



MONTHLY UPDATE ON CHINA

April 2019



Debtbook Diplomacy of China

DEVELOPMENTS IN U.S. AND EUROPEAN UNION

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Chronology

- ▶ U.S. Secretary of State Rex Tillerson warned Thursday that China and Russia were assuming "alarming" roles in Latin America, and he urged regional powers to work with the United States instead.

<https://www.voanews.com/a/tillerson-warns-against-china-russia-engagement-latin-america/4235358.html>

- ▶ first official visit to Africa, U.S. Secretary of State Rex Tillerson claimed that China's Approach to Africa Encourages Dependency

<https://www.voanews.com/a/tillerson-china-approach-to-africa-encourages-dependency/4282809.html>

- ▶ BUILD ACT passed in March
- ▶ Academic reports published, reflect the prevailing trend in May

Centre for Global Development

- ▶ Eight countries are unable to repay loans
- ▶ Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan and Tajikistan
- ▶ procurement and contract handover processes under the BRI were not transparent and open to competition
- ▶ Solution to the problem is to become a part of US government's Better Utilisation of Investments Leading to Development Act, or BUILD Act

Debtbook Diplomacy

China's Strategic Leveraging of its Newfound Economic Influence and the Consequences for U.S. Foreign Policy

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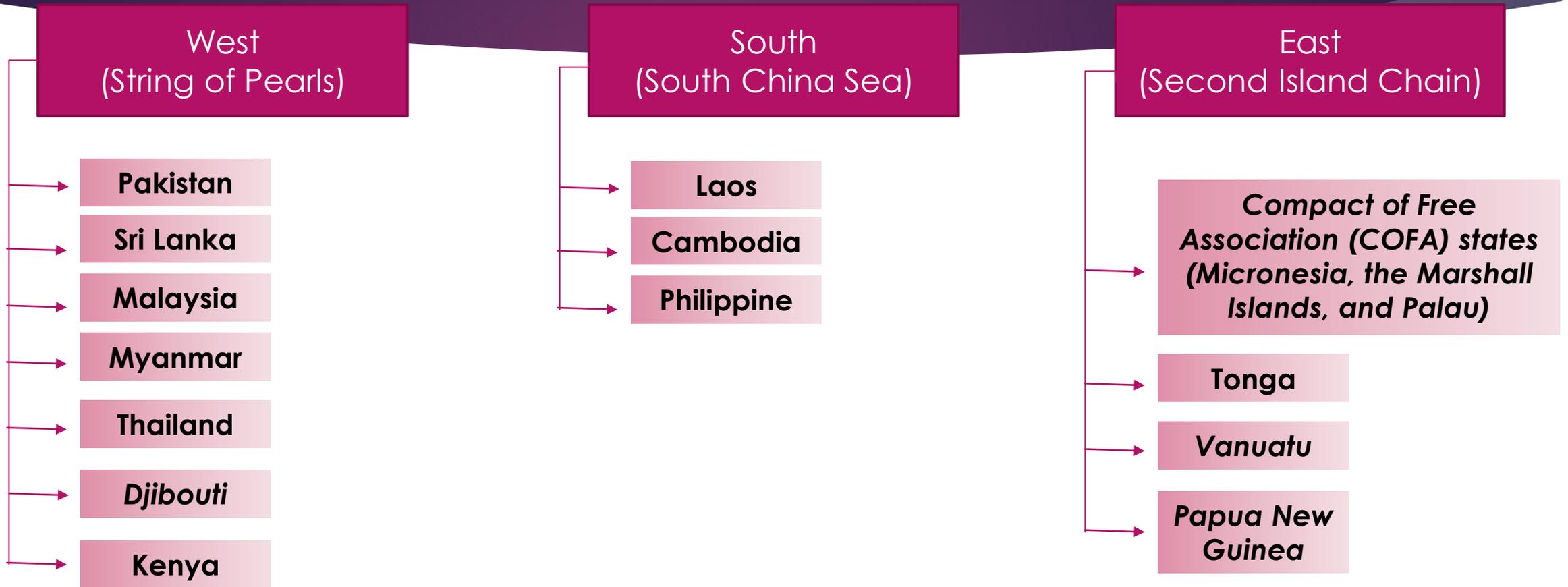
Master in Public Policy Candidate, Harvard Kennedy School

