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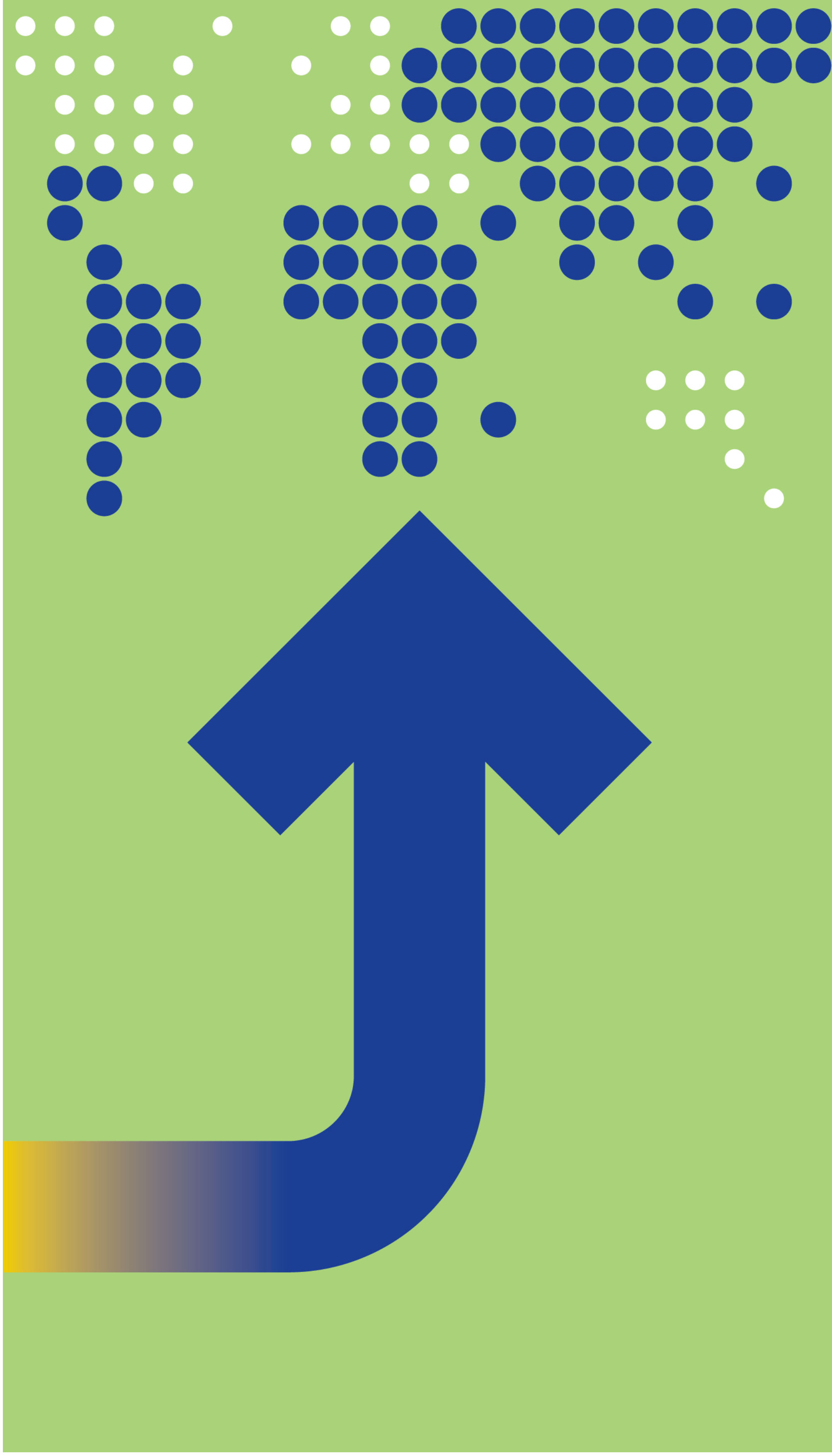
Annotated Bibliography of Sources Relevant to Researching the Belt and Road Initiative

Leo Zucker



Emerging Markets Forum
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Table of Contents

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I. PREFACE

The 77 sources listed below were summarized by Leo Zucker of the Emerging Markets Forum in the course of his research on the Belt and Road Initiative. These sources include reports produced by government officials, working papers and blog posts by academics and experts, works of journalism, and more. They are organized alphabetically by region, then by country, and lastly by sector. Whenever possible, source titles are rendered exactly as they were published.

II. AFRICA

China in Africa: Much Ado about Investment[1]

Region: Africa
Sector: Investment
Year of Publication: 2018
Type: Blog
Author: PAIRAULT, Thierry
Author Affiliation: CNRS

This three-part guest blog series highlights the various ways in which semantic laxity distort the true nature of Chinese investment in Africa. To start, what many media sources (including the Financial Times' Africa Investment Report) call investment counts not only Chinese outward FDI, but also Chinese lending and services. Moreover, lending and services are sometimes passed off as investment before an official commitment has been made for the provision of either. These practices lead to serious overestimations of Chinese investment in Africa. According to MOFCOM's own figures, FDI in Africa peaked in 2008 and has fallen every year since 2014. Meanwhile, the value of Chinese services provided to Africa—proxied by turnover of overseas construction contracts—was more than 25 times higher than the level of Chinese outward FDI in Africa.

Chinese Aid and Africa's Pariah States[2]

Region: Africa
Sector: Uncategorized
Year of Publication: 2015
Type: Working paper
Author: KISHI, Roudabeh, Clionadh RALEIGH
Author Affiliation: University of Sussex

Academic literature on the effects of traditional (i.e. Western) official development assistance (ODA) flows on intra-state conflict suggests that aid fuels rebellion by making the "prize" of state rents more attractive to insurgents. Yet traditional ODA usually conditions disbursements on anti-corruption measures, respect for the rule of law and human rights, and other progress toward good governance; however, Chinese ODA features no such conditionality. This does not necessarily mean that Beijing prefers pariah regimes over respectable states in its aid budget. In Africa, Chinese aid as a share of GDP is uncorrelated with autocracy, and is in fact slightly correlated with democracy. Chinese aid is negatively correlated with the rule of law in Africa at the five percent level, though. Beijing thus appears willing to do business with any type of regime in Africa. Meanwhile, non-Chinese aid as a share of African countries' GDP is positively correlated with democracy and the rule of law, and uncorrelated with autocracy. But the starkest difference between Chinese and non-Chinese ODA for Africa is not which countries receive it, but how countries use it. Chinese ODA as a share of GDP has a positive and statistically significant effect on the number of armed conflict events (10% level), the number of conflict events involving the state (1% level), the number of instances of state violence against civilians (10% level), and the number of state battles against competitors (1% level) in a given year in African countries. Non-Chinese ODA has no significant effect on any of these four indicators. Additionally, Chinese ODA has no significant effect on either the

1. http://www.chinaafricarealstory.com/2018/02/guest-post-china-in-africa-much-ado-part-1.html; http://www.chinaafricarealstory.com/2018/02/guest-post-china-in-africa-much-ado.html; http://www.chinaafricarealstory.com/2018/02/guest-post-china-in-africa-much-ado_22.html

2. https://www.acleddata.com/wp-content/uploads/2015/03/ACLED_Working-Paper_Chinese-Aid-paper_final.pdf

number of rebel conflict events or the number of armed actors against the state in a given year in African countries. (Contrary to the body of academic literature, non-Chinese ODA has no significant effect on these two indicators either.) These conclusions control for preexisting conflict (both domestically and in neighboring countries), population, and democracy. Thus, the finding that Chinese ODA makes its African recipient states more conflict-ridden is driven by the fact that it makes central governments more likely to use violence against domestic opposition and civilians; rebel activity appears to have nothing to do with it. This disturbing tendency—as well as the fact that non-Chinese ODA as a share of GDP shows no effect on intra-state conflict—suggests that African leaders exploit the unconditionality of Chinese ODA to bolster the dominance of their regimes through violent repression, a course of action that conditional ODA makes significantly less attractive. It is thus wrong to claim that China gives to pariah states; it creates pariah states with its giving. [NDLR: the country-years considered in this regression analysis run from 1999 through 2012.]

Competing in Africa: China, the European Union, and the United States[3]

Region: Africa
Sector: Uncategorized
Year of Publication: 2018
Type: Blog
Author: SCHNEIDMAN, Witney, Joel WIEGERT
Author Affiliation: Brookings

While Chinese engagement with Africa centers on infrastructure lending, the EU's approach to Africa has rested squarely on bilateral trade ties since 2007. EU-Africa trade volumes exceeded $300 billion in 2017 (compared to $200 billion for Sino-African trade in 2015) and Brussels has concluded or is negotiating economic partnership agreements (EPAs)—which will "liberalize about 80 percent of imports over 20 years"—with 40 sub-Saharan nations. Additionally, the EU promised to "mobilize more than $54 billion in 'sustainable' investment for Africa by 2020" at the fifth EU-Africa Summit in 2017. Meanwhile, the US' approach to Africa has centered on the African Growth and Opportunity Act (AGOA) since 2000. Unlike the EU's EPAs, AGOA is a non-reciprocal trade agreement: it grants duty-free access for around 6,400 products to about 40 African countries; however, only a few countries (namely South Africa, Lesotho, Kenya, Mauritius, and Ethiopia) have made significant use of AGOA in non-oil sectors, and only around 300 of the available duty-free product lines have been utilized. Moreover, US-Africa bilateral trade volumes have fallen from $100 billion in 2008 to $39 billion in 2017, "largely due to U.S. energy self-sufficiency." These results are disappointing, given that the US leads the world in terms of FDI in Africa and that American companies receive plaudits on the continent for their honorable business practices. American engagement in Africa may grow stronger, however, if Congress approves the creation of the US International Development Finance Corporation (IFDC). Formed from US-OPIC and parts of USAID, IFDC would double OPIC's current lending cap of $30 billion and make equity investments worth up to 20% of a project's total equity. These measures would improve the competitiveness of American financing vis-a-vis that of Chinese state-backed funds.

Foresight Africa viewpoint - African economies and global value chains[4]

Region: Africa
Sector: Trade
Year of Publication: 2018
Type: Blog
Author: DOLLAR, David
Author Affiliation: Brookings

As labor costs rise in China, GVCs are being offshored not only to Southeast Asia, but also to East Africa. Countries that want to participate in GVCs mustn't make the mistake of opening up to trade in goods while keeping the service sector closed. Given the importance of services in managing supply chains and of software in many manufactured goods, this is a losing strategy. Additionally, some countries have sought to join GVCs by setting up SEZs, which concentrate reform efforts and infrastructure investment in a fixed number of locations. SEZs are a good start, but not an end in and of themselves: the benefits of GVC membership must soon be spread to the rest of the country.

China and the East African railways: Beyond full industry chain export[5]

Region: Africa, East
Sector: Infrastructure

3. https://www.brookings.edu/blog/africa-in-focus/2018/04/16/competing-in-africa-china-the-european-union-and-the-united-states/

4. https://www.brookings.edu/blog/africa-in-focus/2018/01/19/foresight-africa-viewpoint-african-economies-and-global-value-chains/

5. https://www.brookings.edu/blog/africa-in-focus/2017/07/06/china-and-the-east-africa-railways-beyond-full-industry-chain-export/

Year of Publication: 2017
Type: Blog
Author: SUN, Yun
Author Affiliation: Brookings

Two recently completed Chinese-build and funded railways in East Africa—linking Addis-Ababa to Djibouti (completed 2016) and the Nairobi to Mombasa (completed 2017)—reveal the manifold economic calculations that undergird China's overseas infrastructure push. In both projects, the fruits of Chinese lending quickly trickled back to China: in the Kenyan case, 60% of the financing went to hiring Chinese personnel, purchases of Chinese equipment, and profits for the Chinese contractors; in the case of the Ethiopia-Djibouti railway, imports of Chinese machinery, equipment, and construction materials accounted for a quarter of the $4 billion total project cost. Additionally, unlike colonial-era African railways, these two new lines rely on the standard rail gauge that China uses. As a result, the railroad equipment that will serve these railways will also need to follow Chinese standards, virtually ensuring that Chinese-manufactured locomotives and carriages will ply them. Finally, the Chinese contractors will operate both railways for up to a decade after opening and will retain a 10% stake of the Djibouti portion of the Ethiopia-Djibouti railway.

[Various Titles][6]

Region: Africa, East
Sector: Transport
Year of Publication: 2018
Type: Journalism
Author: BARIGABA, Julius, Allan OLINGO
Author Affiliation: The East African

These articles, as well as those linked to them, offer insights on recent efforts to develop a standard gauge railway network between Kenya, Uganda, and other East African states. Funding difficulties on the Kenyan side have reportedly put the project on hold.

China Is Turning Ethiopia Into a Giant Fast-Fashion Factory[7]

Region: Africa, East (Ethiopia)
Sector: Manufacturing
Year of Publication: 2018
Type: Journalism
Author: DONAHUE, Bill
Author Affiliation: Bloomberg

Since 2014, the Ethiopian government has opened four publicly-owned industrial parks, with plans to open eight more by 2020. Multinational corporations—particularly Chinese and Sri Lankan garment manufacturers—have flocked to these parks due to their generous income tax derogations and import tariff waivers, as well as super-low local labor costs. These government-backed industrial projects risk exacerbating severe ethnic and rural tensions, however, which have the potential to boil over into civil war. The Oromo, Ethiopia's largest ethnic group, has been staging mass protests since 2015 in opposition to land grabs from farmers to build government-planned factories, among other things. The same phenomenon has reportedly faced smaller ethnic groups which lack the Oromo's political clout. [NDLR: how Beijing handles this challenge—as well as how it responds to the Ethiopian government's reaction—will offer an eye-opening case study on BRI's stakes for governance.]

The Risks and Rewards of Resource-for-Infrastructure Deals: Lessons from the Congo's Sicomines Agreement[8]

Region: Africa, Southern (Congo, DR)
Sector: Infrastructure
Year of Publication: 2018
Type: Blog
Author: LANDRY, David
Author Affiliation: SAIS-CARI

According to the World Bank, "Under an RFI arrangement, a loan for current infrastructure construction is securitized against the net present value of a future revenue stream for oil or mineral extraction, adjusted for risk." In Africa, Angola was the first extensive user of oil-backed RFI deals, accepting 48 of them—mostly from Western lenders—during the 1980s and 1990s. China Ex-Im extended its first oil-backed loan to Angola in 2004, and since then the practice has "grown and evolved." Experience gleaned from Chinese RFI deals, specifically the Sicomines copper agreement in DR Congo, highlight the

6. http://www.theeastafrican.co.ke/business/Uganda-rethinks-Kenya-SGR-funding-gaps/2560-4253722-yr6y8s/index.html; http://www.theeastafrican.co.ke/business/Uganda-ditch-Kenya-SGR-route-Tanzania/2560-3935306-phdp9p/index.html; http://www.theeastafrican.co.ke/news/Kenya-Uganda-seek-funding-from-China—/2558-4103598-format-xhtml-kchlqi/index.html
7. https://www.bloomberg.com/news/features/2018-03-02/china-is-turning-ethiopia-into-a-giant-fast-fashion-factory
8. https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5afb24e9575d1fe4c2388206/1526408425497/Brief+22+-+Sicomines+-+Landry+-+Version+3.pdf

significant tradeoffs inherent in these agreements. On the upside, RFI deals provide guaranteed infrastructure investments, and quickly, in countries with limited access to credit. They also keep the money to be invested in infrastructure out of government hands, thereby diminishing the risk of state mismanagement or embezzlement. However, government divestment from infrastructure project delivery entails a serious risk: since the lender for the infrastructure component will "look for repayment to the committed government revenue stream from the resource component," that lender has little incentive to enforce quality standards in developing the promised infrastructure unless the government takes initiative to impose oversight. RFI deals can also face quality issues from the start: "as part of RFI projects, firms seeking opportunities in the extractive or infrastructure sector [sic] generally partner with financiers and submit unsolicited bids to host governments," thus inflating projects' price tags and binding the host government to a single consortium of financiers and contractors by avoiding a competitive tender. Finally, due to their omnibus character—combining multiple financial and commercial agreements—RFI deals tend to be less transparent and more difficult to interpret than other forms of infrastructure finance.

Can China Realize Africa's Dream of an East-West Transport Link?[9]

Region: Africa, West
Sector: Transport
Year of Publication: 2018
Type: Blog
Author: VAN STADEN, Cobus
Author Affiliation: Jamestown Foundation

Trans-Africa Highway 5 (TAH5) is one of nine proposed trans-Africa highways put forth by UNECA in 1971. Currently it connects Dakar to N'djamena, a distance of 4,500km, by way of Mali, Burkina Faso, Niger, Nigeria, and Cameroon. TAH5 is the only trans-Africa highway to have been completed in its entirety, but it suffers from poor upkeep in places. The AU is in the process of finding financing to extend TAH5 eastward to Djibouti. A railway to match is also envisaged, starting with upgrades to the 1,228km stretch between Dakar and Bamako. China Railway Construction Corporation [reportedly] reached agreements in 2015 with the governments of Senegal and Mali worth $1.24 and $1.5 billion, respectively, to execute these upgrades, which are due for completion by 2022. [NDLR: this article also indicates that these upgrades "will be directly implemented by the African Development Bank's Program for Infrastructure Development in Africa."] China has also [reportedly] agreed to finance an $8 billion railway deal to link Mali to Conakry. Extending these railways eastward to Djibouti presents a gargantuan challenge, however, as countries along the proposed route suffer from acute security concerns, geographic barriers, and fiscal limitations. [NDLR: though updates on these rail projects are scarce, China appears more heavily implicated in West African infrastructure than I'd previously thought.]

II. AMERICA, NORTH

The global industrial rebalance will benefit China and the world[10]

Region: America, North (USA)
Sector: Manufacturing
Year of Publication: 2018
Type: Blog
Author: TAN Hao
Author Affiliation: China Dialogue

China now produces more energy-intensive manufactured goods—namely steel, aluminum, glass, and cement—than the rest of the world combined as a result of its decades-long industrial buildup. This situation not only drives China's industrial overcapacity issues, but also exacts a severe toll on public health: according to experts, fine particulate matter resulting from industrial production kills 157,000 Chinese each year. Additionally, Chinese energy-intensive manufacturing is notoriously uncompetitive: its steel industry was the least profitable of all Chinese manufacturing industries every year between 2011 and 2016; the aluminum industry didn't fare much better. At the same time, the combined steel, aluminum, cement, and glass industries account for around a quarter of all Chinese energy consumption. In response to these concerns, Beijing has sought to wind down or outsource many energy-intensive manufacturing plants at home. A key potential beneficiary of these efforts is the United States, which received more FDI in its basic materials, metal, and mineral sectors from China than it sent to the same sectors in China for the first time ever in 2016. America's advantage in these sectors is due to its low energy

9. https://jamestown.org/program/can-china-realize-africas-dream-of-an-east-west-transport-link/

10. https://www.chinadialogue.net/article/show/single/en/10671-The-global-industrial-rebalance-will-benefit-China-and-the-world?mc_cid=04233b9412&mc_eid=0931f545a5

costs—which make up 40% of total production costs in steel production and 14-40% in glass production—thanks to soaring domestic shale gas output. Consequently, American industrial energy consumers pay rates nearly 40% lower than their Chinese counterparts do. American steel producers benefit not only from cheaper production, but also from cleaner production, with Chinese steel manufacturers emitting on average 24% more carbon than their American competitors. Though Belt and Road countries are often the targets of Chinese attempts to outsource its energy-intensive manufacturing industries, these countries cannot match the high-quality institutional environment offered by the US and other developed countries.

III. ARCTIC

China Launches the Polar Silk Road[11]

Region: Arctic
Sector: Uncategorized
Year of Publication: 2018
Type: Blog
Author: NAKANO, Jane, William LI
Author Affiliation: CSIS

Energy reserves are a key driver of China's interest in the Arctic. The region boasts 13% of the world's undiscovered crude oil and 30% of its undiscovered natural gas. China's involvement in the Yamal LNG project, from which China has secured a long-term offtake of 195 billion cubic feet per annum, exemplifies this interest. Development of Arctic energy resources is hampered by the region's harsh climate, limited infrastructure, and distance to manufacturing centers, as well as the vicissitudes of the commodities market. China is also interested in the Arctic's shipping potential. The Northwest and Northeast Passages could shave weeks of intercontinental shipping times, though these routes generally suffer from poor infrastructure and limited search-and-rescue capabilities. Moreover, the Transpolar Sea Route, which cuts through international waters, can only be accessed by the heaviest icebreaking ships. Nevertheless, these Arctic routes may allow Chinese ships to circumvent maritime security threats associated with piracy in the Red Sea and with US naval dominance over the Suez Canal and the Strait of Malacca.

11. https://reconnectingasia.csis.org/analysis/entries/china-launches-polar-silk-road/

China's Arctic Dream[12]

Region: Arctic
Sector: Uncategorized
Year of Publication: 2018
Type: Report
Author: CONLEY, Heather
Author Affiliation: CSIS

China's new Arctic policy aims to secure and ensure China's unfettered scientific and economic access to the Arctic and reduce opportunities by Arctic nations to limit China's exploratory capabilities. This policy is grounded firmly in international law and proposes a "multi-tiered Arctic cooperation framework" which would include the "provision of expertise, technology, capital, and markets by China," thus planting China's Arctic ambitions squarely within the Belt and Road framework. Russia remains China's ideal near-term partner for growing its Arctic footprint. When Western sanctions over its aggression toward Ukraine barred Russian companies from borrowing from Western banks for more than 30 days, China's policy banks approved $12.2 billion in loans to complete the Yamal LNG project and the associated Sabetta export terminal; additionally, CNPC and the Silk Road Fund ended up with a combined 30% of the project's equity. COSCO has also been in discussions with the governor of Arkhangelsk Oblast about developing railways and deep-water ports in northern Russia. China also enjoys flourishing trade and diplomatic relations with Finland, with which China has reportedly been in discussions about laying a high-speed telecom cable between Europe and Asia across the Arctic Ocean. Elsewhere in the region, Chinese companies have invested in mining operations in Greenland and northern Canada, as well as in hydrocarbon extraction in Iceland and Alaska. By investing significant quantities of capital in Arctic resource development, China seeks to take a leading economic position in the region and subsequently dictate the pace and nature of the region's development.

