



Virtual Event | One Belt One Road and Great Power Competition: A Conversation with Eyck Freymann

TRANSCRIPT

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- Eyck Freymann, *Author of One Belt One Road: Chinese Power Meets the World (Harvard University Press, November 2020)*
- Nadia Schadlow, *Senior Fellow, Hudson Institute*
- Patrick M. Cronin, *Asia-Pacific Security Chair, Hudson Institute*
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A video of the event is available: <https://www.hudson.org/events/1912-virtual-event-one-belt-one-road-and-great-power-competition-a-conversation-with-eyck-freymann22021>

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Nadia Schadow:

Good afternoon everyone, I'm really happy to be here this afternoon to host three excellent scholars, to talk about a new book by Eyck Freymann, who's here today with us. Eyck has written an excellent book called One Belt One Road, I have it right here, Chinese Power Meets the World, published by Harvard University Press in 2021. Eyck is a research analyst director of the Indo-Pacific at Greenmantle, and he's a doctoral candidate at Balliol College, Oxford. I'm also here with Dr. Patrick Cronin, my colleague at the Hudson Institute, who is the Asia-Pacific Security Chair, and Eric Brown, a senior fellow here at the Hudson Institute who studies Asian and Middle East affairs. I think all of them will offer some interesting insights into OBOR.

I'd like to start this afternoon by highlighting some of the things that I found most interesting about Eyck's book. First, let's define OBOR, which is what he does right early on in the book. He defines the initiative started in 2013 by President Xi, as China's efforts to fund infrastructure around the world. It comprises about 65 countries. An OBOR is really the link that brings together two separate initiatives. One is the overland initiative called the new Silk Road Economic Belt, and another is the Maritime Silk Road that brings together the network of port, cities across the South China Sea, the Indian Ocean and the Mediterranean, and the digital aspects equally important are also part of both of these networks.

Overall, Eyck describes OBOR as a global process of realignment with China, which I think is also a really interesting overview. But what is wonderful about his book, not only is it well-written and accessible, but that he challenges three key misconceptions about OBOR, and this, I think, will form a little bit of our debate and discussion today to see if Eric and Patrick agree with this characterization. So, Eyck essentially argues, that it's wrong to see OBOR as a seamless master Chinese plan. He emphasizes the bottom-up nature of OBOR and the infrastructure investments and the various programs underway.

Second, he notes that we should not overemphasize the backlash against OBOR. A lot of the press has actually been about how there's been a backlash in many of the OBOR countries, but people don't like it, and Eyck actually has a different perspective. Third, he also questions whether or not OBOR is as much of a debt trap as most analysts have also described, most analysts have described OBOR as predatory, using that word predatory loaning. Eyck actually argues that, actually this isn't always the case, and a lot of these projects are driven internally by local needs and local political demands.

So I'd like to now turn to Eyck a little bit, hopefully I've characterized the three points correctly, to tell us a little bit more about the book, and then I'll turn to Eric and Patrick to comment on Eyck's observations to see if they agree or disagree with him, and then we'll go from there. So thanks so much. Hopefully, I characterized it okay.

Eyck Freymann:

Well, thank you Nadia, for the kind introduction. Thank you to Eric and to Patrick for being here, I'm thrilled to be here at Hudson to share our findings, which are in a sense, a response to a turn in U.S. policy towards China that began in 2018 with remarks that the former Vice President Mike Pence made at this institution. In that speech, which marks a turn toward a much more hawkish and asserted U.S. policy towards China, Pence pointed to the case of the Chinese port of Hambantota in the Southwest Sri Lanka.

He said, "If you wanted an example of how Chinese lending or Chinese geo-economic practices are coercive and destructive to partner or recipient countries, you can look no further than Sri Lanka, which took out more debt than it could afford, built a white elephant that couldn't pay for itself, and ultimately had to hand it back over to China on a 99-year lease." The problem is that I had already begun research on Hambantota about a year before the handover, as a pure accident, I'd been given a grant, and was doing research on the ground, interviewing local officials, local residents, and so forth.

I returned a year later after the handover in order to ask some of the same questions of local people, but also of leads from across the political spectrum in Sri Lanka. What I found surprised me, and I think is very significant, not only for U.S. policy towards South Asia, but in fact, how we see the broader implications of China's Belt and Road Initiative. Because what I found on the ground was that Vice President Pence seemed to have it all wrong. Most Sri Lankans weren't particularly concerned about the economic or strategic implications of handing over the port.

In fact, in the years that followed the handover, there seemed to be a realignment in which even the political parties and elites who had opposed China as the Hambantota port was being built, were reconciled and became more probative than ever before. So, my question was, if this could happen in Sri Lanka, the paradigmatic example of a predatory Belt and Road project, perhaps this could happen anywhere else. So, over the course of the next few years, I set out to understand how exactly this model had come to be of large capital-intensive loans from Chinese state banks, generally to fund big infrastructure projects that were to be constructed by Chinese state-owned enterprises.

