

THE CHINESE DREAM

THE **BELT+ROAD** INITIATIVE



CHINA'S NEW ERA

1,000 years ago, China ruled supreme

It was the “**Chinese Golden Age**”

During the Tang & Song Dynasties:

- the Chinese Navy ruled the seas
- it was the world's largest trading partner
- it was a hub of innovation

China aims to **reinstate that empire**



THE NEW EMPEROR

- **2012:** Jinping announces “The Chinese Dream”
- **2013:** The Belt & Road Project begins
- **2016:** Jinping is named “Core of the Communist Party”
- **2018:** “Xi Jinping Thought” is added to the constitution
- **2018:** Jinping’s term limits are eliminated





“A community of
common destiny.”

– Xi Jinping’s “New Era” Speech

THE BELT & ROAD

The **most ambitious** infrastructure project in history

A revival of the ancient silk road

Using hard infrastructure and soft connectivity

Designed to reroute global trade to China

The Goal: All roads lead back to China



THE BELT & ROAD

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THE SCOPE OF THE BRI



\$4 to \$8 trillion across Europe, Africa, & Asia

China has invested **\$1 trillion so far**

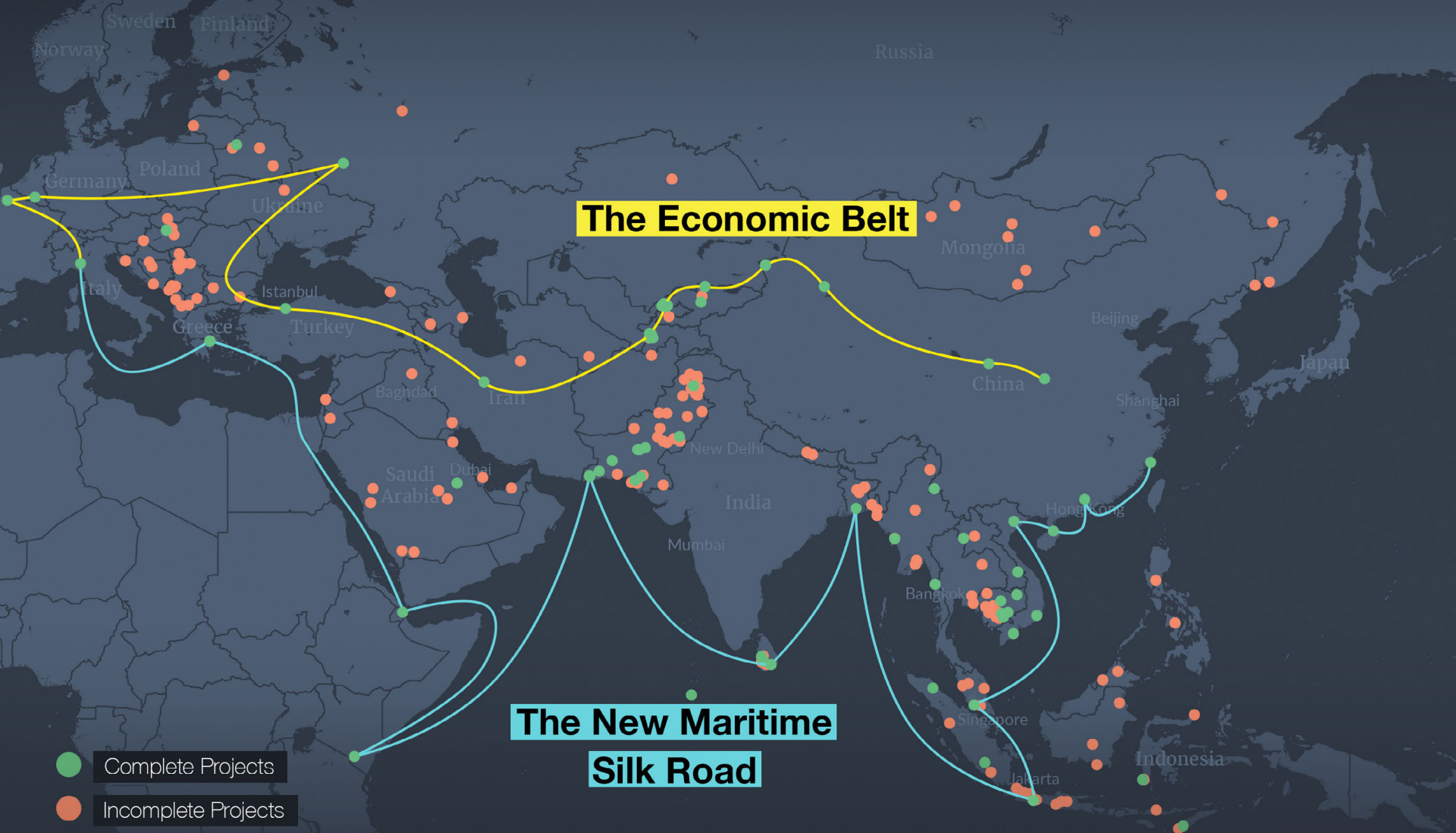
More than **8x the Marshall Plan**

\$900 billion worth of projects planned in **68 countries**

These countries account for:

- **30%** of global GDP
- **62%** of population

THE TWO PART PLAN



Chinese funded transport & energy projects 2013-present

THE CATCH

The BRI benefits to China's global partners

But there is a catch

Only Chinese banks and workers are used

Built by Chinese state-owned enterprises

Financed by Chinese state-owned banks

That means China **owns foreign debt**
and **stimulates its own economy**

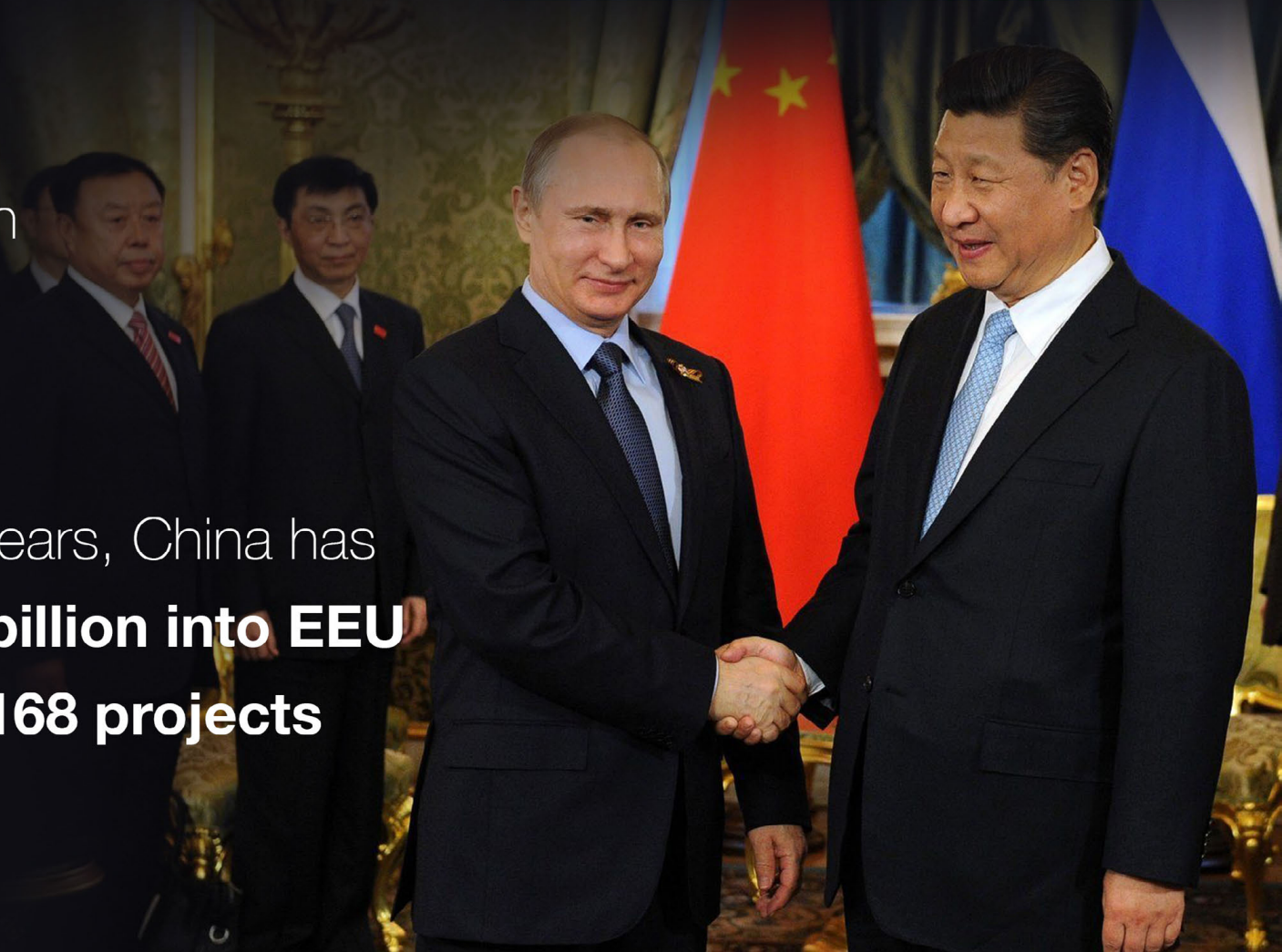


THE BRI IN ACTION

Agreement made in 2015 with the **Eurasian Economic Union**

- Armenia
- Belarus
- Kazakhstan
- Kyrgyzstan
- Russia

In the past 7 years, China has invested **\$98 billion into EEU** to implement **168 projects**



THE BRI IN ACTION

These projects are not always beneficial for both sides

Countries like Kazakhstan become **too dependent**

- China has taken over energy industry
- **98%** of oil & gas projects are Chinese
- **20%** of all oil extraction is Chinese

Kazakhstan is **trapped**

but China has room to maneuver

因蒙业身味水西
因公期青步家种水州天部组
其于衣08

GLOBAL SKEPTICS

Western countries won't endorse the BRI

They are concerned about **the details**

- Lending, social, & environmental safeguards
- China has been **very secretive** on specifics

Countries like India question China's **strategic motives**



EUROPE ON BOARD

Many European countries are following China's lead

Germany is China's largest European partner

- It is involved in **five railway projects**

London is 15th European city with a direct railway to China as of 2017

- **Yiwu-London** Railway
