GEOECONOMICS AND INDO-PACIFIC ENTERPRISE INITIATIVE

The G7 Challenge in Facing China's Infrastructure Ambitions

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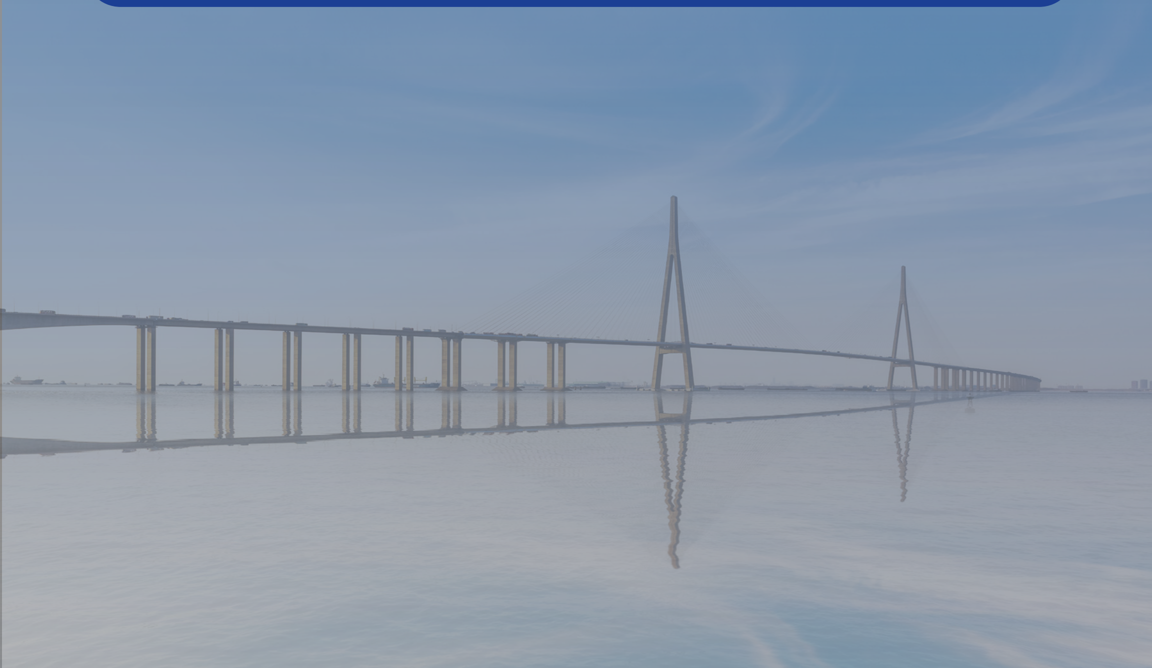

In June 2022, the Biden administration made clear its commitment to meet the world's infrastructure needs. The Partnership for Global Infrastructure and Investment has been promoted as a way for the United States together with the world's richest nations to contribute to building infrastructure in select emerging economies, with the objective of advancing their development and strengthening global security. The declaration follows years of negotiations which resulted in a commitment in Summer 2021 from G7 countries for a global infrastructure plan and can be seen as a response of the efforts from the BRIC economies of Brazil, Russia, India, and China to expand on the Chinese infrastructure and aid plan generally referred to as the Belt and Road Initiative (BRI), or the New Silk Road.

The partnership has a variety of objectives but it is clear that its main role is rebalancing a loss of economic, and indirectly political, influence in the countries where China has been most active in the last decade. It is of particular relevance for countries in Central and West Asia, Africa and South East Asia, although it should be acknowledged that both the BRI as well as the Partnership for Global Infrastructure and Investment, are global in their scope. t the June 2022 meeting, the G7 announced that the Partnership will provide $600 billion for development efforts, of which one-third would be provided by the United States and as such the largest contributor to the initiative, while half would be provided by the European members of the G7, namely Britain, France, Germany, and Italy.

The plan is to invest the commitment over the next five years, and its success ultimately depends on significant private finance being raised as well. There are four principle areas of investment focus, namely: climate change and energy security; communication and connectivity; equity and gender equality; and global health security. These four areas echo the political agenda of both the Biden administration and the European Commission, and are a response to the ongoing energy crisis and the COVID-19 pandemic. The infrastructure partnership frames a variety of existing and planned projects of a development and humanitarian nature, with the implicit objective of tying developmental objective with the priorities of the G7 economies.