Then also to understand from the recipient country perspective, how local people understood the balance of risks and opportunities of partnering with China, potentially getting a large flood of investment, but putting themselves in a position where they could be politically coerced because of debt. What I found in short is that China's model that we've come to associate with the belt and road, actually preceded Xi Jinping, and has very little to do with One Belt One Road per se, a lot of what Xi Jinping was doing under the guise of the Belt and Road was, claiming credit for projects that had been begun by his predecessors.

In fact, trying to use a slogan to run everything together into something that would be more strategically coherent and supportive of Chinese national interests, but he was also doing something more, something political and ideological, that was imprinted on top of the physical infrastructure that China was building. He was creating a historical metaphor of the Silk Road, which he was proposing as his great ideological contribution. Essentially making the case that by rebuilding the Silk Road, he would be defining a model for how China should relate to the countries on its periphery and in the wider world.

The claim was that this is not a new idea, and it's also not a Western idea taken after the Marshall Plan. It's a Chinese imperial model of harmonious relations between China and smaller countries, lubricated by trade and investment, which ultimately serves political rather than economic purposes. In other words, Silk Road is a euphemism, if you will, for the ancient tributary system that the Ming and the Qing dynasties used to manage relations with their neighbors, Korea, Vietnam, Japan, Malaysia, many Central Asian principalities, were one day, in the past, tributary powers, and the claim that has been made in Belton red propaganda and implicitly in the revisions that have been made to Chinese history textbooks, all seem to serve this vision that Xi Jinping is restoring an ancient model for how China should do business with his neighbors.

The claim is essentially to justify the projects that China had already been building. Because if you make an offer, she is saying to the Chinese institutions, banks, and SOES, even if you lose money in the short-term, the longer-term political relationships that you establish as a result and the status gains that you give to China as a result, will be worth it in the long run. So this is, I think from an analysis of how the Belt and Road has been pitched through propaganda and how it has been institutionalized, is how China thinks about the Dalton Road. That's significant because it means Beijing might be willing to take losses on individual projects if it sees them as a down payment on a longer-term relationship.

But if you look at it from the perspective of recipient countries, and this is the other big controversial claim in the book, there are all sorts of reasons to do business with China, including to take out loans for very risky projects that go beyond the commercial viability of the project itself. For political elites in Sri Lanka, for the Rajapaksa regime, it was essentially to stay in power to bring home the bacon to the

constituency in the South of the country that had delivered him to power, and to pay off various local groups, which were affiliated with his brothers.

For that reason, it was not surprising that the opposition would have been opposed, but when the opposition finally took power on an anti-China platform, the logic of commercial engagements with China that would keep them in power, suddenly started to work in their favor, and that's why they were reconciled. There's also a regional geopolitical logic for why a Sri Lankan leader may want to have good relations with China, which is that India is a much bigger threat. Historically speaking, India has intervened many times in Sri Lankan domestic politics, indeed during the last three Sri Lankan civil war, the Indian military even intervened directly.

Rajapaksa, particularly in the early years of his presidency, was on the outs in the international community because of war crimes committed in the civil war. So, in a sense, partnership with China gave him geopolitical leverage in turning around and trying to prevent his case from being sent to human rights courts in the West, and indeed he never got to trial for some of the atrocities that were committed. So, this is a model that we can see in closing, not only in Sri Lanka, but in all countries and contexts.

So, I think it is dangerous for this reason to point to individual cases where Belt and Road projects go belly up commercially or even individual cases where leaders in Belt and Road recipient countries make a big show of standing up to China. Because if we look beyond the headlines at the structural trends, I think we find that countries like Malaysia, the Philippines, Indonesia, in China's neighborhood, but also countries like the United Arab Emirates, which has long been close to the West, see longer-term strategic advantages to at least keeping the door open to a relationship with China, and the Belt and Road seating symbolically without giving anything tangible to China's tributary idea is an easy way to do it.

So, if this is true, I think Belt and Road does fit very fundamentally into how the U.S. should see great power competition with China. We are competing not only project for project in terms of infrastructure financing, we're also competing ideologically in terms of whether the global order will be a liberal one, and one that is governed by rules that we have become familiar with and accustomed to over the last few decades, or whether a regional order or a world order will become to the find by Chinese tributary ideas, one in which China is not only at the top of the pecking order, but Xi Jinping maintaining himself stands on top the red carpet, and that he must be satisfied in order to get access to the Chinese market, access to Chinese technology, access to Chinese geopolitical backing.

I think we need to understand that this is the trade-off that smaller countries stuck between the U.S. and China face, and if we want to prevent U.S. allies, U.S. partners, particularly in the Indo-Pacific from being pulled into reliance on China, I think we need to do a lot of hard thinking about how we're going to offer them a better option to keep them from entering something they might have a much harder time exiting.

