to complete their acquisitions.

From a US perspective, China's entry into Europe poses a serious dilemma. Europe's dire financial straits are fully understood, and so is the reality that China has a major role to play in keeping it afloat. That said, China is taking advantage of Europe's economic despair, and this will cause new rifts between the United States and the EU.

Washington will need to closely monitor China's activities in Europe, and to strengthen its coordination with its European allies in a way that balances Europe's urgent need for foreign investment with upholding the common interests and common values embedded in the transatlantic alliance.

Elements of the Strategy

Nearly four years since the BRI's introduction, and with so much activity already taking place, the Trump administration can no longer afford to ignore the initiative. It needs to understand it, acknowledge it, and respond to it in one of three possible ways:

The first potential strategy to deal with the BRI is to **reject and resist**. The premise of this response is that a growing Chinese footprint along Eurasian trade routes, particularly in Central Asia and the Middle East—as well as changes to the status quo in the South China Sea and the Indian Ocean associated with BRI projects—constitutes a real challenge to US vital interests and should be disrupted, even at the expense of regional economic development. This option would entail Washington taking active measures to derail the BRI, using diplomatic and commercial tools. This option would elevate the role of transit countries like Kazakhstan, Sri Lanka, Myanmar, Pakistan, Turkey, and even Iran, in terms of the United States' geopolitical calculus. It would drag the United States into a Cold War way of thinking, in which those countries obtain importance by virtue of their geographic location. It will create multiple new points of friction in US-China relations, effectively putting the United States and China on a collision course and embroiling them in small wars, weapons proliferation, subversive diplomacy, cyber warfare, and currency wars. The BRI is so central to President Xi Jinping's legacy that he will view any US attempt to disrupt it as a personal affront. This option is also undesirable because it will create unnecessary tension between Washington and its allies, most of whom are facing serious economic problems and are in desperate need of China's investment.

The second option is the exact opposite: the United States can **jump on the bandwagon** and assume a productive role in the initiative as a full-fledged partner. This strategy would put the United States in a good position to influence Eurasia's development, using its own yardsticks and promoting from within China's adherence to international labor, environmental, and corporate standards. It also would present the United States as a productive and responsible team player genuinely concerned about economic development. However, such a course of action presents several problems. As a great power, the United States would be constantly under pressure to match China in funding and political commitment. Considering the United States' declining foreign-aid programs and congressional control over the budget, the United States risks playing second fiddle to China. A bigger risk is that China might use US cooperation and goodwill to advance its own ascendance.

Additionally, a full-fledged US embrace of the BRI will alienate India. New Delhi is concerned about the large Chinese investment commitments in Pakistan—especially in Pakistani-controlled parts of Kashmir and along the Arabian Sea—and about China’s increasing presence in the Indian Ocean and in neighboring countries like Bangladesh, Sri Lanka, Nepal, and the Maldives. India is also troubled by the unilateral style in which China conceived and advanced the BRI. When the Indian foreign secretary was asked about the BRI, he responded that it was “not incumbent on other countries to necessarily buy” into such unilateral initiatives.⁴² On the eve of the Belt and Road Forum for International Cooperation, India slammed the BRI, suggesting that the project is “little more than a colonial enterprise, leaving debt and broken communities in its wake.”⁴³ Washington should also be cognizant of the BRI’s implications for the delicate balance of power in the Middle East. As mentioned before, in its current design, the BRI assigns an important role to Iran as a land bridge between Central Asia and Europe. This elevation of Iran alarms Israel and the Gulf Cooperation Council (GCC) countries, which seek to prevent Iranian hegemony in the Persian Gulf. An overly enthusiastic embrace of the BRI might also complicate Washington’s relations with ASEAN members, who might view this as tacit support of Beijing’s aspirations to change the delicate status quo in the South China Sea. Finally, it is worth considering that China itself may not be keen on US embrace of the BRI. China might feel that the spotlight is stolen from it, and that it would no longer be able to steer the initiative as it plans.

The third, and most prudent, option can be described as “**constructive participation**.” The United States would publicly embrace the overall vision of regional connectivity and energy security, but would only actively support—be it directly or indirectly, via multilateral development banks in which it plays a dominant role—cherry-picked projects that correspond with its geopolitical rationale and ideological worldview, while resisting those elements of the initiative that undermine US strategic interests. This strategy would position the United States as a willing and pragmatic team player, rather than a spoiler. But, at the same time, it would allow the United States sufficient flexibility. Washington would be able to build on the BRI, and augment it by developing its own homegrown projects—especially in new territories, such as those parts of Africa that are not covered by the BRI, as well as Latin America.