- With Brexit, Britain will need improved trade with China



THE CORRUPTION PROBLEM

Skepticism towards China comes with good reason

For western investment, countries must meet **strict ethics**

China has offered billions **without these conditions**

The BRI has been a hit amongst **less democratic countries**

Saudi Arabia, Thailand, Uzbekistan, Kyrgyzstan, Belarus, etc.



THE DEBT PROBLEM

Marshall Plan used **grants**, but China uses **loans**

Commercial interest rates leave countries left with high debt

Some face debt as high as **50% of GDP** after projects

And at least **40%** of that debt will be owed to China



INTERNATIONAL CRITICISM

The **IMF** has scrutinized multiple aspects of the BRI such as:

- Unsustainable debt levels
- Predatory lending
- Lack of project transparency

China is reluctant to follow int'l investment standards. It has established its **own courts** to resolve BRI disputes



BLINDED BY BENEFIT

Developing countries **need infrastructure**
and China is offering **cheap capital**

But if they default, China will own billions in debt.
This is a real **threat** amongst many BRI countries.

The Center for Global Development found
8 countries at a high risk of debt distress.



COUNTRIES AT RISK

PAKISTAN



Projects

Gwadar Seaport
Highway System
Railway Network

Loan

\$62 billion

Debt

20% of GDP

80% financed by China

Relatively high interest rates

Threatens Pakistan's stability

COUNTRIES AT RISK

MONTENEGRO



Projects

Highway connecting to the Balkan states.

