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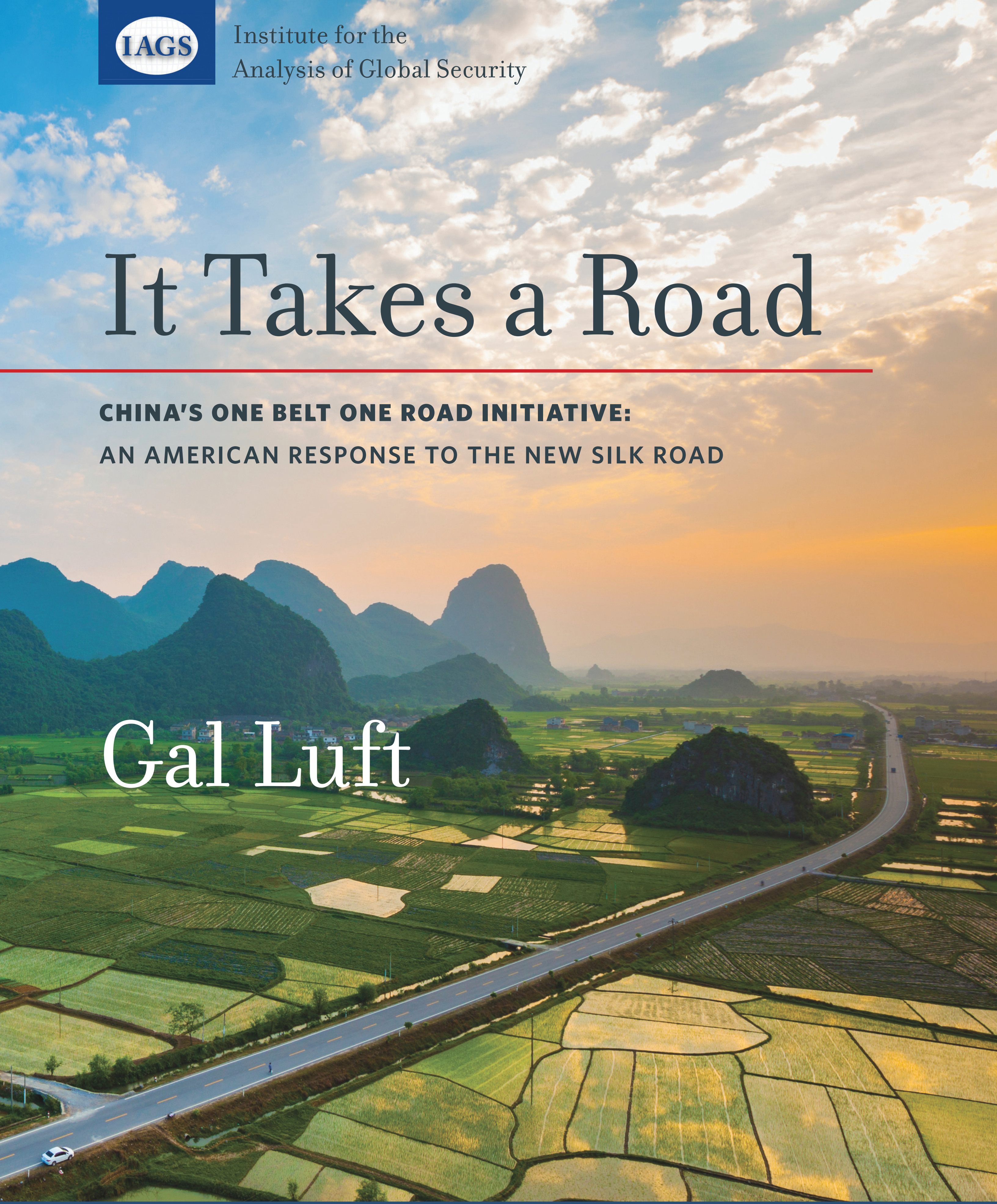

It Takes a Road

CHINA'S ONE BELT ONE ROAD INITIATIVE:
AN AMERICAN RESPONSE TO THE NEW SILK ROAD

Gal Luft

NOVEMBER 2016

List of Acronyms

ADB	Asian Development Bank
AEC	ASEAN Economic Community
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BCIMEC	Bangladesh-China-India-Myanmar Economic Corridor
BLF	Baluchistan Liberation Front
BRI	Belt and Road Initiative
CAFTA	China-ASEAN Free Trade Area
CASCF	China-Arab States Cooperation Forum
CBO	Congressional Budget Office
CCCG	China Communication Construction Group
CCWAEC	China-Central Asia-West Asia Economic Corridor
CICPEC	China-Indochina Peninsula Economic Corridor
CMREC	China-Mongolia-Russia Economic Corridor
CPEC	China-Pakistan Economic Corridor
EPC	Engineering, Procurement and Construction
GCC	Gulf Cooperation Council
GMS	Greater Mekong Sub-region
JBIC	Japan Bank for International Cooperation
MDB	Multilateral Development Bank
MSR	Maritime Silk Road
NELB	New Eurasian Land Bridge
NSTC	The North-South International Transport Corridor
RCEP	Regional Comprehensive Economic Partnership
SAARC	South Asian Association for Regional Cooperation
SCO	Shanghai Cooperation Organization
TEPR	Trans-Eurasian Belt Development
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership

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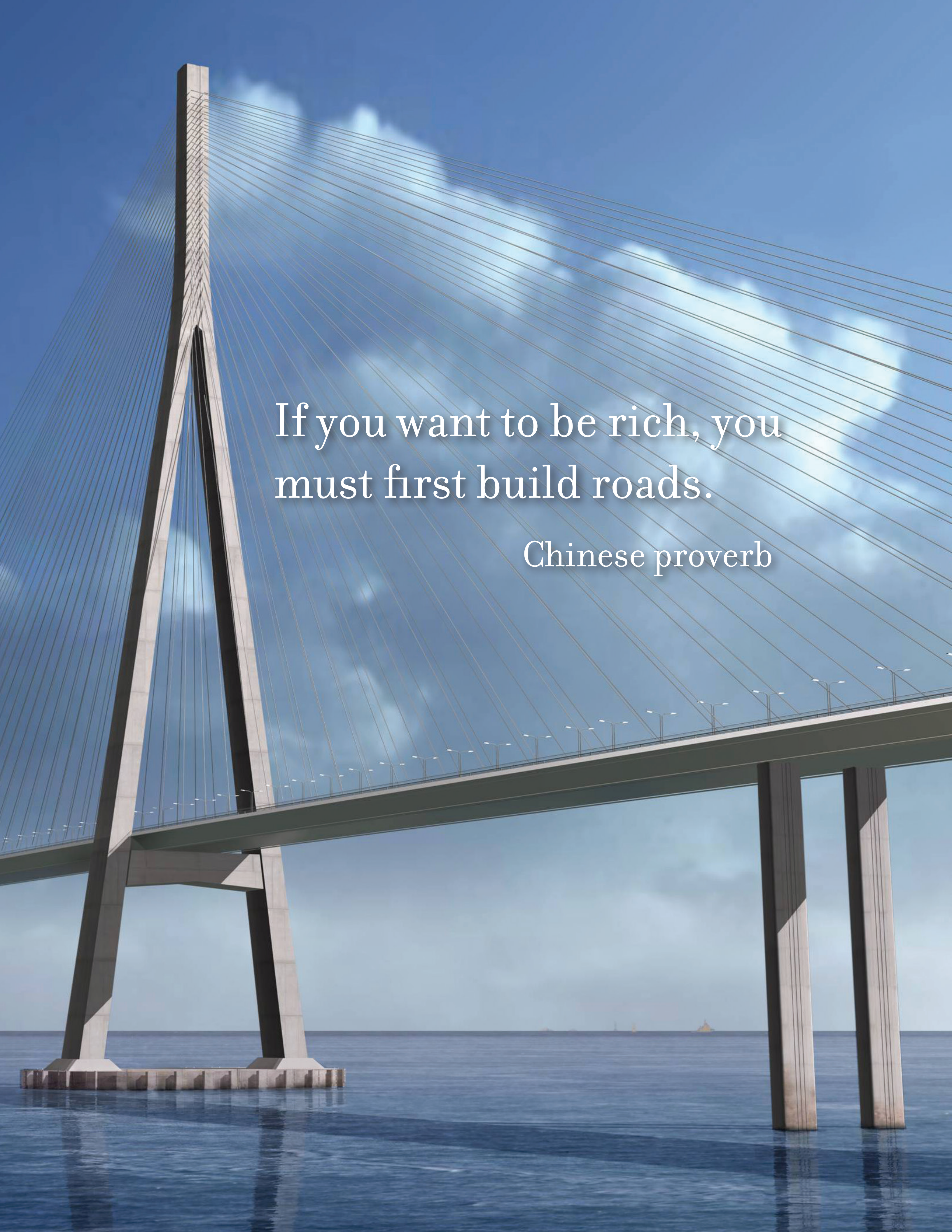


If you want to be rich, you must first build roads.

Chinese proverb

Executive Summary

China's Belt and Road Initiative (BRI) is not only the most ambitious and all-encompassing economic development project in the history of humanity but also the core of what is likely to be China's grand strategy for the twenty-first century. 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 with the goal of stimulating growth in the scores of developing countries in between. New maritime trade corridors provide China with new shipping alternatives while offering its less developed western, northern and southwestern provinces easier access to new markets. While the initiative offers China great strategic and economic benefits it also offers hope to the struggling economies of Europe, Asia and Africa.

Yet, despite the magnitude and promise of the initiative and its interface with almost every region in which the United States has strategic interests – the Middle East, South China Sea, India-Pakistan, Eastern Europe and Central Asia to name a few – Washington has largely ignored it, and in some cases it even took active measures to undermine it. This course of action is wrong. With the BRI territory accounting for seventy percent of the world's energy and almost all of the world's Muslim countries, many of them vulnerable, politically unstable, financially embattled and perplexed by perceived American atrophy, Washington's response to the creation of what could become by the middle of the century the world's largest economic zone will determine to a large extent not only the future of the U.S.-China relations but the fate of the global system writ large. With the global economy facing a potentially prolonged deep freeze and with hundreds of millions of Asians still disconnected from the global market with little hope of rising from poverty, Washington should recall that, like it or not, its fate is interlinked with that of the developing world, and it should thus at the very least give its blessing to those who offer relief. Instead of snubbing the BRI the United States should consider ways to embrace those parts of it that correspond with its geopolitical rationale and ideological worldview while staying away from those BRI elements that undermine its strategic interests. This option leaves the United States with sufficient maneuverability yet it positions it as a willing and pragmatic team player rather than a spoiler. The following recommendations should be considered:

1. **ADJUST THE WASHINGTON BUREAUCRACY TO DEAL WITH THE BRI'S VASTNESS AND COMPLEXITY**
   Washington should develop a new lens through which it can look at Asia's economic development more holistically and understand all the factors at play. It needs to assign a senior level official to oversee the BRI and coordinate the response of the U.S. bureaucracy.

Congress should also increase its engagement on the matter. Congressional committees should hold periodic hearings about the BRI and about U.S. development policies in Asia in general. Congress should also require the U.S.-China Economic and Security Review Commission to do the same.

2 FORM A DEDICATED MECHANISM TO ENGAGE WITH CHINA ON BRI MATTERS

The United States and China should agree to hold an annual dialogue on the BRI to evaluate the progress of the initiative, air concerns and identify areas of cooperation. This can be a standalone dialogue or a dedicated track within the Strategic and Economic Dialogue or any other alternative mechanism adopted by the new administration. The administration should also initiate a Global Development Forum to address energy poverty, infrastructure gaps, and financing.

3 CARVE OUT A ROLE FOR AMERICA

With superior force projection, homeland security and cyber defense capabilities, the United States should play a role in protecting critical infrastructure along the BRI corridors – many of which traverse tumultuous zones in which the United States already deploys military assets. It should also contribute "soft infrastructure" – consulting, legal services, research, financing etc. – which can make the difference between failed and successful projects. Additionally, the United States can share with China best practices regarding environmentally friendly design and engineering of infrastructure projects, building efficiency, waste processing and energy efficient transportation hubs.

4 JOIN THE ASIAN INFRASTRUCTURE INVESTMENT BANK (AIIB)

Washington's attempt to undermine the formation of the AIIB was a fiasco. Now that the bank is in operation and that it has taken encouraging steps to demonstrate its transparency and fidelity the United States should take steps toward joining it.

5 DEFINE RED LINES

The United States should stay away from or even oppose BRI projects that are of a geopolitical nature or that are used as a smoke screen to mask China's geopolitical ascendance under the guise of do-good projects. This is particularly true of projects that have the potential to change the status quo in the South China Sea, empower Iran and/or Russia and trigger strategic competition between China and other major Asian powers like India.

6 INITIATE TRANSATLANTIC COORDINATION ON THE BRI

Washington should work with Europe to establish common understandings on the policy toward the BRI, to agree on common policies on privatizations of state assets and on guidelines on what assets can be sold to Chinese enterprises. The goal should be to create the most hospitable investment environment for China without compromising the security architecture the United States and Europe have been laboring to achieve over the past half century.

7 PROMOTE U.S.-CHINESE UNDERSTANDING AT SEA

The United States should find ways to incorporate China's navy in international maritime alliances, joint sea patrols, and anti-piracy, anti-smuggling 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 Indian Ocean and hence secure shipping along the Maritime Silk Road. This mechanism should also include other naval forces from major sea powers with interests in the Indian Ocean like Singapore, Japan, Pakistan, Indonesia and Australia.

8 LEVERAGE THE U.S. ROLE IN MULTILATERAL DEVELOPMENT BANKS AND INTERNATIONAL ORGANIZATIONS

U.S.-led institutions such as the World Bank can play an important role in screening projects and improving the efficiency of the capital deployed. These institutions should make their various services and facilities available to BRI projects and forge strong working relations with the AIIB.

9 CRAFT A RED, WHITE AND BLUE DEVELOPMENT AGENDA

The United States should articulate its own vision for Asia's economic development and offer home grown infrastructure initiatives. Working with allies like India, Japan, South Korea and the Gulf Cooperation Council (GCC) it should conceive a handful of regional connectivity projects which correspond with its diplomatic priorities, coalesce allies and sources of capital to support them, and – most important – stay the course until they come to fruition. The United States should focus on the neglected parts of the BRI – for example the western coast of India, the Arabian Peninsula and Sub-Saharan Africa.