The constructive participation strategy is built on the following five pillars:

1. Acknowledge, Adjust, Engage

To date, for the most part, American leaders have refrained from publicly acknowledging the BRI, and the leading role China has played in it. Any departure from this policy would entail public acknowledgement of the initiative and the potential benefits it offers to humanity, provided it is done right. Within the US government, the administration should establish mechanisms to understand the BRI, monitor it, and assess its progress on an ongoing basis. This will enable Washington to respond in real time to developments that affect—

directly or indirectly—US interests. Currently, the stove-piped US government is not well set up—organizationally, strategically, and intellectually— to deal with the multiregional and multidisciplinary nature of the BRI. Generally speaking, the administration's approach toward Asia has been organized in four clusters: East Asia, where the issues of Japan and the Korean Peninsula dominate; South Asia, primarily focused on India-Pakistan; Central Asia, which is heavily dominated by US interests in Afghanistan and Washington's relations with Russia; and Southeast Asia, where Taiwan and the territorial disputes of the South China Sea take front and center. The US defense and intelligence establishments suffer from similar compartmentalization. Such bureaucratic fragmentation impedes big-picture thinking, and the formulation and execution of strategy. Washington should, therefore, develop a new lens through which it can see the BRI more holistically and understand all the factors at play. If needed, it should appoint an official to oversee the BRI and coordinate a US response. Congress should also increase its engagement. Congressional committees should hold periodic hearings about the BRI, and about US international-development policies in general. Congress should also require the US-China Economic and Security Review Commission to do the same.

Once such a bureaucratic refocusing is done, the next logical step is for the United States and China to seek a proper forum to discuss the BRI, evaluate its progress, air concerns, and identify areas of cooperation. This can be done as part of a dedicated dialogue, or as part of a special track within the newly established United States-China Comprehensive Dialogue, which was established by Presidents Trump and Xi in their April 2017 meeting in Florida. This dialogue has four pillars—Diplomatic and Security Dialogue; Comprehensive Economic Dialogue; Law Enforcement and Cybersecurity Dialogue; and Social and Cultural Issues Dialogue—each providing room for deliberations on different aspects of the BRI. With Presidents Trump and Xi slated to meet frequently at the sidelines of international summits like the G20, ASEAN Summit, and APEC Summit—not to mention a state visit of President Trump to China agreed upon in Florida—much coordination on the BRI can be done at the presidential level. Provided that the engagement proves fruitful, the United States should consider upgrading its representation to the second Belt and Road Forum for International Cooperation, to be held in 2019, from White House staff-level to cabinet-level representation, and should consider bringing a US business delegation to the summit.

2. Articulate Red Lines

Laudable as the BRI may be in stimulating economic development for the poor, Washington should be alert to potential misuses of the initiatives to advance agendas that do not serve its interests or the interests of its allies, and should articulate its reservations and concerns. The United States should stay away from, and even oppose, initiatives that are of a geopolitical nature, or that are used as a smokescreen to mask China's geopolitical ascendance under the guise of do-good projects. For example, the United States should not enable the use of BRI as a pretext for military expansion, or for the deployment of destabilizing military forces or

equipment to BRI territories. It should also ensure that any project in a disputed area (like the South China Sea or Kashmir) should not be pursued without agreement of all countries involved in the dispute.

Furthermore, Washington should ensure that the BRI is not used as a cover for policies that are detrimental to its values, such as democracy promotion, human rights, anticorruption, transparency, and freedom of navigation. Nor should it support projects that could bolster rogue regimes like Iran or North Korea. (China's invitation to North Korea to take part in the Belt and Road Forum is one example of such a transgression.) Finally, the United States should refrain from lending its support to projects that aim to salvage failed Chinese investments by "internationalizing" them, or tagging them as BRI projects. Such clarity is not only needed toward China, but also toward US allies—particularly in Europe. The transatlantic community has traditionally been focused on Russia as the main destabilizing force in Europe. China's growing presence in Europe will gradually change the continent's dynamics. Russia's European ambition has been initially ideological—the spread of communism—and, since the end of the Cold War, geopolitical. China's presence in Europe is neither about geopolitics nor about ideology; it is about geoeconomics. China sees Europe as one big distressed asset, into which it can inject its surpluses, and from which it can draw technologies and knowhow. Washington should strive to work with Europe to establish common understandings on policy toward the BRI, common policies on privatization of state assets, and guidelines on the type of assets that can be sold to China and under what conditions. The goal should be to create the most hospitable investment environment for China in Europe, without compromising the security architecture the United States and Europe have been laboring to build over the past half-century.