Polar Silk Road': Greenland's courting of China for airport projects worries Denmark[13]

Region: Arctic (Greenland)
Sector: Transport
Year of Publication: 2018
Type: Journalism

12. https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180220_Conley_ChinasArcticDream_Web.pdf?3tqVgNHyjBBkt.p_sNnwuOxHDXs.ip36
13. https://www.japantimes.co.jp/news/2018/03/23/business/polar-silk-road-greenlands-courting-china-airport-projects-worries-denmark/#.WrlWv4jwbmZ

Author: Reuters
Author Affiliation: Japan Times

Greenland's autonomous government is courting Chinese lenders and contractors to upgrade three airports on the island, reigniting longstanding concerns in both Copenhagen and Washington about Chinese intentions in the Arctic. Greenland holds great strategic value to the United States, given its mineral wealth and location on the shortest flight path between North America and Europe. Pursuant to a 1951 agreement between Washington and Copenhagen, the US military enjoys virtually unlimited rights in Greenland, where the Thule air base hosts part of the US' ballistic missile early warning system. As such, the Danish central government must block Chinese involvement in Greenlandic airport upgrades or risk repercussions in its transatlantic relationship, according to Danish officials and politicians. Similar situations to this one have arisen before: in 2016, the Danish government blocked a Chinese investor from buying a former marine station in southern Greenland, reportedly on Washington's orders.

Arctic gas plant threatens native peoples[14]

Region: Arctic (Russia)
Sector: Energy
Year of Publication: 2018
Type: Report
Author: JOHNSON, Jenny
Author Affiliation: China Dialogue

ARCTIC ACCESS. Russia is reportedly "formulating a shipping policy that excludes non-Russian ships from transporting hydrocarbons along the Northern Sea Route. This route passes through the country's exclusive economic zone of 200 nautical miles" and would be a boon to Russian shippers. A report from the Ocean Conservancy estimates that cargo flows through the Northern Sea Route could reach 100 million tons per year in 2030, up from 1.5 million tons in 1998. Meanwhile, China seeks to guarantee access to the Arctic high seas for its fishing fleets as sea ice recedes. In spite of this, China, along with the EU and seven other major fishing nations, signed up to a 16-year ban on commercial fishing in the central Arctic Ocean in December 2017.

YAMAL LNG. Gas shipped from Sabetta Port on the Yamal Peninsula is transported in specially-built cargo ships that run on clean-burning LNG. [NDLR: though shipping accidents pose a major risk to Arctic shipping enterprises, the environmental impact of an LNG spill in the Arctic would last only as long as the gas remains liquefied—which, given that LNG is stored at a temperature of -260 degrees Fahrenheit, would not be long at all.] The environmental damage of the Yamal LNG project has arguably already been done in the form of dredging. To give LNG ships the requisite 300-meter-wide, 15-meter-deep channels to access Sabetta, dredger vessels removed 70 million tons of seabed from the Gulf of Ob between 2014 and 2017. This action not only disrupted the habitats of many valuable white fish species, but risked salinizing upstream waters and destroying fish habitats there too. Novatek, the developer of Yamal LNG, is already pursuing Arctic LNG 2, a second project on which it will collaborate with CNPC per an MoU signed in November 2017. Arctic LNG 2 would consist of a gas plants and storage units on floating platforms, which ostensibly would reduce their environmental impact.

EFFECTS ON LOCALS. The Nenets are the ethnic group native to the Yamal Peninsula. They depend on fishing and reindeer herding for their livelihood. Fish stocks in the Gulf of Ob have plummeted in recent years; extractive industries may be partly to blame. Additionally, industrialization of the Yamal Peninsula is taking up land which could be used for reindeer grazing. The Nenets receive compensation when pastures are slated for development, but their way of life remains under threat.

The Sino-Russian partnership in the Arctic[15]

Region: Arctic (Russia)
Sector: Multisector
Year of Publication: 2018
Type: Blog
Author: WISHNICK, Elizabeth
Author Affiliation: Montclair State University

Despite China's attempts to paint itself as a natural stakeholder in the Arctic, Russia plays a significant role (especially when compared to Sino-Russian dynamics in other regions) in determining China's access to the Arctic. Russia resisted giving China observer status on the Arctic Council until Beijing recognized "the sovereignty of Arctic states and the UN Convention on the Law of the Sea as the guiding framework." Russia also keeps a tight grip over its Arctic waterways by allowing only Russian ships

14. https://www.chinadialogue.net/article/show/single/en/10551-Arctic-gas-plant-threatens-native-peoples?mc_cid=0ca0478e28&mc_eid=-0931f545a5

15. https://cpianalysis.org/2018/03/15/sino-russian-partnership-in-the-arctic/

to transport energy through the region, requiring the use of its own icebreakers to accompany ships traversing the Northern Sea Route, and—pursuant to UNCLOS article 234, "which gives coastal states jurisdiction over 200 nautical miles of an ice-covered waterway"—deems the Northern Sea Route its internal waters. Additionally, Russia did not cooperate with China in producing the latter's first icebreaker due to concerns of "reverse engineering that [have] plagued Russian military sales to China." Nonetheless, China and Russia have seen a convergence of interests in that the both aim to reduce NATO's role in the region. Yet this alignment is not an alliance, and their strategies to counter the Western alliance differ sharply: while China seeks to enhance its influence over smaller Arctic states through infrastructure investments and undermine European unity by inviting Central and Eastern European states to join its 16+1 initiative, Russia's EEU seeks to close off the Eurasian economic space from the West. Furthermore, "unpredictable factors" down the road may undermine Sino-Russian alignment on Arctic policy: global warming could rid the Northern Sea Route of ice, thus obviating Russia's legal basis for jurisdiction there; alternatively, if Western sanctions on Russia are removed, Moscow's need for Chinese investment in its Arctic infrastructure would wane.

IV. ASIA, CENTRAL

China's one-track mind in Kazakhstan[16]

Region: Asia, Central
Sector: Infrastructure
Year of Publication: 2018
Type: Blog
Author: WU Shang-su
Author Affiliation: S. Rajaratnam School of International Studies

Often touted as SREB's Grand Central Station, the Khorgos dry port on the Sino-Kazakh border is actually symptomatic of a liability at the heart of the Belt: different railroad gauges. The dry port is necessary because Chinese trains operate on standard (1.435m) gauge, whereas Central Asian trains operate on Russian broad (1.52m) gauge. Khorgos' existence also suggests that China and Kazakhstan have no intention of harmonizing their railway gauges. Kazakhstan has invested significantly in its broad gauge railways, thus raising the cost of transferring its network to standard gauge. Kazakhstan is also a signatory of the EEU's Joint Declaration towards unified railway law, thus hitching its wagon to Russia's preferred broad gauge. Solutions to this Sino-Central Asian incompatibility are limited. Central Asia could upgrade its railway network to handle two gauges, but this would be unsuitable for freight trains. Instead, China could opt to extend its standard gauge lines into Central Asia, though this would do nothing to address the fundamental incompatibility of the two railway gauges. Since all of SREB's viable rail-based routes pass through Central Asia, this incompatibility may be an enduring feature of commerce along the Belt.

China's Conditional Aid and Its Impact in Central Asia[17]

Region: Asia, Central
Sector: Lending
Year of Publication: 2018
Type: Book chapter
Author: HAO Tian
Author Affiliation: CAP, GWU

Pursuant to its principle of non-interference in other countries' domestic affairs, China does not condition its development assistance on political and economic reforms as many traditional donors do. This not only endears China to Central Asia's authoritarian governments—though fear of their immense neighbor may mingle with this appreciation—but also enhances these governments' survival strategies in two key ways: first, Chinese ODA sustains their extremely corrupt bureaucracies and political systems "at a time of growing vulnerabilities and long-term challenges"; second, Chinese official lending for infrastructure development legitimizes their rule by financing highly visible megaprojects that signify progress. Yet Chinese ODA is anything but unconditional: recipients must not only support Beijing's policies vis-a-vis Taiwan, Tibet, and Xinjiang, but also accept that "no less than half of the materials, equipment, technology, and services procured" for infrastructure projects financed by Chinese concessional loans be sourced from China. How Central Asians react to Chinese economic activity on their soil varies on the basis of national economic and state architecture. In Kazakhstan, a centralized state whose elites depend on industries in which Chinese investment is critical, Chinese migrant workers are kept segregated from the general population, thus limiting opportunities for violent disputes

16. https://cpianalysis.org/2018/02/22/chinas-one-track-mind-in-kazakhstan/

17. http://centralasiaprogram.org/wp-content/uploads/2017/12/OBOR_Book_.pdf

to arise. Meanwhile, in Kyrgyzstan, a decentralized state whose merchants profit from the reexport of Chinese manufactures to other Central Asian states, Chinese migrants are very visible in the economy, making them and their government's initiatives in Kyrgyzstan an easy target for opinion-makers. In both countries, however, popular sentiment toward China is strongly negative: Chinese economic actors are linked in the public's mind to the corruption of government officials and are feared for the long-term consequences their initiatives may have on Central Asian states' sovereignty.

Chinese Loans in Central Asia: Development Assistance or "Predatory Lending"?[18]

Region: Asia, Central
Sector: Uncategorized
Year of Publication: 2018
Type: Book chapter
Author: JABOROV, Safovudin
Author Affiliation: CAP, GWU

INFRASTRUCTURE LENDING. In a decade, China has gone from holding a negligible share of Central Asian debt to being the region's biggest lender. Over this period, Beijing exploited both the reticence of Western lenders, who find the region's corrupt politics and unfavorable investment climates unattractive, and the fiscal irresponsibility of Central Asian leaders. The results of China's lending push are evident in Tajikistan, where Chinese loans constituted 88% of the country's bilateral debt portfolio at end-2015, and Kyrgyzstan, where Chinese loans constituted 67% of the country's bilateral debt portfolio at end-2016. Turkmenistan, which ostensibly was external debt-free as of 2009, may be in a similar situation, though the extent of Chinese lending to Ashgabat is unknown. Additionally, Beijing conditions these loans on the inclusion of Chinese contractors, as well as their Chinese employees, in project construction.

CONTROL OF EXTRACTIVE INDUSTRIES. Central Asia's natural resources are the clear target of Chinese FDI in the region. Anecdotes from Tajikistan make this point clear. In exchange for power generation and transmission infrastructure worth $750 million built between 2009 and 2014, the Tajik government handed over two gold mines to the power project's Chinese contractor, TBEA. In fact, official indicates that "Chinese companies own 60 percent of the shares of more than half of the gold mines in Tajikistan." Additionally, under the terms of the 2011 Sino-Tajik border demarcation treaty, Tajikistan transferred 3% of its disputed territory—lands likely rich in minerals—to China. Beijing is also positioning its SOEs to acquire major mineral and hydrocarbon stakes in Kyrgyzstan and Kazakhstan. Many observers believe that Chinese actors use corruption to acquire natural resource concessions in Central Asia. Once these concessions are in Chinese hands, their owners often import Chinese labor to exploit them, thus causing friction with the local population. TRADE. China displaced Russia as Central Asia's largest trading partner in 2008; bilateral trade volumes grew from $1.5 billion in 2001 to $50 billion in 2013. Yet Sino-Central Asian bilateral trade is imbalanced in its composition: 67% of Central Asian exports to China take the form of "mineral fuels, lubricants and related materials"—namely natural gas—while manufactured goods dominate Chinese exports to Central Asia.

CONCLUSION. Taken together, these patterns are reminiscent of Soviet economic management in Central Asia: vast infrastructure networks facilitated the export of Central Asian raw materials to the industrialized European SSRs, which manufactured final goods and exported them back to Central Asia.

Hegemonic or Multilateral? Chinese Investments and the BRI Initiative in Tajikistan and Kyrgyzstan [sic][19]

Region: Asia, Central
Sector: Uncategorized
Year of Publication: 2018
Type: Book chapter
Author: WOLTERS, Alexander
Author Affiliation: CAP, GWU

ECONOMIC RELATIONS. Though both Bishkek and Dushanbe have affirmed their economic partnership with Beijing since the launch of BRI, Sino-Tajik relations appear warmer than Sino-Kyrgyz relations, with Presidents Xi and Rahmon meeting "seven times in the last three years alone." Close Sino-Tajik relations are a new phenomenon: despite a 2007 bilateral friendship agreement, Sino-Tajik relations did not warm up until Tajikistan agreed to cede 1,000 square kilometers of Tajik territory to China in 2013. Since then, Sino-Tajik and Sino-Kyrgyz economic relations have diverged somewhat. While China has lent significantly to both Central Asian states for infrastructure projects, Chinese companies have recently invested in Tajikistan's mineral processing and real estate sectors in magnitudes

18. http://centralasiaprogram.org/wp-content/uploads/2017/12/OBOR_Book_.pdf

19. http://centralasiaprogram.org/wp-content/uploads/2017/12/OBOR_Book_.pdf

thus far unmatched in Kyrgyzstan. Additionally, Kyrgyzstan's admission to the EEU has reportedly had a strongly negative effect on that country's reexports of Chinese goods to the rest of Central Asia.

INFRASTRUCTURE DEVELOPMENT. Kyrgyzstan and Tajikistan will both play host to Line D of the Central Asia-China Gas Pipeline if constructed, with Tajikistan hosting a far greater share than Kyrgyzstan. The project is currently on hold due to joint Sino-Uzbek reticence, though Bishkek and Dushanbe were supportive. Kyrgyzstan and Tajikistan would also host a prospective railway from Xinjiang to the Persian Gulf; however, the proposed route would follow Line D, thus bypassing Central Asian population centers and industrial hubs. Kyrgyz political leaders have criticized this route and suggested more economically advantageous alternatives, but Beijing has dismissed these counterproposals. Though the Xinjiang-Persian Gulf railroad remains hampered by Sino-Kyrgyz disagreements and Russian resistance to Central Asian states leaning further into China's orbit, an IMF representative has praised Bishkek's efforts to shape this project in service of domestic priorities. Nevertheless, Kyrgyz policymakers make extensive rhetorical hay out of BRI, going so far as to associate it with projects that have next to nothing to do with the initiative. Yet this normative branding has had minimal success in attracting Chinese investment to Kyrgyzstan; meanwhile, "Tajik leaders have long received the [Chinese] investment they want, where they want it."

PUBLIC DISCOURSE. In Tajikistan, the state deems China "a great friend and savior that offers its help without 'strings attached'" and dictates the line that the media and experts take on BRI specifically and China generally. Thus, while clashes between Tajiks and Chinese immigrants periodically occur, Tajiks gloss over these and all other concerns about Chinese activities in their country when pressed. Conversely, in Kyrgyzstan, the government expresses strong support for BRI but has little capacity to shape the public discourse on relations with China. This has to do with the fact that BRI has little currency in the Kyrgyz media: the initiative has yet to produce any big-ticket projects in Kyrgyzstan, thus discussions of Chinese investment rarely reference BRI. Concerns and grievances about Chinese activities in Kyrgyzstan, however, are many and widely circulated, though the Kyrgyz state does little to address them. In this context, local experts criticize successive Kyrgyz administrations' lack of initiative in framing discussions about Chinese economic penetration, as well as the way that corruption and rent-seeking have derailed the chances of a productive Sino-Kyrgyz partnership.

MULTILATERALISM. Development practitioners in Bishkek and Dushanbe agree that Chinese economic development engagement with Kyrgyzstan and Tajikistan has not moved in a more multilateral direction since the launch of BRI. Chinese representatives continue to avoid donor coordination meetings in both countries. In Tajikistan, development practitioners describe Chinese development practices as "isolationist in nature and exploitative in their implementation," with no other donor prepared to make a counter-offer of remotely comparable scale.

One Belt, One Road: A New Source of Rent for Ruling Elites in Central Asia?[20]

Region: Asia, Central
Sector: Uncategorized
Year of Publication: 2018
Type: Book chapter
Author: TOKTOMUSHEV, Kemel
Author Affiliation: CAP, GWU

State capture by elites is fixture of economic life in Central Asia's kleptocratic regimes. Domestic and foreign companies must often indulge local elites' rent-seeking tendencies in order to gain market access. Given these preexisting dynamics, BRI runs the risk of becoming a new source of rent for Central Asian elites. This risk is heightened not only by the opaque practices employed by Chinese contractors and lenders overseas, but also by a Chinese social behavior called guanxi, which consists of "building and maintaining a personalized network of trustworthy and mutually beneficial relationships that can be used for personal and business purposes." Sometimes compared to social capital, guanxi nonetheless has connotations of unfair play: though not necessarily a source of corruption on its own, guanxi tends to thrive in corrupt environments as a means of securing private benefits. Guanxi has already had an effect on Central Asia, featuring in two Kyrgyz corruption scandals in 2016 alone. In light of the region's entrenched Sinophobia, BRI could see its reputation and deliverables jeopardized in Central Asia if the public comes to view the initiative as a new source of rent for their kleptocratic leaders.

Silk Road Economic Belt: Effects of China's Soft Power Diplomacy in Kazakhstan[21]

Region: Asia, Central

20. http://centralasiaprogram.org/wp-content/uploads/2017/12/OBOR_Book_.pdf
21. http://centralasiaprogram.org/wp-content/uploads/2017/12/OBOR_Book_.pdf

Sector: Uncategorized
Year of Publication: 2018
Type: Book chapter
Author: DAVE, Bhavna
Author Affiliation: CAP, GWU

CONCERNS OVER PRODUCTION CAPACITY TRANSFERS. On the heels of public outrage over a proposal to extend the maximum tenure of foreigners leasing Kazakh agricultural land from 10 to 25 years—which Astana temporarily shelved to appease Sinophobic sentiment—Beijing reignited Kazakh consternation by offering to move the production capacity of 51 Chinese industrial plants to Kazakhstan at the 2016 G20 summit in Hangzhou. Kazakh observers fear that these capacity transfers will lead to environmental degradation, unchecked Chinese immigration, and Chinese land and asset grabs. Given the opacity of relevant negotiations, experts cannot independently verify that these capacity transfers comply with Kazakh laws on foreign ownership and labor migration. One expert even described Chinese enterprises in Kazakhstan as "'states within states,' completely closed to outsiders and inaccessible to the media."

CHINESE PUBLIC DIPLOMACY. As a result of Chinese state efforts to teach the Chinese language in Central Asia, the number of Kazakh students learning Chinese rises by an estimated 5% every month. A certain Kazakh adage—one that appears to have some state support—says that "if you want to go abroad, learn English. If you want to stay in Kazakhstan and do well, learn Chinese." This sentiment in part reflects the growing prominence of Chinese energy companies in western Kazakhstan and the resulting need for Chinese language skills. In addition to language training in Kazakhstan, Kazakhs have increasingly benefited from the opportunity to study in China thanks to BRI-related scholarship and exchange programs. Whether these programs have successfully socialized Kazakh exchange students into Chinese culture and norms, and thus created a class of soft power ambassadors for China, is disputed.

LIMITS OF CHINESE SOFT POWER. Chinese efforts to develop a normative soft power brand capable of competing with America's have seen mixed results in Kazakhstan. These efforts have consistently been hampered by the CCP's monopoly on soft power creation and its inability to allow Chinese soft power's organic development by individuals and civil society. As a result, while Kazakhs admire China's development and stability, they see little appeal in its political system and social values. Chinese soft power appears more appealing to Central Asian elites than to ordinary citizens, however: China's professed values of non-intervention and stability reassure local elites of the security of their regimes and the inviolability of their countries' territorial integrity.

Project to exploit Afghanistan's giant copper deposit languishes[22]

Region: Asia, Central (Afghanistan)
Sector: Mining
Year of Publication: 2018
Type: Journalism
Author: MARTY, Franz
Author Affiliation: China Dialogue

In April 2008, a consortium of Chinese firms signed contracts with Afghanistan's Ministry of Mines to develop Mes Aynak, an untouched copper deposit containing a whopping 450 million metric tons of ore, in Logar Province south of Kabul. These contracts not only promised "favourable premium and royalty payments to the Afghan government, but also the construction of much needed infrastructure." Said infrastructure was due to include two new railways: the first, connecting Kabul to the Pakistan border via Mes Aynak, was designed for the export of mined copper; the second, linking Kabul to the Uzbek border, would carry coal and phosphate from northern Afghanistan for use at the mine. Ten years on, exploitation of Mes Aynak has yet to begin, as does the construction of the two proposed railways. According to provincial authorities, the Chinese consortium is attempting to renegotiate its contract: the promised copper royalties and terms of railway construction are unrealistic, states a recent US Institute of Peace report, especially given the low price of copper. (Rumor has it that the consortium had no intention of developing Mes Aynak in the medium term: this deposit, along with others in South America and Africa, was acquired for strategic reasons in view of shutting out international competition.) Local factors—including difficulties resettling villagers living within the exploitation area, archaeological excavations that take priority over mineral extraction, lack of phosphate resources, and periodic rocket attacks on contractors by Taliban militants—also may explain the lack of progress at Mes Aynak.