10 CEASE FIRE IN THE WAR ON COAL

Coal is the work horse of Asia's energy market. While the environmental problems associated with its mining and burning cannot be ignored, they should be balanced against the energy security implications associated with an overly aggressive shift away from it. The United States should amend its international coal policies, striking a more reasonable balance between energy security (cost and availability) and environmental policies. Furthermore, the United States should realize that in the developing world environmental policies that address air pollution and its attendant health problems take much higher priority over those that purport to address climate change.

Foreword

The Since its introduction in 2013 by President Xi Jinping, the One Belt, One Road Initiative (BRI) has attracted a lot of attention in political and business circles. It is not only the breathtaking scope of the initiative that has generated so much interest but also the fact that for the first time China has given the world a glimpse into what might be its grand strategy for the twenty-first century and beyond. The timing of the initiative is opportune. In recent years, America has been withdrawing into itself, exhibiting a rudderless foreign policy; in Europe, the wheels are coming off of the EU and the Eurozone; Russia's nationalistic foreign policy is veering eastward; the Middle East is in shambles; Japan's economy is gasping for air. China, the locomotive that has pulled the entire global economy forward since the beginning of the century, is slowing down at an alarming pace. Far from the public's eye the state of the developing world's poor remains abysmal. According to the USAID in the second decade of the twenty-first century:

- **ABOUT 2.6 BILLION PEOPLE**, mostly located in developing Asia and Africa, lack access to 24/7 electricity.
- **NEARLY 800 MILLION PEOPLE** worldwide lack access to water, and about 2.5 billion people 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.

Within this context China's Belt and Road Initiative is a breath of fresh air. It aims to boost global growth, alleviate poverty and connect billions of people by addressing one of the biggest barriers to economic development - the infrastructure deficit.

Without infrastructure there is no connectivity. Without connectivity there can be no economic exchange. Without economic exchange there can be no growth. Without growth there is no prosperity. Without prosperity infrastructure cannot be funded. And so goes the cycle. The need for infrastructure investment in Asia is staggering: over $770 billion a year according to the Asia Development Bank (ADB). The combined actual investment by the existing multilateral development banks (MDB) is roughly one tenth of what is needed. The Belt and Road Initiative is China's way of addressing the infrastructure gap. What started in 2013 as big, albeit half-baked, idea, is rapidly gaining steam and morphing into a blueprint for growth. The goal: to connect China, Europe and Africa in a vast network of oil and gas pipelines, highways and high-speed railways, fiber optic lines of communication and data centers, power plants and transnational high voltage power lines, airports, water canals, deep water ports, energy terminals, logistical hubs and free trade zones. By facilitating connectivity across three oceans and the scores of economies between China and Europe, Beijing hopes to stimulate Eurasia's growth and to create an economic block connecting two-thirds of the world's population. This will not only enable the poor to elevate themselves but it will also provide a shot in the arm to the slowing Chinese economy by creating new markets for Chinese goods and services. As Xi Jinping put it: "when big rivers have water, the small ones are filled; and when small rivers have water, the big ones are filled."

China, it seems, has finally discovered the organizing principle of its foreign and economic policy. And while China may insist that the BRI is not a tool of geopolitics, there are reasonable grounds to assume it will alter the world's geopolitics and geo-economics. With the BRI territories accounting for seventy percent of the world's energy reserves and almost all of the world's Muslim countries, many of them politically unstable, China's plan stands to impact America's position abroad in more than one way. Washington's response to the BRI will therefore determine to a large extent not only the course of U.S.-China relations but the fate of the global system.

To date, Washington's attitude toward the BRI has ranged from avoidance to petulance. Cold warriors who see it as a cover for China's expansionism have called for active opposition. And indeed, in some cases the United States has used soft power tactics to undermine the BRI. With BRI becoming a key part of China's foreign policy and a top priority for President Xi, the present path of ignoring or disrupting the BRI is no longer sustainable; it is also counterproductive. Perusing such a path, the United States is missing an opportunity to take part in drawing the contour lines of the geopolitics and geo-economics of the international system. It is also denying American businesses and investors the opportunity to partake in the creation of what could be one day the world's biggest economic block.

While there is no question that the BRI serves China's own economic and strategic goals, it does so by offering investment and a ramp out of poverty to scores of developing nations. If history is our guide, unlike other great powers, China has never striven to export its ideologies, conquer colonies, or expand across the oceans. Its maritime disputes with its neighbors in the South China Sea and East China Sea have received so much attention that one forgets that China shares land borders with no fewer than fourteen countries and that all of them, despite some unresolved border disputes, have been peaceful for decades. China's way of exerting itself is not through force projection but rather through projection of its surpluses: infrastructure building capacity, manufacturing, and, with the forthcoming liberalization of the Renminbi, its currency.

The Belt and Road is a story that is already writing itself. The sooner Washington begins to engage with it, the sooner it can begin to leave its mark on it, to the benefit of the U.S. economy as well as that of two-thirds of humanity. To be sure, there are many holes in China's story, and it is unlikely that all that will be pledged will actually materialize. But, like it or not, China is the only country that is currently offering a meaningful remedy to global economic stagnation and, as such, Beijing's program deserves a serious consideration. This report aims to shed some light on the anatomy of the BRI, to delve into its roots and to describe its tactics. More importantly, it aims to assess its implications for the United States and its allies in Asia and Europe and to recommend a constructive American response.

Together, the United States and China are responsible for a full 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. For all the reservations America might harbor about the imperfections of the Chinese development model, it must accept the fact that it is not capable of rivaling China as the world's leading financier of infrastructure projects. As such, it should rethink its attitude toward the BRI and chart a new course that is conducive to Eurasian growth yet one that protects America's vital interests.

Gal Luft, Co-Director, Institute for the Analysis of Global Security (IAGS)

Introduction

China twice in history attempted to connect its economy with that of the West. The first attempt took place two millennia ago during the Han Dynasty, when China opened the ancient Silk Road to trade with Central Asia and the Mediterranean region. Then, in the 15th Century during the Ming Dynasty a second, maritime, Silk Road was formed connecting China to the Red Sea via the Indian Ocean and the Arabian Sea. While both attempts initially succeeded in opening the West's gates, China never really made it through those gates in any meaningful way. Instead, it descended into isolation and warlordism, and its economic and political engagement with its surroundings was mainly with its neighbors to the east and south. The third attempt to integrate with the West – the "third knock" as former Hong Kong Home Affairs Secretary Patrick Ho put it - is happening today, as China implements a strategic vision of building a new Silk Road Economic Belt and a Twenty-First-Century Maritime Silk Road, traversing the Eurasian landmass and the surrounding waterways, an initiative widely known today as Belt and Road Initiative.

The stated goal of the initiative is to bring prosperity to the dozens of developing Asian countries lacking capital, technology and the capacity to embark on major infrastructure projects by connecting them in a web of roads, high-speed rail, power lines, ports, pipelines, fiber-optic lines and other infrastructure. The less stated goal is to save the Chinese economy from a precipitous decline which would rob large swaths of China's population, particularly those from China's poor inland regions, of the chance to fulfill the so-called Chinese Dream. To rejuvenate the slowing Chinese economy, China aims to use its massive current account surpluses and its infrastructure building capabilities to stimulate consumption in neighboring markets, creating new markets for Chinese goods and services. The BRI would also provide life support for China's struggling banks and state owned enterprises. The military aid the United States provides its clients keeps its military-industrial complex afloat; China too has an industrial complex to preserve. Its state-owned Engineering, Procurement and Construction (EPC) companies are an extremely important part

BRI'S SCOPE

- Two-thirds of the world's landmass.
- 4.4 billion people in 65 countries with a collective GDP of more than 2 trillion dollars.
- The anticipated investment for the BRI will be \$4-\$8 trillion.
- About 50,000 miles of high-speed railway are planned to be built, more than currently existing in the whole world.

of the economy and the socio-political fabric, and they are all craving projects. The BRI would also boost the usage of the renminbi as a vehicle to raise capital in overseas financial centers. China hopes to use its vast foreign reserves to offer loans to developing countries, which would in turn contract Chinese enterprises for major infrastructure projects.

China's political, diplomatic, financial and military echelons have been fully mobilized in support of the BRI. Beijing has already announced major infrastructure initiatives spanning from the Malay Peninsula to the Mediterranean and traversing South, Southeast, Central and Western Asia. It has also created financial institutions like the Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund and the New Development Fund with registered capital of $240 billion to offer loans to developing countries, which would – Beijing hopes - contract Chinese enterprises for major infrastructure projects. It is also using the international organizations and forums in which it plays a dominant role like 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.

China's foreign policy has also been adjusted to advance the BRI. After decades of reluctance to plunge into the stormy waters of the Middle East, Beijing has recently displayed unusual diplomatic activism. In January 2016 President Xi was the first foreign leader to visit Iran since the lifting of the sanctions doing so back to back with his visit to Iran's nemesis Saudi Arabia. Drifting from its long held policy of non-intervention, China attempted to mediate between the rival factions in the Syrian civil war; it took a side in the Yemeni civil war; and it passed a new counter-terrorism law that would allow its military, for the first time, to participate in counter-terrorism efforts abroad. All these reflect an understanding in Beijing that the success of its flagship project depends on the stability of the territories through which the BRI corridors traverse.

AMERICA'S RESPONSE

President Barack Obama once charged that for too long China has been a "free rider" in the international system. Yet, America's response to China's main attempt to assume responsibility and address Asia's infrastructure gap has been a mix of avoidance, sulkiness and alarmism. Many China watchers see the BRI as merely a public relations stunt; others view it as Xi Jinping's pet project which may not be upheld by his successors. There are those who are skeptical about China's ability to actually execute the ambitious plan, pointing out to its enormity - "too many eggs in the basket" - and to China's poor track record of investment in Africa. The vast majority of the national security experts who tend to view geoeconomics as the extension of geopolitics or in the words of strategist Edward Luttwak "the logic of war in the grammar of commerce," view the Belt and Road Initiative as a geopolitical ploy aimed to facilitate China's expansion at America's expense.

When it comes to official Washington the BRI has been treated as if it does not exist. U.S. officials refrain from even referring to it by its name. In the U.S. Congress, as of this writing not one hearing was held to examine the BRI. The same is true for the U.S.-China Economic and Security Review Commission which was created by Congress to monitor and investigate national security and trade issues between the U.S. and China. The U.S.-China Strategic and Economic Dialogue, the highest level annual ministerial level meeting of the two countries, detailed in its 2015 and 2016 meetings more than 100 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 undermine the project. While billions of dollars of steel and concrete are being put on the ground all that Washington could provide were statements to the effect that the United States is "studying" the initiative and "asking China for clarifications."

America's petulance toward what could potentially become the largest and most comprehensive development project in human history is self-defeating. It is a futile attempt to deny both developing Asia and stagnating Europe an important growth engine while excluding American investors from the benefits of private investment in major infrastructure projects. More importantly, lack of U.S. engagement will allow China to unilaterally draw the contour lines of the world's geopolitics and geo-economics, impacting almost every aspect of U.S. foreign policy including in some of the world's hotspots– the Middle East, South Asia, Eastern Europe and the South China Sea.

America's petulance toward what could potentially become the largest and most comprehensive development project in human history is self-defeating.

Furthermore, as the diplomatic debacle of the AIIB shows, the lack of a clear position on the BRI puts the United States in an awkward position vis-a-vis the rest of the world, including some of its closest allies. The world's main growth engines are in developing Asia. Boosting Asia's growth entails lowering the cost of transportation, increasing availability of clean water and affordable energy and creating communication networks. All of those areas are vastly underinvested. Many of America's allies, especially those reliant on commodities exports, view the BRI as a necessary stimulus at a time of economic decline and are bewildered by America's snub. The bewilderment only grows when one considers America's role in sparking the BRI to begin with.

AMERICA'S ROLE IN TRIGGERING THE BELT AND ROAD

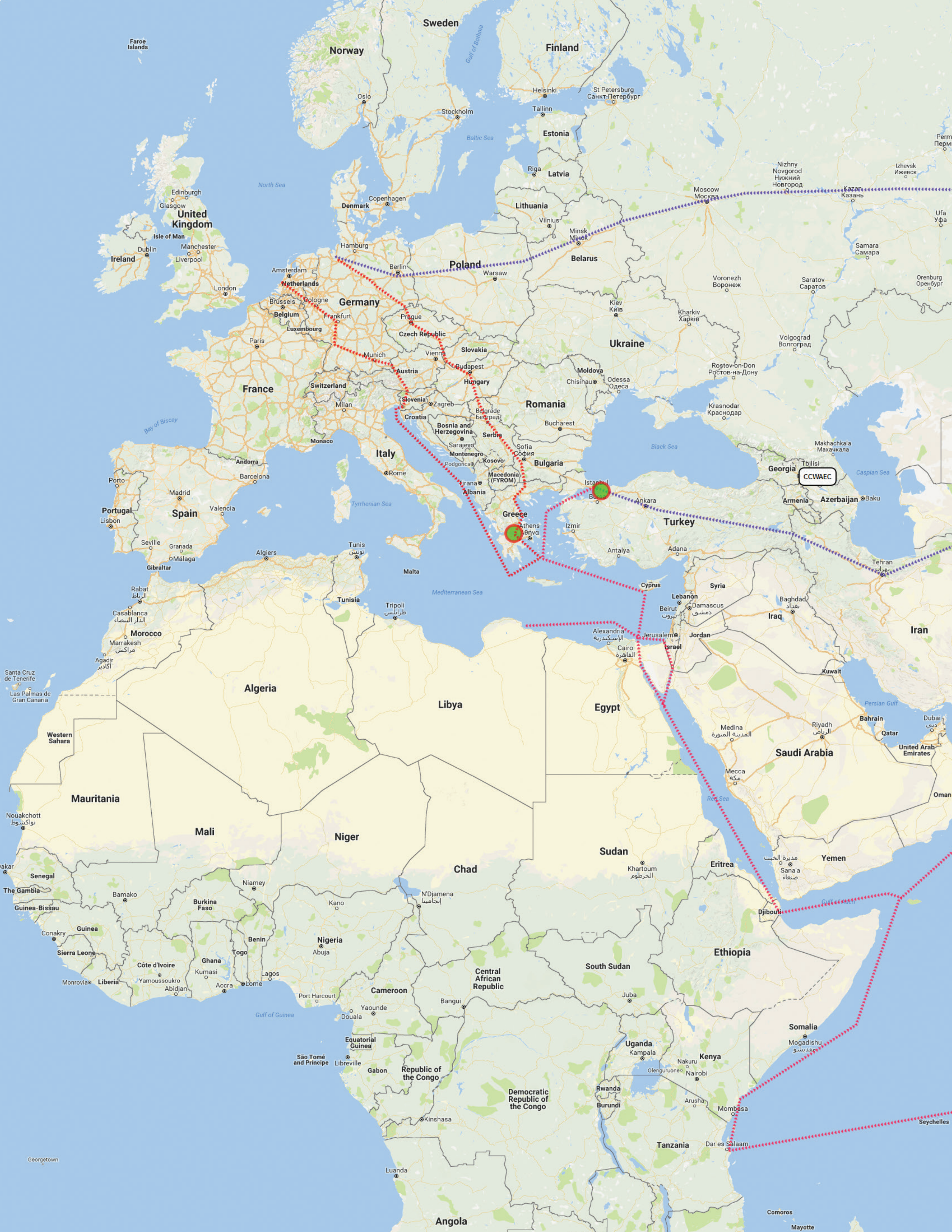
Put aside China's own domestic drivers, of which there are several, the BRI is to some degree Beijing's reaction to the military, diplomatic, economic and environmental policies set forth by the Obama Administration. America's policy of strategic rebalancing from Europe and the Middle East toward East Asia, also known as the Pivot to Asia, has turned out to be hollow, but it reinforced China's agitation and enhanced sense of encirclement caused by U.S-led Pacific Rim military alliances. The exclusion of China from the Trans Pacific Partnership (TPP) was perceived as another act of containment which would deny China tariff reduction and preferential market access other members of the partnership enjoy. So was the coercive use of existing Multilateral Development Banks (MDB) in which Washington exercises some degree of control like the World Bank and the International Monetary Fund (IMF). For years, Washington led the opposition to granting China a share of votes proportional to its increased economic weight. 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 can be qualified. Washington also uses its leverage over MDBs to impose lending restrictions on infrastructure and energy projects that do 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 be this way for the foreseeable future, the Obama Administration used its influence over the World Bank to pass a ban on financing of most coal power plants abroad. In this, it essentially created a need for an alternative financing mechanism for affordable energy projects.

