

Chapter 3

Grading China's Belt and Road

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This paper reflects findings and analysis from two years of research that CNAS has conducted on China's Belt and Road, as well as on China's growing role in international organizations.¹

China's Belt and Road Strategy

Originally announced by President Xi Jinping in 2013, “One Belt, One Road” has been promoted by the Chinese government as the “project of the century.”² It seeks to connect large parts of the globe through rail lines, pipelines, highways, ports, digital technology, and other infrastructure.

The Belt and Road has the potential to address real infrastructure needs.³ At the same time, it is a serious strategic endeavor with support from the highest level of China's Communist Party (CCP). The party has repeatedly referred to the Belt and Road as essential to its regional and global ambitions. A series of high-level party documents and addresses by senior leaders make clear that the Belt and Road is a core part of China's efforts to achieve “national rejuvenation” and to create what the party calls a “community

¹ See for example, Kristine Lee and Alexander Sullivan, “People's Republic of the United Nations: China's Emerging Revisionism in International Organizations,” Center for a New American Security (May 14, 2019), <https://www.cnas.org/publications/reports/peoples-republic-of-the-united-nations>; and Daniel Kliman, Rush Doshi, Kristine Lee, and Zack Cooper, “Grading China's Belt and Road,” Center for a New American Security (April 8, 2019), <https://www.cnas.org/publications/reports/beltandroad>. CNAS is a national security research and policy institution committed to the highest standards of organizational, intellectual and personal integrity. The Center retains sole editorial control over its ideas, projects, and products, and the content of its publications reflects only the views of their authors.

² Charles Clover, Sherry Fei Ju, and Lucy Hornby, “China's Xi hails Belt and Road as ‘project of the century,’” *FinancialTimes*, May 14, 2017, <https://www.ft.com/content/88d584a2-385e-11e7-821a-6027b8a20f23>.

³ For example, the Asian Development Bank estimates that “Developing Asia” alone will need to invest \$1.7 trillion per year through 2030 “if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change (climate-adjusted estimate).” “Meeting Asia's Infrastructure Needs” (Asian Development Bank, February 2017), <https://www.adb.org/publications/asia-infrastructure-needs>.

of common destiny” across the Indo-Pacific and beyond.⁴

Estimates for the Belt and Road’s size vary dramatically even as the project now approaches its six-year anniversary. Some put its total cost at roughly \$1 trillion;⁵ others say that many of these commitments have not or will not be honored and that actual investments are closer to one-third that amount.⁶ Although more than 100 countries are nominally involved in the Belt and Road, the overwhelming share of China’s efforts remains concentrated in the Indo-Pacific.⁷

A significant number of Belt and Road projects have explicit geopolitical applications. These projects can be understood as a form of “economic power projection,” one that allows Beijing to reshape the world’s strategic and digital geography and to place China at its center through targeted investments. Indeed, the People’s Liberation Army (PLA) has described the dual-use potential of certain port and rail projects;⁸ Beijing has taken control of some projects, including the Hambantota Port, and reportedly pushed for military access; and many of the digital components of the Belt and Road could give Beijing access to critical infrastructure and information that might not otherwise be easily accessible.

⁴ Xi Jinping, “Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era” (19th National Congress of the Communist Party of China, Beijing, October 18, 2017), http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf; “Xi Jinping: Promoting Belt and Road Cooperation to Deeply Benefit the People [习近平：推动共建‘一带一路’走深走实造福人民],” Xinhua [新华网], August 27, 2018, http://www.xinhuanet.com/politics/2018-08/27/c_1123336562.htm; Xi Jinping, “Work Together to Build the Silk Road Economic Belt and The 21st Century Maritime Silk Road” (The Belt and Road Forum for International Cooperation, Beijing, May 14, 2017), http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm; and <https://warontherocks.com/2019/01/the-party-congress-test-a-minimum-standard-for-analyzing-beijings-intentions/>.

⁵ Jane Perlez and Yufan Huang, “Behind China’s \$1 Trillion Plan to Shake Up the Economic Order,” *The New York Times*, May 13, 2017, <https://www.nytimes.com/2017/05/13/business/china-railway-one-belt-one-road-1-trillion-plan.html>.