Loan

\$1 billion
(just for Phase I)

Debt

Public debt rose to **83%** of GDP

85% financed by China EXIM Bank

Chinese state-owned contractor will do **70%** of the work

Loan will be paid at **2% interest** between 2020 and 2040

COUNTRIES AT RISK

LAOS



Projects

China-Laos Railway
Other BRI Projects

Loan

\$6.7 billion
(for railway alone)

Debt

48% of GDP for
this project alone

The **IMF** has already warned of
Laos' exceedingly **high debt** levels

COUNTRIES AT RISK

MALDIVES



Projects

International Airport
Population Center
Relocation of major port

Loan

\$1.2 billion
(for first two alone)

Debt

25% of GDP

The World Bank and IMF say it is at a **high risk** of debt distress
It is also is currently under **domestic political turmoil**

COUNTRIES AT RISK

OTHER COUNTRIES

Country	Loan	Debt
Kyrgyzstan	\$1.5 billion	20% of GDP
Mongolia	\$1 billion	10% of GDP
Djibouti	\$645 million	35% of GDP
Uzbekistan	\$15 billion	25% of GDP
Kazakhstan	\$37 billion	25% of GDP
Bangladesh	\$24 billion	20% of GDP

All of these countries are considered at **high debt risk** and high probability of default by the Center for Global Development

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FROM DEBT TO EQUITY

In **Sri Lanka**, China has invested \$60 billion in BRI projects

- One project was a \$1.5 billion seaport in **Hambantota**
- It is key stop along the New Maritime Silk Road
- By 2017 Sri Lanka realized it could not repay the loan
- China offered debt concessions in exchange for **equity**
- Sri Lanka **gave China control** of the port



FROM DEBT TO EQUITY

In **Pakistan**, the government owes **\$62 billion** to China

- China offered Pakistan concessions **for equity**
- Pakistan **gave China** the Gwadar Port
- China is pushing a similar agreement in Myanmar



FROM DEBT TO EQUITY

By **manipulating** its debtors, China is **gaining ownership**

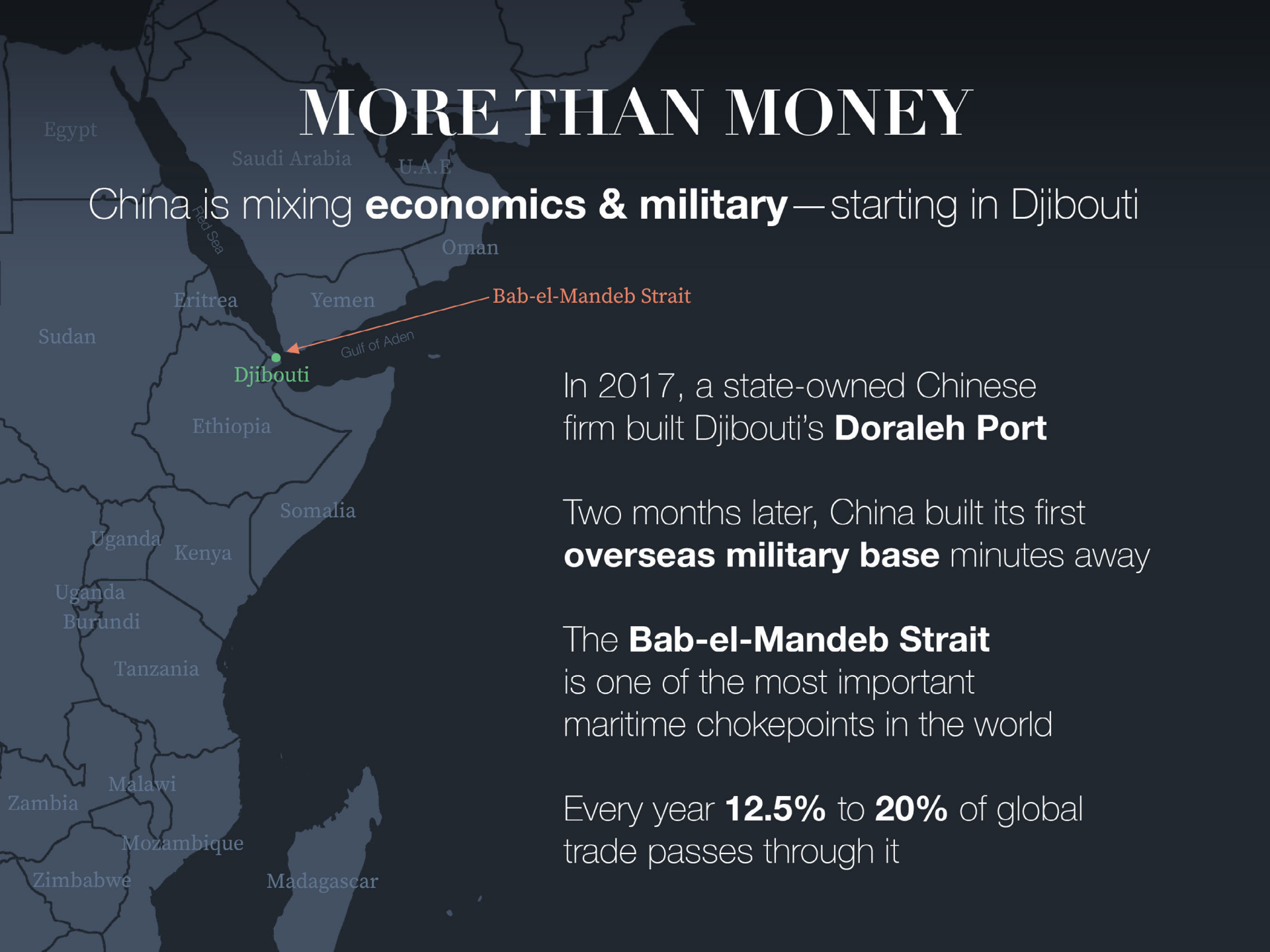
These are **strategic ports** with key infrastructure