Nadia Schadlow:

Thanks Eyck, that was really fascinating. I'd like to turn to Eric and Patrick, I would also like to ask, but I can do this circle back, if COVID has changed any of the assumptions or aspects of what you've discussed, because you wrote the book ... I mean, it came out, I guess, presumably you wrote it right before the pandemic hit, and so, have some of the implications of COVID have ripple effects in the region to change any of your fundamental assumptions? If you could just maybe comment on that quickly, and then I do want to turn to Eric and Patrick.

Eyck Freymann:

So, when I wrote the book, it was yes, largely pre COVID, and COVID happened, and I made the calculation that it seemed logical that COVID would only accelerate all of the structural forces that I had identified in the book. I anticipated there might be a short-term decline in Chinese overseas lending, indeed, we did see that, but in the longer term, I didn't see any structural pressure for China to change what One Belt One Road means domestically, what it means in terms of Xi Jinping on cult of personality, if nothing else.

It seemed to me that, a global pandemic that would ravage developing countries and put all countries that were already financially strapped in even more difficult situations would only give China more leverage and make relations with China more important. Indeed, I think we've seen over the last few months that reports of OBOR's death from Corona virus have been greatly exaggerated. Xi Jinping and senior officials from the National Development and Reform Commission are continuing to trumpet it, and they're indicating that coming out of the pandemic, China will use the pandemic economic crisis as an excuse to refine the Belt and Road and discipline it, focusing, I think, on three particular domains, which are public health, including vaccines, green tech and digital services.

If it is the case that China refines the Belt and Road to be about these three things and they phase out their funding of new traditional capital-intensive infrastructure, like the Hambantota port, I think it's quite possible that Belt and Road becomes even more effective going forward because it offers a clear value proposition to recipient countries. It has more to do with China buying their goods and exposure to the Chinese economic dynamo, pulling them out of pandemic recession, and it has less to do with taking on massive risk through huge loans as the price of engaging with China.

So it's possible that China has figured out a way to use COVID as an excuse to boost this thing. I think we should be very concerned, particularly in the digital domain, that it will lead to closer security cooperation between China and some of its neighbors and the export of China's techno authoritarian toolkit, things like financial technology, but also facial recognition and Huawei, other tools, which could be useful to an autocrat or aspiring autocrat who wants to apply those at home. I think we're seeing some examples of that in countries like ... we can go into this later, but I think we're seeing [crosstalk 00:16:53] Africa that we should be tracking.

Nadia Schadlow:

Thanks, Eyck. Okay, Erick, why don't you offer your thoughts, one, do you agree with Eyck's analysis of OBOR and the misconceptions that we've had about it? Maybe just tell us a little bit about your thoughts and some of the questions you might have for him.

Eric Brown:

Well, thank you, Nadia, and thank you Eyck. I have to say, I think your book is an excellent contribution to the discussions that we're having in the United States and elsewhere about BRI. It serves as a great corrective to some misguided analysis or perhaps some analysis that may be too far ahead of its time, but which may be proved to be more accurate in years to come, for example, having to do with that trapping. I think you're absolutely right in describing this phenomenon, that trapping is not actually being something that we're seeing much of right now, at least in terms of the Hambantota model, instead we're seeing PRC in light of this global economic crisis that we're dealing with. We're seeing PRC banks and companies restructuring debt with a whole range of recipient countries.

In fact, what they're doing, as I understand it is stringing out the repayments for loans that are due, and one could imagine that for a country that has political control over banks and private companies, this is something that they have quite a bit of flexibility to do up until a certain point. I guess one question I

have for Eyck is, how long do you think the PRC can keep this dance up? It's a far less robust PRC economy today than many expected it would be just five years ago, and it costs to continue to extend repayments out as far as they've been doing.

In the meantime, I think that, it's key for the PRC to continue to get returns on some of its investments BRI and non-BRI investments in countries like in Europe and elsewhere, in part because PRC has a clear strategic interest in making sure that the democracies don't join together in coming up with a collective response to some of the economic predation that we have seen by BRI projects in different parts of the world, and also because, returns on investments in countries like Europe and elsewhere is absolutely crucial for keeping the BRI geo-economic gambit in the global South going for some time to come.

I agree fundamentally with your assessment that a lot of what has occurred in BRI is a bottom-up phenomenon, it's certain that a lot of these deals are addressing needs and desires among populations that have been left out of the post 1991 globalization phenomenon or who have opted out of the post 1991 globalization phenomenon. I guess my question for you and for our group here is, where is this era of PRC led globalization taking a lot of these countries? My concern and you had suggested in your comments, and I know that it's a subject that you bring up in your book, is that PRC's ultimate ambition is to give Eurasia, by extension also parts of Oceania and Africa, a new operating system, one that's ultimately far more supportive for the Chinese Communist Party's interests, particularly its desire to maintain its monopoly of power at home.