⁶ Cecilia Joy-Pérez and Derek Scissors, “Be Wary of Spending on the Belt and Road” (American Enterprise Institute, November 2018), <http://www.aei.org/wp-content/uploads/2018/11/Updated-BRI-Report.pdf>.

⁷ “Progress and next steps for China’s Belt and Road Initiative,” The Economist Intelligence Unit, May 18, 2017, <http://country.eiu.com/article.aspx?articleid=1765436560&Country=Uganda&topic=Politics>.

⁸ James Kynge et al., “How China rules the waves,” *Financial Times*, January 12, 2017, <https://ig.ft.com/sites/china-ports/>.

Seven Challenges Emanating from Belt and Road Projects

When the Belt and Road was first announced, the program generated a positive response from many countries seeking additional sources of investment in needed infrastructure. With China a relatively new provider of infrastructure, expectations of the Belt and Road were generally high, despite lingering skepticism from Japan, India, and the United States. But six years after that initially warm reception, the effort has now provoked a backlash.

The Belt and Road began as an Indo-Pacific program, and this region is unsurprisingly the domain where its challenges have become most obvious. As a direct result of these challenges, a number of states have chosen to scale back or postpone projects, with most of these same states seeking to renegotiate financial terms. For example, in 2016, Bangladesh opted to cancel cooperation with China on the country's first deep-water port and instead chose to work with Japan. Nepal canceled a costly hydroelectric dam project with China over concerns about cost overruns. Burma similarly canceled a dam project with China and dramatically scaled back a major port project. The Maldives asked to renegotiate Belt and Road projects after political supporters of closer economic cooperation with China were voted out of office. A similar political transition led Malaysia to cancel three Chinese pipeline projects and to re-evaluate a \$20 billion rail project, again over concerns about cost overruns. Even China's closest partner, Pakistan, has canceled a \$14 billion dam project as its government seeks to renegotiate the financial terms of the China-Pakistan Economic Corridor (CPEC).⁹

The Belt and Road has also provoked concerns outside of Asia. Uganda owes China \$3 billion for dam and highway projects that are being attacked by the Ugandan political opposition for a lack of competitive bidding, cost overruns, and construction defects.¹⁰ Kenya's politics were roiled by concerns of corruption in Chinese infrastructure projects as well as leaked letters from the country's auditor general suggesting overly generous terms offered for Chinese loans. These terms reportedly included Kenya offering the

⁹ Rush Doshi, "The Superpower Learning Curve: Challenges to Chinese Economic Statecraft" February 7, 2019, testimony before the U.S.-China Economic and Security Review Commission, https://www.uscc.gov/sites/default/files/Doshi_USCC%20Testimony_FINAL.pdf; Christopher Balding, "Why Democracies Are Turning Against Belt and Road," *Foreign Affairs* (October 24, 2018), <https://www.foreignaffairs.com/articles/china/2018-10-24/why-democracies-are-turning-against-belt-and-road>; and Andrew Small, "The Backlash to Belt and Road," *Foreign Affairs* (February 16, 2018), <https://www.foreignaffairs.com/articles/china/2018-02-16/backlash-belt-and-road>.

¹⁰ Elias Biryabarema, "Chinese-built expressway divides Uganda as debts mount," Reuters, January 31, 2018, <https://www.reuters.com/article/us-uganda-road/chinese-built-expressway-divides-uganda-as-debts-mount-idUSKBN1FK0V1>.

assets of the Kenya Ports Authority – which include the largest port in East Africa – as collateral for China’s loans.¹¹ Concerns over the difficulty Zambia faces in paying back Chinese loans have prompted a domestic debate over whether the country will lose operational control over its critical infrastructure.¹²

Even as the Belt and Road faces growing challenges, many states find themselves unable to pull away from China, both for fiscal reasons as well as domestic political ones – with Beijing frequently exercising lingering influence. For example, although Sri Lanka voted out President Mahinda Rajapaksa in part because of his willingness to indebt Sri Lanka to China, his pro-Indian successor, Maithripala Sirisena, nonetheless had no choice but to give China a 99-year lease on the Hambantota Port after proving unable to meet \$1.4 billion in payments. He later moved closer to China, went back to Beijing for another \$1 billion for highway construction, and even plunged the country into a major political crisis when he fired his prime minister and closed Parliament – appointing pro-China Rajapaksa as a replacement.¹³ Beijing was quick to congratulate Rajapaksa, who resigned only after the Supreme Court intervened.¹⁴ A less dramatic transition occurred in Nepal, where a government that had canceled a dam project with China over cost concerns was later replaced by a more pro-China government that restored the project and subsequently expanded additional projects, demonstrating the impermanence of the Belt and Road backlash.¹⁵ Even when political coalitions remain skeptical of China, Beijing has proved adaptable. For example, China has renegotiated