They impact both international **trade** & geopolitical **influence**

If China continues this, it may **monopolize** key trade routes

MORE THAN MONEY

China is mixing **economics & military** — starting in Djibouti



In 2017, a state-owned Chinese firm built Djibouti's **Doraleh Port**

Two months later, China built its first **overseas military base** minutes away

The **Bab-el-Mandeb Strait** is one of the most important maritime chokepoints in the world

Every year **12.5%** to **20%** of global trade passes through it

COMBINING INTERESTS

China is **integrating** its commercial & military interests

Chinese are **investing heavily** in the Djibouti

- Ethiopian-Djiboutian electric railway (\$4 billion)
- Ethiopian-Djiboutian drinking water pipeline (\$300 million)

Meanwhile China claims **no military goals**

They call Djibouti a “**support facility**”



ON THE STOMPING GROUNDS

Djibouti is home to multiple militaries for **UN Peacekeeping**

- France, Italy, Germany, Spain, & Japan

The Chinese base is only **8 miles** from the **US base**

- More than 4,000 American troops at Camp Lemonnier
- It is the first time the superpower militaries are in such close long-term contact



THE WHITE PAPER

The Chinese published a white paper on defense in 2015

- **Two-tiered strategy**: offshore defense & open seas protection
- First time China considered the “**far seas**” a security interest

China increased military spending by the highest amount in 3 years

It's likely Djibouti **won't be it's last** mixed commercial & military venture



NEXT ON THE LIST

Apart from Djibouti, China has other sites for **mixed military interest**

The **Chinese Naval Research Institute** lists:

- Bay of Bengal
- Sittwe, Myanmar
- Gwadar, Pakistan
- Seychelles
- Hambantota, Sri Lanka
- Dar es Salaam, Tanzania