22. https://www.chinadialogue.net/article/show/single/en/10577-Project-to-exploit-Afghanistan-s-giant-copper-deposit-languishes?mc_cid=b749b056eb&mc_eid=0931f545a5

Georgia Positions Itself on China's New Silk Road: Relations between Tbilisi and Beijing in the Light of the Belt-and-Road Initiative[23]

Region: Asia, Central (Georgia)

Sector: Transport

Year of Publication: 2018

Type: Report

Author: SMOLNIK, Franziska

Author Affiliation: German Institute for International and Security Affairs

STRATEGIC CONSIDERATIONS. Georgia's leadership has long hoped to transform their country into a transport hub between Europe and Asia. In their view, BRI is the key to realizing this ambition. Georgia has thus linked its own development strategy with the BRI label in the hope of boosting its image abroad. Despite its economic rapprochement with Beijing, Georgia remains committed to its strategic alliance with the West; in fact, inasmuch as their country acts as a bridge between Europe and Asia, Georgia's leaders view BRI membership and Western alignment as complementary. Tbilisi also has strategic motives for embracing BRI, however. According to Georgia's leaders, "extensive Chinese economic interests in Georgia should prevent Russia from using military aggression against [Georgia]...since Moscow will take care not to endanger Chinese investments [at home]." BRI also lets Tbilisi signal that it's prepared to recoup the costs of future Russian sanctions against its exports by increasing its trade with China instead.

TRADE CONSIDERATIONS. Between 2000 and 2010, Sino-Georgian trade volumes grew 100-fold. Yet these trade relations are characterized by massive imbalances in China's favor. In 2017, Chinese exports to Georgia exceeded Georgian exports to China by a factor of 3.5. Moreover, Sino-Georgian trade flows are imbalanced in their diversity: whereas China exports a wide range of goods to Georgia, the latter's exports to China consist mainly of metals and wine. By contrast, Chinese FDI in Georgia comes largely from one source—the Hualing Group—which has contributed to large annual fluctuations in Georgia's FDI receipts from China. Georgia's leadership touts its recently inaugurated FTA with China—the Middle Kingdom's first with a Eurasian country—as a boon for the country's economy, since most Chinese exports to Georgia were already exempted from customs duties (whereas Georgian wines exported to China weren't). However, many business leaders are skeptical of this assessment: they fail to see how the FTA will ameliorate Georgia's low export diversity, uncompetitive manufacturing and agricultural sectors, underqualified workforce, and generally low export potential. But the Sino-Georgian agreement is one of many FTAs Tbilisi has concluded as part of a broader push to improve its competitiveness as a transport hub. In addition to China, Georgia enjoys free trade with all EU members and EFTA members; every Central Asian country except Tajikistan; neighbors Turkey, Azerbaijan, and Armenia; and CIS countries Ukraine, Belarus, and Moldova, as well as preferential trade access to the American, Canadian, and Japanese markets. FTA negotiations with India are also planned. Georgia's leaders believe their country's market access to more than 2 billion consumers [NDLR: when China is included.] will not only facilitate its emergence as a transport hub, but also entice Chinese firms to relocate their production to Georgia. To make full use of these advantages, however, Chinese manufacturers will need to ensure that their Georgian operations respect the EU's rules of origin and product safety and social standards. Furthermore, Chinese investment in Georgia to date has overwhelmingly focused on the country's non-tradable sectors.

INFRASTRUCTURE CONSIDERATIONS. Physical infrastructure. In tandem with its free trade efforts, Georgia has pushed forward with two big-ticket transport infrastructure projects. The first is the Baku-Tbilisi-Kars railway (BTK), inaugurated in October 2017. With an annual capacity of 17 million tons of freight and 3 million passengers annually, it currently carries around 5 million tons of freight and 1 million passengers. Despite the fanfare that accompanied BTK's opening, the project never received a vote of confidence from international investors: BTK was financed by Turkey and Azerbaijan after a proposal by a consortium of MDBs to include Armenia in the railway was rejected. Azerbaijan cofinanced the Georgian section of BTK, apparently in exchange for a ban on Armenia using the railway until progress on the Nagorno-Karabakh conflict is made. Georgia's second big-ticket transport infrastructure project is the deep-water port under construction at Anaklia, whose first operational phase (due to begin in 2020) will handle 900,000 TEU—more than half of what what the port of Poti further south can handle. Unlike the ports of Poti and Batumi, Anaklia will be able to handle Panamax-class ships, thereby eliminating the need to transfer Georgian imports and exports to larger or smaller ships at foreign deep-water ports. Though a Chinese-Georgian consortium bid to build the port, a Georgian-American consortium won the

23. https://www.swp-berlin.org/fileadmin/contents/products/comments/2018C13_smk.pdf

contract not only because it offered better terms, but also due to its promise to hire as much Georgian labor as possible. As in many places, Chinese contractors' practices of employing mainly Chinese labor to construct infrastructure in Georgia attracts the public's ire. Despite this snub, Chinese companies have some involvement in the project. Yet Anaklia's success may be undercut by existing infrastructure. The operator of the port of Poti—probably in light of competition from Anaklia—has announced the expansion of that port. Additionally, BTK connects Georgia's railways to Turkish ports, thus putting them in direct competition with Anaklia. Chinese companies' interest in both Anaklia and Poti ports is nonetheless encouraging. Soft infrastructure. To complement its physical infrastructure push, Georgia is investing heavily in regional cooperation, particularly with Azerbaijan and Turkey in the context of BTK; Georgia, Ukraine, Azerbaijan, and Moldova in the context of the GUAM Organization for Democracy and Economic Development; and Ukraine, Azerbaijan, Kazakhstan, and Turkmenistan in the context of the Trans-Caspian International Transport Route (TITR). Such cooperation will be imperative for the southern trans-Eurasian corridor to overcome its competitive disadvantages relative to the northern (Russo-Kazakh) corridor. These disadvantages include administrative hurdles, customs processes, and prices/fees, as well as the unavoidable difficulties of getting rail freight across the Caspian Sea. While Georgia itself has brought its business environment in line with the demands placed on a global transport hub, its transport and logistics industries leave much to be desired.

FUTURE CONSIDERATIONS. Despite optimism in the south Caucasus, experts predict that Russia will continue to handle the lion's share of trans-Eurasian rail freight: by 2027, only 3% of such freight is projected to follow the southern route, which includes freight that reaches Turkey from Central Asia via Iran alone. Analysis even shows that the southern route has lost freight to the northern route since 2007. On top of this, trans-Eurasian rail freight remains 3-3.5 times more expensive than ocean-going freight, thus making rail freight useful mainly for the transport of high-cost goods whose quick availability is important. [NDLR: China heavily subsidizes trans-Eurasian rail-borne freight, and air freight remains a much quicker option for high-value goods.] In light of these challenges, some have suggested that Georgia set its sights on becoming a regional, rather than global trading hub. Indeed, Georgia must attract significantly more trade if it wants to go global; physical infrastructure is a necessary but not sufficient condition for this. In attempting to boost its trade volumes, Georgia may find a friend in Ukraine, a fellow arch-adversary of the Kremlin. Ukrainian agricultural exports to China are growing: given the difficulties of shipping these exports via Russia, the southern trans-Eurasian route is a promising alternative.

"Information on the projects should be available to the public"[24]

Region: Asia, Central (Kazakhstan)
Sector: Uncategorized
Year of Publication: 2018
Type: Interview
Author: KASSENOVA, Nargis
Author Affiliation: FES

Within the context of BRI, China and Kazakhstan adopted a "special program to transfer industrial capacity from China to Kazakhstan" in 2016. This program features around 50 projects worth approximately $28 billion, "ranging from developing the chemical industry and transportation infrastructure to supporting agribusiness and information technologies." Kazakhs have high hopes that this program will help diversify their country's economy. By contrast, the Khorgos dry port and free economic zone has been less of a success: while the Chinese side is well built up, the Kazakh side is still under construction, "with some buildings unfinished and abandoned." Additionally, a significant gap remains between Kazakh elites' enthusiasm for BRI and ordinary Kazakhs' deep-seated Sinophobia. Astana's lack of transparent and inclusive decision-making when it comes to BRI projects has not helped bridge this gap. BRI can be a win-win for Central Asia if countries use the initiative as an opportunity to practice open governance in which citizens' voices are central.

Carefully, Kazakhstan Confronts China About Kazakhs in Xinjiang Re-Education Camps[25]

Region: Asia, Central (Kazakhstan)
Sector: Uncategorized
Year of Publication: 2018
Type: Journalism
Author: PUTZ, Catherine
Author Affiliation: The Diplomat

Since 2017, if not before, China has intensified its repression of Xinjiang's native population, moving swiftly

24. http://www.fes-connect.org/people/information-on-the-projects-should-be-available-to-the-public/
25. https://thediplomat.com/2018/06/carefully-kazakhstan-confronts-china-about-kazakhs-in-xinjiang-re-education-camps/

"from the collection of DNA of individuals en masse, to the confiscation of passports, to mass detentions and incarceration in 're-education' camps." This repression, which has seen anywhere between tens of thousands and one million people detained in re-education camps, has targeted not only Uyghurs, but also ethnic Kazakhs, some of whom hold Kazakhstani citizenship. According to reports, religious Kazakhs and those with connections to Kazakhstan are targeted in particular. The Kazakhstani authorities have quietly complained to their Chinese counterparts about the detention of their citizens in Xinjiang, but refrain from vocally lobbying for their release lest they imperil their strategic and economic relations with China; Astana's limited pleas appear to be having a "limited effect" thus far. Though this repression has yet to cause a mass uproar in Kazakhstan, it has the potential to not only exacerbate Sinophobic sentiment there, but also reinforce the narrative of Kazakh elites prioritizing deals with China to enrich themselves at the expense of the national interest. Experts suggest that the situation for Kazakhs in Xinjiang is unlikely to change unless Beijing recognizes that its repressive policies are "'counterproductive' domestically as well as in its dealings abroad."

Is Kazakhstan's rising star fading?[26]

Region: Asia, Central (Kazakhstan)
Sector: Uncategorized
Year of Publication: 2018
Type: Report
Author: LARUELLE, Marlene, Jos BOONSTRA
Author Affiliation: EUCAM

THE END OF AN OIL DREAM. President Nazarbayev's legitimacy is built on economic growth. Kazakhstan's per capita GDP rose sixfold between 2002 and 2013. After oil prices collapsed in 2014, however, GDP growth barely exceeded 1% over the following two years and the Kazakh tenge lost nearly 100% of its value. Kazakhstan's EEU membership only made matters worse: though Astana has attempted to weaken the EEU's level of integration and even engaged in trade wars with Moscow from within the union, Kazakhstan is effectively stuck in the EEU for security reasons. Kazakhstan must adjust to the "new normal" of 2-3% GDP growth in 2018-2019; this rate is insufficient to improve the population's living standards, which have been declining since 2014. In this context, the Kazakh government must focus not only on diversifying its exports and assisting the private sector, but also on reining in lavish public spending, which the Kazakh public increasingly disdains. As Kazakhstan's largest trade partner (40% of total) and originator of inward FDI (50% of total), the EU can play a critical role in helping Kazakhstan move beyond oil.

PREPARING FOR LEADERSHIP SUCCESSION. A change of leadership is expected in Kazakhstan. In advance of this—and in light of the country's economic slowdown—President Nazarbayev has announced reforms designed to strengthen parliament's supervisory powers, transfer presidential responsibilities to the government, and modernize the judicial system. These reforms have not yet been implemented, however, and previously announced reforms have had little effect on governance and the rule of law. Nonetheless, these reforms seek two important ends: first, to let Nazarbayev step down with his "leader of the nation" status intact, which would allow him to cultivate his international image for the rest of his life; second, to enshrine his presidency as a "golden age" in which Kazakhstan prospered and moved toward a more democratic system, in juxtaposition to the austerity measures the next government will have to impose. Competition for the presidency will likely be more competitive than that of successions in Turkmenistan and Uzbekistan because Kazakh elites have more diversified assets than those of their neighbors. The future of Nazarbayev's family, which includes heavyweights in politics and energy, may become a matter of contention. Kazakh elites appreciate the dangers of intra-elite conflict, however, and face strong incentives to maintain elite coherence in order to keep attracting FDI. Though the EU will have minimal influence over the eventual succession, Brussels can prepare itself for that event by building constructive ties with the Kazakh bureaucratic elite, which will manage the state regardless of who assumes the presidency, and by prioritizing the implementation of constitutional reforms that reflect the priorities of democratic development, human rights, rule of law, and civil society inclusion in the EU-Kazakhstan Enhanced Partnership and Cooperation Agreement.

A NEW SOCIAL CONTRACT? Once Nazarbayev departs the presidency, a more plural political landscape is expected to emerge. Young Kazakhs increasingly voice their political beliefs, which trend strongly toward ethno-nationalist narratives. This phenomenon is partly a phenomenon of demographics, including the accelerating decline in the Russian-speaking minority's numbers, the poor social conditions of ethnic Kazakh repatriates (Oralmans), and Kazakhstan's still-large (45% of total) rural population. Due to the growing share of "national-patriots,"

26. http://www.eucentralasia.eu/fileadmin/user_upload/PDF/Policy_Briefs/EUCAM_PB36_Is_Kazakhstans_rising_star_fading_.pdf

Kazakhs have reported aversion to Western values, fear of foreigners infringing on Kazakhstan's sovereignty, and a desire to keep Kazakh culture distinct from outside influences. Kazakhstan's next president will thus have to grapple with the country's close relations with Russia, the public's appetite for "Kazakh values," the place of Islam in the public sphere, and the need for a more plural political life. In promoting democratic values and citizens' rights in Kazakhstan, the EU must "make clear that it represents a diversity of political systems, each with its traditional and historical peculiarities, but all based on the same democratic principles of transparency, accountability, division of powers, free elections and respect for human rights."

Kyrgyzstan Ranks Third Most Vulnerable to Climate Change Impacts in Central Asia[27]

Region: Asia, Central (Kyrgyz Republic)
Sector: Agriculture
Year of Publication: 2018
Type: Journalism
Author: see author affiliation
Author Affiliation: Mountain Societies Research Institute

"Recent climate resilience research has shown that Kyrgyzstan is the third most vulnerable to climate change impacts in Eastern Europe and Central Asia, primarily due to the sensitivity of its agricultural systems to climatic change. Impacts such as climate temperature change could cause altered precipitation patterns and more frequent heat extremes, leading to increased incidence of aridity and drought, particularly in the mountain pastures. Since Kyrgyzstan's land area is 90% mountainous, it is increasingly important to build resilience to these climate changes and to enable communities to continue thriving. The University of Central Asia's (UCA) Mountain Societies Research Institute (MSRI) conducted household surveys to measure climate resilience trends. They developed case studies of villages in the Naryn, Bazar-Korgon and Batken regions, which are categorised by the World Food Programme as having high recurrences of poverty and high or medium risk of natural climate change shocks, relative to the rest of the country. MSRI's used a new tool for household surveys, which uses generalised and shock-specific subjective resilience measures to evaluate households, and take into account different contexts and demographics."

How Western Disengagement Enabled Uzbekistan's "Spring" and How to Keep it Going[28]

Region: Asia, Central (Uzbekistan)
Sector: Uncategorized
Year of Publication: 2018
Type: Blog
Author: SCHATZ, Edward
Author Affiliation: PONARS Eurasia

EXPECTATIONS UPENDED. Given Uzbekistan's obliterated civil society, its elites' limited appetite for reform, its overreliance on cotton production, Western disengagement from its neighborhood, and Shavkat Mirziyoyev's premiership during some of the country's darkest authoritarian moments, few could have anticipated the way in which President Mirziyoyev has begun opening up the country since his election. Yet the reforms now underway are only impressive in comparison to the policies pursued by President Karimov, not in comparison to "the extent of possible reforms that lie ahead."

ORIGINS OF REFORM. Why did Mirziyoyev and the elites who depend on him "view reform as an opportunity, rather than a threat"? Western disengagement from Central Asia played a critical role. Whereas Western actors had previously pushed for ambitious reforms that Central Asian leaders viewed as potentially destabilizing, Uzbek elites had little reason to think that Mirziyoyev's reforms would unleash forces beyond their control: with dissidents incarcerated or exiled and civil society crushed, Mirziyoyev got to choreograph the reform dance on his own terms. These terms include market reforms that are less aggressive than Western audiences would like and would keep the state's guiding role in tact. Furthermore, while Russia and China were hostile to any changes in Central Asia that could have caused instability during the period of heavy American troop presence in Afghanistan, now neither Moscow nor Beijing is averse to reform in Uzbekistan because both "stand to benefit from increased openness and trade."

WILL REFORMS CONTINUE? Though Mirziyoyev's political acumen and the popularity of his reforms have dealt him a strong hand for now, the Uzbek president may find more trying times ahead. If his reforms provoke a scandal—as often happens when the political terrain shifts—he might be tempted to "scuttle the rest of the reform process to preserve power and privilege." Similarly, his political skills may prove less effective in the relatively more liberal

27. https://drive.google.com/file/d/1lBDXLcDfUWSqtRQMq0oqZe0k2uClkxl0/view?usp=sharing

28. http://www.ponarseurasia.org/memo/how-western-disengagement-enabled-uzbekistans-spring-and-how-keep-it-going

political climate that his reforms may bring about. And, while "market authoritarianism" is currently in vogue in Central Asia, Mirziyoyev may scale back his economic reforms if results belie this system's promise.

Fast social and economic change rings in a new era for Uzbekistan[29]

Region: Asia, Central (Uzbekistan)
Sector: Trade
Year of Publication: 2018
Type: Journalism
Author: FURNESS, Virginia
Author Affiliation: Global Markets

Since Shavkat Mirziyoyev's assumption of the Uzbek presidency in 2016, his government has embarked on a program of governance reforms, economic liberalization, and regional opening. Exchange rate liberalization, the EBRD's return to the country, and a forthcoming Eurobond reflect Uzbekistan's new trajectory. Moreover, the country's low public debt, healthy foreign exchange reserves, and high GDP growth rates are attractive to foreign investors. However, to draw this investment, Tashkent needs to upgrade its legal framework as it concerns foreign economic actors and reduce the state's role in the economy. In the context of these reforms, BRI presents a significant opportunity for Uzbekistan, but Beijing should not expect Tashkent to abandon its strategic independence anytime soon. A more immediate prize for Uzbekistan is rapprochement with its neighbors, which is necessary to get Uzbek exports onto the global market.

V. ASIA, EAST

South Korea's Infrastructure Vision[30]

Region: Asia, East (Korea)
Sector: Infrastructure
Year of Publication: 2018
Type: Blog
Author: LEE, Kristine
Author Affiliation: CSIS

PAST AND PRESENT. The South Korean administration of President Moon Jae-in has embarked on a two-pronged regional infrastructure vision. The "New Northern" and "New Southern" Policies together aim to reduce South Korea's economic dependence on China and the US by strengthening its ties to new markets and exploring avenues to reduce tensions between the two Koreas. The New Northern Policy is itself far from novel: during the 1980s, when Sino-American rapprochement shifted the previous bipolar US-Soviet power dynamic in East Asia to a more intricate, multipolar environment, then-President Roh "made northern-centric diplomacy [("Nordpolitik")] a central tenet of his foreign policy" to mitigate the danger of overreliance on the US. More recently, President Park's administration carried out a test run of its Silk Road Express, "which sought to expand the Trans-Korea railway and ultimately connect it with Central Asian railway networks, including the Trans-Mongolia and Trans-China railways," in 2015.

THE NEW NORTHERN POLICY. The contemporary iteration of Nordpolitik, which President Moon announced at the 2017 Eastern Economic Forum in Vladivostok, features a "9-Bridge Strategy" centered on expanding Russo-South Korean joint infrastructure such as ports, railways, natural gas pipelines, electric grids, and Arctic shipping lanes, as well as bilateral cooperation on shipbuilding, agriculture, fisheries, and joint industrial complexes. In pursuing this strategy, Seoul not only diversifies its economic linkages, but also incentivizes good behavior on the part of North Korea, which could benefit significantly if included in these connectivity proposals. [NDLR: inasmuch as North Korean participation is key to the success of these connectivity proposals, the prospects for their realization aren't worth discussing until after the impending US-North Korea summit.] Whereas progress on many facets of the New Northern Policy are pending Pyongyang's reaction, Russo-South Korean cooperation on Arctic shipping and shipbuilding has already borne fruit. Indeed, Moscow—which needs cheaper and faster ways to export LNG—and Seoul—which needs to revive its flagging shipbuilding industry—have identified a powerful intersection of interests: "In 2017, Daewoo Shipping won a $4.8 billion deal to build 15 ice-class tankers to transport LNG originating from Russia's Yamal LNG plant through Arctic waters. The South Korean government has also hatched a $1.9 billion program to help shipbuilding companies win more projects, particularly for LNG tankers."

29. https://www.globalcapital.com/article/b183jttn6x4zn4/fast-social-and-economic-change-rings-in-a-new-era-for-uzbekistan?utm_source=%5BProof%201%5D%20GlobalMarkets%20Daily%20News%20NO%20AD%20v2&utm_source=EBRD%202018%20GlobalMarkets&utm_medium=email%20editorial&utm_medium=email%20marketing&utm_content=Editorial&utm_content=Attend%20an%20event&utm_campaign=FCP_1848982265_636615376254244848&utm_campaign=C8E0040E0002&utm_term=Fast%20social%20and%20economic%20change%20rings%20in%20a%20new%20era%20for%20Uzbekistan&utm_term=Fast%20social%20and%20econ
30. https://reconnectingasia.csis.org/analysis/entries/south-koreas-infrastructure-vision/?utm_source=Members&utm_campaign=-21503c7a5d-EMAIL_CAMPAIGN_2018_04_24&utm_medium=email&utm_term=0_e842221dc2-21503c7a5d-210791821

THE NEW SOUTHERN POLICY. South Korea's economic and diplomatic diversification plan also focuses on ties with ASEAN countries. Announced by President Moon during a tour of Southeast Asia in November 2017, its early overtures have centered on Indonesia and Vietnam. During the policy's unveiling, President Moon signed an MoU with Indonesia to develop a new light rail system for Jakarta; this agreement is among a "series of pacts" worth up to $1.9 billion. On the same tour, President Moon "launched a more concerted effort to upgrade its cooperative relationship with Vietnam to one of a 'comprehensive partnership.' In a March 2018 summit, the two countries agreed to boost cooperation between their manufacturing industries to reach a target trade volume of $100 billion by 2020. In support of these growth targets, South Korea has also vowed to increase its investment s in Vietnam's infrastructure, including road and airport construction projects." [NDLR: the geopolitics of the New Southern Policy are murky. On the one hand, Seoul could be perceived as trying to play China's game of buying influence through infrastructure, though on a smaller scale and in fewer countries. On the other hand, this policy may be a benign attempt to grow markets for South Korean goods. Linkages between the New Southern Policy and either Chinese or Indo-Japanese initiatives in the region are worth watching for.