Debtbook Diplomacy

Strategic aims of China

1. Filling out a “String of Pearls” to solve its “Malacca Dilemma” and project power across vital South Asian trading routes
2. Undermining and fracturing the U.S.-led regional coalition contesting Beijing’s South China Sea (SCS) claims
3. Enabling the People’s Liberation Army Navy (PLAN) to push through the “Second Island Chain” into the blue-water Pacific

Strategic Outlook



Countries vulnerable to China's debt diplomacy





CHINA

TAIWAN

VIETNAM

NINE-DASH LINE

LAOS

SOUTH CHINA SEA

PARACEL ISLANDS

PHILIPPINES

THAILAND

SCARBOROUGH SHOAL

GAMBODIA

SPRATLY ISLANDS

NINE-DASH LINE

BRUNEI

MALAYSIA

INDONESIA

SINGAPORE

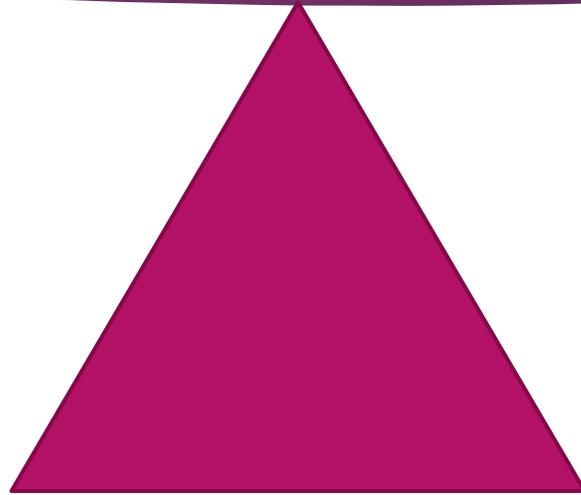
INDONESIA



Recommendations

1. Target and Streamline Overseas Investment

- *Coordinate Limited Resources with Partner Nations*
- *Pass and Implement Legislation Creating the Development Finance Corporation (DFC)*
- *Focus on Comparative Advantages in Digital Infrastructure*



2. Strengthen Alliances

- *Frame the Quad's Role as a Rules-Based Partnership*
- *Expand Quad Cooperation*
- *Support India's Growing Economic and Military Role in the Region*

3. Manage Debt Burdens

- *Diplomatic, Creditor-Focused Debt Management*
- *Technical, Creditor-Focused Debt Management*

The BUILD Act -- Oct 2018



(Official White House Photo by Joyce N. Boghosian)

The BUILD Act

a bipartisan bill

- ✓ Better Utilization of Investments Leading to Development
- ✓ Will be operational as of October 1, 2019



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U.S. International
Development
Finance
Corporation
(USIDFC)

Objectives of BUILD Act 2018

- ✓ Alternate to state-directed investment
- ✓ prioritize support to countries with low-income or lower-middle-income economies
- ✓ Cost saving through consolidation

IDFC Management

Board of Directors

1 CEO

4 U.S. gov. official

4 non gov. members

**9
members**

Development Advisory Council

- 9 Members Max.
- Board appointed

The Board's Chairperson is the Secretary of State and the Vice Chairperson is the USAID Administrator (or their designees)

USIDFC



- ❖ Corporate Capital Account
- ❖ Self Sustaining



- ❖ Loan and Guarantees
- ❖ Equity Investments
- ❖ Insurance and reinsurance
- ❖ Investment promotion
- ❖ Special projects and programs
- ❖ Enterprise funds