¹¹ Josh Rudolph, “Chinese Loan to Kenya Stokes BRI Concerns,” *ChinaDigitalTimes.net*, January 16, 2019, <https://chinadigitaltimes.net/2019/01/chinese-loan-exposes-kenya-to-risks-stokes-bri-concerns/>.

¹² Lynsey Chutel, “No, China is not taking over Zambia’s national electricity supplier. Not yet, anyway,” *Quartz Africa*, September 18, 2018, <https://qz.com/africa/1391111/zambia-china-debt-crisis-tests-china-in-africa-relationship/>.

¹³ “Sri Lanka seeks \$1 billion loan from China amid debt woes,” *The Associated Press*, February 2, 2019, <https://www.apnews.com/302560e5679a4ae0b4a2e3bb137a5f5b>.

¹⁴ Vasudevan Sridharan, “What Rajapaksa’s return means for China-India tug of war over Sri Lanka,” *South China Morning Post*, October 29, 2018, <https://www.scmp.com/week-asia/politics/article/2170621/what-rajapaksas-return-means-china-india-tug-war-over-sri-lanka>.

¹⁵ Gopal Sharma, “Nepal says to scrap hydropower deal with Chinese firm,” *Reuters*, May 29, 2018, <https://www.reuters.com/article/china-nepal-hydropower/nepal-says-to-scrap-hydropower-deal-with-chinese-firm-idUSL3N1T04IQ>; Gopal Sharma, “Nepal restores \$2.5 billion hydropower plant contract to Chinese firm,” *Reuters*, September 23, 2018, <https://www.reuters.com/article/us-china-nepal-hydropower/nepal-restores-2-5-billion-hydropower-plant-contract-to-chinese-firm-idUSKCN1M30CZ>; and Gopal Sharma, “Nepal says China to allow access to ports, ending Indian monopoly on transit,” *Reuters*, September 7, 2018.

projects with Malaysia and is likely do so with Pakistan as well.¹⁶ With the Belt and Road part of the CCP's Constitution, Beijing is likely to remain committed to the initiative even as difficulties persist. Xi's apparent push to reorient Belt and Road toward high-quality projects with clear local benefits is more theoretical than practical and warrants some skepticism.¹⁷ Beijing appears to realize that even if it fails to reform Belt and Road, it can afford to play the long game and expect that governments skeptical of China will eventually leave office or find themselves receptive to economic inducements.

The setbacks Belt and Road confronts are rooted in growing political, economic, and security concerns in recipient countries that fall into roughly seven categories. Countries have become increasingly vocal about whether projects are (1) sovereignty-eroding; (2) nontransparent; (3) financially unsustainable; (4) locally disengaged; (5) geopolitically risky; (6) environmentally unsustainable; (7) and corrupting of domestic institutions. These categories are discussed in further detail below:

1. Sovereignty-Eroding. A number of Belt and Road projects are operated by China's state-owned enterprises, either by contract or because of inadequate local capacity. For example, Chinese companies operate a number of ports, including Sri Lanka's Hambantota Port as well as Greece's Piraeus Port, and contracts for Chinese operation of additional ports have been signed in Israel, among other countries.¹⁸ China's operation of infrastructure – especially critical infrastructure such as hydroelectric dams – complicates negotiations over financial terms and can create enduring political influence and dependence. In some cases, China's operation or control of Belt and Road projects is long term, with the 99-year lease of the Hambantota Port the most extreme example.

2. Nontransparent. In many cases, Belt and Road projects feature opaque bidding processes and terms that are not made public to stakeholders in recipient countries. Concerns over a lack of transparency and a subsequent inability to hold political leaders accountable have grown in over a dozen countries, including Malaysia in Southeast Asia;

¹⁶ Adnan Aamir, "Pakistan can squeeze a better BRI deal out of China," *Nikkei Asian Review* (October 31, 2018), <https://asia.nikkei.com/Opinion/Pakistan-can-squeeze-a-better-BRI-deal-out-of-China>.