BUILDING LAND

Over the past four years, China began **building islands**

It dumped sand and rock atop underwater reefs in the Spratly Islands

This has created 7 man-made islands in the **South China Sea**



Fiery Cross

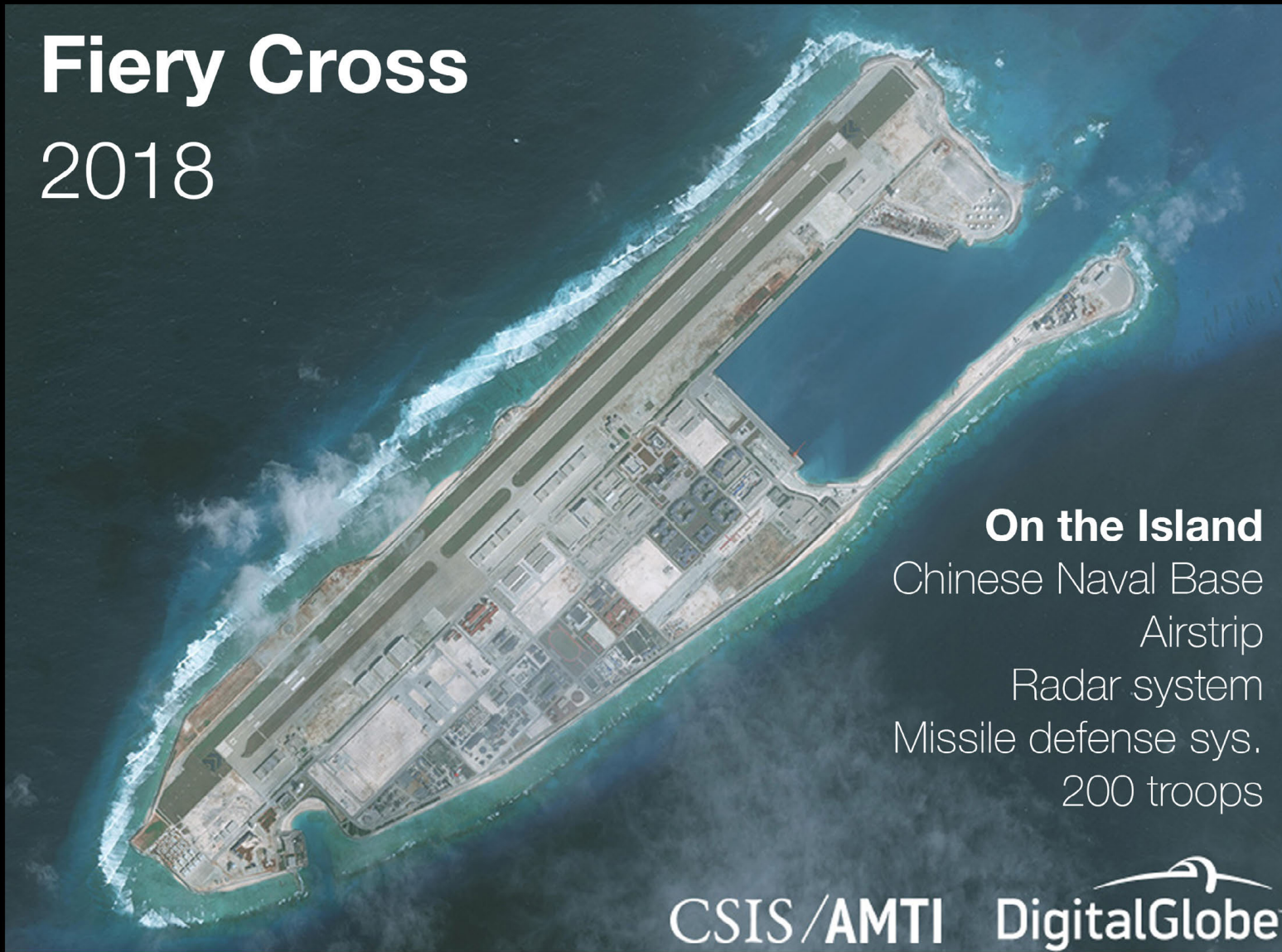
2006



CSIS/AMTI  DigitalGlobe

Fiery Cross

2018



On the Island

Chinese Naval Base
Airstrip
Radar system
Missile defense sys.
200 troops

CSIS/AMTI


DigitalGlobe

WHY DOES CHINA WANT THE SEA

The South China Sea is both economically & militarily **strategic**

- Connects half of South East Asia and the ASEAN countries
- It houses an estimated **11 billion barrels of oil**
- **190 trillion** cubic feet of natural gas
- **10%** of the world's fisheries
- **30%** of world shipping trade flows through it