VI. ASIA, SOUTH

The WEB of Transport Corridors in South Asia[31]

Region: Asia, South
Sector: Transport
Year of Publication: 2018
Type: Report
Author: see author affiliation
Author Affiliation: ADB, DFID, JICA, WBG

Landlocked countries should be cautious about so-called economic corridors that cross through their territory. These countries run the risk of investing heavily in constructing these corridors, only to see them serve as transit corridors with little lasting economic impact locally. Such transit countries may need to focus on their feeder networks and on reforms that maximize the socioeconomic benefits of hosting transit corridors. Supranational committees can help translate a cross-border corridor concept into a suite of implementable projects. [NDLR: Central Asian countries may want to request such a supranational committee to oversee the construction of SREB so as to guarantee that their populations enjoy the socioeconomic benefits of this corridor.] Policymakers must bear in mind the high opportunity costs of corridor projects in terms of foregone development opportunities, such as greater investments in education, health, or water and sanitation. Additionally, policymakers should avoid corridor projects with narrow objectives. Projects that target and amplify wider economic benefits should receive priority over those that focus exclusively on reducing vehicle operating costs or saving time. To achieve these wider economic benefits, policymakers should implement complementary interventions: upgrading skills (by improving education quality and coverage) and strengthening public sector governance (by improving land administration systems) around corridors appear to be the most promising types of complementary interventions. Policymakers should also be aware that while the positive impact of corridors on economic welfare are statistically significant, their impact on the environment is negative and even more significant. Finally, policymakers must consult the private sector in developing corridors if their wider economic benefits are to be maximized. Private sector investors can be directly involved in financing the construction of transport corridors too, but their involvement is not necessarily a good thing: private sector involvement does not tend to improve the quality or financial sustainability of transport infrastructure, and may in fact worsen both. Private sector actors' pursuit of short-term profit is often incompatible with public sector leaders' development targets and the long-term investments required to achieve them. Furthermore, due to the high risk of coordination failures arising from corridor projects, private sector investors are especially wary of cross-border transport infrastructure initiatives.

How India became China-led development bank's main borrower[32]

Region: Asia, South (India)
Sector: Lending
Year of Publication: 2018
Type: Journalism
Author: LO, Kinling
Author Affiliation: SCMP

Despite still-tense Sino-Indian border disputes and India's ongoing boycott of BRI, India has been the greatest beneficiary of AIIB lending since the Bank's founding

31. https://drive.google.com/file/d/1ukGm-V24AYOo_K0eTSh-25W2vOIqVh4i9/view?usp=sharing

32. http://www.scmp.com/news/china/diplomacy-defence/article/2129686/how-india-became-china-led-development-banks-main

in 2016. India has received $1.074 billion in loans for five projects—compared to $600 million for second-place Azerbaijan—and has a highest number (5) and value ($1.186 billion) of loan applications currently pending. Since AIIB is a rules-based multilateral lender with transparent procedures, New Delhi's enthusiasm toward the Bank isn't inconsistent with its hostility toward BRI, whose ambiguity of terms, debt implications, and strategic dimensions India often criticizes.

China's belt and road initiative and India's options: Competitive cooperation[33]

Region: Asia, South (India)
Sector: Uncategorized
Year of Publication: 2017
Type: Published paper
Author: CHHIBBER, Ajay
Author Affiliation: GWU, NIPFP

STRATEGIC CONSIDERATIONS. In response to its perceived encirclement by China's MSR (particularly in light of a PLA Navy submarine's docking in the port of Colombo in September 2014), has launched its own initiative to prevent Chinese domination of the Indian Ocean. Variously referred to as Project Mausam, the Spice Route, the Cotton Route, the Blue Revolution, and "Security and Growth for All in the Region" (SAGAR), this initiative seeks to position India at the center of the Indian Ocean's governance by deepening cultural bonds, ensuring maritime security, and broadening economic connectivity with Indo-Pacific nations. India has also sought involvement in South China Sea affairs—mainly through its hydrocarbon relationship with Vietnam and its insistence on freedom of navigation, given that almost 25% of India's trade passes through this body of water—and East Asia through its partnership with Mongolia. Yet China's seemingly aggressive posturing in the Indian Ocean may be less of an attempt to marginalize India than a strategy to generate alternative import routes for Middle Eastern oil if its supply lines through the Strait of Malacca threatened. Under this mentality, India could dovetail MSR with its own Sagarmala project, which seeks to build 20 ports on the Indian Ocean. India could also view MSR as a "maritime supplement" to the BCIM Economic Corridor, which India supports.

REGIONAL ECONOMIC RELATIONS. In 2005, China exploited ongoing border difficulties to usurp India as Bangladesh's largest trading partner, displacing many Indian goods with cheaper products. While India still leads China in its trade relationship with Sri Lanka, China is fast catching up, having quadrupled its exports to Sri Lanka since 2005. Though the current Sino-Sri Lankan trade balance "overwhelmingly favours China," a forthcoming FTA between the two countries is expected to give Sri Lankan goods greater access to Chinese markets. However, China leads India by miles in terms of concessional lending to Sri Lanka: between 2012 and 2015, China disbursed almost $2.5 billion (mainly through CHEXIM), while India disbursed only $660 million. Yet in every country except Pakistan (for obvious reasons), India leads China as a source of remittances: in 2015, South Asian countries absorbed $5.9 billion in remittances from India versus $118 million from China, more than half of which went to India.

SINO-INDIAN ECONOMIC RELATIONS. Trade volumes between the two largest Asian countries grew from $2 billion in 2000-2001 to $66 billion in 2013-2014. Yet over this time, India's trade deficit to China swelled from $1 billion to $36 billion; it topped $50 billion in 2015-2016. Moreover, "China's biggest exports to India are telecommunications equipment, computer hardware, industrial machinery and other manufactured goods," while India's main exports to China are raw materials like "cotton yarn, copper, petroleum products, and iron ore." This gap could be reduced if Chinese companies invested in manufacturing in India, but China ranks a distant 7th in terms of FDI in India this century. Though many clamor for tariffs against Chinese imports, India should nonetheless focus on improving the competitiveness of its exports—namely by devaluing the rupee—and attracting more Chinese FDI. CONCLUSION. Only by pursuing "competitive cooperation," rather than outright confrontation, can India and China achieve an "Asian century" in which their combined economies comprise more than half of the world economy.

Modi-Xi talks offer hope for better relations[34]

Region: Asia, South (India)
Sector: Transport
Year of Publication: 2017
Type: Journalism
Author: GUPTA, Joydeep
Author Affiliation: China Dialogue

China has made its peace with the fact that India will not formally join BRI. Nonetheless, Beijing is still pushing for India's participation in the BCIM corridor, and India

33. https://drive.google.com/file/d/0B9QMHNIqFfm1OWgtcVhvcUZtUTljOTk1aklYLVNZN09veG4w/view?usp=sharing

34. https://www.chinadialogue.net/blog/10607-Modi-Xi-talks-offer-hope-for-better-relations/en?mc_cid=6cc6658516&mc_eid=0931f545a5

appears amenable to strengthening transit links between Kolkata and Kunming.

How China Got Sri Lanka to Cough Up a Port[35]

Region: Asia, South (Sri Lanka)
Sector: Lending
Year of Publication: 2018
Type: Journalism
Author: ABI-HABIB, Maria
Author Affiliation: New York Times

EXPLOITING DEBAUCHED LEADERSHIP. Mahinda Rajapaksa won the Sri Lankan presidency in 2005 and oversaw the brutal end of Sri Lanka's civil war. As accusations of human rights violations isolated his regime internationally, Rajapaksa relied on Chinese "economic support, military equipment and political cover at the United Nations to block potential sanctions." Then, when Rajapaksa proposed implementing plans for a vast port project in his native district of Hambantota around 2007, Chinese lenders signed on—this despite feasibility studies deeming the project economically unviable and Indian financiers refusing to fund it. The initial CHEXIM loan of $307 million "came at a variable rate that usually settled above 1 or 2 percent after the global financial crash of 2008"; by comparison, Japanese infrastructure loans for similar projects charge rates below 0.5%. Though presidential advisers had laid out a results-based roadmap for when Hambantota Port could expand after opening, Rajapaksa torpedoed these plans in 2009 by demanding that the port open—and that an ambitious expansion begin 10 years ahead of schedule—with great fanfare on his 65th birthday the following year. The project's Chinese contractor, China Harbor Engineering Company, acceded to Rajapaksa's request, working around the clock to dredge the basin that would eventually form Hambantota's harbor. Yet in their haste, China Harbor overlooked a boulder that blocked the harbor's entrance and prevented large ships from entering. The boulder remained as of the port's opening on November 18, 2010, and continued to block business until China Harbor blasted it a year later for $40 million—an exorbitant sum that may have included kickbacks for President Rajapaksa. Hambantota Port had a lackluster start: in 2012, it docked 34 ships, compared to the Port of Colombo's 3,667. Determined to continue the port's expansion ahead of schedule despite rising costs, Rajapaksa asked Chinese lenders for an additional $757 million in 2012. To get these funds, Rajapaksa agreed to renegotiate the initial $307 million loan to a 6.3% fixed interest rate. Rajapaksa's loyalty did no unrewarded: in advance of the 2015 presidential election—in which the opposition railed against Sri Lanka's rising debt and threatened to "tear up economic agreements" with China—China Harbor dispensed at least $7.6 million to Rajapaksa's campaign affiliates (including $1.7 million delivered directly to the presidential palace), and China's ambassador openly lobbied voters to support Rajapaksa. China Harbor's corrupt practices in Sri Lanka may not be an anomaly. In January 2018, the Bangladeshi government debarred the company from winning any future contracts for attempting to bribe an official with $100,000 stuffed into a box of tea. China Harbor's parent company, China Communications Construction Company, was also debarred from bidding on World Bank projects for 8 years in 2009 due to "corrupt practices in the Philippines."

A STRATEGIC INVESTMENT. Rajapaksa lost the 2015 election, leaving incoming president Maithripala Sirisena with a disastrous fiscal situation. In 2016, Sirisena launched negotiations with Beijing to remove Hambantota Port from the state's balance sheet, but Chinese officials "demanded that a Chinese company [ultimately China Merchants Port, an SOE] take a dominant equity share in the port in return." When Sirisena agreed, China Merchants then "demanded 15,000 acres of land around the port to build an industrial zone," arguing that the port alone wasn't worth the $1.1 billion it would pay for its equity. Again Sirisena accepted, and the new arrangement took effect in December 2017. Though the current setup leaves "some appearance of Sri Lankan ownership" of Hambantota Port, Colombo effectively has no sovereignty over the port's land. And, while the new ownership arrangement "bars foreign countries from using the port for military purposes unless granted permission by the government," it's conceivable that Beijing would use the promise of debt relief to pressure Colombo to let the PLA Navy to dock there. To many observers, this outcome would make sense. Indian analysts, seeing no economic rationale for the port, believe the only justification for China's involvement in Hambantota is geostrategic. Moreover, according to a Sri Lankan official who participated in initial negotiations for Chinese finance, Beijing privately made clear that intelligence sharing—that is, letting China know who was docking at the port—was an "integral" part of the port deal.

35. https://drive.google.com/file/d/0B9QMHNIqFfm1Nlg4TVZCdk9DS-FEzWElod2RUa2tRM083UVFr/view?usp=sharing

VII. ASIA, SOUTHEAST

Mekong countries look to bolster cooperation[36]

Region: Asia, Southeast
Sector: Uncategorized
Year of Publication: 2018
Type: Journalism
Author: WANG Yan
Author Affiliation: China Dialogue

HISTORY. The Lancang-Mekong Cooperation (LMC) Mechanism is a Chinese initiative that includes all five Southeast Asian nationals along the Mekong as well as China. First proposed by Chinese Premier Li at the 17th China-ASEAN Summit in 2014, LMC was officially inaugurated in November 2015 and held its first leaders' meeting in March 2016. Since its foundation, the mechanism has facilitated three leaders' meetings, three foreign ministers' meetings, five meetings of senior officials, and six working groups.

PRIORITIES. LMC identifies three pillars of cooperation—political and security issues; economic and sustainable development; and social, cultural, and people-to-people exchanges—and five [sic] priority areas—interconnectivity, industrial capacity, cross-border economy, water resources, agriculture, and poverty reduction. Water management is particularly central to LMC: whereas Mekong basin countries previously failed to quickly negotiate solutions to water crises, the mechanism has improved water management coordination and information sharing among LMC members—an achievement whose effects were demonstrated when China released upstream water to alleviate downstream drought conditions in March 2016 pursuant to a request submitted through LMC. As concerns economic development, LMC lifts a page from the BRI playbook: Beijing promised $3.2 billion worth of loans to promote industrial capacity cooperation and infrastructure development, as well a special fund to support small- and medium-sized cooperation projects due to be established no later than 2023 (?). A crop of 45 "early achievement" cooperation projects, including some pre-existing and suspended projects, were identified at the first leaders' meeting; through their implementation, Beijing sought to quickly build confidence in LMC and give it credibility to relaunch suspended projects. Regarding people-to-people exchanges, LMC features an annual youth innovation competition for university students from member states.

RELATIONSHIP WITH OTHER MEKONG ORGANIZATIONS. LMC joins a patchwork of multilateral mechanisms established by lower Mekong states, as well as the US, Japan, South Korea, India, and IFIs. The most prominent of these is the Mekong River Commission, a joint initiative of Cambodia, Laos, Thailand, and Vietnam, established in 1995. Despite the possibility of competition between MRC and LMC, observers of both institutions note the potential for cooperation in pursuit of mutual priorities. Indeed, MRC has shared hydrological data with China since 2002, and joint studies and MoUs between MRC and LMC are forthcoming. [NDLR: BRI is this piece's elephant in the room. It isn't mentioned directly in any way, though a provincial official's assertion that LMC's people-to-people exchanges will "build a community of common destiny" keeps it close to mind. Additionally, the piece closes on a rather grim note: "In the next five years," Xu Liping, a researcher who may have helped to inspire LMC, is quoted as saying, "the key is to tie together the efforts of the six members while avoiding interventions from foreign countries outside the region; pushing forward the mechanism while minimising the impact of political uncertainties in certain transitional countries, such as Cambodia, Vietnam and Thailand." Xu may have been speaking in an unofficial capacity; however, if he did represent the Chinese government's position, then entrenchment of authoritarian regimes and a Monroe Doctrine-esque foreign policy toward Southeast Asia may be Beijing's parallel goals for LMC.]

Fact Sheet: Kunming-Singapore High Speed Rail Network[37]

Region: Asia, Southeast
Sector: Transport
Year of Publication: 2017
Type: Fact Sheet
Author: see author affiliation
Author Affiliation: Geopolitical Monitor

Central Route (Kunming-Vientiane-Bangkok-Kuala Lumpur-Singapore)

Kunming-Vientiane
Cost: $6.04 billion.
Length: 427 km.

36. https://www.chinadialogue.net/article/show/single/en/10559-Mekong-countries-look-to-bolster-cooperation?mc_cid=025899345b&mc_eid=0931f545a5

37. https://www.geopoliticalmonitor.com/fact-sheet-kunming-singapore-high-speed-rail-network/

Who: Laos-China Railway Co., Ltd. (China-Laos joint venture) with construction contract awarded to China Railway Group.

When: Groundbreaking ceremony in 2015; construction commenced in 2016; expected completion date of 2021.

Top speed: 160 km/h passenger & 120 km/h freight.

The rail project is a very big deal for a small, underdeveloped economy like Laos. The Laotian government is on the hook for 30% of the cost, with much of the money coming in the form of loans from the Export-Import Bank of China and other Chinese banks. Laos is already highly indebted with a public debt of around 70% of GDP and a deep fiscal deficit. The rail line is the largest infrastructure ever undertaken by Laos, and its total cost is equivalent to over one-third of the country's GDP.

The Laos portion of the railway will be single-track and use the Chinese standard of 1,435 mm, which is different from the one-meter gauge common in Southeast Asian countries.

Vientiane-Nakhon Ratchasima

The next portion of the Central Route, linking Vientiane with Thailand's Nakhon Ratchasima, has been shelved for the time being due to financing disputes between China and Thailand. After lengthy negotiations following the signing of a memorandum of understanding in 2014, Thailand decided to self-finance its portion of the route, beginning with the Bangkok-Nakhon Ratchasima section, and leaving the matter of linking up at the Laos border to a later date.

The original plan was to create an 850 km dual-track (one meter gauge and 1.435 China standard gauge) from the Laos border to Bangkok.

Bangkok-Nakhon Ratchasima

Cost: $5.4 billion.

Length: 252 km.

Top speed: 250 km/h.

When: Construction expected to begin in early 2018.

The project will be financed solely by the Thai government after negotiations with the Chinese side fell through. At issue were the interest rates being offered by Chinese lenders (2%, when the Thai government could borrow publicly at 1.9%), and the Thai government's plan to convert preexisting meter single-track to standard double-track, which would effectively allow it to compete with the new China line for freight. This left the new Laos-Thailand high-speed rail dependent on passenger travel for profit, a risky proposition given the abundance of low-cost passenger airlines operating in the region.

After negotiations fell apart, the Thai government pledged to build a high-speed link between Bangkok and Nakhon Ratchasima. Many believe the move is meant to force the Chinese government into offering better terms, since it will need to expand its expensive China-Laos railway southward in order to make it financially tenable in the future.

Kuala Lumpur-Bangkok

When: Proposed; early negotiations between Thailand and Malaysia have taken place.

Length: 1,500 km.

The Kuala Lumpur-Bangkok section of the Kunming-Singapore railway would be the highest-hanging fruit of any regional rail network. It would have to traverse a very long distance, much of it through underdeveloped and rural areas that would provide little economic benefit to the railway's operators. Unsurprisingly, the project would also require a huge investment to get off the ground, and given Thailand and China's struggles to get a deal on the Bangkok-Vientiane portion done, a Kuala Lumpur-Bangkok initiative won't be forthcoming anytime soon.

Singapore-Kuala Lumpur

Length: 335 km.

When: Call for bids in late 2017; contract awarded in 2018; targeted completion date of late 2026.

Cost: $15 billion.

Will allow for Singapore-KL service in 90 minutes.

Bidding process expected to be competitive between Japanese, Chinese, and European companies. There's a political element here, as opposition politicians have been accusing Prime Minister Najib Razak of selling Malaysia out to Chinese interests. There have been rumors that Singapore prefers a Japanese or European bidder while Malaysia prefers a Chinese one.

Eastern Route (Kunming-Hanoi-Ho Chi Minh City-Phnom Penh-Bangkok-Kuala Lumpur-Singapore)

The eastern route foresees converting pre-existing single track between Kunming and Hanoi to standard double-track and creating a high-speed track along Vietnam's coastal railway.

The route presents various geopolitical challenges, many of which stem from Vietnam's suspicion of China's growing influence in the region. The two countries are already clashing openly over sovereignty of the South China Sea.

The Vietnamese government would be reluctant to allow China's standard-gauge network to encroach into its own meter-gauge national network. At present, China's only meter-gauge track is the 466 km link between Kunming and the Vietnam border at Hai Phong.

Vietnam has sought other partners to help develop a north-south high-speed rail network. In 2009 it announced plans to build a 1,600 km high-speed rail link between Hanoi and Ho Chi Minh City with a Japanese partner. The plan has since stalled due to the project's high price tag: $56 billion by some estimates. A feasibility project is currently being carried out, and the National Assembly is expected put it to a final vote sometime in 2019.

A Phnom Penh-Ho Chi Minh City high-speed link is also being considered, but it too is in the early stages of planning.

Western Route (Kunming-Mandalay-Rangoon-Bangkok-Kuala Lumpur-Singapore)

Previous plans to build a high-speed rail link between Kunming and Rangoon were shelved in 2014 following popular protests in Myanmar.

The original contract was signed in 2011 with the China Railway Engineering Corporation. It would have involved most of the financing coming from China, and a Chinese entity operating the railway on a 50-year concession.

The 1,920 km route would have allowed for speeds of up to 240 km/h.

Despite the collapse of the original agreement, China has been building its own track from Kunming to Ruili at the border via Dali.

VIII. "BELT AND ROAD"

600 bln USD shortfall in B&R infrastructure investment[38]

Region: Belt and Road
Sector: Infrastructure
Year of Publication: 2018
Type: Journalism
Author: see author affiliation
Author Affiliation: Xinhua

According to Zhou Xiaochuan, vice chairman of the Boao Forum and former Chinese central bank governor, Belt and Road regions suffer from a $600 billion shortfall in infrastructure investment every year. This compares to ADB's assessment that the Asia-Pacific region (excluding China) will need $500 billion worth of infrastructure investment annually between 2016 and 2020, whereas the public and private sectors can only provide $200 billion annually. As of March 2018, outstanding China Ex-Im loans to BRCs totaled more than 810 billion yuan, or around $130 billion. Additionally, since BRI's inception, "Chinese banks have participated in more than 2,600 related projects," issuing loans worth more than $200 billion. Moreover, "by the end of 2017, a total of 55 banks from 21 Belt and Road countries had set up institutions in China."