¹⁷ "Xi Jinping: Promoting Belt and Road Cooperation to Deeply Benefit the People [习近平: 推动共建 '一带一路' 走深走实造福人民]."

¹⁸ Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port," *The New York Times*, June 25, 2018, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>; and Liz Alderman, "Under Chinese, a Greek Port Thrives," *The New York Times*, October 10, 2012, <https://www.nytimes.com/2012/10/11/business/global/chinese-company-sets-new-rhythm-in-port-of-piraeus.html>.

Sri Lanka, Nepal, Bangladesh, and the Maldives in South Asia; Kenya, Uganda, and Zambia in Africa; and Venezuela and Ecuador in Latin America, among many others.¹⁹ Even Pakistan has raised concerns over no-bid contracts and opaque terms, pushing for renegotiation.²⁰

3. Financially Unsustainable. The Center for Global Development released a report last year showing that eight countries involved in the Belt and Road – Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan – are facing serious challenges in repaying their loans to China.²¹ Beijing is the largest foreign creditor for most of these states, with some owing it more than half their foreign debt. A number of countries, including Thailand, Malaysia, Sri Lanka, Nepal, Pakistan, Burma, and Bangladesh, have canceled or scaled back costly projects for financial reasons. Of those projects that were completed, many have been unable to generate enough revenue to justify the initial investment, arguably leaving the recipient country in worse financial shape than before. For example, when Sri Lanka was unable to service its loans, it had little choice but to give China a 99-year lease on the country’s Hambantota Port. In some cases, such as Venezuela and Ecuador, China’s investments are secured with commodities from the recipient country, a model of lending that most developed countries abandoned because of its colonial overtones.²²

4. Locally Disengaged. Recipient countries are increasingly criticizing Chinese investments as disengaged from local economic development. In many cases, Beijing’s

¹⁹ Doshi, testimony before the U.S.-China Economic and Security Review Commission; and Amanda Erickson, “Malaysia cancels two big Chinese projects, fearing they will bankrupt the country,” *The Washington Post*, August 21, 2018, https://www.washingtonpost.com/world/asia_pacific/malaysia-cancels-two-massive-chinese-projects-fearing-they-will-bankrupt-the-country/2018/08/21/2bd150e0-a515-11e8-b76b-d513a40042f6_story.html?noredirect=on&utm_term=.39603e4369e2.

²⁰ Adnan Aamir, “Pakistan dam in spotlight as contract goes to former China critic,” *Nikkei Asian Review* (January 11, 2019), <https://asia.nikkei.com/Spotlight/Belt-and-Road/Pakistan-dam-in-spotlight-as-contract-goes-to-former-China-critic>.

²¹ John Hurley, Scott Morris, and Gailyn Portelance, “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective,” CGD Policy Paper 121 (Center for Global Development, March 2018), <https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf>.

²² Corina Pons, “Venezuela faces heavy bill as grace period lapses on China loans - sources,” Reuters, April 27, 2018, <https://www.reuters.com/article/us-venezuela-china/exclusive-venezuela-faces-heavy-bill-as-grace-period-lapses-on-china-loans-sources-idUSKBN1HY2K0>; and Nicholas Casey and Clifford Krauss, “It Doesn’t Matter if Ecuador Can Afford This Dam. China Still Gets Paid,” *The New York Times*, December 24, 2018, <https://www.nytimes.com/2018/12/24/world/americas/ecuador-china-dam.html>.

investments mandate the use of Chinese firms and labor for construction projects, require the acquisition of land from locals, and sometimes even call for Chinese state-owned enterprises to operate the resultant infrastructure, thereby inhibiting the transfer of skills to local workers. These requirements fit a broader pattern of China's overseas business. For example, a 2017 McKinsey study found that Chinese enterprises in Africa hire Chinese citizens for the majority of their administrative positions, while state-owned enterprises are even less likely to hire locals than private companies.²³ Concerns about imported labor have appeared even in countries with strong political ties to China, including Pakistan and Laos.²⁴ With respect to profit-sharing arrangements for infrastructure projects, many agreements are inequitable, especially if recipient governments prove unable to make debt payments to Beijing. Finally, many Chinese infrastructure projects, especially in Africa, appear built primarily to facilitate the extraction of commodities that are then exported to China.