In the process of lubricating various socioeconomic elites in various countries around the world, the PRC is essentially creating a situation where development will become highly, and increasingly, so highly uneven, and where the PRC will ultimately also acquire an equity in sustaining certain socioeconomic elites that can continue to control the BRI narrative and suppress any opposition to BRI that may emerge. I think it's wrong to say that there is not opposition to BRI emerging all over Asia. For example, in Xinjiang the Uyghur as we know, have suffered from an enormous amount of surveillance and genocidal repression, as we know, control of Xinjiang is absolutely fundamental to the continental component of BRI.

What we're seeing is the creation in some respects of smaller Xinjiangs all over the world, the Hmong peoples in Southeast Asia, for example, been dislocated from their homes largely because of BRI projects. In a place like Pakistan, you certainly hear from official media enormous amount of enthusiasm for BRI, but you don't hear from the peoples of Balochistan or from Gilgit Baltistan about what BRI investment has meant for them. You also don't hear the stories from mom-and-pop shops and the industrious province of Sindh, which has not benefited from BRI the way political elites in the Punjab have benefited from BRI investments.

These mom-and-pop shops in Sindh, in some respects, their bottom line is being detrimentally affected from uneven investment. In the process of all of this, I think that a lot of these BRI investments are creating an enabling environment in which graft and corruption has a far greater opportunity to succeed. I think it's important to keep in mind that a lot of these BRI deals could not plausibly be funded on the private market in part, because of their lack of opacity, and also because I think they're lubricated, I think as Eyck suggested by corruption, and we have to keep in mind that, in the invention of modern capitalism, which largely was an Atlantic world phenomenon, corruption was seen as a real Republican sin. Why was that? Because corruption creates not only economic inequality, but it is also a driver of political factionalism and therefore it is a driver of political instability.

I believe that what you're seeing in this era of PRC globalization, PRC led globalization is a real engine of future political instability in a number of strategically consequential parts of the world. That's going to become increasingly a problem for the socio-economic elites in these countries, as well as for the PRC, and I suspect that part of the techno totalitarianism that Eyck referred to that PRC is exporting now is

designed to get ahead of that and all of this, what does this all mean for world order? I think from one perspective, it is achieving what the PRC wants to achieve, and that is a net gain for the forces of autocracy and for oligarchy in the world, and it's ultimately a loss for the prospects of Republican government based on political equality, rule of law and transparency.

I think that that goes to the core of what we're dealing with, with BRI and the economic predation that it enables. I think Eyck's book really helps to laser in on these larger questions of norms and of world order, which is at the core of this phenomenon that we're dealing with. So, thank you.

Nadia Schadow:

Thanks, Eric. I think before you respond, Eyck, I would like to turn to Patrick, and then we can work on some of the themes that have come up. I mean, in terms of Eric's themes, he agrees with a lot of your book, but perhaps argues that you overstate the lack of opposition in countries. He agrees that essentially it's a net gain for autocracy, but also will create some instability as well. Those are some of the issues that we could talk about after. But Patrick, why don't you jump in a little bit and offer your thoughts from your part of the world?

Patrick Cronin:

Well, Nadia, thank you. Eyck, congratulations on an exceptional book, you've explained OBOR very well, as both a means of domestic and foreign objectives for Xi Jinping in China. You've explained the phenomenon that in your own description, you point out, was not really meant to be bounded clear, transparent, or even strategic in some cases, and yet you've managed to do that, and you've done it far beyond and much more detailed than your brief presentation on this program today.

I mean, having read your book very carefully, it easily allows a framework for thinking through not just the Belt and the Road, but also the Polar Silk Road, sort of gambit that I know you're writing on, but also the Digital Silk Road, the space information corridor with the Beidou satellite navigation that work that is displacing the global positioning system that the United States helped create during the Cold War, and we're now losing yet one more domain and effect. From my perspective, and somebody who also was the third ranking official at the U.S. Agency for International Development and well aware of the sloppiness, the messiness, the inchoate nature of development assistance, in a foreign assistance more generally, and yet OBOR was a project that transcends even foreign assistance.

So, it cuts across agencies and government policies that we don't even devise or have, which makes it very difficult for the United States to think of a prescription. As President Joe Biden has vowed in his idea of out-competing China, can we out-compete OBOR? What would that mean? And you've suggested of course, in your conclusion, Eyck, three broad alternatives in terms of trying to contain OBOR, trying to selectively engage it or trying to go all in and maybe steer it toward a better course or at least to manage it better by being a member. I think it's going to take all three of those, just to try to bring about all inchoate set of bureaucracies, the private sector, our allies and partners into an effective response.

So, in addition to reading Eyck Freymann great book, I think we also need to be steeped a bit in our own institutions and our own archaic institutions in some ways, institutions that were not really built for the 21st century, we're still laboring with them right now. Let me just go on to explain why this is a quandary for U.S. policymakers beyond our institutions. It goes back to whether we are providing an alternative, and Eyck talks about this in the book, he mentioned it in his brief remarks, we are not providing effective alternatives to OBOR, which is why there isn't the backlash to OBOR, at least not a sustained backlash openly, there is, I agree with Eric, a backlash privately and almost all into Pacific partner areas.