International development projects have been for decades an instrument for advanced economies to exert influence in the developing world. This approach has often improved living conditions and economic growth, but in recent decades, development assistance projects have also been seen to favor Western businesses in general. Assistance has often followed patterns reminiscent of old colonial areas of influence, and has increasingly attached conditions to funding aimed at advancing the regional political agendas of European countries, such as reducing migration, and in North America, trying to counteract global terrorism.

From the COVID-19 pandemic to international terrorism and cross-border migration, many of the truly destabilizing phenomena of modern times are global in nature. These challenges have highlighted the limitations of global institutions and have come under scrutiny from some quarters as being sources of instability themselves. The traditional approach towards managing risk and instability has been that of prevention, cooperation and strengthening democratic institutions. However, this approach has not been able to prevent crises that have unfolded rapidly or that involved territories that were peripheral to global reach, either because they are situated in failed states, or in marginalised economies, or under the control of countries that are placed outside of the main multilateral collaboration.

The climate crisis is a clear example where developing an approach to a global challenge that most likely will affect developing economies disproportionately has been met with resistance often specifically by those economies that are to benefit the most from such approach. The reasons for the limited success of multilateral approaches to fight the climate crisis are multifaceted. A common denominator is the decreasing willingness of the political elites in developing economies to accept policies driven by a western political agenda, which can be seen as the result of the weakening hold of the global North on the global South. The role of multinationals has come under greater scrutiny too between the wealthiest and less prosperous nations.

At the same time, the strategic importance of Africa, Central, and South East Asian countries is increasing in view of the rebalancing of the geopolitical power towards the Indo-Pacific. As a bipolar world order crumbled with the collapse of the Soviet Union, a more fragmented, and arguably more balanced, world order is emerging, as the interests of countries that are not great powers are increasingly reflected. While a new form of multilateralism, where countries' negotiating power is proportional to their population and not only their military and economic power, has yet to emerge, many smaller economies find themselves on an imaginary Maginot Line, tempted to pledge their allegiance, together with their strategic geopolitical position or natural resources, to the power that best meets their needs.

Infrastructure's role in shaping the emerging world order

Infrastructure is critical in establishing and consolidating power relationships. Infrastructural power is a key precondition for countries' legitimacy and their ability to stir and control their people. The world has been reminded in the ongoing war in Ukraine of the strategic role played by transport infrastructure, telecommunications and energy infrastructure in aiding military and political power.

Maritime transport and ports are a clear example of how infrastructural developments can be an example of geopolitical muscle flexing beyond the apparent objectives of fostering connectivity and economic development. The increasing dominance of China as a global power and the influence of Chinese entities through the Belt and Road Initiative has become all too apparent not just politically, but also economically. Certainly, BRI has only furthered China's central position in global supply chains. While supply chains over the last three decades have become synonyms with globalization, the interconnectedness of markets worldwide have also made countries far more vulnerable to Chinese economic coercion than ever before.

Neither the BRI nor the Partnership for Global Infrastructure and Investment are not simply infrastructure investment programs. but rather they also look to reshape global value chains. The BRI is instrumental for the internal Chinese economy, for China's political system's legitimacy, and for the actualization of the "Made in China 2025" strategy and its latest Dual Circulation strategy for greater Chinese economic leadership. The interconnected nature of economics, geopolitics and country specific development strategy is particularly evident in the case of the BRI. Although the BRI is not only about infrastructure, it is the initiative's focus on transport infrastructure in particular that has been exemplified as reflecting China's economic ambitions as well as values globally[1].

German geographer Ferdinand von Richthofen used the word Seidenstraßen to describe the web of exchange networks that linked the Han dynasty China with the rest of the world. The Silk Roads was never a specific route, but rather a concept of bridging China and its ideas to Europe. The modern version of the Silk Roads is the BRI, and the initiative too has expanded as a concept to include the entire world. Given the sheer size of China, it is hardly surprising that they place Beijing at the center of global action, and not simply define itself by its connection to Europe.