5. Geopolitically Risky. There are growing concerns that infrastructure projects financed, built, or operated by China can compromise the recipient country's security or place the country in the crosshairs of strategic competition pitting Beijing against other great powers. For example, Sri Lanka's decision to agree to a debt-for-equity deal with China has given Beijing a 99-year lease on a strategically positioned port, generating anxiety in New Delhi, Tokyo, and Washington. The Maldives' growing indebtedness to Beijing and Bangladesh's initial interest in Chinese construction of the country's first deep-water port raised concerns in India that these countries might eventually host Chinese military facilities close to Indian shores.²⁵ Even in nondemocratic countries, concerns over the geopolitical risk of projects have produced domestic unrest. For example, Vietnam's decision to allow three 99-year special economic zones for Chinese

²³ Kartik Jayaram et al., "The closest look yet at Chinese economic engagement in Africa," McKinsey.com, July 2017, <https://www.mckinsey.com/featured-insights/middle-east-and-africa/the-closest-look-yet-at-chinese-economic-engagement-in-africa>.

²⁴ Go Yamada and Stefania Palma, "Is China's Belt and Road working? A progress report from eight countries," *Nikkei Asian Review* (March 28, 2018), <https://asia.nikkei.com/Spotlight/Cover-Story/Is-China-s-Belt-and-Road-working-A-progress-report-from-eight-countries>.

²⁵ Sanjeev Miglani and Shihar Aneez, "Asian giants China and India flex muscles over tiny Maldives," Reuters, March 7, 2018, <https://www.reuters.com/article/us-maldives-politics/asian-giants-china-and-india-flex-muscles-over-tiny-maldives-idUSKCN1GJ12X>; and Kiran Stacey, "Chinese investment in Bangladesh rings India alarm bells," *Financial Times*, August 6, 2018, <https://www.ft.com/content/1ab2ebe6-85c3-11e8-96dd-fa565ec55929>.

companies in strategically important regions resulted in widespread popular protests.²⁶

6. Environmentally Unsustainable. Belt and Road projects have increasingly generated environmental concerns. In some cases, these projects have proceeded without adequate environmental impact assessments or have involved targeted bribes to circumvent them. For example, Burma suspended China's investment in the Myitson Dam project in part over insufficient attention to environmental concerns, and dam and rail projects in Indonesia were criticized for not having undergone adequate environmental assessments.²⁷ Some projects that nonetheless advanced have caused seemingly irreversible environmental damage. China's investment in a Sri Lankan development project damaged 175 miles of coastline and impacted 80,000 households that rely on the sea to make a living, problems earlier environmental assessments said would not manifest.²⁸ Beijing has infrequently been willing to punish companies for environmental lapses, and Chinese firms do not appear to be significantly concerned with the environmental impact of their investments – especially if recipient countries lack adequate regulations around environmental standards. In some cases, even projects that were thought to be environmentally sustainable have subsequently proved to be more damaging than expected.

7. Corruption-Prone. In countries that already have a high level of kleptocracy, Belt and Road projects have often involved payoffs to politicians and bureaucrats. Projects that are financially or environmentally unsound are sometimes approved as a direct result. The Belt and Road's initial statement of principles²⁹ makes no mention of corruption, and companies are not punished for corrupt practices overseas. Indeed, over the last few years, evidence of bribery has been uncovered across a wide range of projects. Bangladesh blacklisted a major Chinese state-owned enterprise, China Harbour Engineering Co.,

²⁶ Khanh Vu et al., "China warns citizens in Vietnam after protests over economic zones," Reuters, June 11, 2018, <https://www.reuters.com/article/us-vietnam-protests/china-warns-citizens-in-vietnam-after-protests-over-economic-zones-idUSKBN1J70NS>.

²⁷ Basten Gokkon, "Environmentalists are raising concerns over China's Belt and Road Initiative," *Pacific Standard* (July 18, 2018), <https://psmag.com/environment/environmental-concerns-over-chinese-infrastructure-projects>.

²⁸ Sheridan Prasso et al., "A Chinese Company Reshaping the World Leaves a Troubled Trail," *Bloomberg Businessweek* (September 18, 2018), <https://www.bloomberg.com/news/features/2018-09-19/a-chinese-company-reshaping-the-world-leaves-a-troubled-trail>.