The BRI is to some degree Beijing's reaction to the military, diplomatic, economic and environmental policies set forth by the Obama Administration.

Then there was America's unsustainable debt. If there was something that unsettled China during the 2008 financial crisis and its aftermath it was the realization of the degree of America's dependence on debt of all sorts – from the household to the federal government. Since the crisis, U.S. federal debt mounted from 60 percent of its GDP to over 100 percent while China, with gross national saving among the highest in the world, was expected to invest much of its vast foreign exchange assets in U.S. Treasury bonds. Since 2001, China's share of U.S. foreign held treasuries grew from 6 percent to more than 20 percent. Over the same period of time interest rates on the debt were sliced by two thirds. Today China is called to buy more debt. It already owns 20 percent of America's $6.2 trillion foreign debt - $1.25 trillion in total - for painfully low returns. For some time buying U.S. debt suited China as it allowed it to keep its currency cheap in order to boost export and growth. But slower Chinese growth has triggered new thinking in Beijing regarding the sustainability of this arrangement. Under the baseline scenario of the Congressional Budget Office (CBO) U.S. debt will rise from $19 trillion in 2016 to over $27 trillion in 2025. This means that all being equal China will be expected to double its U.S. debt holding within a decade in order for the U.S. economy to stay afloat. This means an additional $1.2 trillion of China's money could either go toward financing Washington's wasteful spending or be redirected to other foreign investments. China opted for the latter. It decided to step back – albeit gradually – from its debt buying using the BRI as a mechanism for reallocation of its large foreign exchange assets from bonds to bridges, from IOUs to BTUs.

Finally, the Obama Administration's feckless Middle East policy augmented by North American energy revolution which reduced America's oil and gas imports enhanced Beijing's conviction that the United States is gradually withdrawing from the Middle East, leaving a dangerous vacuum in a region critical to China's economic future. The BRI is China's way of increasing its footprint in the Middle East but in a non-military manner.

All of those drivers provide the context of China's conception of the BRI. Now when the initiative is a fact of life Washington should decide how to respond to it. But before we do so it should be thoroughly understood.



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Tallinn
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Estonia
Gulf of Bothnia
Baltic Sea
North Sea
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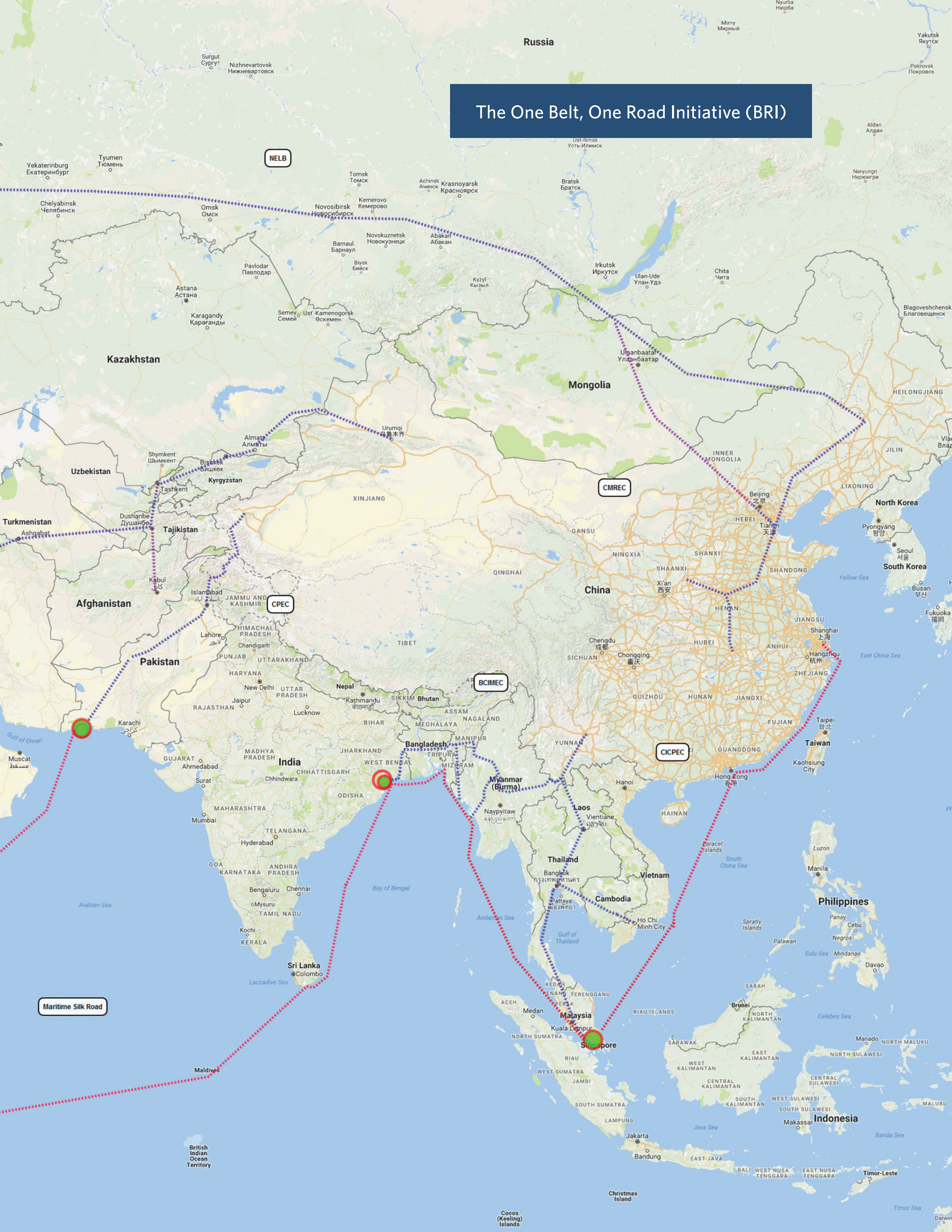

The One Belt, One Road Initiative (BRI)
NELB
CMREC
CPEC
BCIMEC
CICPEC
Maritime Silk Road

Seven Pillars of the BRI

The Belt and Road is comprised of two main parts: a series of land-based economic corridors that China refers to collectively as the Silk Road Economic Belt, and the Twenty-First-Century Maritime Silk Road (MSR). Many maps depicting the BRI have been circulating since 2013, some of them originating from the Chinese government itself. These maps reflect the current BRI corridors as they have been presented by China. Some of the lines on the maps are aspirational; others are based on real projects in which there has already been investment and construction. Those lines, however, should not be taken literally. The BRI is a work in process, and its execution will depend on the partnerships that will be forged over time. Some of the lines will change as the plan morphs into a reality. Washington's involvement in the initiative will enable it to leave its imprint on the final configuration of the BRI in a way that is more advantageous to the United States.

It is also important to note that the BRI is not the first attempt to advance Eurasian economic cooperation. Over the years there have been many plans and initiatives by Russia (Eurasian Economic Union, the Trans-Eurasian Belt Development and the North-South International Transport Corridor (NSTC) which aims to connect South Asian countries with North and Western Europe), by ASEAN (ASEAN Economic Community) and by the South Asian Association for Regional Cooperation (SAARC). Even the United States offered such plans. The New Silk Road initiative proposed in 2011 by then-Secretary of State Hillary Clinton is one example. In fact, many BRI components build on existing projects and infrastructures – many of them funded by China itself – conceived and executed years before Xi Jinping announced the 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 that of the other regional powers.

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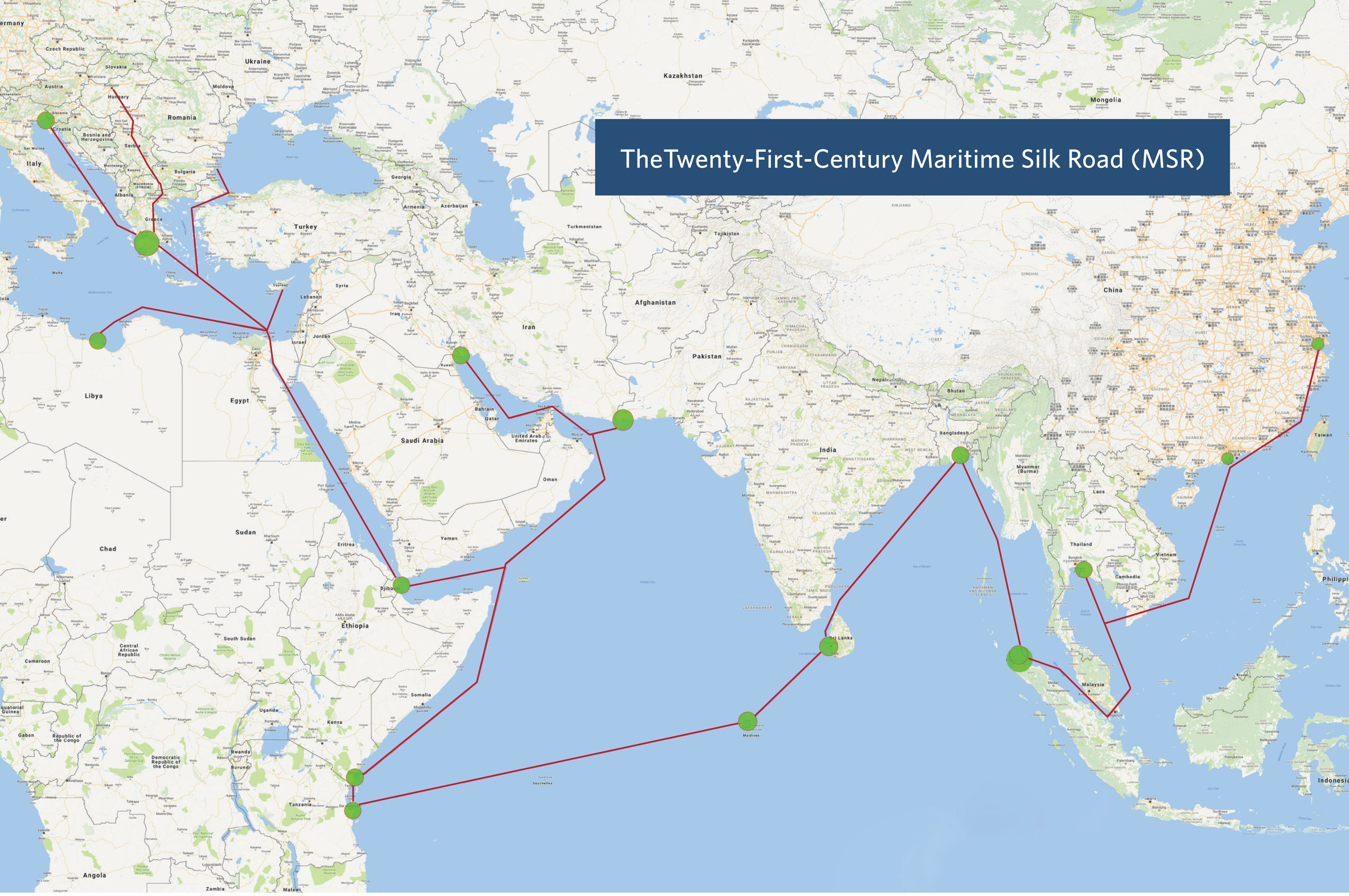
One should also assume that not all that China announces will actually happen. The media often reports about project announcements as a done deal when in reality intent does not predict execution. As Deborah Brautigam, a leading observer of China's activities in Africa, pointed out, China's actual investments and land acquisitions in Africa are remarkably less than the media reports. Some infrastructure projects which have been announced with great fanfare, like the gas pipeline project known as "Power of Siberia," and the Altai gas pipeline to connect western Siberia and China, both the subject of an agreement signed by Russia and China in 2015, have already come to a standstill. On the flip side, not all that will actually materialize will be truly in the spirit of the BRI. Since the launch of the initiative many Chinese enterprises have labeled their projects as "Belt and Road projects" in the hope of gaining political support and more favorable financing from the central government. The truth is that many of these projects have nothing to do with the BRI as they contribute very little to regional connectivity and therefore – while they may see the light of day – they should not be viewed as BRI projects.