The Belt and Road initiative comprises of a vaguely defined set of projects, roughly divided between land-based projects, originally conceived to take place on Eurasia (the 'belt') and a set of projects aimed at developing the maritime connections between Asia and Europe (the 'road'). The MERCATOR Institute for China Studies has a database of over 2000 projects including ports, railways and energy infrastructure, from the port of Piraeus in Greece, the dry port of Khorgos, at the border between China and Kazakhstan, through the Arctic route and ports in Portugal and Spain. A large share of the projects focus on energy infrastructure including oil and gas pipelines that are necessary to maintain the supply of energy for Chinese internal consumption. A considerable part is dedicated to rail projects and the construction, expansion and upgrade of port infrastructure.

China's articulation of long-standing ambitions

China's ambitious development plan has been compared to the Marshall Plan for the 21 century. While the idea of strengthening connectivity among central Asian countries is not new , what has been novel is that the Chinese leadership under Xi Jinping has been willing to support the vision outlined during his trip to Astana (now Nur-Sultan) during his trip in September 2013 with sizeable investments.

1 Some of these considerations are based on notes prepared by the author for a speech held at the European Parliament in the occasion of the presentation of the *"Maritime Economy Report 2018—Italy, China, energy corridors, ports and new routes: geomaps of a changing Mediterranean"*, held in Brussels on the 8th November, 2018 and the introduction to the round table: "*The New Silk Road: Risks and Opportunities for the Economy"*, held as part of the *third International Forum Conftrasporto*, on October 9, 2017 at the "Villa d'Este" in Cernobbio (Como), as well as notes taken during the Opening of the Hapag-Lloyd Center for Shipping and Global Logistics (CSGL) and the International Symposium: "*The Belt & Road Initiative's Impact on Global Logistics*", held at the Kühne Logistics University, in Hamburg, on the 22 and 23 of November 2018.

The overall project expanded over time, first with the inclusion in 2013 of the *Maritime Silk Road* during a visit in Indonesia, then adding a wide array of projects to include the Northern Sea Route, and more recently, projects in Africa and South America. Initiatives are underway too to include cyberspace and outer space. The strategy did not, however, emerge in a vacuum, but is actually an extension of previous strategies, including the *Great Western Development Strategy*, also known as *Open Up the West Program*, and the *Going Out Strategy* (*zou chuqu zhanlue*—走出去战略) aimed at incentivizing Chinse businesses to invest abroad. The project is complementary to the *Made in China 2025* strategy, which aims to develop China's manufacturing sector towards high value-added activities including the pharmaceutical industry, advanced computing, new materials, components for marine, aviation, aerospace and rail transport and electric cars. Clearly, in order to allow China's manufacturing sectors to evolve, lower value-added products such as textile and construction, which today form the basis of China's industry, need to find other outlets. The maritime sector also plays a critical role in the Chinese economy not only because of its dependence on maritime trade, but of the importance of the blue economy. In 2017, the annual Ocean Development Report indicated that China's "marine GDP" represented a total of 9.5% of its total GDP in 2016.

In 2015, the China Development Bank declared it had reserved $890 billion for the project, and further amounts of money have been earmarked by other financial institutions. Today projects have been financed with $500bn[2], mainly in Asia, and is expected to be completed in 2049, a century after Mao Zedong's statement in Beijing on 1 October that he founded the People's Republic of China, and according to estimates the total investment would amount to $4 trillion[3].

The BRI project is an integral part of China's strategy to support national growth, consolidate the prestige of Xi Jinping, take advantage of long term investment opportunities for Chinese capital, provide additional sources of revenue abroad for Chinse contractors, increase the political influence of

2 World Bank. 2019. Belt and Road Economics: Opportunities and Risks of Transport Corridors. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0 IGO.

