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REWRITE THE ASIAN ECONOMIC NARRATIVE

BY BRAD GLOSSERMAN

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Five years after its launch, the world still does not know what to make of China's Belt and Road Initiative (BRI). For many, it is proof of Beijing's intent to recreate the international financial order, put itself at the center of regional and global economic diplomacy and cooperation, empower and extend the reach of its military, and propagate its political influence. A less feverish interpretation acknowledges the gaping holes in global infrastructure that the initiative seeks to fill but focuses on shortcomings of Chinese diplomacy that the initiative has exposed.

The first assessment often prevails. Blame mounting concern over China's growing influence, a belief that Chinese leaders are visionary strategists, and growing insecurity in the West. The BRI is a big deal – it *is* a trillion-dollar initiative that aims to link the world with infrastructure – but five years on, its flaws are increasingly apparent. More importantly, there is a compelling counter-narrative to the BRI that has been ignored: For all the headlines, China is playing catchup. In Southeast Asia, its presence is dwarfed by that of Japan. Governments worried about a resurgent and aggressive China should dig beneath the surface to tell a different story. That alone will shift the momentum that unnerves so many observers.

China's grand vision was unveiled on Sept. 7, 2013, when President Xi Jinping in a speech at Kazakhstan's Nazarbayev University, announced plans to create a "Silk Road Economic Belt." This initiative aimed to strengthen the Eurasian economies and more tightly link Asia to Europe. This program evolved into the "One Belt One Road Initiative," and morphed yet again into the Belt and Road Initiative (BRI) and has become the framework for Chinese diplomatic engagement worldwide.

China's preferred narrative is that BRI is an attempt to build a "community with a shared future for mankind." Today, it involves 70 countries and can claim to cover more than two-thirds of the world's population. It is thought to impact 33 percent of global GDP and could move a quarter of global goods and services. Estimates of total Chinese spending range from $4 trillion to $8 trillion, earning it the label of "the biggest development push in history." Developed by an increasingly assertive Chinese government and supported by its dynamic economy, BRI is seen by proponents and critics alike as a way to recast China's image in the world and as a vehicle to extend its influence.

A second narrative is emerging, however, one that punctures the hype surrounding BRI and paints a more worrisome picture. The chief criticism is that the initiative risks becoming a debt trap for project recipients. Onerous terms for credit forced the government of Sri Lanka, for example, to give Beijing a 99-year lease on Hambantota Port for debt relief. The governments of Nepal, Pakistan and Myanmar have also backed away from once-approved projects because of financing conditions. Malaysia's new prime minister, Mahathir Mohamad, has also voiced skepticism about the terms of Chinese largesse. One of his first priorities has been a reassessment of his country's involvement in BRI projects: he has since cancelled three. One study concludes that eight countries -- Djibouti, the Kyrgyz Republic (Kyrgyzstan), Lao People's Democratic Republic (Laos), the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan -- are at particular risk of debt distress based on an identified pipeline of project lending associated with BRI.

Investors worry about managing risks attendant to large projects in countries that lack legal infrastructure, experience political and financial instability (with ensuing currency swings), and are prone to corruption. The opacity of BRI investment and projects has prompted fears that it will spur even more corruption.

One study found that 14 percent of more than 1,600 BRI-related projects in 66 countries since 2013 have experienced difficulties, mostly from failing to take into account local conditions and a general lack of transparency.

Christine Legard, head of the IMF, has warned about the mounting debt of BRI recipients, but it isn't just foreigners who are worried. Legard's concern was mirrored by Yi Gang, governor of China's central bank, who cautioned earlier this year about debt sustainability under the BRI, and by Hu Xiaolian, chairwoman of the Export-Import Bank of China. The criticism stings: At this week's Forum on China-Africa Cooperation, Xi was forced to respond by noting that "Only Chinese and African people have a say when judging if the co-operation is good or not between China and Africa. No one should malign it based on imagination or assumptions."

There is a third narrative, however, and it is one of the most important: That tale looks at Chinese investment and aid relative to other donors over time, rather than as a static or future-oriented activity. Adopting that framework provides a very different, and much less alarming, picture.

For example, according to ASEAN statistics, China accounted for 9.4 percent of net foreign direct investment in ASEAN member states in 2016. Japan topped that with 11.1 percent of net FDI, while the US provided 11.8 percent, and the European Union invested a whopping 31.1 percent. Add up investments by those sources from 2007 to 2016 and the discrepancy is more glaring: China invested $52.4 billion over that decade, a figure less than half of Japan's total ($116.7 billion) or that of the US ($119 billion) and just over a quarter of that of the EU ($194.8 billion). During that time, China provided just 12 percent of the investment that those three sources did – and that omits monies from Australia, New Zealand, the Republic of Korea and within ASEAN itself. Chinese investment has been growing but it remains a small fraction of other governments.

Head to head comparisons of infrastructure investment reinforce that story. One analysis totals Japanese infrastructure investment since the 2000s -- completed and ongoing – at roughly $230 billion; that of China was just $155 billion. In 2015, Japanese Prime Minister Abe Shinzo announced his Partnership for Quality Infrastructure initiative, a five-year, $110 billion program, that will, in partnership with the Asian Development Bank, mobilize private sector resources and know-how from across the globe to promote "infrastructure investment that the region needs, in terms of both quality and quantity." The United States is also promoting a public-private partnership investment model, although the sums involved are much smaller ($113 million), ostensibly because the US administration prefers to keep the government role modest. The US commitment, outlined by Secretary of State Mike Pompeo in a speech in late July, is said to be part of a larger project to reorganize and rationalize the US development aid bureaucracy to be better able to mobilize and guide private-sector capital.

At the end of July, the US, Japan, and Australia announced the formation of a trilateral partnership to boost infrastructure investment across the Indo-Asia-Pacific region. The governments are preparing a framework for cooperation that "promotes transparency, open competition, sustainability, adhering to robust global standards, employing the local workforce, and avoiding unsustainable debt burdens."

It is unlikely that those three governments can muster the resources that China can provide to the world through the BRI – but they don't have to. They *do* have to change the narrative and tell a story that puts the BRI in perspective. They have to remind aid recipients and others that China is not the only creditor, that alternatives exist and that priorities, values, and interests can and will differ. Ultimately, governments in Washington, Tokyo, Canberra, and elsewhere should work with Beijing to meet the developing world's infrastructure investment needs. That is the best way to deflate fears about BRI and promote the prosperity and stability we all profess to seek.