1. The Twenty-First-Century Maritime Silk Road (MSR)

The vision of the MSR is to connect the littoral Chinese provinces with the South China Sea and the Indian Ocean and from there to Eastern Africa, via the Horn of Africa and the Mediterranean to European ports by means of a network of port infrastructure, including deep sea ports, industrial zones, oil and gas storage facilities and railway connectors from where cargo can be shipped inland. While covering the busy maritime routes of the South China Sea and the Bay of Bengal, the MSR curiously skips the western shore of India as well as the Arabian Peninsula. With the exception of the Port of Gwadar in Southern Pakistan which was conceived years prior to the launch of the BRI and an additional project by a Chinese consortium to build an industrial park at Oman's southern port of Duqm, the exclusion of this vast territory is striking. Instead, the MSR tacks toward Eastern Africa and the Red Sea en-route to the Suez Canal and the East Mediterranean. One explanation for this odd design is that prior to the inauguration of the MSR China invested heavily in port facilities and other infrastructures in Eastern Africa. An international consortium led by China Harbor Engineering Company is projecting an investment of $1 billion in a new port in Maputo province, to serve Mozambique and neighboring countries, including South Africa. The same company has also won a bid to build a port in Massawa, Eritrea. China is one of the builders of the Bagamoyo Port in Tanzania which is planned to be the largest port in East Africa when completed – twice the capacity of Dar as Salaam – as well as an adjacent Special Economic Zone. Chinese companies have won the bid to build the railway connecting Bagamoyo and Dar as Salaam as well as railways leading from those ports to the western part of Tanzania. Tanzania also signed a framework agreement with a Chinese railway company to build a rail link between the southern port of Mtwara and the coal and iron ore projects in that country being undertaken by another Chinese group. In Kenya, a Chinese company signed a $480 million deal to build a new port in Lamu as part of a project to connect Kenya with South Sudan and Ethiopia. China is also involved in the construction of the Port of Mogadishu, Somalia, and has


The Twenty-First-Century Maritime Silk Road (MSR)

begun construction of a naval outpost in Djibouti, a strategically located country in the Horn of Africa between the Red Sea and the Gulf of Aden.

The connection to Africa necessitates port facilities, fuel storage and possibly naval bases along the MSR route connecting the Bay of Bengal with East Africa. To address that need China chose two key stepping stones: Sri Lanka and Maldives. In Sri Lanka, China built a $1.7 billion seaport and airport in the southern city of Hambantota. And recently, the Government of Sri Lanka unfroze stalled efforts to have China build a $1.4 billion seaport in the capital city of Colombo. In the Maldives archipelago China commenced construction of an expansion project of the international airport - a $373 million project - and is aiming to build a port in Laamu Atoll in the southern part of the country. It is also financing a significant share of the $300 million cost of the Maldives-China Friendship Bridge which will link the airport island Hulhumalé with the capital Male – a project that was announced during President Xi Jinping's historic visit to the Islands in September 2014. In this, China is aiding the plan of the Maldives government to relocate most of the population, presently scattered across 188 islands, to a new city connected by the bridge to the capital. Traditionally Maldives has been strongly aligned with India. But now with the country owing 70 percent of its external debt to China it is heavily dependent on Beijing's largesse. Sri Lanka is facing a similar situation.

The MSR is a source of both hope and anxiety to India and some of the ASEAN countries. On the one hand the initiative offers a new maritime architecture which facilitates regional trade and promotes freedom of navigation. On the other hand, given the increased tensions in the South China Sea, particularly since the July 2016 ruling of the Permanent Court on Arbitration against China's historical claims in the region, China might attempt to change the status quo in the region by framing its construction and land reclamation activities as MSR related. This is likely to prompt the littoral countries to bolster their maritime capabilities in order to balance China's expansion. This is already beginning to happen. Indonesia, for example, announced in 2014 a Global Maritime Axis strategy to strengthen maritime defense and improve connectivity among Indonesia's islands as well as among the neighboring countries. China's ports construction in India's sphere of influence have also raised concerns in New Delhi, threatening to trigger strategic competition at sea between China and India.

Another area of potential concern is the Mediterranean. China is extending its reach to the East Mediterranean with the goal of creating a new trade link between Asia and Central Europe via Israel, Cyprus Greece and the Balkans. In April 2016, China Cosco Holding Co. bought a 67 percent stake in the Greek Port of Piraeus, one of the largest ports in southern Europe. Chinese companies have won bids to operate the Israeli port of Haifa and expand the smaller port of Ashdod as well as the Lebanese port of Tripoli. China has already announced its intentions to extend a rail link from Piraeus to Hungary and possibly Germany by way of Serbia. For now those activities are of a pure commercial nature. But growing Chinese presence in the Mediterranean could invite over time Chinese naval activities in the region, something that will require some adjustments by the United States and its NATO allies whose hegemony in the Mediterranean has been unchallenged since the end of the Cold War.

2. The 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 under-developed 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 natural gas for its northeastern and western provinces. Mongolia depends on mining for 86 percent of its export revenues. It therefore needs access to new export markets via Chinese and Russian ports. Russia sees the 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 vision 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 600 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 coined as the CMREC 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 1,400 mile long 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 Beijing/Tianjin/Hebei region to Russia via Hohhot, Inner Mongolia and the second from Dalian to Chita in Russia via Shenyang, Changchun, Harbin, 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 it could also be handled directly in China's ports most importantly Qinhuangdao, the world's largest coal export port. One challenge of building the Mongolia, China and Russia economic corridor infrastructure is their railway gauge differences. The Russian railway gauge is 1,520 mm and the Chinese gauge is 1,435 mm. This means that a costly and polluting process of transshipment is required at the borders between China and Mongolia and between Russia and Europe. In this respect the CMREC will strengthen rail and highway connectivity and construction, advance customs clearance and transport facilitation, and promote cross-national co-operation in transportation.

3. The China-Pakistan Economic Corridor (CPEC)

China and Pakistan have been dubbed as "iron brothers" and "all-weather friends." The two countries – the world's number one and number six most populated countries – share strong trade relations enabled by a ten-year-old free trade agreement, as well as tight contacts in other spheres such as defense (Pakistan is the largest recipient of Chinese weapons) and energy (China has built most of Pakistan's nuclear reactors and is expecting to build another two). The Pakistani economy has been shaky since the beginning of the decade. The country's rapid population growth is unmatched by the necessary foreign investment, 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. To boost the country's economy China awarded Pakistan with the first large BRI investment commitment - $46 billion in total. The lion share of this investment aims to build and modernize a land passage from Xinjiang in western China to the Arabian Sea via the forbidding Himalayas. China announced that it would finance a 1,800 mile superhighway, a rail line and an oil pipeline connecting the two countries. The corridor will be supported by a $1.5 billion solar power plan, the world's largest, and a hydro power plant worth $1.6 billion.

At the heart of the CPEC lies 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 and make it more resilient to mud slides and heavy snowfall so it can remain open year round. The second pillar of the CPEC is the deep port of Gwadar in the Arabian Sea which is already under advanced stages of construction and is scheduled to commence operations in 2017 under the management of the China Overseas Port Holding Company. This strategic location will not only allow China to export cargo from its western provinces and cut over 5,600 miles of the distance for oil and gas imports from Africa and the Middle East to China but it would also allow China to increase its naval footprint in the vicinity of the Persian Gulf to preempt what is believed by China to be an imminent U.S. withdrawal from the region. In 2015, China acquired rights to over 2,000

acres of land adjacent to Gwadar for industrial development. The land will be used for terminal operations, marine services, a free trade area and an airport. Additionally CPEC will include an expressway from Karachi to Lahore, connecting Pakistan's two largest metropolitan areas, a 300 acre Haier-Ruba economic zone near Lahore, and a China-Pakistan cross-national fiber optic network.

On its face, the CPEC seems like a much needed engine for economic development for both Pakistan and China. Allowing Middle East oil to flow directly into western China instead of via the busy Strait of Malacca and China's congested coastal provinces could surely benefit China's energy security. But a deeper look raises serious questions about its feasibility and the desirability of making the CPEC the flagship of China's BRI.

Building CPEC's roads and rail is a major engineering undertaking as they traverse very rugged terrain and areas known for extreme weather conditions. Security is also a challenge. 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 and vowed that its fighters would attack anyone working on the project. This would require strong security infrastructure during both the construction and the operational phases of the project. Far from Pakistan's commercial centers Gwadar also requires costly protection, and it is unclear if it can generate sufficient commercial activity to justify its operational costs.

While the CPEC can connect China with a country that is projected to become by 2030 the largest Muslim country with a quarter of a billion people, such connection might create more problems than it solves. Due to the spread of militant Islam in Pakistan such a corridor, could enable the flow of insurgents and weapons between Pakistan and the Muslim separatists in Xinjiang. It would have to be closely monitored and would become an attractive target for terrorists.

From a strategic standpoint, the CPEC has the potential to disrupt the balance of power in South and Central Asia. The formation of a Chinese-Pakistani axis has already raised concerns in both the United States and India. One concern is that with the growing economic interdependency between Beijing and Islamabad Washington will lose its ability to influence Pakistan on critical matters like Afghanistan, Kashmir, counter-terrorism and nuclear proliferation. India too is troubled by the growing bond between two countries with which it shares histories of border disputes and strategic competition. More specifically, both Washington and New Delhi are concerned about the possibility that Gwadar will provide the Chinese navy with a beachhead in the Indian Ocean and challenge India's hegemony in its sphere of influence and the United States' in the waters around the Persian Gulf.

In 2016 India responded to CPEC with the announcement of an agreement with Iran and Afghanistan to build an alternate trade and transport corridor based Chabahar on the Iranian shore of the Arabian Sea, just 30 miles west of Gwadar. Once built, Chabahar could be connected by road to the Afghan city of Kandahar, offering the landlocked Afghanistan 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. To date, India's only access to Afghanistan and the rest of Central Asia has been via Pakistan and therefore limited. In fact, Pakistan has denied Indian trucks overland access to Afghanistan. In building the Chabahar-Kandahar corridor India would not only outflank Pakistan but also challenge the viability of CPEC. The less positive side of the story is that Chabahar's connection to Afghanistan will take place through the Iranian road network and the border city of Zaranj. This would effectively turn Iran into the gateway to the world of Afghanistan and the rest of the "stans", elevating the strategic importance of Iran at a time that the United States and its allies are to some degree still trying to contain the Islamic Republic.

The lifting of international sanctions on Iran and the subsequent visit of Chinese President Xi Jinping's to Tehran in which the two countries agreed to increase their bilateral trade ten-fold to $600 billion over the coming decade, may tempt China to elegantly retreat from its commitment to CPEC and shift its interests to the Chabahar-Kandahar corridor. This alternative offers some advantages for China. Unlike the forbidding terrain CPEC encounters, in the case of Iran much of the infrastructure is already in place and only needs to be modernized. Furthermore, routes via Iran promise more security than those running via Pakistan. Concerns that China will find Iran a more effective conduit due to lack of adequate security in Pakistan might lead the Pakistani government to intensify is crackdown on its minorities and separatist movements – the government has already announced its intention to place 60,000 additional troops in Baluchistan to ensure stability – which is likely to only bring about more domestic unrest. After all, the main Baluchi demand for engaging in peace talks with Islamabad is demilitarization of the province. On the other hand, the Chabahar-Kandahar corridor does not offer China the same benefit of direct land connection to western China unless it is connected to another BRI project, the China-Central Asia-West Asia Economic Corridor (CCWAEC) which, as will be described later, poses other challenges. To hedge its bets China might therefore try for the time being to invest in both routes and perhaps even offer to connect Gwadar and Chabahar with a short cross border rail and road.

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

Referred to as "an international gateway to South Asia," the BCIMEC will essentially be an expressway and high-speed rail link between the Chinese city of Kunming in Yunnan Province and Kolkata in India via Mandalay in Myanmar and the Bangladeshi capital of Dhaka. In addition to the land bridge the four countries have also agreed to build air and water ways connecting each other as well as power transmission lines and oil pipelines. The corridor will connect a collective market of over 400 million people including West Bengal, India's fourth most populous state. If the MSR and the CPEC are a source of concern for India the BCIMEC is a net plus as it brings hope to one of Asia's least developed regions - the seven East Indian states commonly known as the "Seven Sisters." With cumulative population of 50 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 lack of access to the sea. The BCIMEC offers a real opportunity not only to connect the Seven Sisters to the Bay of Bengal but also to the vast market in the Chinese mainland.

For China, the BCIMEC offers several advantages: other than connecting China's southwestern provinces with the gigantic markets of India it provides China with an outlet to the Bay of Bengal – an additional way to circumvent the Strait of Malacca. Second, it makes China an early investor in Myanmar's infrastructure. With population of 55 million people the country

is now emerging from decades of political and economic isolation. The recent lifting of the sanctions and travel bans make Myanmar one of the fastest growing economies in the world and with its cheap labor it may soon become Asia's new manufacturing hub. China has surely identified the country's potential. 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 is connected to the electricity grid.

The process of China's integration with Myanmar has already began. The two countries share a new pipeline running from Kyaukpyu via Namkham to Ruili in China shipping natural gas from Myanmar's offshore fields and oil from the Middle East and Africa. China has also developed Myanmar's hydroelectric sector building 43 dams throughout the country. Additional regional connectivity projects are on the docket. Today, for example, the road from the Indian border state of Mizoram to the Sittwe, the deep water port of Mynamar, is over 800 miles long. But Mizoram could also be connected with Sittwe, through the Kaladan River, cutting by half the passage from Myanmar to the Seven Sisters. The Kaladan River canal is not framed as a BRI project but it may become so as China seeks more financially and strategically rewarding projects.

The BCIMEC also gives a shot in the arm to 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 25 projects including a power plant and a deep sea port in Sonadia Island. This is more than ten times the credit line India granted Bangladesh in 2015.