3 Dezan Shira and Associates, "China Belt And Road Projects Value Now Exceeds US$4 Trillion", 16 September 2021 in https://www.silkroadbriefing.com/news/2020/11/25/china-belt-and-road-projects-value-now-exceeds-us4-trillion/

China globally, and increase control on peripheral provinces and neighboring countries. The diversity of the projects makes it difficult to see a coherent pattern behind the investment, but it could be argued that the BRI is a long-term strategy to take advantage and create growth opportunities. In the minutes of the meeting of the Central Committee of the Communist Party of China from November 2013, officials noted that "*We will set up development oriented financial institutions, accelerate the construction of infrastructure connecting China with neighboring countries and regions, and work hard to build a Silk Road Economic Belt and a Maritime Silk Road to form a new pattern of all-around opportunities*.[4]"

Xi is the driving force of the BRI. At a Beijing forum in 2017, he referred to it as the project of the century and added that "*exchange will replace estrangement, mutual learning will replace clashes and coexistence will replace a sense of superiority*". Beyond the humanistic objectives of the project, it is clear that the BRI is first and foremost a project to the benefit of China. This is summarized in the words of China's vice-minister for foreign affairs, Le Yucheng in a 2018 interview to the Financial Times: '*If you want to get rich, build roads first*.'[5]

The main impact of the BRI has been felt in the Indo-Pacific, particularly in countries bordering China, such as Vietnam, Myanmar, Pakistan, and Kazakhstan. At first glance, the model adopted so far does not seem to be characterized by a coherent vision, but more by an opportunistic investment policy. Rather than completing a predefined puzzle, the Chinese investment plan makes one think more of a mosaic image, whose final design, made up of the various infrastructure 'tiles', only makes sense in a long-term vision. On closer examination, however, one realizes that to understand the BRI it is necessary to abstract from a cost-benefit analysis of a single project, from the perspective of global industrial policy, with important geopolitical and economic results, motivated both by internal pressures within the system and by the need to consolidate China's international position[6].

4 China.org.cn: "decision of the Central Committee of the Communist Party of China on some major issues concerning comprehensively deepening the reform, Article 26, Section VII, 12 November 2013, as reported by Peter Frankopan, *The New Silk Roads*, (pg. 98).

5 J. Anderlini, 'Interview: 'We say, if you want to get rich, build roads first', *Financial Times*, 28 September 2018.

6 Michele Acciaro, 2019. "The Belt & Road Initiative and its Implications for European Ports, speech delivered at the *Botschaftertag Osteuropa* in Hamburg, on June 6th, 2019.

The challenge in coordinating G7 infrastructure development efforts

In light of these developments, it is not surprising that the G7 is working together to develop the Partnership for Global Infrastructure and Investment in order to address the increasing influence, or some might say encroachment, of China globally. The urgency for G7 cooperation is acute in areas that had been traditionally been under European, and by proxy of U.S., sphere of influence. An example of this is the EU-Africa partnership, which was formally established in 2000, but that has been acquiring increasing importance with the new European Commission as a way to reassert the role of European institutions in the continent that was gradually been eroded by Chinese interest.

Chinese institutions have been able in the last decades to consolidate their position in Africa by offering investment packages that combined telecommunications, infrastructure and economic aid, often with no conditions for the receiving countries. Meanwhile, the European and North American approach has been much more fragmented, often led by a variety of actors with diverging priorities and political agendas. In particular, European aid was driven by advancing strategic agendas for Europe, such as migration and climate change, that imposed conditions on investment that were less attractive for African, and other developing, economies. These considerations are reflected in the pillars behind the Partnership for Global Infrastructure and Investment outlined before.

Europe’s needs for Chinese infrastructure investments

At the same time, the importance of China for Europe’s own future growth is evident, most notably in the Chinese maritime investment program of which the Maritime Silk Road strategy is part of. In addition to the obvious dependence on Chinese manufacturing and growing export markets, Europe has observed with concern the government sponsored merger of the industry giants China Shipping Company and COSCO, and the debt acquisition of OOCL. This control over the global container fleet is compounded to the already growing role that China plays in shipbuilding, and its growing position in emerging blue economy niches. These aspects, together with increasing presence of Chinese navy globally and the political influence that Beijing seems to be eager to command, have been sources of concern for EU policy makers.

Investment in maritime infrastructure in Europe, that included ports such as Piraeus, in Greece, Zeebrugge in Belgium, and Vado Ligure in Italy have been seen as particularly controversial part of the BRI strategy. The decision by the Italian government in early 2022, to openly support the BRI has increased tension among EU members. Italy is also the first G7 country to do so as well. For China, Italian support for BRI was a great win on the international stage, and from the perspective of the Italian government it was an opportunity hard to miss. As Bruno Maçães argued in a recent opinion piece: "*The game gets even more interesting once you realize that EU states can use the China lever to reopen controversial European issues, going far beyond bilateral economic ties*"[7]. But beyond the political dimension of the maritime component of the BRI in Europe, there is a need to understand the role Chinese investments play in developing European ports is only part of a broader strategy that has its focus on Southeast Asia.