<https://fas.org/sgp/crs/misc/R45461.pdf>

EU-China

- ▶ Ties established in 1975
- ▶ In 2003 comprehensive strategic partnership bilateral cooperation
- ▶ EU-China 2020 Strategic Agenda for Cooperation signed in 2013
- ▶ BRI has transformative potential
- ▶ China is the first extra-European country to contribute to the European Commission's Investment Plan for Europe.
- ▶ January 2016, Beijing joined the European Bank for Reconstruction and Development (EBRD).
- ▶ European Investment Bank (EIB) confirmed the support for BRI
- ▶ EIB opened an office in Beijing in 2016

European Union

▶ Provisions of EUISS Brief

- ▶ 'debt-trap diplomacy' can lead to a partial erosion of sovereignty
- ▶ lack of transparency and a constantly evolving agenda
- ▶ even though a deal may be clearly articulated at first, its conditions and endgame may change over time (as was the case with using civilian port facilities in Sri Lanka and Pakistan for hosting military capabilities, for instance).
- ▶ BRI as Beijing's tool for shaping globalisation according to its interests
- ▶ Chinese are trying to break the EU's unity through the 16+1 sub-regional cooperation format

https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief%203%20The%20Indo-Pacific_0.pdf

https://www.iss.europa.eu/sites/default/files/EUISSFiles/Report_35_Chinese%20futures.pdf

[http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/628265/EPRS_BRI\(2018\)628265_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/628265/EPRS_BRI(2018)628265_EN.pdf)

2 view points in EU

- ▶ “Trojan horse” for penetrating Italy’s economy.
- ▶ systemic rival” and called on EU leaders to back its proposals to limit the presence of Chinese state-owned businesses in Europe.
- ▶ Bilateral cooperation
- ▶ Receptive

<https://www.portseurope.com/ports-set-to-gain-as-italy-and-china-sign-mou-for-investment/>

<https://www.scmp.com/news/china/diplomacy/article/3002305/italy-may-be-ready-open-four-ports-chinese-investment-under>

European Union

- ▶ MOU between European Commission and Chinese government signed on June 2016
- ▶ 2nd meeting EU-China connectivity platform on June 2017
- ▶ 'European way to connectivity is the proposed solution
- ▶ EU has adopted a cautious and pragmatic approach , using the bilateral mechanism
- ▶ To support Trans-European Transport Network (TEN-T) policy
- ▶ Consultative mechanism of EU 16+1 (11 EU members and 5 are candidates) established in 2012
- ▶ Czech Republic, Hungary and Poland are the main recipients to connect Central Asia and Western Europe

Report (June 2016) Principles of Engagement

- ▶ Reciprocal Benefit – win-win cooperation
- ▶ Conduct of bilateral relations in line with EU law
- ▶ Protection of human rights to be a core part
- ▶ Liberalization of trade
- ▶ Rule of law
- ▶ EU policy-making on China should take full account of the EU's close relationships with the US and other partners.



EUROPE

EUROPEAN UNION Map of Europe

- EU Member States
- EU New Members since 2004
- EU New Member 2013
- EU Candidates
- EFTA Member States



Western and Northern Europe

- ▶ Colder approach
- ▶ 2 reasons: 1 – limited need for Chinese investment. 2- marginal importance of some states such as Germany, Netherland, France for the success of BRI

Southern Europe

- ▶ Greece, Italy and Spain are the main actors to be regarded at. Among these, Greece currently hosts the biggest and best recognizable BRI-related project in Europe: the port of Piraeus
- ▶ In Spain, railway connecting Yiwu-Madrid
- ▶ Spanish Port Authorities such as Barcelona, Valencia expressed interests but there is lack of strategy on national level

Case of Italy

- ▶ First 4 years – Observer
- ▶ Italian PM Gentiloni attended Belt and Road Forum for International Cooperation in Beijing on 14th 15th May 2017,
- ▶ Hub of intersection of BRI's sea and land dimensions.
- ▶ This strategic quality and the location of its ports, especially those of **Genoa** and **Trieste**, that can grant Chinese project efficient intermodal hub for overland and sea trade with European markets.