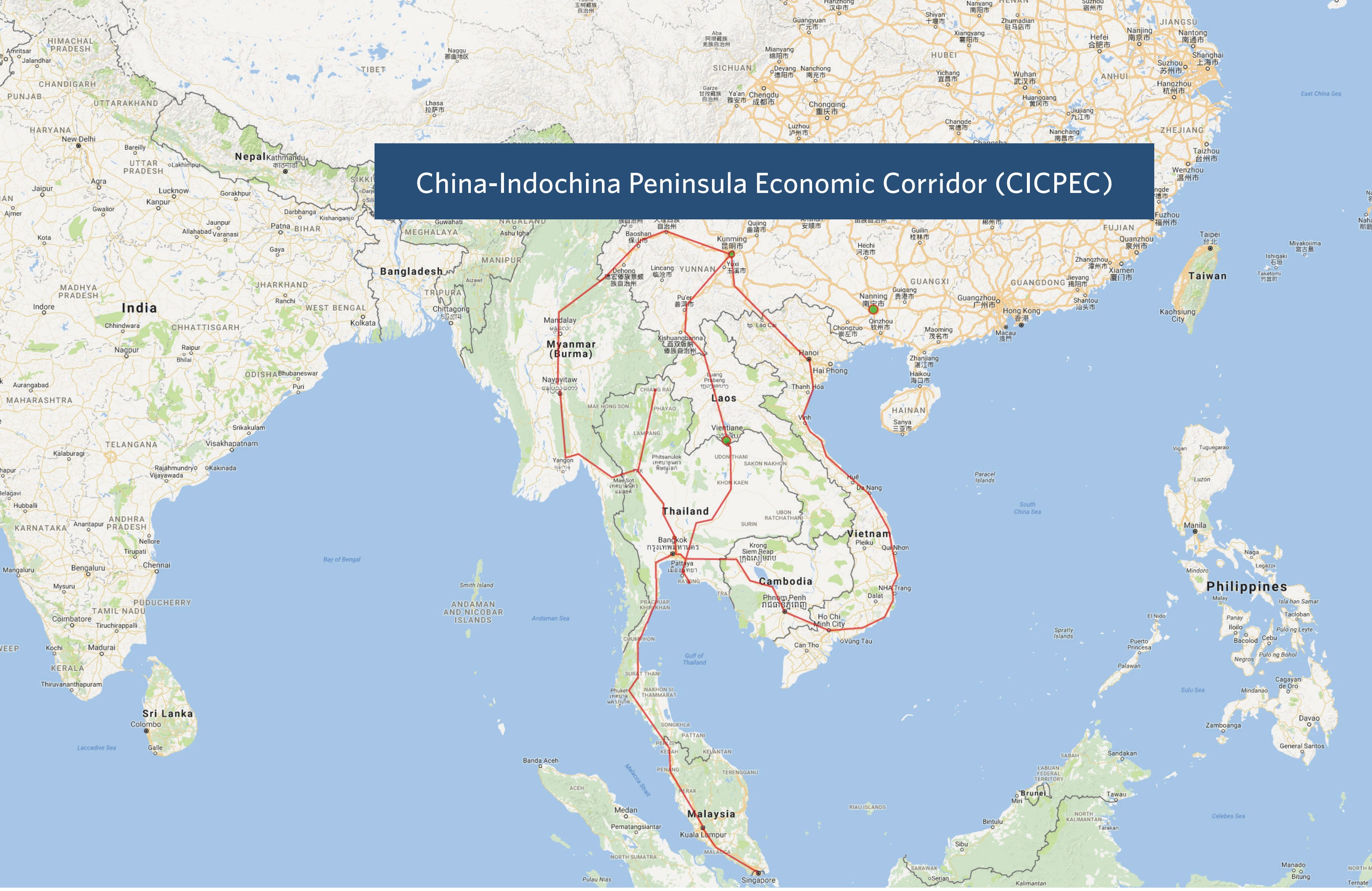
Just like other BRI corridors the BCIMEC too is challenged by both man and nature. The route is problematic because it enters a small portion of Arunachal Pradesh over which India and China have a territorial dispute. Part of this stretch is prone to insurgencies by East Indian secessionists, and therefore unsafe. From 2005 to 2015 more than 5,000 people have been killed in political violence in this region alone. Financially it is still premature to assess the economic viability of the corridor.

5. China-Indochina Peninsula Economic Corridor (CICPEC)

Had the ASEAN block of countries been one national entity it would have been the world's third most populated country after China and India. With its total population of 600 million and connected by land to the Chinese mainland, ASEAN is a natural extension of China's economy. Even before the 2010 launch of the China-ASEAN Free Trade Area (CAFTA), ASEAN countries have long been the key trading partners of China. But the upgrading of the CAFTA pact, with a focus on strengthening investment, trade in goods, energy and services, and economic and technological co-operation, will take regional economic integration to a whole new level. This is why of all the BRI corridors the China-Indochina Peninsula Economic Corridor is perhaps the one that holds most promise not only for China's economy but for global economic development writ large.

Also known as 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 the Chinese city of Nanning. From there, additional connectivity nodes would be extended to the major economic hubs of Guangzhou and Hong Kong, thus forming a web connecting ten cities with cumulative population of over 50 million.

The CICPEC builds on existing economic co-operation 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



China-Indochina Peninsula Economic Corridor (CICPEC)

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 (CCCG) is bidding for a project to build a 200 mile bullet train linking Kuala Lumpur and Singapore, slashing travel time to 90 minutes from well over five hours by road today.
The CICPEC reflects China strategic decision to create an outlet to the South China Sea from its southwestern provinces. Because of its complex relations with Vietnam and due to Myanmar's unclear political path it chose to do so via mainland Southeast Asia, from north to south, through Laos and Thailand. The landlocked underdeveloped Laos is the ASEAN country with the strongest allegiance to China. Furthermore, with growing water scarcity in Southeast Asia, its control over the Mekong River

allows it to punch above its weight in regional politics. 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 it to Thailand's Map Ta Phut port and the industrial zone in the Gulf of Thailand providing both countries southern access to the sea. Thailand is also shifting its orbit toward China. The military government which took power in 2014 is likely to remain at the helm in one configuration or another for many years to come. This junta prefers to deal with Beijing rather than with Washington, which is always more scrupulous when it comes to democracy and human rights.

THE MEKONG RIVER CHALLENGE

Approximately 3,000 mile long, the Mekong River is Southeast Asia's main source of water, food and energy. More than 60 million people, mainly in Thailand, Laos, Cambodia, and Vietnam rely on fresh water supply from the basin. China's shifting to clean and emission free hydropower through the construction of mega dams on the Upper Mekong in Yunnan Province has compromised water supply for irrigation and fishing in the downstream countries where droughts are frequent. Construction of additional dams both in China and in the Lower Mekong River will make the problem much worse. China currently has fourteen dams in planning or under construction and the downstream countries have eleven such projects. To avoid water conflicts the Greater Mekong China and its neighbors should strengthen the coordination on the amount of water released from China's reservoirs during the dry season and clarify the conditions under which new dams can be constructed. Without such coordination the Mekong River Basin could introduce regional security challenges that would turn the South China Sea dispute into a fond memory.

In terms of economic growth no doubt CICPEC offers an important mechanism for regional integration. The introduction of new options for land transportation and energy shipments could also reduce maritime traffic in the South China Sea and alleviate China's anxiety over threats to maritime traffic in the Strait of Malacca. On the other hand, China's north-south push toward the South China Sea will add a new dimension to an already complex security and economic environment in the region. By connecting mainland China with the Malay Peninsula Beijing hopes to preempt efforts in ASEAN to create a strategic block to balance its rise. It also seeks to strengthen the prospects for signing 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. For Beijing RCEP is the preferred alternative to U.S. led TPP which excludes China and India.

Finally, one should consider the implications for the Philippines. The rise to power of President Rodrigo Duterte has shaken up the alliance between Manila and Washington and this created a window of opportunity for Beijing to strengthen its relations with the Philippines despite the fact China refuses to acknowledge the ruling of the Hague which debunked China's claims in the South China Sea. Duterte's historic visit to Beijing in October 2016 may have marked the beginning of a new diplomatic era in which the Philippines allegiance to Washington can no longer be counted on. Eager to be on the receiving side of China's BRI investments Duterte is likely to seek ways to carve a role for the Philippines in China's grand plans for the Malay Peninsula integration. China for its part believes that by defusing some of the tensions with the Philippines they would be able to reduce United States involvement in the South China Sea.

6. China-Central and West Asia Economic Corridor (CCWAEC)

While being the BRI corridor which overlaps most with the ancient Silk Road, the China-Central Asia-West Asia Economic Corridor (CCWAEC) is perhaps the most opaque one. Official maps depicting the route have only done so in broad strokes. What is known so far is that the CCWAEC would run from Xinjiang via Alashankou, on the China-Kazakhstan border, to join the existing railway networks of Central Asia and Middle East. The corridor covers the Central Asian countries of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Turkmenistan and Afghanistan as well as Iran and Turkey. An extension of the line could be added to run to Ukraine via Azerbaijan, Georgia and Russia. That said, individual components of the corridor have already been implemented. For example, the 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, advancing connectivity between China and Central Asia. In September 2016 a rail connection between China and Afghanistan was inaugurated, shortening the trip to two weeks from six months by road. Once competed, 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 provides an impetus to ship low end and short shelf life Chinese goods via land.

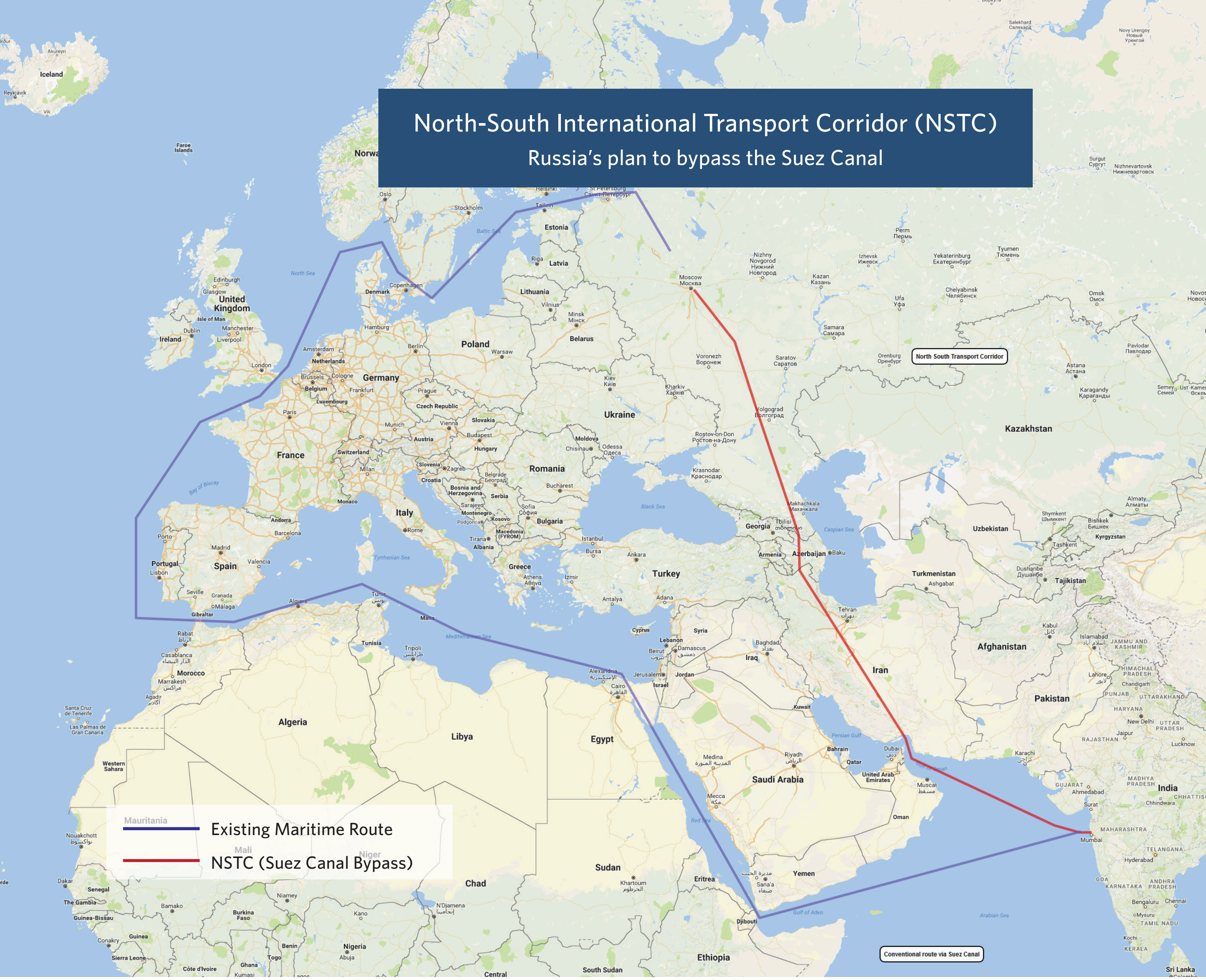
CCWAEC also has an energy dimension as it corresponds with the backbone of China's gas supply from Central Asia. As it is, the China-Central Asia Gas Pipeline is the world's longest. It starts at the border of Turkmenistan and Uzbekistan, runs through Uzbekistan and southern Kazakhstan, and ends at Khorgos on the Kazakhstan-China border. From there it will be connected to China's second West-East gas pipeline, which is under construction. Another pipeline will connect Tangiz and Kashagan large gas fields in the Caspian with Shymkent in south Kazakhstan. From there the Chinese market can be fed from one of the world's largest gas deposits.

From a geopolitical standpoint the CCWAEC raises several strategic dilemmas. First, it elevates the role of Iran as a conduit for trade between China, Central Asia and Europe at a time the United States and its allies are still seeking ways to contain the Islamic Republic.

China-Central and West Asia Economic Corridor (CCWAEC)

Second, Russia may view this BRI component as an attempt to undercut its Eurasian trade. Central Asia is considered by Moscow to be part of Russia's sphere of influence. But the Ukraine crisis has raised concerns about Russia's real intentions, leading Central Asian countries to strengthen their relations with China. Particularly sensitive is Kazakhstan. Vladimir Putin's remarks in 2014 that Kazakhs wish to be part of the "greater Russian world" were interpreted in the post-Soviet world as an assault on Kazakhstan's sovereignty and independence. Such remarks can shake investors' confidence about the country's future stability. For China, Kazakhstan is of great strategic importance. It is a source of oil, a conduit for Turkmen gas, one of the world's largest reserves of uranium and a natural gateway to Central Asia and beyond. Despite the slump in its oil revenues the country is in the midst of a $9 billion infrastructure development plan announced by Kazakhstan's President Nursultan Nazarbayev in November 2014 and known as Nurly Zhol. China's willingness to take the risk and 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. China for its part has tried to alley Moscow's concerns about the BRI, insisting that its vision for Central Asia is compatible with that of Russia. But this will only be tested as BRI projects begin to be implemented.

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 with North and Western Europe. The NSTC will run from Russia's Finish border to Azerbaijan and Iran with tributaries to linking it to Armenia, Belarus, Ukraine, Greece, Bulgaria, Georgia, Kyrgyzstan, Tajikistan, Kazakhstan, Pakistan, Iraq, Oman, Syria and Turkey. Other than facilitating a North-South flow of goods across the Russian Federation the main benefit of the initiative is that it reduces the need for transit via the Suez Canal.