3. Carve a Role for the United States

Once the United States sets up mechanisms to monitor and understand the BRI, it should carve a role in it for itself. Washington's pockets may not be as deep as Beijing's, and it has no state-owned enterprises and sovereign funds to deploy on its behalf. But, it can offer other, no less important, assets to advance economic development in the BRI regions. With superior force projection, homeland security, and cyber-defense capabilities, the United States can play a vital role in protecting critical infrastructure along the BRI corridors—many of which traverse tumultuous zones in which the United States already deploys military assets. US defense companies can provide



“China’s presence in Europe is neither about geopolitics nor about ideology; it is about geoeconomics.”

technological solutions, such as sensors, unmanned aerial vehicles (UAVs), radar, and satellite imaging. The United States may not be able to offer much in terms of hard infrastructure building, but it enjoys comparative advantage in what can be called “soft infrastructure”—consulting, legal services, research, financing, etc.—which can make the difference between failed and successful projects. Additionally, the United States can share best practices regarding environmentally friendly design and engineering of infrastructure projects, building efficiency, waste processing, and energy-efficient transportation hubs. The United States can also facilitate increased private-capital participation. Globally, private-equity funds currently sit on a mountain of cash, to the tune of \$1.5 trillion.⁴⁴ However, infrastructure offers low return on investment, and, in many cases, presents high risks. As a result, its funding relies heavily on sovereign money. US engagement in the BRI would go a long way toward instilling confidence in private investors to deploy at least some of their capital in infrastructure.

Leverage US Leadership in MDBs

The United States can also contribute to the success of the BRI by leveraging its position in international organizations and MDBs in which it plays a dominant role, like the ADB and the World Bank. The latter, for example, has recently lowered the debt-to-equity ratio, which makes more projects bankable, and also entered into joint investments with the AIIB. Along with sharing investment risk, US-led institutions can play an important role in improving the efficiency of the capital deployed. In 2016, for example, the ADB launched the Asia Pacific Project Preparation Facility, a fund aiming to improve the preparation, structuring, and placing in the market of higher-quality projects and public-private partnerships. The fund assists in due diligence, staff training, managing road shows, creating data rooms, managing bidding processes, and advising client countries on reforms, regulations, and legislation. Doing so will reduce investors' risk and encourage private-sector participation. Another initiative—a Global Infrastructure Hub to improve infrastructure projects through better knowledge sharing, highlighting reform opportunities and facilitating connections between the public and private sectors—was put forward in 2014 by the G20. The United States is in a position to support the BRI, by encouraging these initiatives to be open to serve BRI projects and institutions, and to provide AIIB access to these facilities.

Rethink the AIIB

The United States should also take a new look at the AIIB. As mentioned before, Washington's attempt to undermine the formation of the AIIB was a fiasco. The Obama administration failed to anticipate the interest and enthusiasm shown by potential founding members, including some of the United States' closest allies. Altogether, seventy countries joined the bank. Since its establishment, the AIIB has taken steps to demonstrate its commitment to operate in the most transparent and fiscally responsible manner. Its bylaws, procedures, and governance are no different from other MDBs, and the five inaugural vice presidents, none of them Chinese, were highly qualified professionals—including a former chief secretary to the UK Treasury, chairman

of the Korea Development Bank, and vice president for Development of Finance at the World Bank. Of the first set of loans committed in 2016 by the bank, totaling \$1.7 billion to projects in Bangladesh, Indonesia, Tajikistan, Pakistan, Myanmar, Oman, and Azerbaijan, only one—a power distribution project in Bangladesh—was provided by the AIIB alone. The rest were co-financed by the ADB, the World Bank, and the European Bank for Reconstruction and Development. This shows the intention of the AIIB to work in collaboration with other MDBs—rather than go it alone—and to draw from their experience.