²⁹ Will Doig, "The Belt and Road Initiative Is a Corruption Bonanza," *Foreign Policy* (January 15, 2019), <https://foreignpolicy.com/2019/01/15/the-belt-and-road-initiative-is-a-corruption-bonanza/>.

for trying to bribe a senior government official.³⁰ China Communications Construction Co., one of the Belt and Road's main builders, has been credibly accused of bribery in the Philippines, Malaysia, Equatorial Guinea, and Sri Lanka.³¹ More specifically, projects in Malaysia appear to have been contracted at inflated prices so that some of the surplus funds could be used to cover up embezzlement by top political leaders. In Sri Lanka, Chinese companies appear to have funneled bribes directly to the family of Rajapaksa, the prime minister. In Equatorial Guinea, Chinese companies made multimillion-dollar payments to the president's son and the country's vice president, Teodorin Nguema Obiang.³² In Ecuador, the country's former vice president is under investigation on allegations of accepting bribes from China over a dam project.³³ Even Pakistan has halted Belt and Road projects over concerns related to corruption.³⁴ As these examples suggest, China's willingness to pay politicians to facilitate these projects not only corrodes democratic institutions but also results in policies that are directly against the public interest of the countries in question. When new governments take power, they often unearth evidence of corruption from their predecessors, embarrassing Chinese companies in the process.

These seven challenges, though common across Belt and Road projects, are not inherent to infrastructure investments involving external powers. Indeed, projects in recipient states that lack capacity and negotiating power can avoid these challenges entirely if appropriately scoped.

³⁰ AFP, "Bangladesh blacklists Chinese construction firm, cancels highway deal after bribe claim," *South China Morning Post*, January 18, 2018, <https://www.scmp.com/news/asia/south-asia/article/2129493/bangladesh-blacklists-chinese-construction-firm-cancels-highway>.

³¹ Prasso et al., "A Chinese Company Reshaping the World Leaves a Troubled Trail"; and Abi-Habib, "How China Got Sri Lanka to Cough Up a Port."

³² Doig, "The Belt and Road Initiative Is a Corruption Bonanza"; Abi-Habib, "How China Got Sri Lanka to Cough Up a Port"; and Prasso et al., "A Chinese Company Reshaping the World Leaves a Troubled Trail."

³³ Casey and Krauss, "It Doesn't Matter if Ecuador Can Afford This Dam. China Still Gets Paid."

³⁴ Syed Irfan Raza, "Three CPEC projects hit snags as China mulls new financing rules," Dawn.com, December 5, 2017, <https://www.dawn.com/news/1374532>; and Shakeel Qarar, "Murad Saeed alleges corruption in Multan-Sukkur motorway project," Dawn.com, February 8, 2019, <https://www.dawn.com/news/1462597>.

Criteria for Assessing Belt and Road Projects³⁵

CHALLENGE	EVALUATIVE CRITERIA
1. Sovereignty-Eroding	Does China have long-term equity in the project? Does China have a long-term lease? Will a Chinese company operate the infrastructure over the long term?
2. Nontransparent	How clear are the companies involved, the status of negotiations on the project, the terms of the deal (including financial arrangements), the organizational structure of the project, and the progress of development?
3. Financially Unsustainable	Has Chinese financing for the project increased the chance of a financial crisis or created repayment difficulties? Is the project subject to major cost overruns or profitability concerns?
4. Locally Disengaged	Are the profit-sharing arrangements related to the infrastructure equitable? Can locals access or benefit from the infrastructure? Does the project involve local firms or mostly Chinese companies? Does the project transfer skills to local workers? Is local labor involved or are Chinese workers imported?
5. Geopolitically Risky	Will the project compromise a country's telecommunications infrastructure security? Will the project constrain a country's ability to partner with other states, including the United States? Will the project create the potential for future Chinese military access, placing a country at the center of strategic competition between Beijing and other great powers?
6. Environmentally Unsustainable	Were environmental impact studies conducted? Have local environmental concerns been taken into account in the planning/review process? Will the project create long-lasting ecological damage?
7. Corruption-Prone	Does the country receiving Chinese investment already have a high level of kleptocracy (scoring either "high" or "very high" on the TRACE Bribery Risk Matrix)? Does the main Chinese company involved have past issues with corruption overseas? ³⁶ Are there instances of confirmed or alleged corruption relating to the project?