China's soft power from the BRICS to the BRI[39]

Region: Belt and Road
Sector: Uncategorized
Year of Publication: 2018
Type: Published paper
Author: SPARKS, Colin
Author Affiliation: Hong Kong Baptist University

Arguments about the means of producing soft power aside, China lacks the basis of positive attraction that the United States used as the bedrock of its immense soft power. Unlike the United States—whose population has (arguably) enjoyed the highest standard of living on earth since 1945 and made this fact known through the cultural artefacts it exported around the world—the Chinese people are nowhere near affluent enough to convincingly "present [their country] as the world's most materially successful model for organising social life" and thus develop soft-power attraction. Though China can rightfully claim unprecedented success in lifting its population out of poverty, it's quite unlikely that this achievement could be "casually, unconsciously, realistically, [sic] embedded in popular cultural artefacts" that would inspire foreign masses in the way that American prosperity did and still does. The ideal target audience for China's development narrative is instead foreign elites, and particularly those in authoritarian countries for whom the attraction of American values is minimal.

38. http://www.xinhuanet.com/english/2018-04/14/c_137109547.htm

39. http://journals.sagepub.com/doi/pdf/10.1177/2059436418778935

IX. CHINA

Lower for Longer: The Implications of Low Oil and Gas Prices for China and India[40]

Region: China
Sector: Energy
Year of Publication: 2017
Type: Report
Author: GROSS, Samantha
Author Affiliation: Brookings

Chinese oil production now covers only one third of domestic demand. Production has fallen in recent years due to poor productivity in operational oilfields and low prospects of productive extraction from undeveloped fields. China's national oil companies (NOCs) thus began investing in a wide variety of foreign oil producers. Some of the consequent deals saw China trade access to its oil market for access to reserves abroad and offer loans to foreign energy companies that could be repaid in oil, sometimes at below-market prices. Many of these agreements were concluded under the assumption that world oil prices would remain high, however; NOCs were thus punished when oil prices plummeted, and their overseas investments plunged in 2015 and 2016. When it comes to gas, China is in a somewhat different situation. China covers 66% of its gas demand through domestic production; pipeline imports and LNG imports make up the gap in equal proportion. Before 2015, when China enjoyed higher growth rates and gas scarcity was a concern, Beijing signed boatloads of contracts for imported LNG. But, as growth decelerated, China's LNG system entered a state of oversupply due to these contracts, with no end in sight. This oversupply has not led to cheap gas in China, however: the government-set price of gas is 3.5 times higher than it is in the US, meaning that gas cannot compete with the price of coal.

What's happening with China's fintech industry?[41]

Region: China
Sector: Technology
Year of Publication: 2018
Type: Blog
Author: DOLLAR, David
Author Affiliation: Brookings

China has become the world leader in the fintech industry, with massive public uptake of innovative mobile payment and online lending platforms. Given this success, Chinese fintech companies are seeking to replicate it in foreign markets. Alibaba's Alipay has done this by targeting populations underserved by existing financial institutions in collaboration with local partners. Alipay's operator has thus invested in fintech startups in India, the Philippines, Thailand, Singapore, and South Korea. [NDLR: just as Chinese firms often invest in foreign markets to gain access to advanced technologies, BRCs should consider how their partnerships with China could result in the transfer of cutting-edge Chinese technology to domestic firms.]

Why Does Everyone Hate Made in China 2025?[42]

Region: China
Sector: Technology
Year of Publication: 2018
Type: Blog
Author: LASKAI, Lorand
Author Affiliation: CFR

"Made in China 2025 is a blueprint for Beijing's plan to transform the country into a hi-tech powerhouse that dominates advanced industries like robotics, advanced information technology, aviation, and new energy vehicles." But instead of seeking excellence in these industries as Germany, the US, South Korea, and Japan have, Made in China 2025 aims for Chinese domination of these industries worldwide. Specifically, the strategy "lays out targets for achieving 70% 'self-sufficiency' in core components and basic materials in industries like aerospace equipment and telecommunication equipment by 2025"; more specific quotas are laid out for manufacturers in semi-official documents. Though bureaucrats deny that these targets are official policy, a recent report argues that Beijing is using semi-official documents to transmit "self-sufficiency" quotas to manufacturers in order to not openly violate WTO rules. In pursuit of Made in China 2025's aims, Chinese firms have resorted to acquisitions of foreign tech companies, forced technology transfer agreements, and industrial espionage. Experience from overseas acquisitions suggests that these investments form part of a coordinated strategy. For instance, shortly before Fujian Grand Chips' public takeover of German machine maker Aixtron in 2016, Fujian-based San'an Optoelectrics—which shares

40. https://www.brookings.edu/wp-content/uploads/2017/10/fp_20171019_lower_longer_china_india.pdf
41. https://www.brookings.edu/blog/order-from-chaos/2018/02/08/whats-happening-with-chinas-fintech-industry/
42. https://www.cfr.org/blog/why-does-everyone-hate-made-china-2025

a Beijing-controlled common investor with Fujian Grand Chips— "canceled a critical order from Aixtron on dubious grounds, sending its stock tumbling and presenting Fujian Grand Chips with an opportunity to swoop in." Furthermore, technology transfer agreements with foreign firms exploit the "asymmetries in market access between China and the rest of the world" by requiring foreign firms to hand over important intellectual property in order to merely access the Chinese market.

X. EURASIA

EDB Macroreview 06'2018: EDB economies: in search of new growth drivers[43]

Region: Eurasia
Sector: Uncategorized
Year of Publication: 2018
Type: Report
Author: see author affiliation
Author Affiliation: EDB

ARMENIA. Macro trends. Q1 growth of 9.6% follows 11% growth in 2017Q4, supported by rising consumer demand and double-digit growth in remittances. Exports grew 34% YoY in Q1, supported by a weaker currency, but imports grew 39%. Construction and agriculture sector growth accelerated YoY while manufacturing sector growth slowed. Fiscal policy. The budget deficit grew YoY, as spending cuts were offset by falling revenues. Government debt increased in 2017, leading to 17% YoY growth in debt servicing costs in Q1. Monetary policy. The refinancing rate remained unchanged in Q1, but with inflation approaching its target, the Central Bank may tighten monetary policy in the medium term. Decreasing bank loan interest rates spurred an acceleration of lending growth. Forecasts. High economic growth, sustained by domestic demand, export growth, and monetary stimulus, should continue through 2020. Inflation should remain within the Central Bank's target range over the medium term, though the regulator will gradually have to abandon its expansionary monetary stance.

KAZAKHSTAN. Macro trends. Q1 growth of 4.1% due to rising oil prices, export growth, domestic demand, and 40% investment growth YoY. Oil price increases supported growth in the manufacturing, services, and construction sectors, as well as in wholesale and retail trade. The balance of payments surplus also doubled. Fiscal policy. Q1 saw a small budget surplus, compared to a small deficit a year prior, despite slowing revenue and transfer payment growth and a 13.5% YoY jump in expenditures due to higher social spending. Government debt grew 6% QoQ in Q1, though external debt decreased. Monetary policy. Inflation remained within the 5-7% target range. Regulators lowered the base rate 1 percentage point in Q1 in response to signs of disinflation. Forecasts. Inflation is expected to stay within the target range, which will fall to 4% by end-2020. Steady GDP growth is expected in the long term due to recovering oil prices, stable growth in trading partners, and rising domestic demand and investment.

KYRGYZ REPUBLIC. Macro trends. Q1 growth declined to 1.3% YoY from 5.2% a year before due to slowdowns in the service and construction sectors and zero net growth in manufacturing (including mining, which saw large drops in production). The key wholesale and retail trades grew steadily, however. During 2017, GDP growth was boosted by a positive trade balance, household consumption, and gross domestic capital formation. Fiscal policy. Q1 saw a budget surplus of 1.1% of GDP—compared to a smaller deficit a year before—due to higher revenues and lower spending on non-financial assets, though the rate of spending growth remained constant. Monetary policy. Inflation stood below the target range in Q1 due to low global and regional food prices. The refinancing rate remained 5% in Q1, within its target range. Forecasts. Inflation should rise slowly and reach the target range by of 5-7% by mid-2019, supported by rising domestic demand and global energy prices. GDP growth should slow due to reduced gold mining, moderate growth in trade partners, and systemic factors.

RUSSIA. Macro trends. Q1 growth accelerated to 1.3% YoY (following a slowdown in 2017Q4) due to a 9.5% YoY jump in real wages, benign commodity prices, and increased demand for Russian exports (up 23% YoY). New US sanctions put downward pressure on the ruble-dollar exchange rate, thus boosting the current account surplus. Industrial production returned to growth, supported by the mining and power sectors, though manufacturing output remains volatile. Fiscal policy. Q1 saw a budget surplus of 1.8% of GDP (compared to a deficit of 1.3% a year before) due to a 22.5% YoY increase in hydrocarbon revenues and a 5% increase in non-hydrocarbon revenues. Budget spending decreased 6% YoY in Q1, and the 2018 budget predicts a surplus of 0.5% of GDP. Monetary policy. 12-month inflation reached a historic low of 2.2% in Q1 due to a slowdown in consumer price growth, which was comparatively high in 2017. The central bank lowered its key interest rate on two occasions, to 7.25%, in Q1.

43. https://eabr.org/upload/iblock/14f/EABR_Macroview_EN.pdf

Inflationary risks grew late in Q1 with increased volatility in the ruble, but their effect in inflationary expectations is indeterminate. The central bank has toughened its rhetoric on interest rates since then, but the key interest rate is expected to be lowered further in 2019. Forecasts. GDP growth of 1.8% is expected in 2018, with high commodity prices and rising household incomes compensating for the negative effects of sanctions. 1.7% GDP growth expected over the medium term, supported by higher budget spending and economic reforms. Inflationary pressures will push inflation toward its 4% target in 2018 and keep it in the target range over the medium term.

TAJIKISTAN. Macro trends. Q1 growth stood at 7% YoY, up from 6.5% a year prior, due to strong growth in the construction, textile (fabric production increased 3.7x YoY), agriculture, retail, and building materials (production increased at least 1.8x YoY) sectors. Mining, still a locomotive of GDP growth, nonetheless saw a slowdown of 16% YoY. Ongoing investment projects lay the groundwork for continued growth. Nominal export growth of 38% YoY lowered the current account deficit to 2.5% of GDP, down nearly half since 2016Q4. Fiscal policy. The Q1 budget surplus of 2.8% of GDP represents a 1.7-fold decrease from 2017Q1. Budget revenues decreased 11% YoY while expenditure decreased 5%. Budget revenues, both tax and non-tax, grew while the share of non-budget revenues collapsed. Tax revenue growth more than doubled to 20% YoY in Q1. Budget cuts targeted spending on public administration (24.4% YoY), agriculture and manufacturing (20% YoY), and other items (39%), while public investments in the power sector continue to increase (by 13% YoY). Monetary policy. With food products making up over 2/3 of the consumer basket, inflation fell below the 7% target in March 2018, down from its 9% peak in June 2017, due to a large harvest. Non-food sector inflation remained stable at 4% in Q1, while increased public utility tariffs brought inflation in this sector to 6.3%. The central bank lowered the refinancing rate from 16% to 14% in two cuts during Q1. Despite measures taken to revive the banking sector, the share of overdue loans remains high. Forecasts. Investment activity, higher cotton and aluminum prices, and growth in key economic partners should sustain domestic growth in 2018 through international trade and remittances. Low inflation should remain throughout 2018, though inflation is expected to rise toward the target range thereafter.

How Russia's Economic Recession Benefits Moscow Politically in its "Near Abroad"[44]

Region: Eurasia
Sector: Uncategorized
Year of Publication: 2018
Type: Report
Author: OMELICHEVA, Mariya
Author Affiliation: PONARS Eurasia

THE ECONOMIC CRISIS. In 2014—coinciding with the foundation of the Eurasian Economic Union (EEU)—the Russian economy suffered a "triple whammy": Western sanctions over Moscow's annexation of Crimea, which led to capital flight from Russia; plummeting oil prices; and Russian countersanctions against the West. This triple whammy sent the Russian economy into recession in 2014-2015, characterized by significant inflation and currency depreciation against the dollar, with only a feeble recovery in 2016-2017 as capital flight continued. Russia's recession quickly spilled over into the economies of other CIS members, forcing currency devaluations and, in the case of Belarus, redenomination. But although these countries' currencies depreciated 25-55% against the dollar, the ruble declined 76%: Russia's neighbors' currencies thus appreciated against the ruble. This put severe downward pressure on remittances of CIS migrant workers in Russia, with those sent to Tajikistan falling by 26%. In tandem with depressed consumer demand, the weak ruble also slashed Russian imports from CIS countries, and particularly from EEU members. Yet, in the case of Kazakhstan, trade volumes with the EU fell even more steeply than those with Russia, allowing the EEU to shore up its grip on Kazakhstan's external trade. Taken together, these spillover effects of the Russian recession squeezed the fiscal space of impacted countries, especially in Central Asia.

THE POLITICAL CONSEQUENCES. As inflation and austerity set in, many CIS regimes lost an "important basis of their legitimacy": the delivery of political stability and economic growth. Many of these states seen unsanctioned popular protests against declining economic conditions in the years since 2014. As these regimes faced the threat of revolution, Russia successfully billed itself (as it has in the past) as the only reliable guarantor of incumbent regimes' security. Despite its economic hardships, Moscow has retained or increased its security presence in its neighborhood: it maintained its troop garrison in Tajikistan; provided air defense systems to Belarus and Kazakhstan; and led

44. http://www.ponarseurasia.org/memo/how-russias-economic-recession-benefits-moscow-politically-near-abroad

the first CIS counterterrorism military exercises, which were noteworthy in that Uzbekistan participated—Moscow and Tashkent had not held joint military exercises since 2005. Russia has also resorted to carrot-and-stick tactics to keep CIS countries in its fray: it has offered debt forgiveness and exceptional loans to states in its neighborhood while increasing burdensome requirements on migrant laborers from non-EEU countries in order to push their countries into the EEU.

GOING FORWARD. New American sanctions imposed in August 2017 hit Russian energy companies particularly hard. CIS member states that do business with these companies are liable to see their energy prices jump, which could reignite the inflationary spirals they've seen since 2014. For some CIS countries, China is an economic counterweight to Russia, yet like Russia, China is undergoing a decline in external demand. If China is to form strong economic partnerships in the region, it must curtail its practice of mainly employing Chinese labor in overseas projects, particularly in countries facing large influxes of migrant laborers returning from Russia.

The Strategic Potential of the Emerging Wider European Economic Area[45]

Region: Eurasia
Sector: Trade
Year of Publication: 2018
Type: Report
Author: EMERSON, Michael
Author Affiliation: CEPS

President Putin has expressed interest in developing a Lisbon-to-Vladivostok common economic space, and the EEU hopes to establish official relations with the EU through a non-preferential agreement. Western sanctions against Russia for its aggression toward Ukraine have prevented any opening of EU-EEU relations. Even if relations were to be opened, the prospects of a deep trade agreement in the short term are dim. Since Belarus is not a WTO member, Brussels is barred from forming an FTA with Minsk under WTO law. Additionally, Russia has significantly increased levels of protectionism for its industrial sectors in recent years. In the coming years, however, the situation could shift in favor of rapprochement. Belarus' negotiations with the WTO are ostensibly "serious," with accession possible in the coming years. Russia may take up a program of internal liberalization after the 2018 election, which could potentially be complemented by external liberalization, including an EU-EEU FTA. In an encouraging sign, the EEU is replacing its Soviet-era system of technical product standards with European and international regulations and standards. The question of sanctions over Ukraine could be resolved by applying the steps used to defuse the Transnistrian crisis: a durable ceasefire would precede the withdrawal of heavy weapons; this would allow people and commerce to occur between the separatist regions and the rest of Ukraine while respecting the former's self-government; and in time, registration of separatist enterprises with the Kiev authorities and a trade agreement between the separatist authorities and Kiev could follow.

The Rise of China-Europe Railways[46]

Region: Eurasia
Sector: Transport
Year of Publication: 2018
Type: Report
Author: HILLMAN, Jonathan
Author Affiliation: CSIS

PAST AND PRESENT. The first direct rail freight services between China and Europe began in 2008. These services gained a boost in 2011, when the EEU brought Kazakhstan, Russia, and Belarus under a single customs regime. Trans-Eurasian trains follow one of two routes: the northern corridor, which picks up the Trans-Siberian Railway from northeast China or Mongolia; or the middle corridor, which traverses Kazakhstan before joining the Russian rail network. A southern corridor, which would avoid Russia and associated sanctions on European products, could potentially develop pending significant improvements in hard and soft infrastructure. [NDLR: See map in article for visualization of corridors; note that the southern corridor may pass through Iran.] Service frequency has increased substantially over the past few years, with 1,470 direct services from China to Europe and 730 services from Europe to China last year. During the first half of 2017, cargo value increased 144% compared to the same period in 2016. On the Chinese side, the most active departure points are inland, where competition from maritime freight services is weaker than on the coast. The diversity of cargo aboard trans-Eurasian trains has also increased in recent years. For instance, perishable goods can travel by rail in refrigerated cars, and hazardous goods may soon be included. However, high-value cargo—such as laptops, cell phones, and auto parts—still dominates these services, since the high cost of rail freight can be

45. https://www.ceps.eu/system/files/PI2018_05_ME_WEEA.pdf

46. https://www.csis.org/analysis/rise-china-europe-railways

offset by lower inventory costs. Rail's competitiveness in speed and cost has also increased. In 2017, a train took 16 days to make the journey between Shanghai and Hamburg, compared to 36 in 2006. [NDLR: See figure 1 for evolution of Shanghai-to-Hamburg transit time and cost, bearing in mind that this measure underestimates rail's competitiveness since both Shanghai and Hamburg are port cities; additionally, see figures 2a and 2b for information on China-Europe trade by mode, weight, and value.]

DRIVERS. For Beijing, trans-Eurasian trains are politically symbolic evidence of BRI's success. Their advent is trumpeted not only in China, but also abroad, where leaders see rail freight links with China as an opening for deeper ties and greater economic gains, regardless of their economic merits. China also subsidizes these services generously: subsidies can range from $1,000 to $5,000 per FEU, with some reports finding subsidies of up to $7,000. China's provincial governments reportedly spent more than $300 million on China-Europe block train subsidies between 2011 and 2016, a modest sum compared to the $113 billion that China plans to spend on its own railways in 2018. These services have also received EU subsidies for railway infrastructure and operations, though these subsidies predate the emergence of these services; however, Chinese subsidies coincided with their rise. Market factors have also improved the competitiveness of China-Europe freight rail services. Maritime shipping has become slower as ships sail at lower speeds to reduce fuel costs. This has reduced the supply of maritime shipping, thus improving rail's relative competitiveness in speed and cost. Growing Chinese trade with Europe, its leading export destination, has also helped, and exports of rail-friendly goods to Europe are believed to be accelerating. Finally, improvements in hard and soft infrastructure have contributed to rail's competitive edge. China's rapidly-growing rail network has at times outpaced the availability of commercial transport, thus temporarily boosting rail's competitiveness. New infrastructure at borders, such as the Khorgos dry port, has slashed processing times at crossings, as has growing expertise in the business of negotiating the paperwork that accumulates in cross-border logistics.

CHALLENGES. Despite its impressive growth of late, China-Europe rail freight faces an uphill battle to make a significant dent in the business of maritime shipping and air freight. One key challenge is Europe's $190 billion trade deficit with China, which affects all modes of freight movement. This means that 60-70% of Sino-European rail-borne goods shipments are westbound, leaving only 30-40% eastbound. Empty trains returning to China will remain a fact of life in the trans-Eurasian rail freight business. On top of this, maritime shipping remains roughly one third of the cost of rail-borne freight even when Chinese subsidies are considered; rail's time savings are unlikely to compensate for this price disparity. Maritime shipping also enjoys freight capacity that rail can never rival: a New Panamax ship can carry 222 times as much cargo as a single block train. Additionally, global warming may work to the advantage of maritime shipping by keeping Arctic shipping routes ice-free for longer. Air freight executives are concerned about competition from rail services on China-Europe routes, but future investments in China's airport infrastructure may boost the competitiveness of air freight. Rail's advantage over sea and air also depends critically on the future of Chinese subsidies for trans-Eurasian trains, which is anyone's guess. Finally, China-Europe rail freight services will remain hobbled by existing infrastructure. The former USSR's broad gauge railways necessitates that rail-borne freight be transferred from a standard-gauge train to a broad-gauge train upon leaving China and back to a standard-gauge train upon reaching the EU border. Furthermore, Europe's railway network suffers from capacity constraints and is undergoing modernization projects, both of which create time delays that reduce the reliability of China-Europe rail freight services.

PROGNOSIS. "[The changes brought about by China-Europe rail freight services] do not add up to wide-ranging economic or political impacts. Maritime trade will remain dominant. The vast majority of the geographic space the railways pass through will experience no difference. The railways are not roads. They are not as accessible to the general public, and opportunities to provide services around them are limited."

XI. EUROPE

EU ambassadors band together against Silk Road[47]

Region: Europe (EU)

Sector: Uncategorized

Year of Publication: 2018

Type: Journalism

Author: HEIDE, Dana, Till HOPPE, Stephan SCHEUER, Klaus STRATMANN

Author Affiliation: Handelsblatt Global

47. https://global.handelsblatt.com/politics/eu-ambassadors-beijing-china-silk-road-912258

27 of 28 EU ambassadors to China signed a report criticizing BRI as "'[running] counter to the EU agenda for liberalizing trade and [pushing] the balance of power in favor of subsidized Chinese companies.'" [NDLR: Hungary's ambassador alone refused to sign the report. As Jonathan Hillman notes, the near-unanimity among the ambassadors is remarkable, since Greece, which has in the past made common cause with Hungary to "weaken EU positions on China," signed on.] The report warns that China seeks to "shape globalization to suit its own interests" by "'pursuing domestic political goals like the reduction of surplus capacity, the creation of new export markets and safeguarding access to raw materials'" though BRI; unless the EU pushes China to respect international standards of transparency in public procurement, European companies will lose out on BRI contracts. Illustratively, Germany's then-minister of economy and other EU officials refused to sign the joint declaration resulting from last May's Belt and Road Forum after their proposed amendment to the declaration—to include wording guaranteeing "'equal opportunities for all investors in transport infrastructure'" as well as international standards of transparency—was rejected by Beijing. The report also notes that China's bilateral dealings with EU member states on BRI—and the pressure it puts on their leaders to endorse BRI when they visit Beijing—"'leads to an unequal distribution of power which China exploits.'"