Furthermore, looking at its investment record so far, there is no evidence that the bank's decisions are subservient in any way to China's political and economic interests, or that they work against US interests. To the contrary, as mentioned before, the AIIB's largest approved loan thus far—\$600 million—aims to fund the construction of the Trans-Anatolian Natural Gas Pipeline, which will connect Azerbaijan to Europe. This project is very much in line with the US goal to reduce Europe's dependence on Russian gas. This loan was also made in partnership with the World Bank, to which the United States is by far the leading source of funding.⁴⁵ Now that the AIIB is in operation, and has taken encouraging steps to demonstrate its transparency and fidelity, Washington should consider changing its approach toward it. Joining the bank as a member would be an uphill battle, as it would difficult to obtain the required congressional appropriation of funds, especially as the Trump administration has signaled its intention to cut its contribution to the World Bank. But, joining as an observer is a realistic goal. A US change of heart on the AIIB would be an important gesture. It would also pave the way for other major economies that followed US opposition, like Japan, to do the same. Most importantly, it would signal to private-sector players that it is safe to invest in projects co-financed by the AIIB.

4. Integrate the BRI into the Framework of Overall US-China Relations

The BRI provides the United States with a platform on which it can deepen its cooperation with China. This cooperation can take place in the fields of critical-infrastructure protection, energy security, maritime security, and poverty reduction. As of this writing, the single bonding issue in US-China relations is North Korea. While the two countries share a common interest in curbing Pyongyang's nuclear ambitions, there are significant differences about the tactics and means used to accomplish the goal, and it is not clear how long the two countries will remain on the same page on this issue. Be that as it may, agreement on North Korea is not enough to carry US-China relations. The BRI offers a new platform of cooperation, which can calm relations when other elements fail.



“The BRI offers a new platform of cooperation, which can calm relations when other elements fail.”

Enhance Security Cooperation with China

China fully realizes that the BRI's Achilles heel is instability and lack of security in the regions it is striving to develop. Political turmoil, protests, and terrorism scare off investors, and can derail entire projects. In some BRI regions, there are significant, preexisting security problems. In others, security challenges emerge as a reaction to China's presence. Either way, China will need to beef up its security efforts in the BRI territories. In 2015, China pledged \$100 million of military aid for the African Union, sent an infantry battalion to support peacekeeping efforts in South Sudan, and deployed frigates to fight piracy off the Somali coast.⁴⁶ China is also taking steps to advance security in Afghanistan. In 2016, it pledged \$70 million in military aid to Afghanistan. It also proposed a four-nation security bloc, including Pakistan and Tajikistan.⁴⁷ At sea, China is emerging as a maritime power, partly to protect its BRI assets. The Chinese Navy is moving toward a goal of five hundred ships (the Trump administration has called for naval expansion from 273 ships today to 350). China launched its first homemade aircraft carrier in 2017, and is becoming increasingly involved in maritime operations in the South China Sea and the Indian Ocean.

What should be the US response to this development? Traditionally, the rise of a new power poses a challenge to the incumbent one. Harvard University's Graham Allison termed this dynamic "Thucydides' Trap," after Sparta's response to the rise of Athens.⁴⁸ It also threatens to drag the incumbent power into a costly, and often economically devastating, arms race. Prior to World War I, the UK responded to the rise of the German and Japanese navies with defense policies that ensured that the British Navy was at least the combined size of the two next-largest navies. This policy, called the Two-Power Standard, not only bankrupted the British Empire, but also caused tremendous tension among the great powers of the time. The BRI will increasingly compel China to project power on land and at sea, creating ever-growing friction points with the armed forces of the United States and its allies.

Instead of being entangled in an economically ruinous arms race, to maintain its hegemony over the world's oceans and maritime trade routes, the United States should seek ways to incorporate China's naval and ground forces in international alliances, joint sea patrols, and antipiracy, antismuggling, and counterterrorism operations. With the participation of the Indian Navy, the United States and China should create a Joint Maritime Command and Coordination Center for the Indian Ocean, to oversee and coordinate naval missions in the region. This mechanism should also include other naval forces from major maritime powers with interests in the Indian Ocean, such as Singapore, Japan, Pakistan, Indonesia, and Australia. One goal of the cooperation at sea should be the protection of submarine Internet cables. The world's Internet backbone lies at the bottom of the sea, in a network that more or less overlaps with the path of the MSR. These undersea cables, which ensure the success of every click people make on computers, are exposed to many threats—from natural disasters to sabotage. The cost to society of a disruption in Internet traffic is exceedingly high. Asia's

economy is heavily dependent on the security and reliability of those undersea Internet cables; closer coordination of navies in protecting this Internet infrastructure would serve all of mankind.