The Maritime Silk Road resulted in several controversial port projects in the Indo-Pacific that made European countries disdainful if not even suspicious of Chinese investment in Europe. In particular some project appeared of little economic potential such as the port of Kyaukpyu in Myanmar, or even debt traps, as in the case of Sri Lanka's port of Hambantota.

The lack of commercial activity made it impossible for the port's operators to repay debts to China, and the port was handed over to China in 2017 on a 99-year lease. Meanwhile, ballooning costs associated with the China Pakistan Economic Corridor that includes expansions in the port of Gwadar, is now under Chinese operation for 40 years through a build-operate-transfer agreement. There are others deals and investments that appear more promising, such as the lease of the port of Darwin in Australia for 99 years, or some of the investments in Africa. What is interesting is that China has adopted different models depending on the regions and the port of interest.

The response of the European Union to the maritime strategy of China has been slow, first with the inclusion of some TEN-T land-based related projects in

7 Maçães, B. "China's Italian advance threatens EU unity: Trieste port plans could change north-south economic balance", The Nikkei Asian Review, 23 March 2019, available at: https://asia.nikkei.com/Opinion/China-s-Italian-advance-threatens-EU-unity

2017 in the framework of the Expert Group on Investment and Financing of the EU-China Connectivity Platform primarily on a Member-State voluntary base in the attempt to resolve a financial gap. The list was refined in July 2018[8] during an event held on the sidelines of the EU-China Summit held in Beijing. The Cabinet of the former European Commissioner for Transport, Violeta Bulc, created the *ad hoc* EU-China Connectivity Platform with the aim of coordinating the European responses to the BRI. None of these platforms, however, are aimed at challenging the investment plan of China in the Indo-Pacific.

The G7 infrastructure plan therefore seems to be the first coordinated attempt to address increasing Chinese influence across the Indo-Pacific. Yet the G7 plans to address the region's financial needs and developing a strategy to counterbalance Beijing's influence seem for now to be more complementary than providing a substitute to the BRI. The Partnership for Global Infrastructure and Investment could certainly offer a good alternative for Southeast Asian economies that might be growing weary of Chinese influence in the region. There is certainly more contestable space when it comes to telecommunications, including competition in 5G technologies as Malaysia and Singapore partnered with Ericsson, while Vietnam too chose to cooperate with non-Chinese 5G developers to develop their own standard.

The Biden administration is clearly now more focused on Southeast Asia, and the region's potential given its technological transition, population size, and economic potential is apparent. From a European perspective, the Indo-Pacific is also of strategic importance. The September 2021 EU strategy for cooperation in the Indo Pacific[9] outlined the opportunities for a closer cooperation between Europe and the Indo-Pacific, as it noted that cooperation with the Indo-Pacific will be critical for the advancement of the EU objectives in relation to sustainable and inclusive prosperity; green transition; ocean governance; digital governance and partnerships; connectivity; security and defense, and human security.

Yet for all the words calling for commitment and cooperation, it remains unclear beyond the amount of money already committed just how

8 https://ec.europa.eu/transport/sites/transport/files/2018-07-13-european-transport-infrastructure-projects.pdf

9 JOIN(2021) 24 final Join Communication of the European Parliament and the Council, The EU strategy for cooperation in the Indo-Pacific. https://www.eeas.europa.eu/sites/default/files/jointcommunication_2021_24_1_en.pdf

such activities will materialise in concrete projects. How private interests will be negotiated with the priorities set up in the Partnership for Global Infrastructure and Investment and the EU strategy for cooperation in the Indo-Pacific are only some of the issues which will need to be addressed moving forward. Uncertainty is a major concern to the success of such ambitious initiatives, and with elections going on in various countries in Europe and the mid-term elections planned in the USA for November 2023, priorities in relation to the Indo-Pacific might need to be revisited. China might be awaiting the most propitious moment to provide its strategic response to the G7 initiatives in an increasingly complex geopolitical context.

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