The Belt and Road's Future: Adaptation, Evolution, and the Digital Silk Road

The Belt and Road is facing a significant backlash that is most pronounced in the Indo-Pacific but is also readily apparent in a diverse array of regions. The resistance appears to be most robust in democracies, with several politicians elected in part because of growing public concern over Chinese investments in countries such as Sri Lanka, the Maldives, and Malaysia. Once in office, these politicians often uncover the corrupt practices their predecessors may have engaged in with China's state-owned enterprises and are forced to cope with the financial or environmental implications of projects that were not necessarily in the public interest.

If the Belt and Road is in part a propaganda effort to project the inevitability of

³⁵ In some cases, there is insufficient information to make a definitive judgment, leading to the designation "insufficient information." Where evidence suggests that a Belt and Road project is likely to manifest a particular challenge in the future – though it has yet to emerge – we highlight this evidence but do not classify the project as featuring the challenge at present.

³⁶ "TRACE Bribery Risk Matrix 2018," TRACE International Inc., <https://www.traceinternational.org/trace-matrix>.

China's global ascent, the growing international concern over certain high-profile projects seriously risks undermining Beijing's intended narrative. These obstacles raise an important question: Will China be able to adapt its economic statecraft, or are there major limits to the Belt and Road's ability to evolve?

With Xi's personal status deeply intertwined with the Belt and Road's prospects, and with the effort now embedded in the CCP's Constitution, abandonment is not politically viable. Instead, on the fifth anniversary of the Belt and Road last year, Xi announced a "new phase" of the program even as he seemed to acknowledge some of its limitations.³⁷ The Belt and Road would remain central to China's economic statecraft, but Xi encouraged focusing more on "high-quality" investments that are smaller-scale, arguing that the "broad brushstrokes" had been made in the first phase and the second phase would require "fine brushwork" instead. Smaller projects would ostensibly have fewer issues with financial sustainability, local detachment, environmental sustainability, and corruption. In addition, Xi has reiterated that Chinese state-owned enterprises are brand ambassadors for Beijing, and he has called for greater party oversight of the Belt and Road and launched new state institutions – such as the China International Development Cooperation Agency (CIDCA) – that might provide supervision to mitigate the risks of embarrassing scandals related to corruption or environmental impact.

Despite Xi's suggestion of more limited ambitions, China continues to advance the Belt and Road as a project of global scale. It remains heavily involved in major infrastructure initiatives of all categories – ranging from rail lines that will connect Chinese cities all the way to Singapore to an ambitious project to build a massive Shenzhen-like port city in Tanzania's town of Bagamoyo. It is possible that Beijing will reduce the volume of projects that it launches in the future, but the sheer size of the existing ones strongly suggests it will be difficult for China to nimbly refocus on smaller and less controversial efforts.

Even if Beijing were to succeed in reorienting the Belt and Road, it is important to note that limited projects can have outsized political, economic, and strategic influence, especially when they involve telecommunications infrastructure. This area is a major focus of Belt and Road's next phase, and China has exported much of the infrastructure for not only communications but also surveillance and censorship.

Indeed, Chinese telecommunications companies are active in a majority of African markets. Under the auspices of the Belt and Road, many of these companies are laying

³⁷ Doshi, testimony before the U.S.-China Economic and Security Review Commission.

the foundations for internet connectivity and cellular infrastructure. Chinese firms helped construct the African Union's headquarters and may have relayed data from those offices back to Beijing for five years undetected. Despite these concerns, a wide variety of countries are continuing to pursue telecommunications cooperation with China, especially in Africa. Huawei helped build Kenya's communication network and has assisted Kenyan police in installing video surveillance in Nairobi. Zambia is spending \$1 billion on Chinese telecommunications, broadcasting, and surveillance technology – including a data center that will house all of Zambia's government data. When asked whether allowing China to build such a facility might compromise vast amounts of sensitive and personal information, the center's Zambia general manager responded that “once someone's built you a home, you change the locks,” a viewpoint that dramatically discounts the ease with which the country's data can be secured.³⁸ With respect to censorship, some reports suggest technology provided by Chinese firms has been used by Zambia to block access to certain websites and to monitor online activity.³⁹ Zimbabwe, for its part, is importing China's facial recognition system and will likely apply it in ways that will reduce the cost of authoritarianism.