But publicly there's not, because who wants to look a gift horse in the mouth? If there's no better alternative on offer, then suddenly a tributary system doesn't look so bad, even if that's not always the intent of China. So, the Biden administration, as I understand it, is trying to reinvest in our fundamentals here at home, our people, human capital, infrastructure, economy, our political institutions, those are long-term efforts by the way. So we're not going to see immediate return on that, but that's going to be important for long-term competition. We're going to have more joined up policy responses or whole of government responses.

The quick fix on that was to appoint someone like Kurt Campbell, extremely able as an Indo-Pacific czar at the White House, at least somebody up at top in the White House is overseeing how to pull the threads of policy together, and that's important, and somebody who also knows how to work with allies and partners, because clearly these are efforts that are going to take Japan's money in many cases, because they have the actual lead in infrastructure development and major investment in Southeast Asia, for example, but not just Southeast Asia, but also we're going to have to focus on allies and partners in coming up with the rule sets that are going to govern the rest of the century as we deal with revolutions and digital telecommunications, green technologies that Eyck mentioned, also the development of outer space among other areas.

Having worked on development, every development project has to be ground truth in what is the demand? What is the buy-in locally in any area? That's where the reality is. That's why policies can't be made in Beijing or in Washington, and then just transplanted somewhere around the world, and expect to flourish and be sustained over time. They have to really come from overlapping identified interests from the recipients and from those who are providing the donor assistance, the support, the technical assistance and so on.

So, what do we need to do to compete with OBOR? From my perspective, combining Eyck's three choices into one, one broad approach. I think if you think just about Southeast Asia, which is at the epicenter of a lot of Chinese competition with the United States right now, and with our key allies in the Indo-Pacific, especially Japan, Australia, but also India, I think you'll see that we have to get back into the trade game. I mean, this was one of the problems with the responses from Obama and Trump to the China challenge was we crippled our own economic card and response. Well, China was then given open running room about that trade. So right now, United States is not a member of the ... what is now the CP Transpacific-Partnership, the conference of Progressive TPP. We're not a member of ARCEP, which is now up and running as a multilateral trade organization.

So the United States is going to have to start right now renegotiating our way, it'll take several years at best back into the CPTPP. We've got to be seen as a future trading partner that's going to be growing, not just shrinking in years ahead, then we can overlay our development assistance and foreign assistance programs strategically selectively. So, think digital, think maritime, and maritime sea lines of communication. So, the one initiative that we actually did, I think, during the Trump administration that came to some fruition was the Development Finance Corporation, and setting that up helps mobilize more resources for infrastructure and other investments, but it's only a fraction of what OBOR is looking at, even if we discount the high numbers sometimes associated with China's One Belt One Road Initiative.

But the one initiative that was funded by the Development Finance Corporation last year was the undersea cable, the Trans-Pacific network sub sea connection. That was the first direct subsea connection between the United States and Southeast Asia that did not go through the South China Sea, and that's important as China grows, it influenced in the South China Sea area and beyond. Now, it's no surprise to hear suddenly trying to float in a \$39 billion idea of a city and seaport in Papua New Guinea, which would help intersect that undersea cable, not to mention submarine and other potential sea lines of communication from Australia up through the second Island chain into the first Island chain, which is

where you get into the military and security implications of what seemed like economic and political maneuvers.

In fact, there are also military dimensions to this as we all know, we need to go into the green technology sector as well. I think the Biden administration will want to do this anyhow. But if you think about a key actor like Vietnam, where there's so much potential for solar offshore, wind power and so on, they're wanting to almost double the number of coal fired power plants here in the next three decades. We already have two U.S. projects for LNG power plants. We can also get into renewables and other areas. That's the kind of thing that we can do and we need Japan's help because right now Japan is financing some of those coal fired power plants. So we're going to have to work together on that.

Ultimately though, it's going to come down to rules of the road, I think, Nadia, we're going to have to work with, sometimes called, smaller groups, the D10, the democracy 10, the T10, the technology 10, type of forms, that could be expansions of the G-7, if you will, in which you're trying to find like-minded countries in Europe, in Middle East, the United States, Asia, who can come together and help right standards and norms that we can then sell and market to China and the others, they're meant to be inclusive, but these could be way stations toward the international rules.

None of this is going to be easy, but if you think about areas where reducing greenhouse gas emissions, or cyberspace rules or outer space rules, all of these are areas where we're going to need to have to work with China, we're going to have to coexist, and I think, they coincide with a response, an effective response to OBOR as well because providing the foreign assistance projects backed by trade, backed by our security cooperation and working together engaged on the rules of the road, gives us the best chance of managing together with everybody, the grandiose OBOR challenge. So, thank you.