EU-China Leadership in Trade Policy: Feasible? Desirable?[48]

Region: Europe (EU)
Sector: Trade
Year of Publication: 2017
Type: Blog
Author: HU, Weinan, Jacques PELKMANS
Author Affiliation: CEPS

As the US undermines the world trade system, the EU and China should respond by liberalizing their own trade regimes. President Xi even suggested exploring an EU-China FTA in 2014; the EU is willing to consider such an accord, but only once a comprehensive agreement on investment (CAI) is reached. Order of operations aside, China's myriad market access restrictions are a formidable roadblock in the way of an eventual EU-China "deep and comprehensive" FTA: technical barriers to trade, sanitary and phytosanitary measures, service sector restrictions, public procurement rules, intellectual property rights, geographical indications, SOE-dominated sectors, and FDI restrictions are all areas in which China would have to initiate significant reforms. At the November 2013 Third Plenum, China's appetite for such structural and wide-ranging reforms appeared strong. Four years on, Chinese leaders have delivered on very few of their promises and have even allowed retrogression in some regulatory areas; Beijing's reform ambitions have been strongly scaled back. This is unfortunate for China because its GDP gains from an EU-China FTA would be 2.5 times greater than that of the EU; is a CAI is included, China's gains would be even greater. To realize these gains, the EU needs to engage in open-ended talks on how to proceed with the highest level of Chinese leadership, and China needs to accelerate its implementation of reforms—particularly those related to market access and market functioning.

Chinese banks move into Bosnian power sector[49]

Region: Europe, Central and Eastern (Bosnia)
Sector: Energy
Year of Publication: 2018
Type: Journalism
Author: DAVIES, Jack, Jelena PRTORIC
Author Affiliation: China Dialogue

Six large coal power plant projects—several of which are financed by Chinese policy banks—are planned or underway in Bosnia, with a combined cost of around $2.44 billion. With a quarter of their population unemployed as of 2016, Bosnian political leaders enthusiastically accept coal projects and the Chinese lending needed to construct them. Though billed as job-creating "investment," Chinese lending for energy projects in the Western Balkans raise significant concerns about public debt, and the projects themselves are often constructed using Chinese labor. Additionally, Bosnia's push in coal power has implications for its eventual accession to the EU. Bosnia's abundant coal reserves consist of lignite, whose use is banned in the EU.

Is China's investment in infrastructure projects driving Western Balkan nations into debt?[50]

Region: Europe, Central and Eastern (Montenegro)

48. https://www.ceps.eu/publications/eu-china-leadership-trade-policy-feasible-desirable

49. https://www.chinadialogue.net/article/show/single/en/10589-Chinese-banks-move-into-Bosnian-power-sector?mc_cid=556bfc3504&mc_eid=0931f545a5

50. http://www.scmp.com/news/china/diplomacy-defence/article/2147293/chinas-investment-infrastructure-projects-driving

Sector: Infrastructure
Year of Publication: 2018
Type: Journalism
Author: ELMER, Keegan
Author Affiliation: SCMP

According to the IMF, the Bar-Boljare highway—a BRI infrastructure project connecting the Montenegrin coast to Serbia—has played a key role in raising Montenegro's debt to high levels. The project compelled Podgorica to slash welfare spending, cut wages for state employees, and raise certain excise taxes to service the CHEXIM loans that financed its first stage between 2015 and 2017. The IMF estimates that this fiscal adjustment would have been unnecessary had the highway project not gone forward, and that the country's debt would have fallen to 59% of GDP by 2019 instead of rising to 78%.

China goes to Serbia: infrastructure and politics[51]

Region: Europe, Central and Eastern (Serbia)
Sector: Infrastructure
Year of Publication: 2018
Type: Interview
Author: MARTINO, Francesco
Author Affiliation: Osservatorio balcani e caucaso transeuropeo

Chinese companies are heavily involved in upgrades to Serbia's energy and transport infrastructure not only because Chinese-financed projects give preferential treatment to Chinese contractors, but also because Serbia lacks domestic contractors of sufficient scale to handle these upgrades. China's plans to upgrade the Budapest-Belgrade railway faced a setback when the European Commission halted the Hungarian portion of the project due to uncompetitive allocation of contracts. Upgrades to the Serbian leg have gone forward nonetheless, and contracts for the Hungarian portion will be distributed by public tender; though Chinese companies may not win the tender, the upgrades will still go forward. The Budapest-Belgrade railway will eventually extend to Piraeus via Macedonia, though China has not disclosed when work on the southern leg will begin. As was the case in Hungary, contracts for the Greek portion of this railway will be allocated by public tender. China isn't alone in upgrading Serbia's railways, though: Russia has also provided financing and equipment for railway modernization, with good results. Serbian elites are not debating the implications of Chinese involvement in their infrastructure on a deep level, though. All political parties seem to support Chinese "investment"—really lending—on the vague premise that it's good for development and will help Belgrade secure support for its position on Kosovo. Serbia has also been opaque about the terms of Chinese financing and the feasibility of projects, but lately the government as pushed China to accept more favorable terms.

German angst about China increases[52]

Region: Europe, Western (Germany)
Sector: Trade
Year of Publication: 2018
Type: Blog
Author: see author affiliation
Author Affiliation: Economist Intelligence Unit

China and Germany enjoy robust bilateral trade ties, which have bolstered the Sino-German political relationship over the past decade and fomented a common front against protectionist rhetoric emanating from the White House. Yet despite its repudiation of Washington's methods in settling its commercial disputes with Beijing, German policymakers share many of their American counterparts' concerns. In addition to China's weak intellectual property regime (in response to which Germany may join the US in its WTO procedure against China) and closed economy, Berlin is worried about Beijing's quest to develop its high-end manufacturing sector—a direct threat to German dominance in this area—and the tools the Chinese are deploying in order to do so. In recent years, Chinese companies have mounted an aggressive push to invest in Western European firms in order to acquire their technological know-how. In some instances, Chinese investors go to great lengths to hide the scope of their investments: such is the case of Geely's owner, Li Shufu, who acquired a 10% stake of Daimler while meticulously circumventing rules that require investors to publicly declare any stake greater than 3%. This investment, which German policymakers considered hostile, epitomizes why Germany supports the creation of an EU-wide investment screening mechanism.

51. https://www.balcanicaucaso.org/eng/Areas/Serbia/China-goes-to-Serbia-infrastructure-and-politics-185401

52. http://country.eiu.com/article.aspx?articleid=1986615782&Country=Germany&topic=Politics&subtopic=Forecast&subsubtopic=International+relations&mkt_tok=eyJpIjoiTXpBeU1XUmhPVFk0T1dGbSIsInQiOiJyaDdZbVdNYU1VdVA1UHltZWdZMVByUFRnNmdWb0J4aDE1Rkh1cVlEb3F0MjFWK1lROVcybktHWER0bUl3OWMrUnk0QUlWNHRHSER3ZDRRcllRVkdcLzFsazhJaWdpT1BTMXVydWxZcVBpYlFxMkhZc2JCeGVhUUN1cVNSTXJ4RTFsWjg2QWoyTGUzRDc0MzhXcjgyNWNRPT0ifQ%3D%3D

Berlin has also voiced discomfort about China's influence over the Central and Eastern Europe-China "16+1" group. German policymakers view the 16+1 as a means for Beijing to buy influence in Europe through investment in these countries, as well as a lucrative opportunity for these countries [which host some of the most euroskeptic regimes in the EU, NDLR] to hedge against EU investment. Luckily for Berlin, Chinese investment in EU member states among the 16+1 has not lived up to expectations.

XII. INDO-PACIFIC

Ports Under Heaven: China's Strategic Maritime Infrastructure in the Indo-Pacific[53]

Region: Indo-Pacific
Sector: Uncategorized
Year of Publication: 2018
Type: Blog
Author: THORNE, Devin, Ben SPEVACK
Author Affiliation: CSIS

Though Chinese officials dismiss the notion that MSR serves geostrategic ends as a "revealing a biased 'Cold War mentality,'" their private statements all but confirm MSR's strategic dimension. Chinese strategists and military personnel have been quoted as stating that MSR investments in overseas maritime installations should generate Chinese political influence in recipient countries, "stealthily" expand China's military presence, and make China's strategic environment more advantageous. Analysis finds that MSR maritime installations are not so much driven by win-win cooperation but by six characteristics: (1) strategic proximity to key sea lanes, choke points, and energy intake points; (2) dual-use formats, which combine ports with industrial development and other infrastructure, all of which could provide logistical support for the PLA; (3) Communist Party influence on port operations; (4) Chinese financial control through majority stakes and long leases; (5) low transparency in dealings with the host government, raising the prospect of project benefits slanted toward Beijing; (6) unprofitability in many cases, which points to non-commercial motives. The implications of these characteristics are evident in Pakistan—which will host PLA Navy forces at Gwadar Port and has seen direct negotiations between Beijing and Baluchistan rebels since 2013—and Sri Lanka—where vague ownership structures of Chinese stakeholder companies denied the Sri Lankan government control of security operations at the port, which Colombo had pledged to control. A lesser known case is that of Cambodia: in 2008, Tianjin Union Development Group (UDG) used a Cambodian-registered business to acquire a land concession of 36,000 hectares of coastal land. This concession makes up 20% of Cambodia's coastline and exceeds the legal limit of 10,000 hectares. Aside from a $1 million down payment, UDG has occupied the land gratis ever since, expelled local residents, and threatened those who refused to leave.

The Quadrilateral Security Dialogue and the Maritime Silk Road Initiative[54]

Region: Indo-Pacific
Sector: Uncategorized
Year of Publication: 2018
Type: Blog
Author: BARKER GALE, Jesse, Andrew SHEARER
Author Affiliation: CSIS

BACKGROUND. The Quadrilateral Security Dialogue (or Quad) began as the "Core Group" of humanitarian assistance providers in the wake of the 2004 Indian Ocean tsunami. After meeting only once in 2007 as the Quad in earnest, the organization effectively dissolved the same year due to Australia's withdrawal from the group and PM Abe's resignation; moreover, India rebuffed attempts by subsequent Australian governments to mend their security relationship. The Quad's reemergence in November 2017 was made possible by PM Abe's return to power in Japan; the replacement of PM Singh—who was hesitant to strengthen strategic ties with the US—with PM Modi who is committed to strengthening these ties; a decade of hardening American policy toward China under Presidents Obama and Trump; and revelations of Chinese interference in Australian domestic politics and higher education. Moreover, the Quad's resurrection is motivated by its members' shared concerns about China's increasingly muscular presence in the Indo-Pacific region, be it in its continued development of insular claims in the South China Sea for military purposes, its stated goal of increased naval power projection (and already seen in more frequent Chinese naval patrols in the Indian Ocean), and its predatory lending practices toward Maritime Silk Road (MSR) countries, which fuel corruption and political and social divisions.

53. https://reconnectingasia.csis.org/analysis/entries/ports-under-heaven/?utm_source=Members&utm_campaign=c1bf25d707-EMAIL_CAMPAIGN_2018_05_23&utm_medium=email&utm_term=0_e842221dc2-c1bf25d707-210791821

54. https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180403_GaleShearer_QuadSecurityDialogue.pdf?hlHffGF4EEduy4GkD6Ed1qA-B5OPVpG2A

INDIA. Taken together with CPEC, MSR comes across to New Delhi as part of a multi-pronged effort to encircle India. By routing CPEC through Pakistani-controlled territory claimed by India and developing a deep-water port which the Chinese navy could feasibly use near the mouth of the Persian Gulf, none of China's activities in India's neighborhood put New Delhi at ease. [NDLR: as of March 6, 2018, China intends to use the Gwadar port as a naval base, according to Alexander Cooley of Columbia University.]

JAPAN. Given that it imports 90 percent of its energy, Japan worries about the potential for MSR to disrupt its hydrocarbon imports from the Persian Gulf. In particular, Japanese policymakers fret that China could jeopardize Japan's energy security by routing a larger share of Gulf energy supplies through Gwadar Port, "ultimately to be stored or resold by China, limiting the amount of energy that passes through the Strait of Malacca." Partly in response to these concerns, Japan has pursued the Asia-Africa Growth Corridor (AAGC) with India as a means of diversifying its access to facilities and resources.

AUSTRALIA. Canberra has sought to balance its strategic alliance with the US with greater economic openness to China: whereas Australia has hosted US marines and warplanes at its northern bases since 2011, it also signed an FTA with China in 2014 and both joined AIIB and sold the Port of Darwin to a BRI-linked company in 2015. Despite these moves, Australia has refused to join BRI or link its Northern Australia Infrastructure Facility with MSR. Furthermore, Australian ministers are concerned that China's increasing project aid to Pacific island nations may "undermine [their] governance and render [them] more vulnerable to coercion."

UNITED STATES. Whereas the Trans-Pacific Partnership (TPP) offered an attractive rules-based alternative to China's economic vision for the Indo-Pacific region, the US' withdrawal from TPP has made China's job of spreading its influence through MSR significantly easier. BRI's recent expansion into Latin America, which, according to US military leaders, could "compromise communication networks, and ultimately constrain our ability to work with our partners," has put the US on the defensive in its own backyard. Washington now struggles to develop a regional alternative to both MSR and TPP.

QUAD 2.0. "The first Quad meeting on November 12, 2017, addressed seven core themes: the rules-based order in Asia, freedom of navigation and overflight in the maritime commons, respect for international law, enhancing connectivity, maritime security, the North Korean threat and nonproliferation, and terrorism. However, the official readouts of the meeting differed in emphasis and specificity. The Indian statement omitted any reference to freedom of navigation and overflight, respect for international law, or maritime security; the Japanese statement demurred on any mention of "connectivity"; and only the statements from Australia and the United States utilized the term 'quadrilateral.'" These differences, albeit minor, indicate that careful management of both internal sensitivities among Quad members and external sensitivities among countries excluded from the group is required. Nonetheless, the interests of Quad members and like-minded nations in the Indo-Pacific region are converging. Due to "their shared values, high-end capabilities, and complementary geography," the Quad states provide a robust foundation for economic, diplomatic, and security cooperation in pursuit of a free, open, and inclusive Indo-Pacific region.

XIII. LATIN AMERICA

Does China Understand Latin America Better than the U.S.?[55]

Region: Latin America
Sector: Infrastructure
Year of Publication: 2018
Type: Blog
Author: MYERS, Margaret
Author Affiliation: Inter-American Dialogue

By addressing Latin America's infrastructure gaps and pledging to support industrial development and diversification of trade and investment, China has endeared itself to the countries in Washington's backyard. As a result, nearly all of the region's top economies now have a more favorable view of China than of the US. Chinese business interests in Latin America are a cause of concern among American policymakers, but a lecture on the risks of doing business with China would fall flat with regional elites. Instead, the US needs to pursue a demand-driven model of engagement if it wants to close the gap with China. In the meantime, Washington can take solace in the fact that China doesn't appear to have used its economic influence in Latin America to extract political compliance (except Taiwan-related checkbook diplomacy). In fact, Latin American and Caribbean votes in the UN aligned increasingly with the US and decreasingly with China from 2006 to 2015.

55. https://www.chinausfocus.com/foreign-policy/does-china-understand-latin-america-better-than-the-us

Chinese Finance to LAC in 2016[56]

Region: Latin America
Sector: Lending
Year of Publication: 2017
Type: Report
Author: MYERS, Margaret, Ken GALLAGHER
Author Affiliation: GEGI, Inter-American Dialogue

Chinese policy banks lent $21 billion to LAC governments and state run companies in 2016—down from almost $25 billion in 2015 but significantly more than was lent in any year between 2011 and 2014. As in previous years, this lending surpassed that IDB and WB individual lending to LAC in 2016. Yet unlike IDB and WB lending, which financed a wide variety of LAC governments, Chinese finance overwhelmingly accrued to the region's most fragile economies: Brazil absorbed 72% of all Chinese policy bank lending to the region, while Ecuador and Venezuela together absorbed 20%. Bolivia and Jamaica received the remainder. Extractive industries dominated Chinese lending to LAC. Petrobras received most of Brazil's share of Chinese lending, despite being embroiled in a vast corruption scandal; repayment in oil shipments is anticipated. PDVSA, Venezuela's state oil company, accounted for all of that country's Chinese loan receipts. China's policy banks will remain a lifeline for LAC's fragile economies in the years to come. Signs show that a wider range of Chinese lenders are taking an interest in LAC, however. Commercial banks are increasingly active in Latin America and other regions, while joint China-LAC regional funds have initiated projects worth tens of billions of dollars.

Down But Not Out: Chinese Development Finance in LAC, 2017[57]

Region: Latin America
Sector: Lending
Year of Publication: 2018
Type: Report
Author: MYERS, Margaret, Ken GALLAGHER
Author Affiliation: GEGI, Inter-American Dialogue

Chinese policy banks lent $9 billion to LAC governments and state-run companies in 2017—down significantly from $21 billion in 2016. Despite this drop, Chinese policy bank lending to LAC continued to exceed IDB, CAF, and WB individual lending to the region in 2017. This lending contained no conditions on borrowers, but was often contingent on the use of Chinese construction firms and equipment. As in previous years, Chinese finance overwhelmingly accrued to a small subset of countries, with Brazil and Argentina accounting for 91% of total lending. Brazil alone absorbed 59%, or $5.3 billion; of this, $5 billion went to Petrobras in exchange for oil shipments. Argentina absorbed 31%, which was dedicated to renovating a railway and developing solar parks. The policy banks lent the remainder to Jamaica and Guyana for highway construction and to Peru to build a hydroelectric dam. Conspicuously, Venezuela received no new policy bank lending in 2017, despite having received $20 billion more in lending since 2005 than any other LAC nation. The policy banks' refusal to prop up Venezuela, as well as unfulfilled promises of support to Cuba, cast doubt on their commitment to serve as a lifeline to the region's most fragile economies. Venezuela does not account for the entire drop in lending in 2017, however; the growing activities of Chinese state-owned commercial banks in the region, often in concert with other international banks, may also explain declining policy bank lending. Additionally, China initiated a new $20 billion China-Brazil Fund in 2017, which will promote cooperation on infrastructure, resource extraction, equipment manufacturing, and agriculture. None of China's policy bank loans launched in 2017 have been touted as BRI investments; however, a prospective Sino-Panamanian railway project is being called such.

The Panda's Pawprint: The environmental impact of the China-led re-primarization in Latin America and the Caribbean[58]

Region: Latin America
Sector: Uncategorized
Year of Publication: 2016
Type: Working paper
Author: RAY, Rebecca
Author Affiliation: GEGI

Since 2004, the manufacturing share of value added to the LAC economy has declined relative to overall value added. As a result, the region's economy has undergone "re-primarization" as agriculture and extractive industries assumed more prominent positions among LAC's merchandise-producing sectors. China is largely behind this re-primarization: by raising demand (and thus prices) for primary goods to meet rapidly growing domestic needs, China incentivized primary goods production in LAC

56. http://www.bu.edu/gdp/files/2017/11/Chinese-Finance-to-LAC-in-2016-Web-and-email-res.pdf
57. https://www.thedialogue.org/wp-content/uploads/2018/03/Chinese-Finance-to-LAC-2017.pdf
58. http://www.bu.edu/gdp/files/2017/07/Panda.Final_.pdf

countries; and by intensifying competition in the production of inexpensive manufactured goods, China outcompeted LAC for market share in world manufacturing exports. As a result, China accounted for 40% of LAC's primary and processed primary export growth, compared to 20% of the region's total export growth and 4% of its manufactured export growth. From an environmental standpoint, re-primarization does not bode well for LAC. Primary goods are the most water-intensive type of export, with processed primary goods coming second. This is the case not just for LAC, but for every region and national income level. By contrast, LAC is unique in the greenhouse gas (GHG) intensity of its primary goods exports. Unlike in most middle-income countries (and most regions of the globe generally), where the most GHG-intensive exports are processed primary goods, low-tech manufactures, and medium-tech manufactures, GHG-intensity of LAC exports is negatively correlated with levels of processing and technological inputs: primary goods are the most GHG-intensive exports; processed primary goods are second, followed by low-tech, medium-tech, and high-tech manufactured goods in that order. Primary goods exports are so GHG-intensive in LAC because of the importance of land use change in their production: between 2001 and 2012, Brazil accounted for two-thirds of global tropical deforestation, much of which occurred to make room for agriculture, extraction, and access roads necessary to bring primary goods to market. These environmental costs are evident in the disparities in GHG and water intensitivity between LAC exports to China and the rest of the world (RoW). From 2004 through 2013, LAC exports to China were 16% more GHG-intensive than those to RoW; this trend is highly statistically significant, though it does not hold for all LAC countries. Over the same interval, LAC exports to China were 175% more water-intensive than those to RoW; again, the trend is highly significant, and though variance exists among LAC countries, the largest exporters (Mexico, Brazil, Argentina) adhere to the trend. As China's consumption of LAC exports grows, so too does the region's environmental footprint. Between 2003 and 2013, LAC exports grew 37%, while net GHG emissions from exports grew 40% and water used in exports rose 59%. Though China consumed only 7.8% of LAC's real exports in 2013, it accounted for 19.8% of the region's export growth, 22.7% of its export-based net GHG emissions growth, and 33.4% of its export-based water use growth.