Enhanced security cooperation is consistent with President Trump's demand for more equitable burden sharing when it comes to security costs. Trump has been persistent in calling for US allies to pony up their share of collective-defense expenditures. In that vein, Washington should welcome greater burden sharing in those territories both the United States and China are interested in pacifying.

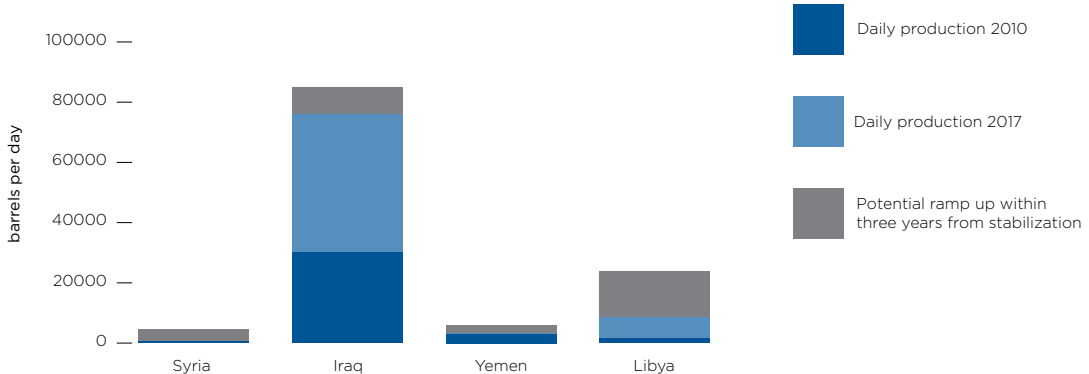
Join Forces in Rebuilding the Middle East

Of all those regions, the Middle East stands the tallest. Half of China's oil imports originate from the Persian Gulf, and some of the planned Belt and Road corridors will traverse Western Asia and Northern and Eastern Africa. Connecting Asia, Europe, and Africa cannot truly succeed without a stable Middle East. Yet, the region is currently anything but stable. No fewer than four countries—Syria, Libya, Iraq, and Yemen—are effectively destroyed, and need to be rebuilt from the ground up. Others, like Egypt, Algeria, Sudan, and Jordan, are suffering from social and economic ailments and, under certain circumstances, could also slide into chaos. How long this state of instability will last depends, to a large extent, on the focus and determination of the great powers to work together toward a lasting solution. At that point, one by one, the broken states will have to embark on a rapid and efficient reconstruction effort, including the rebuilding of their entire national infrastructures. This effort, akin to the post-World War II reconstruction of Europe (the Marshall Plan), would require significant resources, financial management, orderly and transparent bidding processes, and—in the case of countries like Libya, Yemen, or Iraq—an efficient mechanism to convert oil revenues into capital dedicated to the reconstruction effort. Oil is the only source of hard currency the four countries will initially own to finance their reconstruction. To ensure proper use of this resource, the international community should scrutinize the flow of oil, and the control over the revenues.

China and the United States should agree to include the reconstruction of the Middle East in their overall framework of cooperation. The United States should recognize that BRI and its institutions, such as the AIIB and the Silk Road Fund, are useful platforms for speedy

“The BRI will increasingly compel China to project power on land and at sea, creating ever-growing friction points with the armed forces of the United States and its allies.”

Oil production potential of fragile countries in the Middle East



Oil production in the Middle East is suffering drastically from the instability of the region. Oil revenue could provide much needed cash to support the reconstruction process across these failed states. *Source: IAGS.*

reconstruction. Beijing, for its part, might be forced to reprioritize the BRI agenda and divert resources from other, perhaps less urgent, BRI projects—or even shelve those altogether.