Nadia Schadow:

Thanks Patrick. Although in some ways that was a little bit depressing, you painted a dire picture of whether or not we can catch up given the nature of our tools, which are old and not necessarily up to where they need to be in terms of our development assistance programs and the way we approach development. You also mentioned that your book, Eyck, at the end, I remember you had an interesting line in there about, how do we even duplicate this model, this investment infrastructure driven model that China has if it's possible?

So, some of the themes that I took from your remarks, Patrick, one, we can do this maybe with improved cooperation among allies and partners, some of the subgroups. Two, maybe do we focus regionally, right? There's 65 or so countries across OBOR, do we scatter our approach, or do we decide to focus on particular sectors, particular regions? So maybe Eyck, you could comment a little bit on that and on Eric and Patrick's comments. It's a lot, a lot, a lot to comment on.

Eyck Freymann:

I'm muted. Okay, I'm unmuted now. This is a terrific and very helpful and stimulating set of reflections. I wish I had time to address every point that has been raised, but let me zoom out, try to give some context for how I see things and then try to touch on as many of these points as I can. As I alluded to in my remarks before, I think we need to start by diagnosing the challenge before we start prescribing solutions. Even though I agree with everything that Patrick said, about things that the United States ought to be doing, I think part of reconciling ourselves to what this is, is understanding first and foremost, that this is going to be a long-term, very likely multi-decade challenge that will persist for as long as Xi Jinping rules China, and possibly thereafter in a different form.

Eyck Freymann:

I think our objective above all has to be, to prevent the Belt and Road from coalescing into a geopolitical block. I don't think it would become a geopolitical block of 65 countries, but if it's even China, Russia, Pakistan, Iran, and a few others, that's potentially an extremely dangerous and problematic authoritarian axis in opposition to not only American national interests, but the interests of our allies and partners. I think that could pose a very serious long-term challenge to America's national security and our ability to secure our interests around the world.

So, we need to remember that if we can work around this thing, so that 10, 20 years from now, we can exhale and say, "Well, thank God that never became a geopolitical block." Then I think we will have achieved our objective, or at least we will have protected our most vital national interest at stake. Point two is, this isn't going away. It may change its form, it may change its name again to the Belt and Road project. They may change the acronym, but the point is, even if the Chinese economy is slowing in its rate of growth, as Eric alluded to, it is still growing. It grew in 2020 despite the pandemic, it is conservatively estimated to grow 7% this year, possibly as much as eight.

China's portfolio of foreign direct investments is not large relative to the size of its economy. In fact, Japan's FDI stock is worth 30% of its GDP, and China's FTI stock is worth only about 16% of its GDP. So if China just grows its proportion of overseas holdings to move into line with Japan or the Western European countries or the United States, we're talking about a doubling, an increase of literally trillions of dollars of new Belt and Road or Belt and Road related projects. So, there's a lot in which many domains in which this can grow, there are industries conceptually, or new regions to which it could expand, some of these have been named the Arctic outer-space cyberspace, the Caribbean.

So, there's plenty of room for this to keep growing and for it to shed its less effective arms and grow stronger in its most nefarious or problematic arms. So we need to be able to recognize that while this is a single loosely defined conceptual thing within China, it manifests in different ways in different regions, and we need to be able to both deal with it in a structural macro way and also on a much finer level of analysis, zoom into the regional context and prescribe targeted solutions to keep it out of specific countries, specific industries, specific systems that could threaten our interests.

The third point is, we have to recognize, and this is ultimately the big takeaway of my book. Small countries have more bargaining power in a bipolar system than a unipolar system. This is true in the Cold War, but it's also been shown throughout history that countries can get more foreign aid, they can sign up to alliances more readily. They can access investment more readily when there's two super powers who particularly are afraid of a bandwagoning situation where any country that's on the fence could tip a chain of dominoes and cause them to lose the conflict.

So, for this reason, I think we need to recognize that many countries in Southeast Asia or the Middle East, to take two regional examples, they don't want the United States and China to go to war. They don't want the United States and China to have a serious conflict that will hurt their economy. But there is an end state for them in which the U.S. and China find a way to compete without being at each other's throats that is actually effective for them, that allows them to get maximum autonomy and maximum economic and technological benefits from both sides. We should recognize that for that reason, many of our partners do not want to pick sides. And if we pressure them too hard, they might fall on the other side of the fence.

I think we should bear this in mind as we pursue a slate of projects, that includes all of the above that Patrick mentioned, multilateral cooperation, standard setting, targeted deals. But we should recognize above all that these are countries that want to preserve their autonomy and see new opportunities to assert their autonomy in a bipolar system. The next point is, to get to points that were raised by both Eric and Patrick, which is very important, and by you Nadia too, which is, should we be competing with

our own model of infrastructure development? I think the answer is no, and there's a couple of reasons why.