China looks to expand Colombia's Buenaventura port[59]

Region: Latin America (Colombia)
Sector: Uncategorized
Year of Publication: 2017
Type: Journalism
Author: PALAU, Mariana
Author Affiliation: China Dialogue

In an MoU signed with the Colombian government, China has "expressed its intent to invest around $16 million" in an effort to develop the local economy of Buenaventura, a deeply impoverished city on Colombia's Pacific coast that hosts the country's largest port. [NDLR: the article doesn't specify whether this "investment" is FDI, lending, or something else entirely.] Under the development plan for Buenaventura, a Chinese car manufacturer would also receive tax incentives to establish an assembly plant in the city. The hope is that China's initial investment in Buenaventura will turn the city into a hub for Chinese business in Colombia and South America. To date, Colombia has received very little Chinese investment [or lending] compared to its neighbors. [NDLR: the present scale of Chinese investment in Buenaventura is small; nonetheless, this could amount to the down payment on what might become a hub of BRI in South America.]

Mexican 'Silk Road' trade corridor is set to spice up US tension[60]

Region: Latin America (Mexico)
Sector: Infrastructure
Year of Publication: 2018
Type: Journalism
Author: WEBBER, Jude
Author Affiliation: Financial Times

Andres Manuel Lopez Obrador (AMLO), frontrunner in the July 2018 Mexican presidential election, wants to revitalize a railroad spanning the Isthmus of Tehuantepec, the narrowest point of land between the Pacific and the Gulf of Mexico on Mexican soil. This project, expected to cost $7 billion in its first year alone, would aim to not only create an alternative to the Panama Canal, but also stimulate the southern Mexico's depressed economy. One of AMLO's economic advisers sees China as a natural funder for the project, given its Belt and Road ambitions

59. https://www.chinadialogue.net/article/show/single/en/10250-China-looks-to-expand-Colombia-s-Buenaventura-port
60. https://drive.google.com/file/d/0B9QMHNlqFfm1dnRBNG1lNHFYb-DhxRkdsc0FERXk2d3FVbXJ3/view?usp=sharing

and its deepening engagement with Latin America; however, another AMLO advisor expects American interest in the project to be strongest. If China does back this project, AMLO will have to confront the legacy of corruption that taints previous Chinese investments in big Mexican infrastructure projects.

Mexico looks to boost trade with China as NAFTA talks falter[61]

Region: Latin America (Mexico)
Sector: Uncategorized
Year of Publication: 2018
Type: Journalism
Author: SOUTAR, Robert
Author Affiliation: China Dialogue

Mexico may turn to China to mitigate the fallout of NAFTA's possible collapse. Experts warn that this is an unsatisfactory strategy on its own. 80% of Mexico's exports go to the US, compared to only 1% to China. Unlike the primary exports of other LAC economies, Mexico's exports are overwhelmingly (67%) manufactured goods. Whereas primary goods-intensive exporters in the region have enjoyed a trade boom with China of late, Mexican exports to China have declined over the last five years. Moreover, research shows that Mexico lost more than half a million jobs between 1995 and 2011 through trade with China, making it the worst-affected LAC country; for comparison, Brazil gained 1.35 million jobs over the same interval through trade with China. Sino-Mexican economic relations were also strained over the past decade due to Chinese disregard for environmental standards and best practices in tendering.

Mexico's former ambassador to China explains 'how China capitalizes where the United States is retreating'[62]

Region: Latin America (Mexico)
Sector: Uncategorized
Year of Publication: 2018
Type: Interview
Author: WOODY, Christopher
Author Affiliation: Business Insider

According to Jorge Guajardo, Mexico's ambassador to China between 2007 and 2013, Latin American countries are unlikely to realign with China in the way that they were once aligned with the US. For Mexico's part, this realignment won't occur because China and Mexico are both exporters of manufactured goods, and thus strategic competitors. Since the start of President Trump's term, however, certain changes in Mexican attitudes have given China an advantage in domestic markets. For example, Mexico used to structure its telecommunications and oil exploration contracting systems in ways that were deferential to the United States; Chinese offers in the oil and telecom sectors were rebuffed for the sake of the US-Mexico strategic relationship. Since the rise of America First, though, Mexico has paid less attention to such strategic concerns and considered Chinese commercial offers at face value.

XIV. OCEANIA

Baseless rumours: why talk of a Chinese military installation in Vanuatu misses the point[63]

Region: Oceania (Vanuatu)
Sector: Uncategorized
Year of Publication: 2018
Type: Journalism
Author: MCGARRY, Dan
Author Affiliation: The Guardian

Though both Beijing and Port Vila denied rumors in early April that Vanuatu will be the site of a Chinese military base, the idea is hardly far-fetched. Luganville, on the island of Espiritu Santo, hosted one of the world's largest military bases during WWII, and "whoever controls Vanuatu controls air and sea traffic between the US and Australia." In recent years, China has financed a "mixed bag" of roads, wharves, and buildings in Vanuatu—including a $90 million wharf project in Luganville—through "questionably 'concessional'" loans from China Ex-Im. Chinese lending to Vanuatu may have revived other lenders' interest in the island nation: Japan has built a $70 million wharf in Port Vila on "much more favorable terms" than the Luganville project; Australia (still the largest donor in Vanuatu and the Pacific) has agreed to fund a $30 million urban infrastructure development project in the capital; "the World Bank has already committed US$60m to the nation's airports, and is reportedly considering upping the ante to US$150m." Despite these myriad efforts, China has done a uniquely

61. https://www.chinadialogue.net/article/show/single/en/10420-Mexico-looks-to-boost-trade-with-China-as-NAFTA-falters
62. http://www.businessinsider.com/jorge-guajardo-interview-us-china-power-balance-policies-2018-3
63. https://www.theguardian.com/world/2018/apr/11/baseless-rumours-why-talk-of-a-chinese-military-installation-in-vanuatu-misses-the-point?CMP=share_btn_tw

good job at ingratiating itself to Vanuatu's political elite by spinning its infrastructure projects as vote-getters. In conclusion, regardless of the veracity of rumors about Chinese military bases, Beijing's popularity in Vanuatu's high places "should cause concern in Canberra."

XV. WORLDWIDE

China's Foreign Agriculture Investments[64]

Region: Worldwide
Sector: Agriculture
Year of Publication: 2018
Type: Report
Author: GOOCH, Elizabeth, Fred GALE
Author Affiliation: USDA

REVIEW OF CHINESE INVESTMENTS. In 2016, the stock of Chinese agrobusiness investments overseas stood at $26 billion and made up 1.1% of China's FDI stock. Between 2010 and 2016, China's agricultural FDI (excluding investments in processing, trading, transport, and input manufacturing) grew more than six-fold, in line with growth in other sectors' investments. This growth coincided with increases in both China's agricultural trade deficit and the nation's foreign exchange reserves. Numerically, most Chinese overseas investments in agricultural sectors are carried out by small companies in Belt and Road countries—particularly those that border China—and Africa. However, in recent years, many large Chinese agrobusinesses have sought to gain control over entire overseas supply chains through M&As, often in view of acquiring foreign firms' technology and management expertise. Financially, Chinese overseas agricultural investments tend to perform below expectations due to management deficiencies on the Chinese side and poor policy environments in host countries. Additionally, most Chinese agricultural ventures overseas sell their goods locally; only 10% of the grain produced by Chinese investors operating abroad was imported to China.

"GOING GLOBAL" IN AGRICULTURE. Following the increase in imports that resulted from China's accession to the WTO in 2001, Chinese policymakers grew concerned about both the security of their country's food supplies and the potential threat that new imports posed to domestic industries. These concerns informed the national food security strategy in China's 11th Five-Year Plan (2006-10), which encouraged Chinese agrobusinesses to "go global" through large-scale cultivation of staple crops on rented land overseas for import to China. The focus of "going global" in agriculture shifted with the release of an updated food security strategy in 2012, which emphasized "boosting domestic production through technology and greater efficiency," and the launch of BRI, which features agriculture as one of six priority sectors as of 2017. Since 2012-13, technology has become a prominent feature of Chinese agricultural investments overseas: China both disseminates its own agricultural technology to less advanced countries and imports cutting-edge agricultural technologies from more advanced countries. But whereas China upgraded its own technology during the final decades of the last century through inflows of FDI, it now primarily uses acquisitions of foreign companies that boast excellent R&D and industry expertise to achieve the same goal. As in so many sectors, the Chinese state plays a key supporting role to firms making agrobusiness investments abroad "arranging deals or providing low-interest loans, information, or advice," including numerous "going global" facilitation programs at the ministry and provincial levels. Concessional loans from China's policy banks are the workhorse financing instrument for overseas investments in agriculture, though state-owned commercial banks and the China Investment Corporation also lend in support of "going global" in agriculture. Such concessional loans are often available only to large companies with plenty of domestic collateral, however. Since the advent of BRI, the Chinese state has also supported "going global" by improving the soft infrastructure of international trade in agricultural goods on a bilateral or unilateral basis.

TARGET COMMODITIES. China's strategy of "going global" in agriculture aims not only to cobble deficits in domestic food production, but also to diversify import sources of agricultural goods that are currently supplied by a small number of countries—often ones in the Americas and Oceania. This diversification drive responds to the perceived political risks of importing goods from few sources and the opportunity to earn "greater bargaining and price-setting power for its imports." When diversification of national suppliers is not an option for a certain good, Chinese agrobusinesses are nonetheless encouraged to gain control of the good's supply chains in supplier countries. Commodities for which China relies overwhelmingly—if not exclusively—on imports from two or fewer countries include palm oil, soybeans, and olive oil; commodities of which China produces plenty, yet nonetheless targets for diversification due to reliance on two suppliers for imports, include corn and rapeseed.

64. https://www.ers.usda.gov/webdocs/publications/88572/eib-192.pdf?v=43213

TARGET REGIONS. Southeast Asia. According to MOFCOM, the stock of Chinese investment in Southeast Asian agriculture, forestry, and fishing was $3.1 billion at end-2016, with greenfield investments being common due to the "low upfront financial investments" required in the region. Major targets of Chinese agrobusiness investors include Indonesia, whose Chinese-owned palm oil plantations and processing facilities are expected to grow through 2020, and Cambodia, which leases around 240,000 hectares of public land to Chinese companies for the production of rubber, timber, and sugar. Furthermore, in both Cambodia and Laos, Chinese agricultural investments and foreign aid are often combined. Russia. Since the 1990s, Chinese farmers from the northeastern province of Heilongjiang have moved their operations to Russia's Far East in an individual capacity. Starting in 2005, Heilongjiang provincial- and county-level authorities began forming agricultural development partnerships with their Russian counterparts. As of 2011, these partnerships encompassed 460,000 hectares of Russian land, much of which is rented by northeastern Chinese companies or farmers associations and cultivated with machinery subsidized by the Heilongjiang government. However, due to high border taxes and institutional weaknesses in Russia, few crops grown by Chinese businesses in Russia were exported to China before 2014, when a spate of bilateral agreements strengthened the soft infrastructure around Sino-Russian agricultural commerce. Russian exports of soybeans, vegetable oils, and corn to China have increased dramatically since then, though their overall market share remains small. MOFCOM estimates cumulative Chinese investment in Russian agriculture, forestry, and fishing at over $3 billion. Latin America and the Caribbean. This region supplies more than half of China's soybean imports—looking at you, Brazil—as well as significant amounts of sugar, grain, oilseeds, and meat. Given the vitality of this relationship, Chinese agrobusinesses invest at virtually every point of Latin America's agricultural supply chain, all with the goal of strengthening Chinese access to the region's commodities. Yet, while the region accounted for 27% of China's agricultural imports between 2010 and 2015, it absorbed only 6% of China's agricultural FDI in 2014. Additionally, Chinese greenfield investments in the region have encountered significant difficulties, precipitating a shift toward M&As. Several Sino-Latin American infrastructure projects currently under consideration have the potential to boost agricultural exports to China. Australia and New Zealand. Due to China's rising demand for dairy, beef, and sheep products, developed Oceania is an attractive destination for Chinese agricultural FDI. The region's dairy exports to China jumped after the 2008 melamine in milk scandal, which slashed Chinese consumer confidence in domestic dairy products. Additionally, New Zealand's meat and dairy exports to China have grown since the implementation of a 2009 bilateral FTA; meanwhile, the China-Australia FTA will gradually eliminate tariffs on agricultural exports to China through 2025 while raising the maximum limit on, and the threshold for mandatory screening of, Chinese investments in Australia. Africa. Despite supplying only 2.5% of China's agricultural imports between 2010 and 2015, Africa absorbed 12% of China's outward agricultural FDI in 2014. Chinese investment projects in Africa are sometimes linked to development assistance, including technological transfers and infrastructure and human capital development. Much attention has been drawn to Chinese acquisitions of African agricultural land, though the figures cited in such discussions are often exaggerated: out of 6 million hectares reportedly purchased by Chinese buyers, only 240,000 hectares-worth of purchases could be confirmed. African agricultural exports to China mainly consist of tobacco (such as that exported by a Chinese-owned plantation in Zimbabwe which received an exceptional exemption from indigenous ownership laws), cotton, wool, sesame seeds, fruit, and nuts.

STRATEGIC SHIFT TO M&AS. Though greenfield investments—which usually take place in developing countries where technological inputs are few and yields are low—still make up most of China's outward agricultural FDI, a subset of Chinese agrobusinesses have lately embarked on an ambitious campaign of acquisitions of, or mergers or joint ventures with, agricultural firms in developed countries. By resorting to M&As, Chinese agrobusinesses overcome the risks entailed in greenfield investment while benefiting from the stellar technology, R&D capacities, and managerial expertise that foreign agrobusinesses possess. According to MOFCOM, M&As comprised less than 1% of all Chinese outward investments in agriculture, forestry, and fishing in 2015, yet those that did take place reflect a sea change in China's foreign agricultural policy. For example, COFCO—a giant state-owned agrobusiness whose mandate reflects both commercial and policy goals—acquired two large Dutch commodity trading companies in 2016, giving the firm control over agricultural assets at all stages of the supply chain in 26 countries. In executing the revised (2012) food security strategy through these and other acquisitions, COFCO has benefited from extensive policy bank lending to which most Chinese overseas agricultural investors lack access. Private Chinese agrobusinesses have also played critical roles in implementing the food security strategy. In 2013, private pork producer Shanghui (now known as WH Group) acquired Smithfield Foods—an American pork company whose sales were twice those of Shanghui at the time—for $4.7 billion in the largest-ever Chinese acquisition of an American agro-enterprise. Though Shanghui never stated its motives for acquiring Smithfield, observers believe the acquisition had as much to do with accessing pork supplies for the Chinese market (though very little Smithfield pork has been imported to China since the acquisition) as with acquiring Smithfield's cutting-edge technology, high safety standards, and excellent management capacity. The Smithfield acquisition reflected Chinese policymakers' recent attempts to consolidate their country's fragmented pork industry and upgrade its food safety practices. Another private Chinese agrobusiness, New Hope Group, has taken the alternative route of pursuing joint ventures with foreign companies, particularly in New Zealand's and Australia's dairy sectors. According to New Hope, this strategy of avoiding outright acquisitions seeks to build goodwill in target markets where hostility to Chinese investment may be high.

Private Data, Not Private Firms: The Real Issues in Chinese Investment[65]

Region: Worldwide
Sector: Construction
Year of Publication: 2018
Type: Report
Author: SCISSORS, Derek
Author Affiliation: AEI

While the share of Chinese outward FDI attributable to private enterprises has increased dramatically under BRI, SOEs still dominate China's overseas construction projects. The worldwide value of these projects is expected to range between $100 billion and $110 billion in 2018. [NDLR: this level matches that of 2016, which was the highest of any year on record.] Significant growth in the value of these contracts is not expected due to China's shrinking labor force—thus obviating sending workers overseas for domestic economic reasons—and the prospect of low returns on infrastructure projects. Additionally, state-owned construction companies appear to have become less inclined to report setbacks to their projects after years of improving transparency. Reporting failure of BRI projects may no longer be politically acceptable to Beijing.

Slowing Down, Powering Up: 2017 Chinese Energy Development Finance[66]

Region: Worldwide
Sector: Energy
Year of Publication: 2018
Type: Report
Author: JIN, Junda, Kevin GALLAGHER
Author Affiliation: GEGI

China's policy banks lent $25.6 billion to foreign governments for energy projects in 2017, down from $47.4 billion in 2016 and $28.8 billion on average between 2013 and 2016. China Development Bank (CDB) accounted for $14.7 billion of lending in 2017, while China Ex-Im accounted for $10.9 billion; the two policy banks cofinanced one project worth $1.7 billion as well. Falling lending for extractive activities (which comprised 46% of lending in 2016), energy transmission (particularly in gas and hydro), and multipurpose projects (namely for gas/LNG) led to last year's drop in Chinese development finance (CDF) for energy. Lending for power generation projects—particularly in the hydroelectric sector—grew substantially in 2017, however. Regions which saw reduced CDF for energy in 2017 include Europe/Central Asia, Latin America/Caribbean, and Southeast Asia; Africa and the Middle East saw their levels of CDF for energy increase in 2017, while South Asia's level stagnated. The 68 original BRCs absorbed 55.9% of CDF for energy in 2017, compared to 46.5% in 2016.

Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective[67]

Region: Worldwide
Sector: Infrastructure
Year of Publication: 2018
Type: Report
Author: HURLEY, John, Scott MORRIS, Gailyn PORTELANCE
Author Affiliation: CGD

Evidence of a causal relationship between public investment and economic growth is mixed. Instances of large-scale infrastructure investments leading to high growth rates exist, while other studies indicate that the benefits of infrastructure development are short-term and lower in periods of above-average public investment.

65. http://www.aei.org/wp-content/uploads/2018/01/China-Tracker-Jan2018.pdf

66. http://www.bu.edu/gdp/files/2018/03/03.2018_China.Global.Energy.Database_-Jin.Gallagher-1.pdf

67. https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf

As concerns Chinese-financed infrastructure projects in BRCs, an 80:20 debt-to-equity ratio is estimated for CPEC projects; this ratio is 75:25 for projects outside of CPEC. Among 68 confirmed, named, and possible BRCs, 23 are currently at risk of debt distress, with representation in Asia, Africa, and Europe. Of these, eight—Djibouti, Kyrgyz Republic, Laos, Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan—are very likely to encounter debt distress owing to how their BRI project pipelines may increase both their debt-to-GDP ratios and China's share of total public debt. When debt sustainability issues arise, China generally seeks case-by-case solutions ranging from forgiveness (in the case of many HIPCs) to debt-for-equity swaps or leases of infrastructure (or both in the case of Hambantota Port) to territorial transfers (as in the case of Tajikistan). The terms of these solutions are generally not disclosed; this will likely not change as long as China remains outside the Paris Club. China's Banking Regulatory Commission did take its first-ever steps to increase risk controls for the overseas activities of CDB, China Ex-Im, and ADBC in November 2017, however. In conclusion, BRI is unlikely to be plagued by widespread debt sustainability problems, but it is also unlikely that all participating countries will avoid debt distress.

The Belt and Road's Barriers to Participation[68]

Region: Worldwide
Sector: Infrastructure
Year of Publication: 2018
Type: Blog
Author: HILLMAN, Jonathan
Author Affiliation: CSIS

Despite BRI's stated aims of openness and inclusion, non-Chinese companies face an uphill battle to profit from the initiative. Due to the low transparency standards of Chinese-funded projects, contractors in recipient countries are unaware of business opportunities until it's too late for them to submit a bid. (In fairness, this opaqueness can benefit not only Chinese companies, but also elite domestic political constituents.) Additionally, few recipient countries boast construction contractors that can compete with China's state-owned construction majors due to the latter's experience, subsidies, and scale. Even when recipient countries have competitive domestic contractors, China often resorts to "tied" aid, which stipulates that Chinese contractors must complete Chinese-funded projects. Consequently, 89% of Chinese-funded transportation projects are executed by Chinese contractors; in World Bank- and ADB-funded projects, this share is 29%. Some contractors in recipient countries have successfully participated in Chinese-funded projects through joint ventures with Chinese companies. This model has the potential to give domestic firms access to the Chinese market, but comes with the risk of intellectual property theft. Since these paradigms appear unlikely to change on their own, recipient country governments must take the lead in ensuring domestic enterprises have a fair shot at benefiting from Chinese-funded infrastructure projects.

The Belt and Road's Biggest Impact: Small, High-Risk Markets[69]

Region: Worldwide
Sector: Infrastructure
Year of Publication: 2018
Type: Blog
Author: ZHANG, Christian
Author Affiliation: CSIS

According to BMI Research's Key Projects Database, Pakistan hosts a greater value ($80+ billion) of China-backed infrastructure projects than any other country; the next seven most significant hosts, in no particular order, appear to be Bangladesh, Great Britain, India, Indonesia, Malaysia, Russia, and South Africa. In terms of the value of China-backed infrastructure projects as a share of countries' nominal GDPs, Laos ranks first with just above 100%; Mongolia and Belarus rank second and third with 80-100%; Kyrgyzstan comes fourth with around 60%; while Pakistan, Armenia, the Maldives, Cambodia, Kenya, and Bosnia and Herzegovina (in that order) all have 20-40%. In the case of Laos, China-backed infrastructure projects include the Vientiane-Boten Railway, the Savannakhet-Lao Bao Railway, and a handful of hydropower plants, which together are valued at more than $17 billion. These projects have significantly grown the market share of Chinese investors and contractors in Laos, often at the expense of the French, Japanese, and Thai firms that have traditionally held strong positions in the Laotian economy. In the case of Kyrgyzstan, "China-backed infrastructure projects include roads, transmission lines, and gas pipelines bringing Western China closer to energy and commodity resources in Central Asia." Valued at $4.5 billion, these

68. https://reconnectingasia.csis.org/analysis/entries/belt-and-road-barriers-participation/

69. https://reconnectingasia.csis.org/analysis/entries/belt-and-roads-biggest-impact-small-high-risk-markets/?utm_source=Members&utm_campaign=c1bf25d707-EMAIL_CAMPAIGN_2018_05_23&utm_medium=email&utm_term=0_e842221dc2-c1bf25d707-210791821

projects have helped Chinese contractors claim a 24% market share in Kyrgyzstan's construction sector.