Outside of Africa, Beijing is involved in much of the world's digital infrastructure. With companies such as Huawei and ZTE as its standard-bearers, China is building or operating telecommunications infrastructure in countries as varied as Burma, Kyrgyzstan, Nepal, Bangladesh, Mexico, and Kenya, along with dozens of others.⁴⁰ Other Chinese hardware providers, such as Hikvision, are assisting recipient countries with setting up networks of cameras to monitor public spaces in cities.

China's Belt and Road investments have also been accompanied by efforts to externalize the standards that support its domestic model of digital surveillance. In his 19th Party Congress address, Xi called attention to China as an alternative governance model, and China's surveillance apparatus is integral to those efforts. According to Freedom House, China held trainings with representatives from more than 30 countries on new media and information management.⁴¹ Tanzania and Uganda passed restrictive laws on online media, and Zambia is considering adopting certain China-influenced standards on censorship that would seek to limit some forms of freedom of expression

³⁸ Prasso et al., “China's Digital Silk Road Is Looking More Like an Iron Curtain.”

³⁹ Prasso et al., “China's Digital Silk Road Is Looking More Like an Iron Curtain.”

⁴⁰ Adrian Shahbaz, “Freedom on the Net 2018 - The Rise of Digital Authoritarianism” (Freedom House, 2018).

⁴¹ Shahbaz, “Freedom on the Net 2018 - The Rise of Digital Authoritarianism.”

to achieve greater social stability.⁴² Similarly, Kenya passed the Computer Misuse and Cybercrimes Act, which creates a variety of vague categories for which free speech could be punished that range from creating social “chaos” to publishing false information.⁴³

China's digital infrastructure compromises the information security of recipient countries. When these are combined with surveillance and censorship capabilities and the standards and laws to implement them, they can provide a full suite of capabilities that can weaken democracies and strengthen autocracies.

Conclusion: Evaluating Future Belt and Road Projects

The first five years of the Belt and Road demonstrate the challenges for recipient states caught up in China's economic statecraft. To avoid a repetition of the past, it is essential for governments, companies, journalists, and civil society groups in developed and developing countries to have a common framework for evaluating the upside and downside of future infrastructure projects involving China. The framework advanced below is the inverse of the seven challenges outlined earlier in this report. It articulates what countries should expect from China – a type of high-quality and mutually beneficial interaction that deviates significantly from Beijing's behavior to date. Chinese projects that fulfill all seven of the positive criteria in this framework deserve serious consideration, while projects that fall short warrant close scrutiny.

⁴² Shahbaz, “Freedom on the Net 2018 - The Rise of Digital Authoritarianism”; and Praso et al., “China's Digital Silk Road Is Looking More Like an Iron Curtain.”

⁴³ Melanie Hart and Blaine Johnson, “Mapping China's Global Governance Ambitions” (Center for American Progress, February 2019), <https://www.americanprogress.org/issues/security/reports/2019/02/28/466768/mapping-chinas-global-governance-ambitions/>.

A Checklist for Chinese Infrastructure Projects

POSITIVE CRITERIA	EVALUATIVE QUESTIONS
1. Sovereignty-Upholding	Will the recipient country have long-term equity in the project? Will its companies ultimately operate the infrastructure over the long term?
2. Transparent	Will the project agreement clearly stipulate the companies involved and clarify the organizational structure? Will the terms of the deal and progress of development be made public?
3. Financially Sustainable	Will the project impose a manageable repayment burden on the recipient country? Will the project ultimately generate sufficient revenue to cover the costs?
4. Locally Engaged	Will the project significantly involve local companies and labor and transfer skills? Will the infrastructure directly benefit the local economy? Are profit-sharing arrangements equitable?
5. Geopolitically Prudent	Will the project have a neutral or positive impact on the recipient country's telecommunications security? Is the project unlikely to generate dual civilian-military use concerns? Will the project have a neutral or positive impact on the country's relationships with other external powers?
6. Environmentally Sustainable	Will the project include an environmental impact study? Will it take into account domestic environmental concerns and have a neutral or positive impact on the local ecosystem?
7. Corruption-Resistant	Is the project structured to minimize bribery risk and opportunities for corruption? Are the companies involved highly ranked on measures of transparency?