The first is from a civil engineering perspective, the Chinese are just very good at building roads, bridges, dams, airports, ports, traditional infrastructure. They can do it at scale because they have subsidized materials and subsidized labor, but they also have a lot of engineering know-how because they've been doing more of it. They did so much of it at home, and they have patient capital because the money comes from Chinese policy banks that don't need to be paid back on a normal timescale, if at all, and can tolerate an interest rate that is below what partner country would pay on the bond market. So, it's going to be very expensive and probably very inefficient for the United States to try to compete with China, building a port for a port and a road for a road.

I don't see why we would, because unless there's a specific concern about debt distress, if China wants to build smart cities in Zambia or roads in the DRC, for example, I think that's fine. We should celebrate China if and when it undertakes projects that fulfill global development objectives. I think we should concentrate our resources on pushing back against areas where it actually could degrade our national interests. Huawei was a very good example of where we were right to push back. I think outer space is deeply concerning, which I would not want U.S. allies and partners signing up for Beidou, that would be another one.

Our standard setting in order to prevent the spread of Chinese financial technology companies would be another. But we need to be more targeted in the way we deploy our resources. I am all for increasing the foreign aid budget, encouraging through the development finance corporation and other sorts of quasi private, quasi public entities to do more lending. But we need to recognize if we try to compete with China everywhere, we will exhaust our resources and we can achieve most of our objectives if we, for example, keep it out of our neighborhood by making sure central American and Caribbean nations don't sign up, by keeping China out of the Arctic, by focusing on some of these higher tech dimensions of it and letting China spend resources, doing things in Sub-Saharan Africa that are actually either for the greater good or not particularly detrimental to American interests.

I think if we celebrate China for doing those things, and we give China a glide path out to make the Belt and Road something that's not actually a geopolitical block, but something that China can achieve status and recognition and honor on the global stage for doing, then we can truly achieve the best of both worlds and give Xi Jinping an outcome that he can be happy with.

Nadia Schadlow:

Thanks, Eyck. Before I turn back to Eric and Patrick, so a couple of things. One, another tool that hasn't been mentioned, but is important and was strengthened over the past few years is EXIM Bank, the Export-Import Bank. The previous administration succeeded in getting an authorization for EXIM for seven years, which is pretty meaningful in the development world, because it allows you to plan out in ways that often you can't, it's a relevant important tool. In some ways, what you're talking about is, I'll coin this term, it's targeted competition, right? It's approaching OBOR, competing with it, but in a very targeted way.

Another term comes to mind or a phrase I'm sort of making up, asymmetric development. Right? We're focusing maybe our development in areas that speak to our strengths. Although, I think the Army Corps of Engineers would definitely push back in terms of their expertise. But I think your point about scale and cost is true. Right? They have the expertise, the Army Corps of Engineers can build anything anywhere, but the scale and the cost, it's a completely different model. But I like this idea of figuring out a plan of targeted competition in this domain and the areas that you set for fintech, outer space,

standards, more, and then thinking asymmetrically where we focus our development to compete an OBOR.

I mean, some of that could go to the interest to the values. Right? Schools, I mean, all of these areas that are considered traditionally softer, but really have enormous strategic implications in terms of promoting values of republicanism to Eric's point [crosstalk 00:47:40]

Eyck Freymann:

[crosstalk 00:47:40] another big one.

Nadia Schadlow:

Pardon.

Eyck Freymann:

Because the Chinese vaccines, which don't work perfectly, but they work, and they're exporting them to the developing world because they don't really need, they're not on a timeline to vaccinate their high risk at home. Even countries like Brazil that fiercely resisted the Chinese vaccines, which were rooting for them to fail, have now approved them and are starting to roll them out because they just don't have a choice. The developing world has hoarded vaccines. Canada has three times as many as it needs to vaccinate its whole population. So, joining COVAX, the vaccine sharing initiative run by the WHO, which President Biden has done, but not yet actually funded with doses.

This is going to be a hugely important thing, particularly in the second half of the year, once we achieve mass vaccination here in the United States, to make sure that we're leveraging all of this over procurement that we did, to help the countries that are most in need, that's going to deprive China of the opportunity to change the narrative on what actually happened in COVID in the early months of 2020. But it's also an opportunity to pursue our own national interests because if this virus becomes endemic and continues to mutate in the developing world, it will eventually come back into our borders and infect Americans. So I think this is a global challenge that we would be very well advised to put resources behind.

In the medium term, I think, we are partners with China in terms of eradicating this pandemic, but beyond public health has long been one of our core competencies, it's a way we can do an enormous amount of good with a relatively small amount of resources. We did it with AIDS, with PEPFAR, and I think we can do it again with other infectious diseases and other public health issues that will emerge will be aggravated as a result of the pandemic.

Nadia Schadlow:

Yeah, I think we could probably have a whole show just on COVAX vaccine, public health externally, because right now we're seeing that Europe that hasn't been able to roll out the vaccine as fast as it can and really angry and discouraged populations in Europe. So I think it is more pretty complicated ... that particular case is pretty complicated, but we're not going get into that right now. So, Eric, why don't you comment on some of Eyck's final recommendations and then Patrick, and then we're about to wrap pretty soon. Thanks.