THE LAW OF THE SEAS

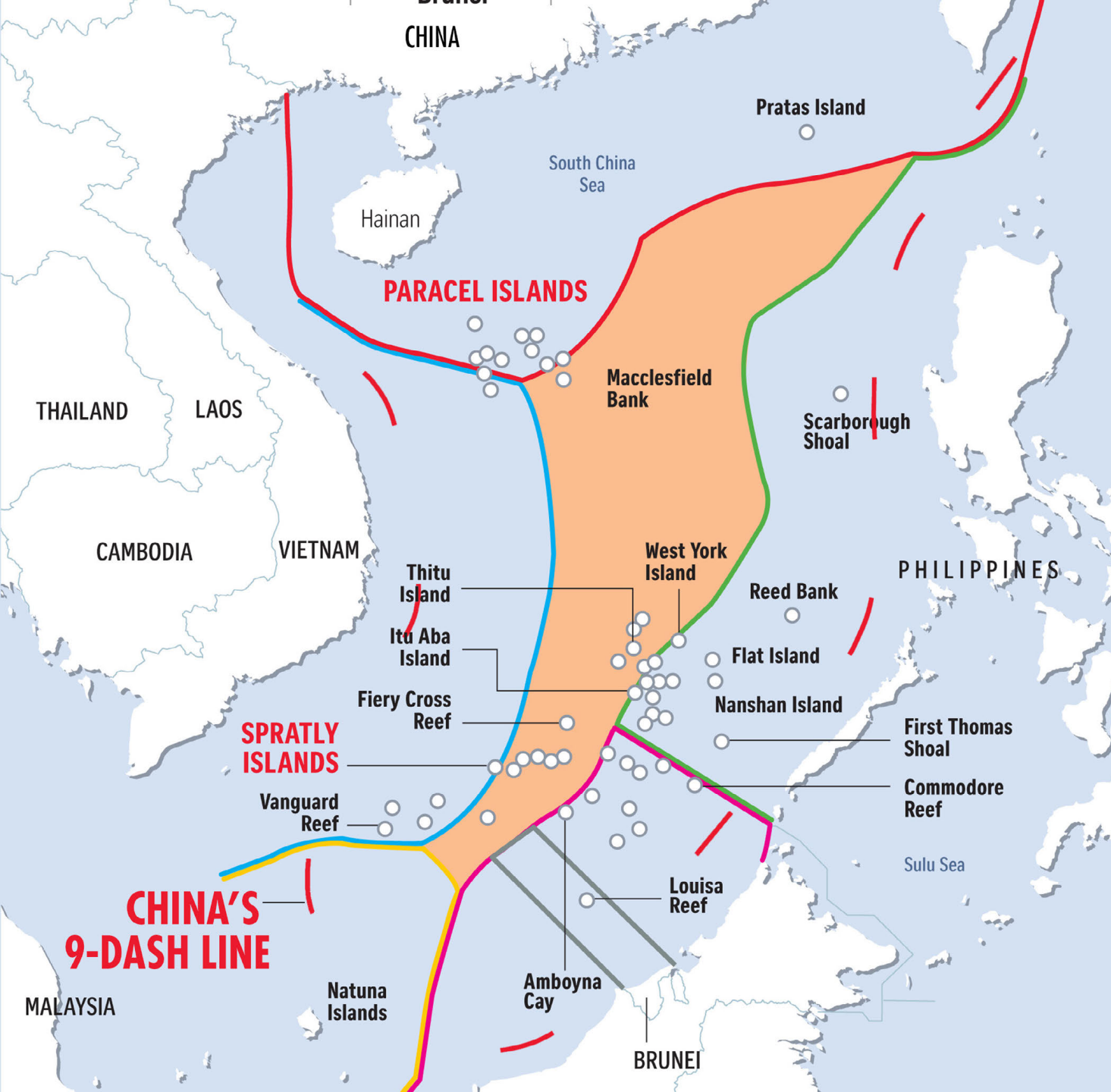
UN Law of the Seas governs the world's oceans

It stipulates a country's territory extends **200 miles offshore**
– This is called an **Exclusive Economic Zone (EEZ)**

Currently **5 countries** lay claim parts of the South China Sea
– China, Vietnam, Malaysia, Indonesia, & The Philippines

All of the countries follow the 200mi EEZ **except China**
– China argues a historical claim

THE NINE DASH LINE



- China
- Philippines
- Malaysia
- Vietnam
- Indonesia
- Brunei
- International Waters

CHINA'S GOAL FOR THE SEA

China is trying to expand its territory by claiming the Spratly's
It is pushing out foreign settlements **using its Navy**
China has **dismissed** international courts on the matter