AIIB investments top 4.2 billion USD in 2017: report[70]

Region: Worldwide
Sector: Lending
Year of Publication: 2018
Type: Journalism
Author: see author affiliation
Author Affiliation: Xinhua

AIIB lent/invested $4.2 billion to 23 approved projects in 2017, up from $1.7 billion to 8 projects in 2016. The Bank's net profits stood at $252 million in 2017, up from $167 million the previous year. Additionally, AIIB provided more than $560 million worth of private cofinancing in 2017, up from $5 million in 2016.

The AIIB needs to deliver governance to match its rhetoric[71]

Region: Worldwide
Sector: Lending
Year of Publication: 2018
Type: Blog
Author: GEARY, Kate
Author Affiliation: China Dialogue

Despite its president's claims to the contrary only one year ago, AIIB has disbursed nearly $1 billion for 5 fossil fuel projects out of a total $4.59 billion invested as of the time of writing. AIIB lends to such projects [at least in part] by investing in financial intermediaries, i.e. "funds of funds," which are not necessarily subject to AIIB's environmental and social regulations. Though the Bank's SVP Joachim von Amsberg asserts that AIIB publishes social and environmental documentation on projects funded by its financial intermediaries, this does not appear to be the case. To make matters worse, AIIB still lacks a finalized public information policy and accountability mechanism: "the Public Policy on Information and the Complaints Handling Mechanism were due last year but are still kicking around in draft." The drafts are deficient in their own right. Unlike WB and ADB policies, AIIB's policy impose "no commitment to time-bound disclosure of crucial project documents for high risk projects prior to board consideration." Additionally, the Bank's draft Complaints Handling Mechanism has "insurmountably high barriers to filing a complaint," and the Bank "is proposing to rule out complaints from communities affected by co-financed projects, which are currently 72% of AIIB's portfolio."

China's Use of Coercive Economic Measures[72]

Region: Worldwide
Sector: Uncategorized
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Despite years of opposition to the use of "[unilateral] coercive economic measures as tools of statecraft," China has employed such measures in support of its foreign policy goals since at least 2010.

WHEN, WHY, AND AGAINST WHOM? China primarily imposes unilateral coercive economic measures "when it perceives a challenge to its territorial claims, its domestic political system, or to other of its explicitly articulated 'core interests.'" However, Beijing's recent use of such measures against Australia in response to a mere downturn in bilateral relations suggests that China's criteria for employing coercive measures are expanding in line with its self-identified core interests. China generally deploys these measures "in response to specific triggering events," though the aforementioned Australian case indicates that the threshold of what constitutes a triggering event may be falling. Furthermore, Beijing tends to resort to unilateral coercive economic measures against smaller countries while refraining from deploying such measures against larger, more advanced countries that commit identical transgressions. Moreover, most victims of Chinese unilateral economic coercion are democratic countries, since the positive inducements, corruption, and bribery that China uses to influence authoritarian states are less effective in democratic contexts.

METHODS AND TARGETING. In executing its unilateral coercive economic measures, Beijing relies largely on informal mechanisms—including state control over regulatory oversight, SOEs, and the media—instead of a formal legal regime of sanctions and trade controls (which, as of the time of writing, China lacked entirely). Informal mechanisms give China the cover of plausible deniability (thus

70. http://www.xinhuanet.com/english/2018-06/24/c_137277073.htm
71. https://www.chinadialogue.net/article/show/single/en/10692-The-AIIB-needs-to-deliver-governance-to-match-its-rhetoric?mc_cid=bac6e-4cc32&mc_eid=0931f545a5
72. https://s3.amazonaws.com/files.cnas.org/documents/China_Use_FINAL-1.pdf?mtime=20180604161240

offering Beijing flexibility on when to lift its punitive measures and allowing it to maintain its stated public opposition to unilateral sanctions), reduce the likelihood of a successful WTO challenge, and reinforce domestic policies that benefit Chinese sectors and companies at the expense of their foreign competitors. Beijing's preferred informal mechanisms of unilateral economic coercion include selective enforcement of domestic regulations (to restrict imports of certain goods on the basis of national origin, harass specific foreign companies operating in China, or—in rare instances—to halt exports of certain Chinese goods to particular overseas markets), popular boycotts of goods produced by foreign companies (made possible by the CCP's monopoly on domestic media), and restrictions on flows of Chinese tourists (and potentially students too) overseas. As to who bears the brunt of these tactics, China targets its unilateral coercive economic measures at politically and economically sensitive constituencies in offending countries, most of which have no direct connection to the events that trigger these measures, in order to sway the (usually) democratically elected governments of those countries.

COERCION IN THE FUTURE. China is likely to expand its use of coercive economic measures in the future. The efficacy of these measures is proportionate to the size of the Chinese economy: as it continues to grow, so do the payoffs of economic coercion for foreign policy ends. Coercive economic measures are also in keeping with Beijing's increasingly assertive foreign policy posture and efforts to develop nationalist sentiment at home. China may deploy new forms of economic coercion in the coming years, including both overt export bans and capital controls intended to prevent payments from Chinese subsidiaries to their targeted foreign parent companies. Additionally, BRI offers China numerous avenues to use coercive economic measures against participant countries. Through its control of SOEs and major lenders, Beijing could curtail planned investments, defer loan disbursements, seek early repayment of debts, or impair the operation of BRI infrastructure run by Chinese firms post-completion in order to punish participant countries that draw China's ire. And, if China's proposed "BRI Courts" become the initiative's primary dispute settlement mechanism, they too could become fora for interstate economic coercion. Future use of unilateral coercive measures entails risks for China, however. Some evidence suggests that China suffered serious reputational damage in Japan and South Korea after using such measures in both countries, though Beijing appears unconcerned about the reputational effects of its coercive policies. Additionally, some victims of Chinese economic coercion have responded by diversifying their trade and investment relationships away from Beijing, but these efforts are unlikely to significantly dilute China's market share globally.

Vassal States? Understanding China's Belt and Road MoU[73]

Region: Worldwide
Sector: Uncategorized
Year of Publication: 2018
Type: Blog
Author: DEVONSHIRE-ELLIS, Chris
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The MoUs on Belt and Road cooperation that China signs with partner countries are non-binding; however, by making reference to extant legally binding agreements, regional groupings to which China is not a party, infrastructure to which China hopes to gain access, these MoUs convey legitimacy upon themselves that may be lost on those concerned with the letter of the law. While it remains to be seen how China will use these MoUs in future negotiations, Beijing may choose to read legitimacy into these documents and their provisions in a way that the other signatory may not.

China's Alternative to GPS and its Implications for the United States[74]

Region: Worldwide
Sector: Technology
Year of Publication: 2017
Type: Report
Author: WILSON, Jordan
Author Affiliation: U.S.-China Economic and Security Review Commission

China's Beidou satellite navigation system was launched in 1994 and is predicted to achieve global coverage in 2020, at which point Beidou will become the fourth global navigation satellite system (GNSS) to do so. Beidou's chief value to the Chinese government is its ability to let the PLA deploy conventional strike weapons accurately if access to GPS, which is controlled by the US Air Force, is denied. China also plans to use Beidou as a diplomatic

73. https://www.silkroadbriefing.com/news/2018/02/08/vassal-states-understanding-chinas-belt-road-mou/
74. https://www.uscc.gov/sites/default/files/Research/Staff%20Report_China%27s%20Alternative%20to%20GPS%20and%20Implications%20for%20the%20United%20States.pdf

tool, though. By 2018, China hopes to expand Beidou coverage to most countries along the Belt and Road. [NDLR: the author is probably working under an antiquated understanding of which countries are along the Belt and Road.] In conjunction with this, China signed at $297 billion agreement with Thailand in which Beijing would fund the promotion of Beidou in Thai public sector management, including disaster relief, power distribution, and transportation. Since then, China has reached agreements with Brunei, Laos, and Pakistan "to provide Beidou-equipped infrastructure for government and military users, also at heavily subsidized costs." These initiatives aim to prove Beidou's viability and lay the groundwork for Chinese companies to use it in operations abroad.

Global Value Chain Development Report: Measuring and Analyzing the Impact of GVCs on Economic Development[75]

Region: Worldwide
Sector: Trade
Year of Publication: 2017
Type: Report
Author: see author affiliation
Author Affiliation: WBG, IDE-JETRO, OECD, UIBE, WTO

The key to building more inclusive GVCs is cutting trade costs by eliminating non-tariff barriers. These barriers are primarily infrastructural: poor hard infrastructure—mainly in the transport sector—and soft infrastructure—due to red tape, corruption, etc.—hamper the development of GVCs. These non-tariff barriers hit small firms particularly hard, since larger ones are better suited to develop their own hard infrastructure and navigate complex environments.

XVI. UNCATEGORIZED

The Globalization of Chinese Energy Companies: The Role of State Finance[76]

Region: Uncategorized
Sector: Energy
Year of Publication: 2016
Type: Report
Author: KONG, Bo, Kevin GALLAGHER
Author Affiliation: GEGI

CHINA'S GLOBAL ENERGY FOOTPRINT. Since the turn of the millennium, China has gone from being a non-player in the global energy market to being one of its leading players. Between 2000 and 2013, China exported $476 billion worth of energy products, technology, and equipment. In 2013, China's shares of global exports in the photovoltaic equipment, hydropower equipment, and power plant technology sectors exceeded those of the United States by factors of 5, 4, and 2, respectively. And, in all sectors but natural gas and coal, China's export growth far outpaced that of the world between 2000 and 2013, due largely to China's success at importing, digesting, absorbing, modifying, and indigenizing foreign technologies. Furthermore, China's overseas energy investments have been on the rise: though they represent only 3.5% ($258 billion) of global FDI in energy between 2000 and 2015, these investments grew 4.5-fold between 2008-15 over their 2000-07 total. Additionally, these investments overwhelmingly take the form of M&As (82%) rather than greenfield investments (18%), a trend that has accelerated since 2008. These trends owe largely to Chinese energy companies' and financial institutions' efforts to "take advantage of investment opportunities brought forth by the collapse of commodities prices following the 2008 global financial crisis." As to the sectoral distribution of Chinese overseas energy investment, fossil fuels account for more than 90% and 95% of greenfield investments and M&As, respectively, by value. In terms of geography, three developing regions comprise more than 92% by value of Chinese greenfield energy investments overseas: emerging Asia (39.3%), MENA (36.8%), and Central Asia (16.3%); industrialized economies absorbed less than 1%. By contrast, nearly two thirds (by value) of overseas M&As by Chinese energy companies took place in industrialized countries; only Latin America (14.6%), emerging Asia (9.1%), and sub-Saharan Africa (6.2%) have absorbed more than $10 billion in M&As this century.

THE ROLE OF CAPITAL MARKETS. China's corporate bond markets have grown rapidly since authorities launched efforts to generate alternatives to banks as sources of corporate finance in 2004. Between 2009 and 2014, the Chinese corporate bond market's value grew 14-fold, making it the third-largest in the world. Additionally, Chinese companies have responded to tightening credit at home and low interest rates abroad by issuing bonds in dollars—leading to a fivefold increase in Chinese corporate dollar debt between 2010 and 2014—and euros—particularly due to dollar appreciation against the yuan. Equity

75. http://documents.worldbank.org/curated/en/440081499424129960/Measuring-and-analyzing-the-impact-of-GVCs-on-economic-development
76. http://energypolicy.columbia.edu/sites/default/files/Globalization.Final_Gallagher%20and%20Kong.pdf

financing, both domestic and overseas, is also an option for Chinese companies, and reached a hitherto unsurpassed peak in 2010. Chinese energy firms have availed themselves of all of these options to finance their overseas expansion. Certain structural factors in China's capital markets hinder the competitiveness of the country's energy firms, however. SOEs systematically receive preferential treatment in the bond market and from lenders: they account for 90% of all Chinese corporate bonds issued and face loan interest premia more than 10 percentage points lower than private companies do. Furthermore, domestic equity financing is burdened by burdensome regulations and consequent rent seeking, as well as frequent government intervention in the stock market which reduce its reliability as a source of corporate finance. Following the suspension of domestic IPOs and increased regulation of future IPOs in 2013, overseas markets accounted for the majority of Chinese corporate equity finance. On the whole, capital markets play a marginal, albeit growing role in financing the globalization of Chinese companies, including energy firms.

THE ROLE OF THE STATE IN ALIGNING FINANCE AND ENERGY. Given the weakness of domestic capital markets, the Chinese state must mobilize most of the finance that Chinese energy firms use to expand abroad. Aside from state ownership of these firms, the state uses two channels to align its financial system with its energy companies' needs. The first runs through the CCP's human resources department, which appoints executives of SOEs and state-owned financial institutions (SFIs) in the same way that it appoints high-level local and central government officials. This generates a revolving door between political offices and state-owned economic actors, which creates incentives for those SOE and SFI executives who aspire to (and often earn) high political positions to comply with central government policy in their corporate management. The second channel consists of the alignment of its "energy-germane and finance-germane bureaucracies." [NDLR: Pages 11-13 map the bureaucratic ecosystem of state support to overseas energy activities in extraordinary detail; these pages are essential reading for those who want to understand the mechanics of SOE and SFI involvement in Chinese overseas operations in the energy sector—or perhaps any sector—and would not be done justice if summarized.]

THE ROLE OF FISCAL BUDGETS. The Chinese state resumed the collection of dividends from centrally-owned SOEs in 2007 after having abandoned the practice in 1994. This extra income has allowed the central government's budget to include a small amount of support (31 million yuan between 2010 and 2015) to the overseas expansion of Chinese companies. This support peaked at more than 10 million yuan in 2014 before falling to 1 million in 2015, the most recent year for which data is available. This capital is distributed through three funds. The first (unnamed) fund primarily supports overseas exploration for "hard commodities such as copper, iron, lead, zinc and nickel," but also coal and uranium. According to a circular issued in 2010, this fund "gives direct subsidies to cover up to 50% of the pre-development costs related to due diligence, appraisal, prospecting, and provides loan discounts if Chinese companies have to borrow for the actual cross-border mineral development. The second (also unnamed) fund covers front-end expenses that companies investing and resources and foreign economic cooperation projects, "especially those related to oil and gas," incur before registering their operations overseas. According to a 2004 circular, this fund caps its support at below $600,000 per project. The third fund (which has undergone two name changes and is currently called the Special Fund for Foreign Trade and Economic Development) assists a wide range of sectors through direct subsidies and loan discounts for front-end expenses and insurance-related costs. As of 2009, this fund had reportedly received a total of $108 million from the state budget; other than that, the magnitude of these funds and the support they provide is difficult to discern.

THE ROLE OF STATE-OWNED COMMERCIAL BANKS. In 2008, the State Council and the China Banking Regulatory Commission (CBRC) lifted rules prohibiting Chinese commercial banks from issuing loans for equity investments. This reform, along with the implementation of the country's "going out" strategy in the banking sector, led China's State-owned Commercial Banks (SOCBs) to finance a surge of M&As at home and abroad. For example, the Bank of China (BOC) alone "provided acquisition loans for 188 overseas projects totaling $56.3 billion" between 2009 and 2015. Some of this lending has supported Chinese energy companies' overseas acquisitions. However, lending to such projects is constrained by regulations that cap the amount of M&A loans "at 50% of the total M&A costs" and limit the length of M&A loans to 7 years; this restriction, along with Chinese commercial lenders' demands for credit guarantees and collateral at home for loans used overseas, significantly narrows the number of Chinese energy companies that may finance international expansion with domestic lending. Due to an uptick in Chinese firms seeking direct finance and shadow finance, commercial banks' share of total social finance in China fell from 76% in 2009 to 55% in 2013. Commercial lending, especially from SOCBs, thus constitutes Chinese energy companies' second most important source of finance for overseas expansion.

THE ROLE OF POLICY BANKS. Both founded in 1994, the China Development Bank (CDB) emerged as the world's largest overseas lender after 2008, while the Export-Import Bank of China (CHEXIM) is the world's largest trade finance agency. "Solely owned by the Chinese government, and under the direct leadership of the State Council," both banks work in close coordination with the National Development and Reform Commission (NDRC) to implement the "going out" strategy. For instance, in 2003 and 2005, CHEXIM and CDB, respectively, cosigned pledges with NDRC to promote overseas projects aimed at (1) securing resources for which domestic supplies are insufficient; (2) promoting exports of Chinese goods, services, and labor; (3) acquiring foreign technologies and practices; and (4) enhancing the competitiveness of domestic firms and helping them enter new markets through M&As. As a result, of the $144 billion worth of loans provided to Chinese companies in support of "going out" FDI between 2002 and 2012, 88% came from CDB or CHEXIM. The policy banks' support to the energy sector takes the form of both direct loans to foreign governments for energy-specific projects and energy-backed loans. Between 2000 and 2004, both banks issued $128 billion worth of energy loans overseas, of which CDB accounted for 67%. Nonetheless, CHEXIM appears to generally charge lower interest rates on energy loans because of its mission to provide "preferential or concessionary loans on the basis of [China's] foreign aid budget." Additionally, the two banks' slightly differing mandates lead to divergent sub-sectoral focuses within the energy sector. For example, CHEXIM has offered significant support to hydroelectric dam construction in sub-Saharan Africa due to its propensity for trade financing. By contrast, CDB has never financed a hydropower project in the region, but lends substantially for fossil fuel projects in Africa. In conclusion, the policy banks assume the lion's share of FDI financing for Chinese energy companies, with CDB leading the charge. With a balance of $328 billion at the end of 2015, CDB accounts for 29% of all outbound lending by financial institutions in China; with total assets worth more than $1.88 trillion, the bank was twice the size of all development banks combined at the time of writing.

THE ROLE OF THE CHINA DEVELOPMENT BANK. Where does the CDB source its funding? Once an important source of CDB's funding, state capital injections from the Ministry of Finance and the State Administration of Foreign Exchange (SAFE) made up barely 0.5% of the bank's funding in 2014. Financial borrowing made up a further 5%, while corporate deposits—usually taking the form of negotiated loans to CDB from SOEs—made up almost 24%. CDB raised 70.5% of its capital from financial bonds—down from more than 90% between 1998 and 2002, before the bank had diversified its funding sources. CDB's bonds carry the status of sovereign bonds, since they are de facto state-backed and risk-free. The biggest buyers of CDB's bonds are SOCBs—which hold 80% of bonds issued by Chinese policy banks—whose bond purchases are financed by the low-interest savings deposits of Chinese households. CDB also issues a smaller amount of yuan-denominated and foreign currency-denominated bonds overseas, where they also hold sovereign status. Additionally, since 2008, SAFE has lent a share of China's foreign exchange reserves to CDB, which in turn used these loans to support the "going out" of Chinese companies. As of January 2013, CDB's outstanding balance of overseas loans stood at $250 billion, of which two thirds were in fact entrusted loans from SAFE. How does the CDB finance China's global energy expansion? A key impetus of CDB's support for the global expansion of Chinese companies can be found in the person of Chen Yuan, the bank's chairman between 1998 and 2013, and his dream of building a "world class bank and super investment bank" in China. Under his leadership, CDB not only took initiative to explore opportunities to help Chinese companies expand abroad, but actively advised those companies (and the Chinese government, for that matter) over the course of their negotiations and risk assessments. On an institutional level, CDB faces competition from SOCBs and external pressure to seek higher returns, both of which have led the bank to frequently lend on demanding terms that are clearly less competitive than those offered by IBRD. By its own standards, CDB charges relatively higher interest rates for energy-related loans, and particularly for renewable energy projects. Such loans also tend to require collateral and sometimes are mortgaged on energy exports to China; the latter has featured in loan agreements with Brazil, Ecuador, Russia, Turkmenistan, and Venezuela. When CDB does provide discounted loans, they usually go to Chinese energy SOEs themselves in pursuit of state priorities. CDB lending (including energy-backed loans) also supports the national goal of renminbi internationalization.

Industry Trend Analysis - Belt And Road: Four Charts Tracking Investment And Projects Activity[77]

Region: Uncategorized
Sector: Uncategorized
Year of Publication: 2018
Type: Fact Sheet
Author: see author affiliation
Author Affiliation: Fitch

Chinese outward investment globally declined slightly in 2017, but significantly in BRCs. [NDLR: Figures drawn from CGIT.] This is the result of Beijing's crackdown on privately held debt and capital outflows, whose effects will continue to be felt in 2018. China's trade volumes with BRCs haven't meaningfully increased since 2014, reflecting a plateau in China's global trade flows since then. By contrast, international visitor arrivals (both for tourism and business) from China have surged since 2013 in many BRCs, especially in Sri Lanka and Southeast Asia. Overseas revenue growth slowed for many large Chinese construction companies, however, coinciding with a string of cancellations and delays of high-profile BRI projects.

77. http://your.fitch.group/rs/732-CKH-767/images/Belt_And_Road_Four_Charts_Tracking_Investment_And_Projects_Activity_.pdf?mkt_tok=eyJpIjoiWkRjNE5USTRNamszTVRNNCIsInQiOiJybFA0a0RHdjdja29wWDRRTVNuNitydzVKcVJGZnpTY3JpbTFtUVQzYzlrT2RGdXlNcXozRjN5cFhQRUl1ZDQ5blBkWndlV2I2ZVVmTHhjbitNSElxWUZ3T0NxeWhmQmN5eFNidFJrQlB2QXFnMmVSV3k1bFpLeERxMEpucjJRZCJ9

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