Against the backdrop of the Belt and Road Forum for International Cooperation, a group of nongovernmental organizations (NGOs), as well as representatives of several Middle Eastern countries, have already announced the formation of MERCI—Middle East Reconstruction Initiative—with the goal of rebuilding the Middle East and North Africa, in collaboration with the BRI.⁴⁹ MERCI will mobilize governments, NGOs, private-sector participants, international organizations, and media to advance political solutions to the region's ailments, and prepare the ground for a subsequent reconstruction effort, with focus on rebuilding and revitalizing national infrastructures, drawing from the experiences of other postwar reconstruction efforts around the world. The United States should join MERCI, and contribute its vast experience in various reconstruction efforts.

Make Energy Security the New “Glue”

Energy security is another potential glue—especially since climate change can no longer be the bonding factor in US-China relations. China and the United States are the world's top energy consumers, and they both have a keen interest in addressing shared energy security challenges—the near total dependence on petroleum fuels in the global transportation sector, concerns about crude supply from the Middle East, the dependence on maritime choke points, energy poverty, and the mounting concerns about cyber threats to critical energy infrastructure.

In contrast to the Obama administration, which was strongly motivated by climate considerations—and, therefore, waged a war against coal, and used its influence over lending institutions like the World Bank to ban financing of coal power plants abroad—the Trump administration is more sanguine about coal. The current administration is more closely aligned with developing Asian economies, holding that coal plays an important role in the global energy portfolio, and will continue to do so for many years to come. It also seeks ways to preserve American jobs in the coal industry, by reviving US coal production. While low natural-gas prices have crowded out coal use in the United States, the demand for coal in the developing world is on the rise. According to the International Energy Agency (IEA), in ASEAN alone, three-quarters of the thermal capacity now under construction is coal fired.⁵⁰ China has taken significant steps to reduce the growth in its coal use, but, given its gigantic economy and energy consumption, while some reduction in coal use is possible, it is unfeasible to derail the country from its current dependence on coal. The United States and China should, therefore, focus on improvements in the way coal is produced, transported, and used, rather than on the unrealistic goal of crowding it out altogether. The goal should be to introduce more efficient power plants, such as supercritical (high-temperature), ultra-supercritical steam-power plants, and circulating fluidized bed plants—all of which have higher efficiency than the subcritical plants dominant in most countries. When used in the automotive sector, certain coal-derived fuels (like the alcohol fuel methanol) offer significant air-quality benefits, as compared to petroleum-based diesel, and are also beneficial when compared to gasoline. The United States and China should, therefore, expand the scope of their existing collaboration on clean fuels and vehicle-emissions-control technologies—particularly in heavy-duty vehicles—to include coal-derived fuel options, such as methanol and dimethyl ether. Together, the two countries can explore multiple technological paths, and conduct joint production of demonstration engines and vehicles for testing, in collaboration with private-sector companies, to speed the commercial introduction of such technologies in both countries. Additional energy security cooperation can emerge in the fields of electrification of rural communities, decentralized energy, renewables, unconventional energy development, critical-energy-infrastructure protection, cyber security, and energy-management systems.⁵¹

5. Present America's Own Vision for Infrastructure Development

Despite the Trump administration's proposed deep cuts to its development budgets, the United States should not let China "own" the task of international economic development. It should articulate its own vision for Asia's economic development, and, in collaboration with its allies, offer homegrown initiatives. To date, the US approach toward infrastructure has focused mainly on "soft infrastructure," and the promotion of a hospitable investment climate, by promoting gender equality in the workforce, environmental stewardship, civil society, and anticorruption mechanisms. Laudable as these ideas may be, they cannot substitute for brick-and-mortar infrastructure.

What the United States can do is to conceive a handful of regional-connectivity projects that correspond with its diplomatic priorities, bring together allies and sources of capital to support them, and—most importantly—stay the course until they come to fruition. In the past, the United States has promoted at least four such initiatives. First was the concept of a Southern Energy Corridor to enable Caspian natural gas to flow into Europe, with the goal of reducing Europe's dependence on Russian gas. Second was the New Silk Road initiative, proposed in 2011 by then-Secretary of State Hillary Clinton, to connect Turkmenistan, Afghanistan, Pakistan, and India with roads and pipelines. Third was the Power Africa initiative, launched in 2013, in support of increasing access to reliable electricity in Africa. Fourth was the Indo-Pacific Economic Corridor, proposed in 2014, to connect India, Nepal, and Bangladesh with Myanmar and Thailand. In all four cases, the results were underwhelming. Caspian gas is still absent from the European market; the New Silk Road and the Indo-Pacific Economic Corridor have not progressed; and Power for Africa barely produced 5 percent of the new power generation it promised.⁵²