Eric Brown:

This is great. I mean, I have to say I agree with most of what Eyck had said and what Patrick and Nadia have also said. So I won't go over that again, I will reinforce a few things. We are not going to be able to

out-China China, particularly in infrastructure development as Eyck had said, even if we have the most suburb and nimble alliance of democracies of all the advanced democracies in the world, it's not going to happen. So what we need to do in terms of targeting, I think, is to focus on those high end systems that Eyck and Nadia had referred to. My larger concern, I think, that our strategic objective needs to be exactly what was said to prevent this from turning into a geopolitical block.

My concern is that if PRC can embed itself in the information and intelligence and financial systems of key countries around the world, then it will be harder and harder for spontaneous acts of political opposition to dislodge them from these positions around the world. Therefore, I think, in order to prevent that from happening, to prevent the PRC from acquiring the control of Eurasia as in Africa's laterals, which I do think is the strategic ambition for some of the geo strategists behind BRI, I think we need to focus on offering alternatives, and we should do that with a view toward ensuring the autonomy of a lot of these smaller countries, and Eyck's formulation about why bipolarity helps smaller countries is exactly spot on.

A little less sanguine that it's going to be good for us to cooperate with PRC on public health issues, and the only reason I say that is because we have cooperated with PRC on public health issues. We build up a world-class and very sophisticated public health system, NPRC after the SARS epidemic, and unfortunate, while that system seemed to work in the initial days of the COVID 19 outbreak, in terms of detecting, it in terms of having heroic and sophisticated Chinese who wanted to stop it, the ability for the system to work was compromised by the CCP.

I think the CCP understands that a lot of its outreach in Africa and in Eurasia is part of a zero-sum geopolitical competition that it is in, and so I don't really think the cooperation with PRC is going to be really ... I don't think it's going to work. I'm happy to try, but to do so cynically, but I do think we need to be focusing as Eyck recommend it and coming up with a real public health solutions to this plague, and particularly in countries where it's going to be sticking around for some time. Thank you.

Nadia Schadow:

Thanks, Eric. Patrick, some final remarks.

Patrick Cronin:

Well, my final remarks would be to recap my big takeaway from having read this excellent book and listened to this discussion. Informing U.S. policy, informing allied and partner policy start with the diagnosis that Eyck aptly gives us in this book. The reason I didn't mention in my remarks was because it's in his book, everybody needs to read the book and they'll have a much better appreciation of what China intends, what Xi Jinping intends, in the directions where OBOR could go.

Right after that, though, we then have to make sure we have a realistic even agonizing appraisal about our own potential and our limitations, and that's where I was trying to at least be realistic about our limitations. I've seen the labors, I've seen the initiatives on the U.S. policy administration after administration, very difficult to sustain, to build. So we're going to have to be realistic and that's where once we understand those constraints, I think we come up with this more targeted solution, the asymmetric developments you're talking about, Nadia, there's even a bit of a competitive strategy going on here. In fact, we didn't talk about CPEC, the China's biggest investment.

Mostly down the drain as Eric was intimating in a sense, in terms of trying to build up this corridor through Pakistan, you could say that that was driven in part by U.S. investment in the power sector in Pakistan. That's now gone away, but I mean, we were competing in effect, some of that strategic ... what is this phrase? For Sri Lanka, the promiscuous strategic competition. Right? Strategic promiscuity-

Eyck Freymann:

Strategic promiscuity.

Patrick Cronin:

There you go. Right. Okay. Strategic promiscuity, it's an extreme form of hedging where you're literally trying to drive the outside powers to outbid each other. U.S. has a long record of being a falling for that one, and sometimes it was worth it, sometimes it just wasn't worth it. I think the upshot of your book, Eyck is, we can be much ... not saying when, but we can be much more comfortable knowing that China has ... yeah, they've got a lot of ideas, they definitely have some civil engineering capability, but they also have lots of challenges on the ground and at home, a lot of internal concerns, and we have allies and partners, we have ideas, we have a lot of track record on creating new ideas and institutions and standards.

So, I'm ultimately optimistic over the long-term that we can manage this and avoid that geo-strategic coalescence that I agree. I think we're all on agreement would be the worst case scenario coming out of OBOR. So thank you.

Nadia Schadlow:

I'm glad that you ended on a high note, Patrick, to counteract the comments earlier. So, I'm always happy to end on a high note. I'd like to thank all three of the panels today. I think as listeners know, the beginning of any improvement in policy has to begin with a more correct diagnosis of the problem at hand, and I think all of you have greatly contributed to a more nuanced diagnosis of OBOR of what it means, and that in terms should help set a foundation, a better foundation for the U.S. going forward.

So I appreciate it very much. I urge everyone to purchase Eyck's book, this is not a paid advertisement for Eyck's book, but it's a great book, and I look forward to staying in touch with you all and having some follow on conversations. Thank you.

Patrick Cronin:

Thank you.