The third challenge is Turkey. Although Turkey's geographical location makes it a natural bridge between Asia and Europe Chinese investments in Turkey have been relatively modest – the exception being a September 2015 acquisition of a major container terminal near Istanbul – due to ongoing tension between the two countries largely having to do with Beijing's treatment of the Turkic-Muslim minority in Xinjiang and the persecution of the East Turkestan Islamic Movement which Turkey sympathizes. That said, following the July 2016 failed coup attempt and the subsequent crackdown on his opposition, Turkey's President Tayyip Erdogan has strengthened his grip on power. He has also taken steps to mend fences with Russia. These will cause growing tension with the West which would play into China's hands. This in addition to the country's need for foreign investment could usher a new era in Ankara's relations with Beijing, making Turkey a more attractive target for major Chinese investments.

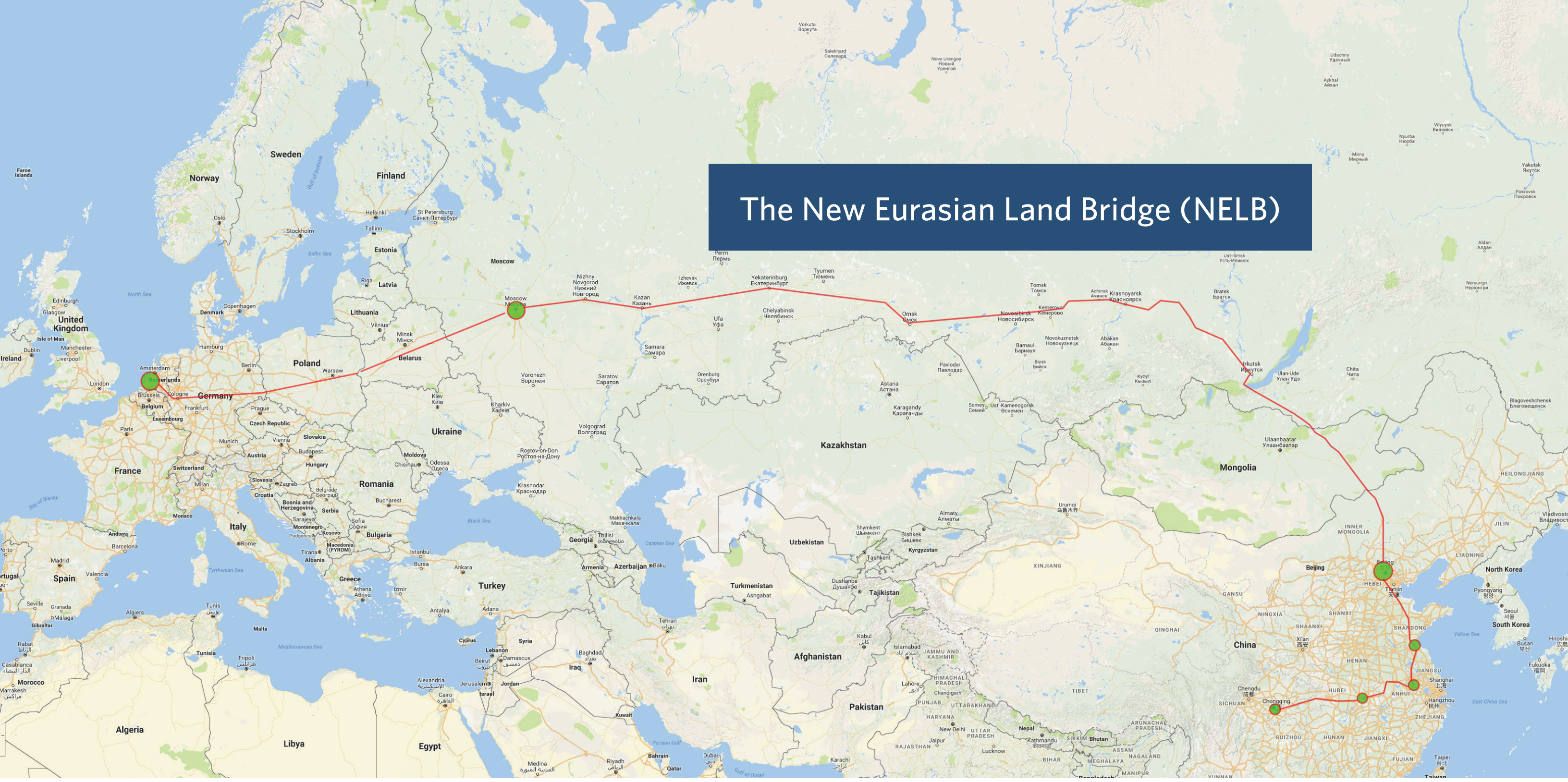
7. The New Eurasian Land Bridge (NELB)

As China's manufacturing is beginning to shift westward it becomes increasingly more cost beneficial to ship 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. The voyage takes 15-19 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 foster uninterrupted connection between major Chinese cities like the Jiangsu province port of Lianyungang, Lanzhao, Wuhan, Chongqing, Xian, and Urumqi to west European cities like Rotterdam and Duisburg in Germany. Chinese goods will be funneled into Xinjiang via China's internal rail system and 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 addressing the problem of railway gauge differences between the Russian railway gauge and the Chinese and European gauge.

THE NEED FOR SPEED

One of keys to the BRI's success is high-speed rail technology. In order for high speed rail (155mile/h and up) to be able to compete with air and sea transport it must be able to win on two fronts: cost and/or speed. China, Japan and Germany are the three world leaders in high-speed rail. Of the three, China's bullet trains are today the cheapest and the ones with the shortest construction time, which gives China's rail companies a competitive advantage. China's high speed rail industry has cut its teeth in the domestic market, constructing the largest high-speed rail system in the world. The country's 12,000 miles of high-speed track in service is larger than the rest of the world's combined.

High-speed rail construction is capital intensive, and as a result the service to the consumer is costlier than conventional rail. Financing of high-speed projects is challenging as it typically involves multiple financing instruments and government funding. This is why China's state owned enterprises, mainly China Railway Corporation (CRC), known in China as the Railway Ministry, has emerged as the world's leading operator of this mode of transport. But with more than $600 million in liabilities in 2016, partly due to a decline in freight volumes, the company can only remain viable thanks to the largesse of the Communist Party. It is not clear that extending this money losing system into the vast territories of Russia and Central Asia will result in a different outcome, especially at a time when the global economy is stagnant.



The NELB is part of a more 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 435 mile high speed rail line between Moscow and Kazan. In July 2016 China signed on to the UN TIR transit system (Transports Internationaux Routiers, or International Road Transports) which 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.

The NELB resembles in its logic the CCWAEC. While the latter circumvents Russia the former crowns Russia as the main conduit to Europe. Together the two projects comprise what China refers to as China Railway Express to Europe. Yet, this ambitious project is still rudimentary and its cost-benefit analysis has not been fully concluded. It is therefore premature to determine whether or not the multibillion dollar investment makes financial sense.

What Should Washington Care About?

In reviewing the various BRI components one can identify three types of projects. First are projects that correspond with, or even bolster, U.S. interests or at the very least do not harm them (marked in green). Second are projects that have the potential to be detrimental to U.S. interests but their negative impact could be managed and mitigated through closer U.S. engagement (marked in yellow). Third are projects that would unequivocally undermine U.S. interests and should therefore be discouraged or actively resisted (marked in red). The table below summarizes the impact of each component on U.S. interests:

BRI CORRIDOR	STRATEGIC IMPLICATIONS FOR THE U.S.	VERDICT
The Twenty-First-Century Maritime Silk Road	■ Stronger Chinese naval presence in the high seas can improve collective energy security, maritime safety, anti-piracy efforts and protection of critical infrastructure including the world's internet backbone. ■ Potential for maritime competition between the U.S. and the Chinese Navy. ■ Potential maritime competition between China and India. ■ Challenge to the status quo in South China Sea. ■ Challenge to NATO's hegemony in the Mediterranean and along the coast of East Africa.	
The China-Mongolia-Russia Economic Corridor	■ Bolster China-Russia-Mongolia relations. ■ Provide Mongolia easier access to the sea.	
The China-Pakistan Economic Corridor	■ Reduce traffic in the Strait of Malacca. ■ Weaken U.S. posture in Pakistan. ■ Increase tension between Pakistan and India. ■ Challenge the viability of Kandahar-Chabahar corridor and hence impact Afghanistan and Iran. ■ Increase terrorism threat in Pakistan and western China.	
Bangladesh-China-India-Myanmar Economic Corridor	■ Provide East India (Seven Sisters) access to the Indian Ocean. ■ Reduce traffic in the Strait of Malacca. ■ Grow China's sphere of influence into the Bay of Bengal. ■ Stimulate economic development of Myanmar. ■ Complicate political reforms in Myanmar. ■ Complicate India-Bangladesh relations.	

BRI CORRIDOR	STRATEGIC IMPLICATIONS FOR THE U.S.	VERDICT
China-Indochina Peninsula Economic Corridor	■ Strengthen connectivity and energy security is ASEAN. ■ Challenge the status quo in the South China Sea. ■ Distance the Philippines from the U.S. ■ Undermine political reforms in Myanmar, Laos and Thailand. ■ Weaken TPP; strengthen RCEP.	
China-Central and West Asia Economic Corridor	■ Increase dependency of Central Asia on Iran. ■ Cause potential tension between Russia and China. ■ Lead to rapprochement between Turkey and China, further eroding Turkish democracy and distancing Turkey from Europe. ■ Feed GCC countries anxiety about Iran. ■ Complicate transatlantic relations. ■ Competes with Russia's NSTC.	
The New Eurasian Land Bridge	■ Bolster Russia's influence on Europe. ■ Increase landlocked Kazakhstan's dependence on Russia. ■ Potential wedge between Europe and the U.S.	

The first question Washington should ask itself is how desirable is it that China and Europe become connected? After all, connecting the two major economic blocks is the essence of the BRI. On the one hand Europe's economic woes have become a real strategic threat: nonexistent growth, the weakness of the Euro, high unemployment rates and unsustainable debt. The withdrawal of Britain from the European Union (Brexit) may be a harbinger of additional departures, and the deepening of the debt crisis puts the existence of the Eurozone in question. All of this happens as Europe struggles with an escalating refugee crisis and as Turkey, the buffer between Europe and the disintegrating Middle East, seems to be drifting away from Europe. Washington's main tool 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 be in doing so, but even if it were successful the TTIP negotiations are not likely to conclude before the end of the decade - if ever. With no other aces in the deck, the BRI may be the only practical idea on the table to boost European growth. And indeed, China takes its role as a trigger for European growth 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 EUR 10 billion fund, the China-Central Eastern European Financial Corporation led by the Industrial and Commercial Bank of China, with the purpose of developing infrastructure projects in Central and East European (CEE) countries. China and Germany have set up a consultation mechanism to synchronize their respective industrial development plans. China and the UK are also discussing similar alignment opportunities. In addition, China has signed MOUs on economic development with most countries in Central and Eastern Europe.

China's buying spree in Europe has already begun. China Merchants Group has signed a letter of intent with Lithuania's Port of Klaipeda—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. A consortium led by Cosco Pacific bought majority stake Turkey's largest container terminal, Kumport, on the European side of Istanbul. China Everbright Group, a state-backed financial firm, bought into Albania's international airport. Chinese consortiums won the bids to buy the Toulouse Airport in France and the Hahn airport near Frankfurt in Germany; a Chinese consortium aims to construct a high-speed rail line between Belgrade and Budapest; and CEFC China Energy Company, one of China's top ten private companies, has made significant investments in various assets in the Czech Republic. Many other deals are in the pipeline. These actions come at a time when Europe is in great need of investment and therefore most European countries have rolled out the red carpet before China's investors.

On the other hand, China's entry into the European economy is not free of challenges. Europe, so it seems, is ambivalent about the BRI. Although the main European economies – Germany, France, Italy, UK, Norway, Netherlands and Spain – have joined the AIIB, half of the EU members have not yet done so. The main concern is that China's direct investment in Central and East European countries may cause rifts within the EU. The west 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 investments and are likely to be antagonized by CEE governments' willingness to do so. They also insist that China's activities conform with their high standards of transparency and sustainability, something CEE countries are less likely to do. 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 and its policies in the South China Sea. A good example of the impact of money on European politics was the July 2016 summit of Asian and European leaders in Mongolia. Taking 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 Britain, 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 closing statement of the summit did not mention the South China Sea.

China's entry into Europe is a game changer

From a U.S. perspective China's entry into Europe is a game changer. Washington is concerned that China might drive a wedge between the United States and the EU and that China might take advantage of Europe's economic despair. This will require Washington to monitor closely China's activities in Europe and to strengthen its coordination with Europe in such way that balances Europe's urgent need for capital while upholding the common interests and common values embedded in the transatlantic alliance.

The second challenge the BRI poses for Washington is that under the current configuration all rail freight from China to Europe must essentially pass either north of the Caspian Sea through Russia or south of the Caspian Sea through Iran. Both Iran and Russia are countries Washington is trying to contain through economic and diplomatic pressure and therefore supporting any of those corridors is not in America's interest. That said, problematic as BRI might be for U.S. interests the Russian vision for Eurasian integration, as manifested by the NSTC, is even worse as it creates a Russian-Iranian axis which would bolster the two countries, weaken Egypt, compel Moscow to increase its presence in the Middle East and the Caucuses and drive Turkey and India to adopt a more pro-Russian posture. Policymakers concerned about the BRI should therefore keep in mind that despite its deficiencies the Russian vision is much worse.

The third challenge is the Indian Ocean, the third largest body of water on the planet. Spanning from the Sahara Desert to Indonesia this ocean carries one half of world's container shipments, one-third of the bulk cargo traffic and two-thirds of the oil shipments. It is also the gateway to the Muslim world. Its shores are littered with lawlessness and terrorism and piracy-ridden countries: Somalia, Yemen, Iran, Pakistan and Indonesia. According to a report by the US Marines the Indian Ocean will be the central theater of global conflict and competition in the twenty-first century. As such, its waters require strong international policing and maritime cooperation. To date, this job has been carried out mainly by the U.S. and the 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 to the west, east and south of India is unnerving New Delhi and is providing impetus for India's naval expansion. By 2030, the Indian Navy will be one of the world's five most powerful navies and the second largest carrier fleet after the United States. The United States should aspire to avoid being caught in the middle of a maritime rivalry between China and India. Instead it should attempt to integrate the Chinese Navy in the existing maritime security architecture in the region and to utilize China's contribution with the goal of enhancing collective security.