To be sure, a successful US development agenda should be backed up with some resources, but, more importantly, it must be backed by sustained political determination in regions of the world, like Latin America and Central and West Africa. These regions are potential casualties of the BRI, as they are suddenly less attractive to Chinese corporations. As such, they should enjoy a higher priority from the United States, in coordination with allies like India, Japan, South Korea, and the GCC countries. All of those countries have been ambivalent toward the BRI, yet all of them have expressed interest in embarking on major infrastructure and connectivity projects. Japan, for example, has recently launched a Quality Infrastructure Initiative, calling for \$110 billion in new investment in infrastructure from 2016 to 2020, a 30 percent increase over the previous five years.⁵³ The Japan Bank for International Cooperation (JBIC) has already changed its lending rules to allow higher-risk investment, and, in December 2016, a new joint venture called the Japan Infrastructure Initiative announced its intention to invest \$878 million in Japanese-directed infrastructure projects.⁵⁴ Japan, which has a mature high-speed-rail industry, and companies that have successfully challenged Chinese companies in a number of infrastructure projects, is determined not to cede Asian development to China, and not to relinquish business opportunities for its corporations. As such, it can be a good partner for the United States. Despite its "America First" tendency, and proposed cuts to international-aid budgets, the Trump administration has indicated its intent to maintain some leadership role in global infrastructure. Its budget proposal included provisions to revive both the New Silk Road and the Indo-Pacific Economic Corridor.⁵⁵ In order not to clash with the BRI, the United States should also try to focus on those regions that are not properly covered by it. China's focus on Eurasia has shifted attention from other developing regions. In Asia itself, Washington should—again—focus on the neglected parts of the BRI, such as the western coast of India, the Arabian Peninsula, and Sub-Saharan Africa.

Conclusion: Better In Than Out

Together, the United States and China are responsible for half of the world's GDP growth. At a time of global economic slowdown, this places considerable responsibility on the two countries to seek ways to jointly lead the world development agenda, instead of stepping on each other's toes. Policies that deliberately, or inadvertently, weaken either one of those two growth engines will take a toll on the entire global economy.

The Belt and Road is a story that is already writing itself, and facts are being put on the ground every day. The sooner Washington begins to engage with the BRI, the sooner it can leave its mark on it. For all the reservations the Trump administration might harbor about the imperfections of the Chinese development model, it must accept the fact that the United States—especially with the prevailing “America First” isolationist mood—is not willing to rival China as the world's leader in financing and executing infrastructure projects. As such, it should rethink its approach toward the BRI, and chart a new course that is conducive to Asian growth, yet protects vital US interests.

To be sure, there are many holes in China's story, and it is unlikely that all that is pledged will actually materialize. Among those projects that do materialize, some may not deliver the expected social and economic benefits. Naturally, such an ambitious and all-encompassing initiative will, at times, produce false starts and financial duds. Furthermore, the success of the initiative depends, to a large extent, on China's own economic health and stability, which is far from guaranteed—and on President Xi Jinping's ability to continue to rally the Chinese elite, as well as the rest of the world, behind it.

Despite all of those open questions, it is important to keep in mind that China is today the only country offering a meaningful and creative remedy to global economic stagnation. As such, its program deserves, at the very least, a reassuring nod.

Washington's attitude toward the BRI will no doubt impact US-China relations, which are marred by disagreements and tensions. In truth, many of those disagreements are irresolvable, and can, at best, be managed. Therefore, it is important that the two countries establish common purposes and areas of collaboration, to sustain the relations during the difficult times that will no doubt come. Infrastructure building can be one of those areas.

For the past century and a half, the West has repeatedly knocked on China's door in attempts to open it to the rest of the world, and to integrate it with the global economy. For most of this time, China held the door tightly closed, resisting foreign influence. The roles are now reversed. Today, it is China knocking on the West's door, in an attempt to mesh its economy and culture with the rest of the world. Throughout Asia and Europe, the door is being opened, albeit not without trepidation. The United States must reckon with this reality, and recall the old adage: if you can't beat it, join it.

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