They have even threatened to declare an
"air identification zone" above the sea



FLEXING MUSCLES

China is showing willingness **to use force**

The Spratly's can be used for the Maritime Silk Road

They can also be used for military reasons

The **U.S.** is only power who can keep China in check

Meanwhile, China's neighbors **build their militaries**



RECAP

In **2013**, China launched world's **largest** infrastructure plan to create **economic belt & maritime sea route** for trade

China is loaning countries more than they can repay
It's using Chinese **state-owned** firms & banks to do the work
China is converting unpayable **debt to equity**

It's mixing commercial infrastructure with **military** outposts
It's claiming the South China Sea by **building islands**

These are **powerful** moves that will have a major impact
Geopolitics & economics are changing as we know it

WHAT SUCCESS MEANS

If China succeeds, it will have:

- **Strategic control** of multiple international ports
- Direct access to over **60%** of the global economy
- Easy trade with **2/3** of the world population

It will also establish financial & economic **dependency** among poorer nations

These predatory lending practices & military moves **threaten** international order



CONCLUSIONS

Only one nation can police China's actions — **The United States**

The US is now creating its own investment projects to compete

The International Development Finance Corporation

It is working with Japan, India, & Australia

The loan amounts are **significantly smaller**

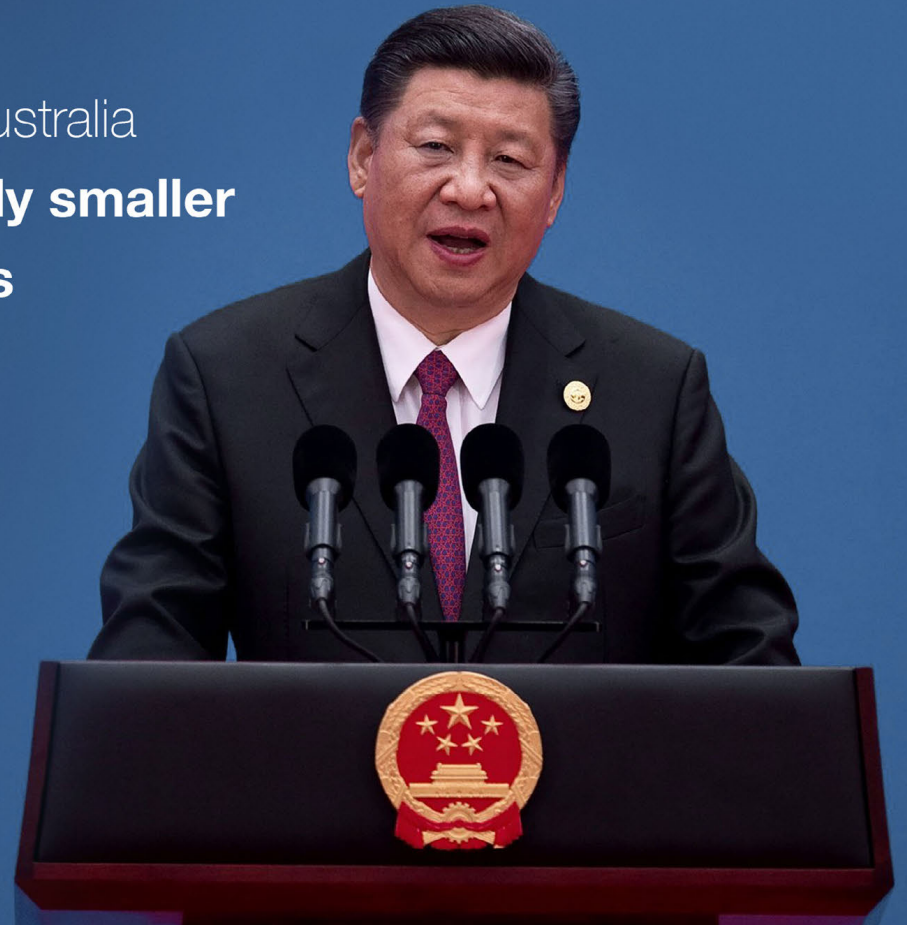
They also have **more restrictions**

The hope is that this **competition**

will help **eliminate** China's

infrastructure **monopoly**

Only time will tell.





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