The fourth challenge is the South China Sea. The CICPEC may put to test Washington's commitments to the preservation of the status quo in the South China Sea. Washington will have to reassure Manila that the BRI will not undermine Philippines security and work closely with Vietnam to ensure that China does not use the BRI as a mechanism to diminish the regional posture of Vietnam. It should place higher priority on the economic development of Vietnam and the Philippines and offer its own development initiatives to ensure the two countries are not left behind.

BEAT IT OR JOIN IT?

One cannot tell what will come out of the BRI. Will it go down in history as a PR campaign? Will it survive the tenure of Xi Jinping? Will it actually fulfill its stated goals? The United States pursued many of the same goals when it poured billions of dollars into countries like Pakistan, yet achieved little. But in China's case there are reasons to be more optimistic. One reason is that U.S. support has been mostly focused on military aid, whereas China concentrates on civilian investments. Second, the need for investment is more pressing than ever. While large parts of the developed world are on the brink of a recession China has both the means and the will to deploy capital abroad. Provided it too does not sink into economic stagnation and can master the resources and political alliances to plough forward with its ambitious plan, it is well positioned to dominate the world's development agenda. Third, the BRI is the first time China engages the world in a strategic manner and on a multilateral level rather than bilateral one.

All of this to say that the next administration will no longer have the option to ignore the BRI. It will have to acknowledge it and respond to it in one of the four following options:

1 RESIST

The premise of this option is that Chinese domination of the Eurasian trade routes, particularly in Central Asia and the Middle East as well as changes to the status quo in the South China Sea which may be associated with BRI projects are a real challenge to U.S. vital interests and should therefore be disrupted even at the expense of regional economic development. This option advocates that Washington takes active measures to derail the BRI by disrupting the connectivity along its suggested corridors. Under such a scenario, the United States will invest in certain sections of the BRI in such a way that obstructs the Chinese plan just like one buys a certain street in a Monopoly game in order to prevent the opponent from monopolizing an entire color section on the board. Adopting this option would elevate the role of transit countries like Kazakhstan, Sri Lanka, Myanmar, Pakistan, Turkey, even Iran, in America's geopolitical calculus. The risk of this course of action is that it threatens to drag the United States into a Cold War way of thinking in which insignificant countries obtain inordinate importance on the world stage by virtue of their geographical location. Such a course of action will create multiple new flashpoints in the U.S.-China relations. It presents the risk of embroilment in small wars, weapons proliferation, subversive diplomacy, cyber warfare and currency wars.

Transnational infrastructure projects often forge alliances among nations, but they also evoke suspicion, hostility, and jealousy among great powers.

Transnational infrastructure projects often forge alliances among nations, but they also evoke suspicion, hostility, and jealousy among great powers. In the 19th and 20th centuries it was transnational railways that made the contour lines of global geopolitics, and some of those projects – England's Cape Town-to-Cairo Railway project, the Trans-Siberian Railroad and the Berlin-Baghdad Railway are three that come to mind – drove the great powers of their time to the precipice of war. This is not an outcome the United States should desire. Therefore, this option should not be pursued.

2 IMPACT FROM WITHIN

It is still early enough for the United States to jump on the bandwagon and offer its own constructive role in the initiative – as a full-fledged partner. This option will put the United States in a good position to craft the Belt and Road using its own yardsticks and promoting from within China's adherence to international labor, environmental and corporate standards. It would also enable Washington to test China's characterization of the BRI as "open", "harmonious" and "inclusive." That said, the BRI is too rudimentary to earn blanket U.S. support. The main risk the United States faces in becoming part of the initiative is that China might use America's cooperation and goodwill to advance its own ascendance, possibly to the U.S. detriment. Contrary to America's mercurial foreign policy making in which the lifespan of policies is typically one or two presidential terms, China's foreign policy is characterized by what could be described as strategic patience. One school of thought among China watchers holds that China pursues a long term grand strategy to supplant the United States as the world's dominant power and it is doing so by cunningly coaxing the United States to contribute foreign investment, technology and intelligence in ways that in fact support China's own rise. The BRI is not a five-year-plan but a generational mission which will be advanced at a glacial pace. If it is indeed used by China as merely a smoke screen to mask its geopolitical expansionism it could take years before the United States fully grasps the true essence of the ploy.

Another risk of a full-fledged American embrace of the BRI is further alienation of Russia. To date Moscow has been lukewarm about the BRI. On the one hand it sees the economic benefits for the struggling Russian economy of Chinese investment in Eurasia. On the other hand, it is apprehensive about China's trespassing into its spheres of influence in Central Asia and Eastern Europe. An American openness to the BRI might feed fear in the Kremlin of a Sino-American collusion, provoking even more Russian paranoia and hostile actions. A similar challenge exists with India. It too recognizes the BRI's economic promise but it is troubled by the large Chinese investment commitments in Pakistan – especially in Pakistani controlled parts of Kashmir and along the Arabian Sea – and China's increasing presence in the Indian Ocean, especially in neighboring countries like Bangladesh, Sri Lanka and Maldives. Just like in the case of Russia, Washington should ensure that its involvement in the BRI does not shake its relations with India. Washington should also be cognizant of the BRI's implications for the delicate balance of power in the Middle East. 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 would not only be against Russia's interests but also alarm the GCC countries which seek to prevent Iranian hegemony in the Persian Gulf. Finally, Washington should resist any Chinese effort to use the BRI as a way to change the delicate status quo in Southeast Asia and the South China Sea as no degree of infrastructure building and economic integration justifies compromising America's Pacific Rim alliances.

3 SEIZE THE INITIATIVE

In this option, the United States will present its own grand development program for Asia, one that competes with the BRI. This will require the United States to create new institutions and bolster existing ones, elevating the role of private investment, promoting new economic alliances and free trade agreements and using its vast energy resources to leverage economic development in the BRI regions. This option, however, is not realistic. By competing with China, the United States may increase the volume of investment in Eurasia, but such an approach risks fierce and unwanted competition, as well as redundancies and inefficiencies in the allocation of resources. Furthermore, it will likely end in a humiliation. Since the Marshall Plan for the reconstruction of Europe the United States has been averse to using sovereign money to build infrastructure abroad and has preferred this to be the job of the private sector. Only a tiny fraction of the USAID's total budget request for 2017 of $22.7 billion will address Asia's infrastructure deficit. This is not likely to change. With its own roads and bridges failing it is unlikely that the United States could marshal the resources and will to fix other countries' infrastructure.

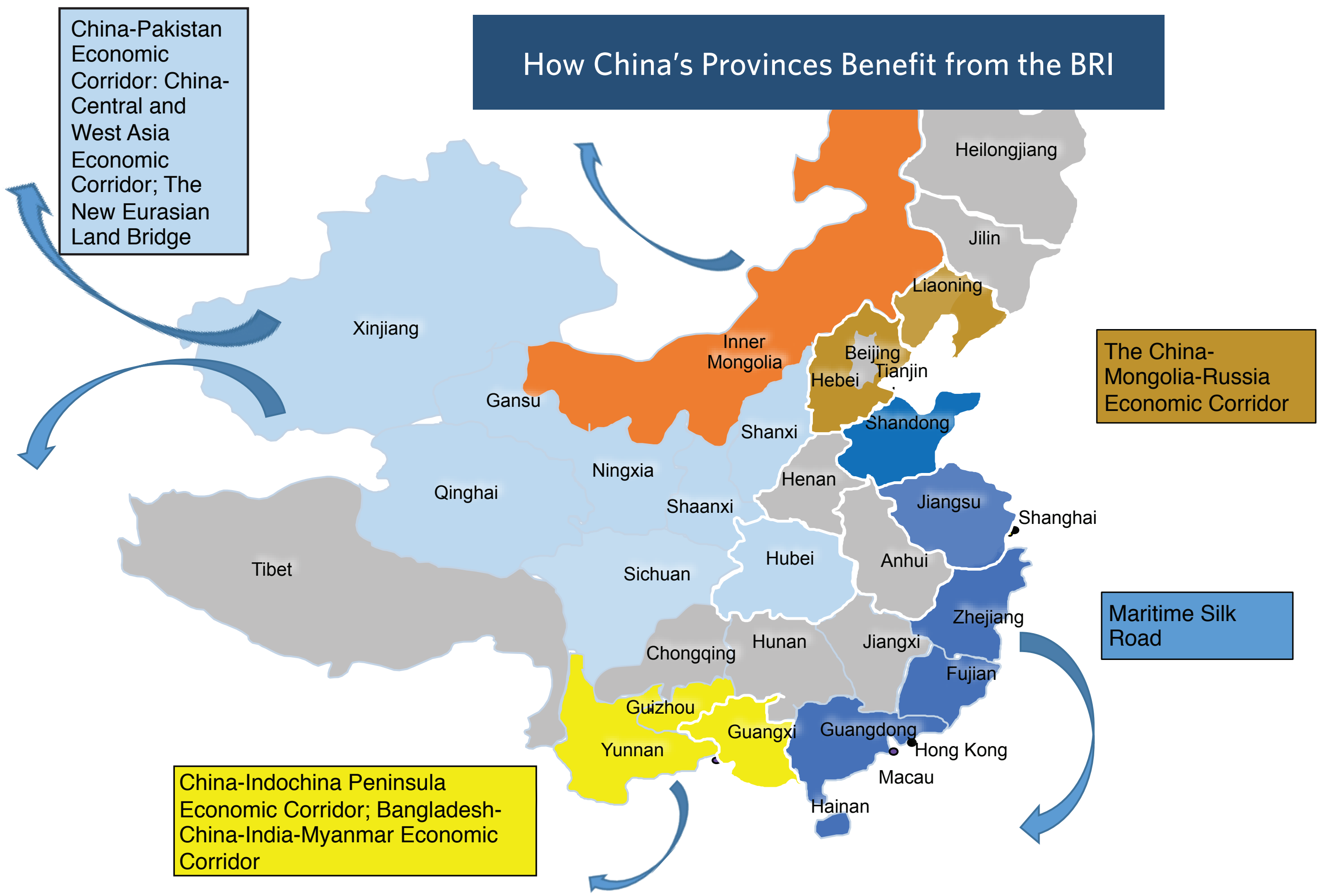
4 PARTIALLY BUY-IN

Under this scenario the United States will publicly embrace the overall BRI vision of regional connectivity and energy security but will only actively participate in cherry picked projects that correspond with its geopolitical rationale and ideological worldview while staying away from those BRI elements that undermine its strategic interests such as projects that benefit Russia and Iran or stir acrimony in Southeast Asia. This option leaves the United States with sufficient maneuverability yet it positions it as a willing and pragmatic team player rather than a spoiler.

This alternative begins with rhetoric. American leaders should publicly acknowledge President Xi's initiative and the potential benefits it offers provided it is done right. The two countries should then find a proper forum to discuss the BRI and formulate a concrete role for the U.S. Washington can also offer its diplomatic toolkit to alleviate concerns among its allies,

The best course of action for the United States is to pursue a policy of selective buy-in.

particularly in South East Asia, where anxiety about China's ascendance runs deep. The U.S.' cautious embrace of the BRI would also enhance the confidence of private investors in deploying their money behind a projects associated with China.



Recommendations

RECOMMENDATION 1: Adjust the Bureaucracy to Deal with the BRI's Vastness and Complexity

The BRI is vast, diffuse and difficult to comprehend. In order for Washington to address it in the most effective way it should establish mechanisms to understand it, monitor it and assess its progress on an ongoing basis. This will enable Washington to respond in real time to developments that may undermine U.S. interests. The problem is that the stove piped U.S. government is not well set-up strategically and intellectually to deal with the vastness, multi-regional and multi-disciplinary nature of phenomena like the BRI. Generally speaking, Washington's approach toward Asia has been organized in four clusters: East Asia, where the issues of Japan and Korea dominate; South Asia policy primarily focused on India-Pakistan; Central Asia which is heavily dominated by U.S. 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 U.S. defense establishment suffers from a similar compartmentalization. U.S. military commands are not organized in a way that allow the U.S. government to execute a comprehensive BRI policy. The BRI territory is divided among four military commands: the European Command, the Central Command and the Pacific Command and the Africa Command. Similar problem exists within the intelligence community and the various development agencies. This bureaucratic fragmentation impedes big picture thinking and the formulation of grand strategy.

Washington should therefore develop a new lens through which it can see the BRI more holistically and understand all the factors at play. It needs to assign a senior level official to oversee the project and coordinate the U.S. response.

Congress should also increase its engagement. Congressional committees should hold periodic hearings about the BRI and about U.S. international development policies in general. Congress should also require the U.S.-China Economic and Security Review Commission to do the same.

RECOMMENDATION 2: Form a Dedicated Mechanism to Engage with China on BRI Matters

U.S-China relations do not lack venues for dialogue be it the ministerial level Strategic and Economic Dialogue, Strategic Security Dialogue, military-to-military relations, dialogue on cybercrime etc. The BRI has not been addressed in any of the existing dialogues. This is partly because the Obama Administration chose to ignore it and partly due to the difficulty in injecting a broad and complex issue like BRI into rather narrow and specialized dialogues.

Going forward, ignoring the BRI is not an option. The United States and China should agree to hold an annual dialogue on the BRI to evaluate the progress of the initiative, air concerns and identify areas of cooperation. This can be a standalone dialogue or a dedicated track within the Strategic and Economic Dialogue or within a future Group of Two (G-2) framework.

The administration should initiate a Global Development Forum to address energy poverty, infrastructure gaps, and financing. This forum will establish U.S. leadership on a topic of great concern to most developing nations. The Global Infrastructure Forum which was hosted in Washington in April 2016 in the presence of all the heads of the Multinational Development Banks could be developed into an annual event fostering closer collaboration among the MDBs and providing a stage for China and the United States to strengthen their BRI cooperation.

RECOMMENDATION 3: Carve Out a Role for America

Washington's pockets may never 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 key role in protecting critical infrastructure along the BRI corridors – many of which traverse tumultuous zones in which the U.S. already deploys military assets. U.S. defense companies can provide technological solutions such as sensors, UAVs, radars, and satellite imaging. The U.S. 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 U.S. 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 assume a role of facilitating the flow of private capital. Private equity funds sit today on a mountain of cash to the tune of $1.5 trillion. This money is sitting on the sidelines seeking good investment opportunities. However, infrastructure offers low return on investment and in many cases presents high risks. As a result its funding relies heavily on sovereign money.