Trieste

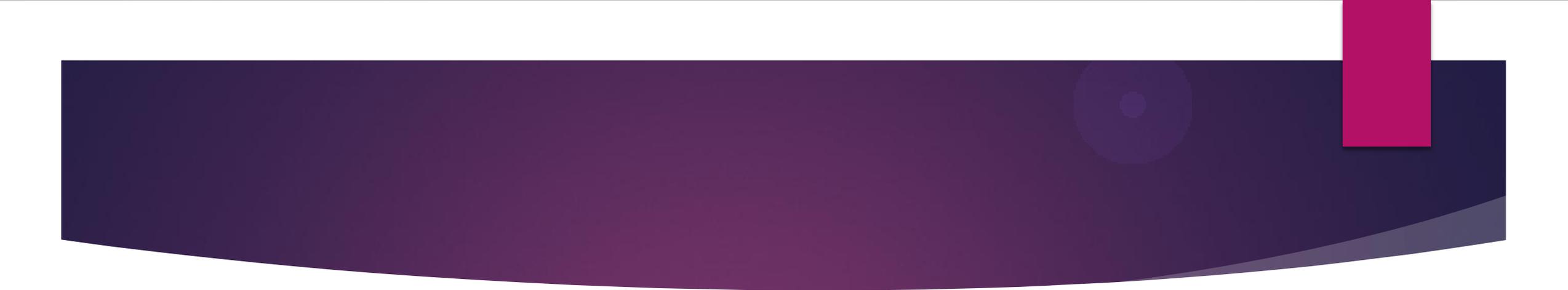
- ▶ Trieste spearheads in the Adriatic Sea, inside the so called five-ports-alliance, or North Adriatic Port Association (NAPA), which involves the Italian ports of Trieste Venice and Ravenna, the Slovenian city of Koper and the Croatian one of Fiume.
- ▶ the advantages connected to accessibility and its free port status, its high-level intermodality (granted by its internal rail network dedicated to freight train serving all the docks¹²), its better connection (compared to those of other port in Mediterranean, such as the Piraeus) to Balkan Peninsula, Germany, Austria, Czech Republic, Hungary, Switzerland and Luxembourg, are all features that make Trieste the most interesting hub for BRI to access Central and East Europe.

Genoa

- ▶ Twin gate in the Tyrrhenian. After the reform of the Italian Port Authorities in 2016,
- ▶ the Western Ligurian Sea's Port System Authority, also in charge for the port of Savona and Vado, that all together are parts of the Genoa Port System
- ▶ investment already financed for the improvement of the Apm Terminal of Vado Ligure by the Chinese company Zpmc, the port of Genoa has been indicated as the second pillar of the Italian direct participation to BRI and has already shown its will to open up to Chinese interlocutors. The development plan already
- ▶ Development plan aims at handling 20 million of TEU per year

Genoa

- ▶ transport network connecting these Ligurian ports with the hinterland, the neighboring regions (Lombardia and Piemonte) and the international market as well. It is the case of the so-called Third Pass, the high-speed railways connecting the port of Genoa through Torino and Milan to finally reach Switzerland and Germany, that should be finished by 2022. It would allow Genoa Port to become the privileged portal toward Central and West Europe.
- ▶ improving the channels of direct exchanges with China, in the field of both goods and knowhow but also at the level of people-to-people contacts.
- ▶ E.g. Inauguration of the first freight rail direct line between Italy and China, from Mortara (near the northern city of Pavia in Lombardia region) to the Chinese terminal of Chengdu, via Alashankou (China-Kazakistan) and Brest (Belarus-Poland). Inaugurated last December, it is supposed to operate one service a week and to cover the distance of 10.800 kilometers in 17-19 days. the project aims at implementing and improving the direct service by 2020.



Thank You