RECOMMENDATION 4: Join the AIIB

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 America's closest allies. Altogether 57 countries joined the bank as founding members. 24 more countries expressed their interest to participate. If ten of those apply for membership the number of AIIB members will surpass that of the ADB. 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 traditional institutions, and the five vice presidents, all non-Chinese, are 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 provided in 2016 by the bank only one 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 and draw from their experience.

Now that the bank is in operation and that it has taken encouraging steps to demonstrate its transparency and fidelity the United States should consider changing its approach toward it and take steps toward joining it. A U.S. accession of the AIIB would be an important gesture. It would demonstrate a departure from the Obama Administration's disengagement. It would also pave the way for other major economies that followed U.S. opposition, like Japan and Canada, to do the same. Most important, it would signal to private sector players that it is safe to invest in projects co-financed by the AIIB.

RECOMMENDATION 5: Define Red Lines

Laudable as the BRI may be there is no denial that some of China's investments are risky and may not offer good return on investment – if any at all. Some critics of the BRI feel that China may want to salvage its failed investments by "internationalizing" them, tagging as BRI projects questionable projects that could benefit from additional injections of capital or from political pressure that could be applied on debtors to fulfill their financial obligations. In any event, under no circumstances should Americans' tax dollars be used to breathe new life into failed Chinese investments. Nor should the U.S. Government encourage – explicitly or implicitly – private investment in projects that have been grandfathered into the BRI program.

The United States should also stay away or even oppose projects that are of geopolitical nature or that are used as a smoke screen 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 to military expansion or deployment of destabilizing military forces or equipment in BRI territories. Furthermore, Washington should insist that the BRI not be used as a cover for policies that are detrimental to its values such as democracy promotion, human rights, anti-corruption, transparency and freedom of navigation. It should ensure that BRI projects are not used to prop up corrupt and dictatorial regimes or disrupt the status quo in areas where the United States seeks stability. China's island construction in the Spratly/Nansha Islands, for example, which by Chinese terms is labeled an "infrastructure project" has proved to be highly destabilizing and could potentially have implications for freedom of navigation in the South China Sea. Another particular concern has to do with Iran and the implications of the BRI for the stability in the Middle East. As detailed before the BRI positions Iran as a critical joint connecting Central Asia, South Asia and the Middle East. While the Islamic Republic is no longer under international sanctions it is still considered a regional menace and a sponsor of terrorism. Infrastructure projects that boost Iran's regional status such as the China-Central and West Asia Economic Corridor, the Iran-Pakistan Pipeline and the Kandahar-Chabahar corridor are not in America's interest. The latter is of particular concern as it will give Tehran power over Afghanistan, undermining years of U.S. investment in the country. Washington should insist that in exchange for its support Beijing put vanity projects or projects of a destabilizing nature on the back burner.

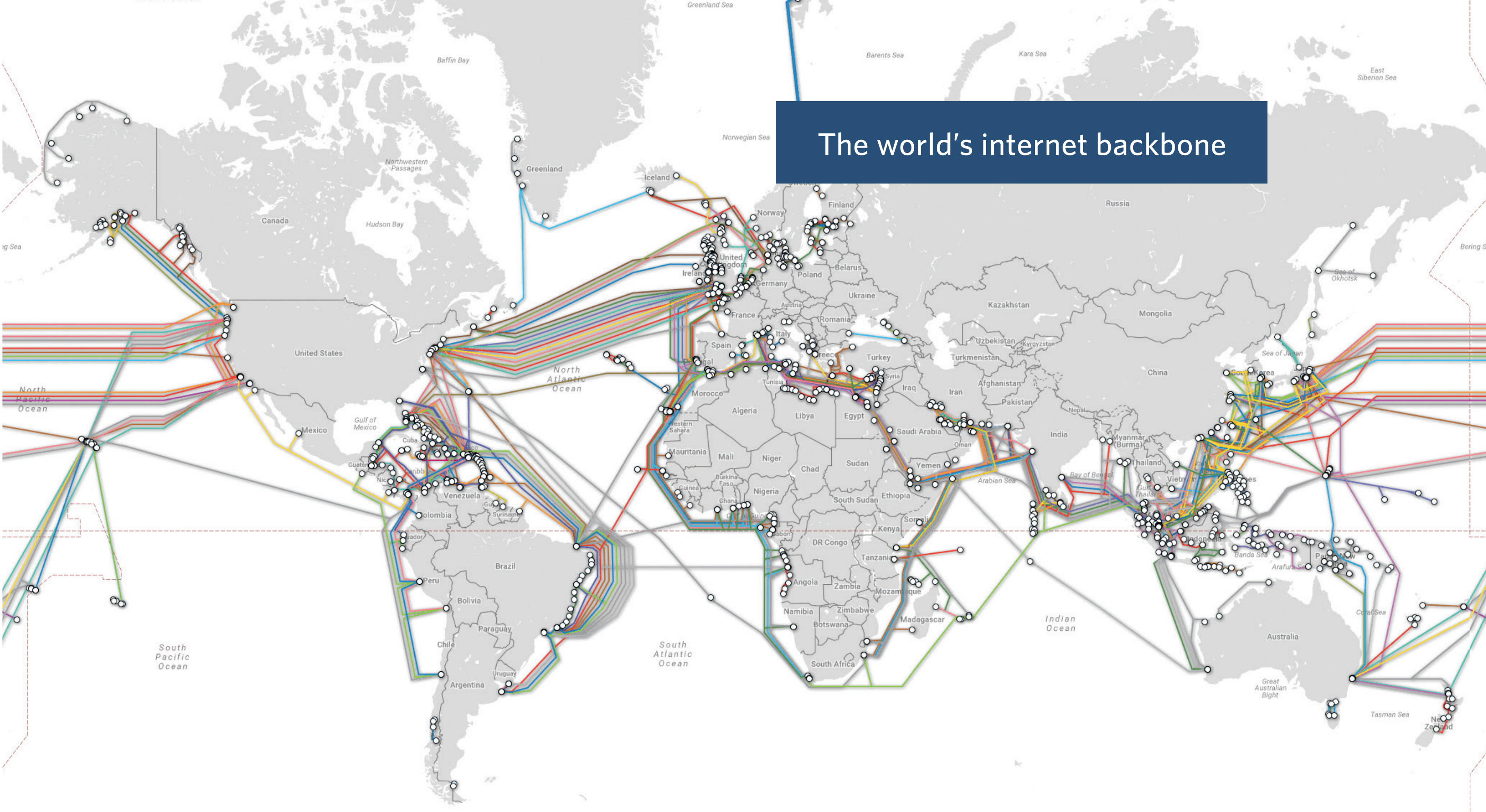
RECOMMENDATION 6: Initiate Transatlantic Coordination on the BRI

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 dynamics in the continent. 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 geo-economics. China sees Europe as a distressed asset to which it can inject its surpluses. The transatlantic conversations Washington and its European allies should be having about the BRI should be much more about geo-economics than about geopolitics. Europe today can no longer speak in one voice on almost anything. But Washington should strive to work with Europe to establish common understandings on the policy toward the BRI, to agree on common policies on privatizations of state assets and on red lines as to what assets can be sold to China. The goal should be to create the most hospitable investment environment for China without compromising the security architecture the U.S. and Europe have been laboring to achieve over the past half century. The Group of Seven (G-7) can be a good venue to begin to have such conversations.

RECOMMENDATION 7: Promote U.S.-Chinese Understanding at Sea

China's emergence as a maritime power, in part to protect its BRI assets, is inevitable. What is less predictable is America's response to this development. Traditionally, the rise of a new maritime power leads to overreaction by the incumbent power and hence to a naval arms race and even war. Prior to World War I the Britain responded to the rise of the German and Japanese Imperial Navies with defense policies that ensured that the British Navy was at least the size of the next two largest navies. This policy, called Two-power standard, not only bankrupted the British Empire but also caused tremendous tension among the great powers of the time. This dynamic – what Harvard University's Graham Allison named Thucydides' Trap, the danger of a rising power challenging a ruling one – is to be avoided. Instead of opting to maintain its hegemony over the world's oceans and maritime trade routes, the United States should find ways to incorporate China's navy in international alliances, joint sea patrols, and anti-piracy, anti-smuggling 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 sea powers with interests in the Indian Ocean like 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 overlapping more or less with the path of the MSR. These undersea cables which ensure the success of every click we make on our computers are exposed to many threats –from natural disasters to sabotage. The cost to society of disruption in internet traffic is exceedingly high. Asia's economy is heavily dependent on the security and reliability of those undersea internet cables and closer coordination of navies in protecting this internet infrastructure would serve all of mankind.



The world's internet backbone

RECOMMENDATION 8: Leverage the U.S. Role in Multilateral Development Banks and International Organizations

The United States has a long track record of promoting economic development through international organizations and Multilateral Development Banks (MDB) in which it plays a dominant role like the Asian Development Bank, to which U.S. contribution has already surpassed $27 billion, and the World Bank. The latter has recently lowered the debt-to-equity ratio which makes more projects bankable, and it also entered into joint investments with the AIIB. Other than sharing investment risk, U.S.-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 will assist 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 it will reduce investors' risk and encourage private sector participation. Another initiative was put forward by the G-20. In 2014 the G-20 initiated a five year plan to create a Global Infrastructure Hub to improve infrastructure projects through better knowledge sharing, highlighting reform opportunities and facilitating connections between public and private sectors. The United States should encourage these initiatives to be open to serve BRI projects and institutions and provide AIIB access to these facilities.

RECOMMENDATION 9: Craft a Red, White and Blue Development Agenda

Aside from its engagement with the BRI the United States should articulate its own vision for Asia's economic development and offer home grown initiatives that can make a difference. To date U.S. approach to 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 anti-corruption mechanisms. Laudable as these measures may be they cannot be substitutes to bricks and mortar based infrastructure.

What the United States can do is to conceive a handful of regional connectivity projects which correspond with its diplomatic priorities, coalesce allies and sources of capital to support them, and – most important – stay the course until they come to fruition. In the past the United States has promoted at least three such initiatives: First was the concept of a southern corridor to enable Caspian gas to flow to Europe as a way to reduce 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, and third was the Indo-Pacific Economic Corridor proposed in 2014 to connect India, Nepal and Bangladesh with Myanmar and Thailand. All three could have been flagship projects had Washington pursued them more vigorously. This has not happened so far. In all three cases the United States provided diplomatic firepower and in the case of the Southern Corridor it even appointed within the State Department a Special Envoy for European Energy. But cheerleading an idea is not enough. The United States never mastered the will to take its vision from the diplomatic sphere to the business sphere. As a result all three ideas are not any closer to materialization than when they were conceived.

An American development agenda should focus on those regions that are not covered by the BRI. China's focus on Asia has shifted attention from other poor regions like Latin and Central 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 receive higher priority by the United States. In Asia itself, Washington should – again – focus on the neglected parts of the BRI – for example the western coast of India, the Arabian Peninsula and Sub-Saharan Africa. Washington should work closely with India, Japan, South Korea and the Gulf Cooperation Council (GCC) countries. All of those major economies have been ambivalent toward the BRI yet all of them have expressed interest in embarking on major infrastructure and connectivity projects. For example, India's offered to build a bridge connecting the Indian city of Rameshwaram to Sri Lanka and Saudi Arabia floated a plan to build a bridge over the Red Sea connecting Egypt to the Arabia Peninsula. On its face such projects seem to make economic sense as they connect very large markets. Yet, China has not shown interest in pursuing them. This creates a leadership vacuum for the United States to fill.

In this, Washington's relations with Japan are key. Japanese investment in ASEAN infrastructure is set to rise. President Shinzo Abe's recent Quality Infrastructure Initiative called for $110 billion in new investment in infrastructure from 2016 to 2020, a 30 percent increase over the previous five years. The Japan Bank for International Cooperation (JBIC) has already changed its lending rules to allow higher risk investment. Japan also has a mature high-speed rail industry and its companies have successfully challenged China's companies in a number of projects.

RECOMMENDATION 10: Cease Fire in the War on Coal

One driver behind the decision to form a new vehicle for energy infrastructure financing is the environmental policies that the United States and other developed nations adopted and tried to impose on developing countries. Committed to sharp reductions in greenhouse gas emissions, the Obama Administration used its influence over lending institutions like the World Bank to ban financing of coal power plants abroad unless they include carbon capture and sequestration technology, an immature and hugely expensive technology that would effectively make them unfeasible. While the desire to reduce the use of coal is shared by many countries, one cannot ignore the fact that coal is still the workhorse of developing Asia and it is likely to remain so in the foreseeable future. According to the International Energy Agency in ASEAN alone three quarters of the thermal capacity now under construction is coal fired. No degree of political pressure on developing Asia to cut greenhouse gas emissions will sway Asian governments from delivering the cheapest form of energy to their people. As long as natural gas, nuclear power and renewables like solar and wind are not at cost parity with coal, developing Asia will continue to depend on it.

No country is aware of the environmental consequences of overreliance on coal more than China. And indeed, China has taken significant steps to reduce the growth in its coal use. That said, given China's gigantic economy and energy consumption size, while some reduction in coal use is possible, it is unfeasible to derail the country from its current dependence on coal. While the environmental problems associated with coal mining and burning cannot be ignored, they should be balanced against the energy security implications associated with an overly aggressive shift away from coal.

The U.S. government should revise its international coal policies, striking a more reasonable balance between energy security (cost and availability) and environmental policies. Furthermore, the United States should realize that in the developing world environmental policies that address air pollution and its attendant health problems take much higher priority over those that purport to address climate change.

Notes

About the Author

Dr. Gal Luft is co-director of the Institute for the Analysis of Global Security (IAGS) and a senior adviser to the United States Energy Security Council, a cabinet level extra governmental advisory committee. He is also Co-Chairman of the Global Forum on Energy Security and Senior Adviser to the China Energy Fund Committee. He specializes in strategy, geopolitics, energy security and natural resources. He is co-author of *Energy Security Challenges for the 21st Century* (2009,) *Turning Oil into Salt: Energy Independence through Fuel Choice* (2009) and *Petropoly: The Collapse of America's Energy Security Paradigm* (2012). He is author of *Beer, Bacon and Bullets: Culture in Coalition Warfare from Gallipoli to Iraq* (2010). He holds degrees in international relations, international economics and strategic studies and a doctorate in strategic studies from the Paul H. Nitze School of Advanced International Studies (SAIS,) Johns Hopkins University.

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