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What should Australia do about...

the Belt and Road Initiative?

by Dirk van der Kley

The Belt and Road Initiative (BRI) has grown so large that it has become difficult to separate from the international economic and technology policies of the People's Republic of China's (PRC). Policies crafted in the name of BRI are reshaping the economic order and technological landscape in Australia's neighbourhood – Southeast Asia and the Pacific Islands (PI). The BRI also contributes to escalating tensions between the PRC and the United States.

Australia can do little about PRC-US tensions. Nor can it stop changes in the technological and economic order. But Australia can offer PI nations greater economic opportunities to help them navigate these challenges. The most effective economic support for PI countries is vastly expanded visa options for working in Australia. Canberra started to offer extra infrastructure funding to the PIs last year. Australia should work with PI nations and, if possible, Beijing to improve project governance in the region. Australia's economic weight in ASEAN will always remain limited. But Canberra can assume a more active role in convening, and where possible, leading regional discussions on the norms for emerging technologies and trade.

It is difficult to separate the benefits and downsides of the BRI from the PRC's broader overseas economic and technology policies. In other words, the BRI offers Australia's neighbourhood the same economic benefits as the PRC's rise. The PRC has a huge market. It invests substantially. It lends money for infrastructure. The PRC provides technology transfer and jobs. Moreover, the BRI has driven other countries and multilateral lenders to boost their infrastructure financing. Thus, the region benefits significantly.

The same problems inherent in the PRC's economic and technological rise pertain to the BRI too. First, Beijing uses economic leverage and new technologies to erode liberal norms around cyber governance and free speech. Second, the tools that Beijing uses for the BRI are also used for economic pressure against countries in the region. Commentary on the BRI frequently focuses on debt. But in Australia's neighbourhood, Beijing most often uses trade to apply economic leverage. Third, Australia is in an awkward position because the US opposes policies under the BRI banner. Australia faced difficult decisions on issues such as 5G networks and membership in the Asian Infrastructure Investment Bank – both of these directly relate to BRI policies. In both cases a decision favoured either PRC or US interests.

It is in Australia's national interest to contribute to the continued development of the region. That includes helping countries in the neighbourhood manage the challenges of the PRC. Australia needs to consider three factors in crafting its response:

1) What is the BRI?
2) Economic dependence
3) Technological dependence

What is the BRI?

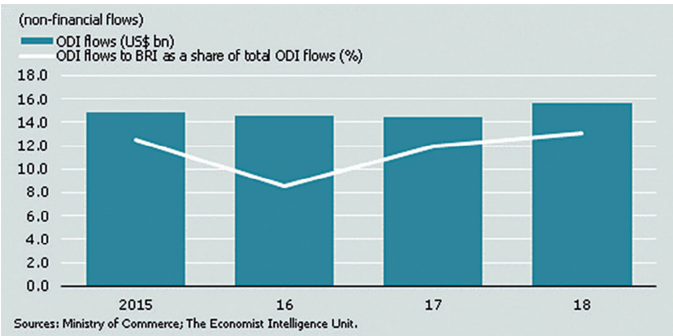
The BRI has multiple goals. It is designed to maintain PRC domestic economic growth by developing new markets for PRC products, services and technologies. Policies in the name of BRI also seek to make the region more amenable to the PRC's rise by creating economic and technological dependency.

These policies and goals predate the BRI. But the BRI brought them under one umbrella and gave them a clear branding. PRC companies, government agencies at all levels and security organs apply a BRI label to any activity to garner political and financial support. The PRC's regional security activities continue as before but are now frequently given a BRI tag. Most BRI interaction is bilateral, even though over 105 countries have signed BRI cooperation documents.[1]

The BRI promotes "five connectivities": policy coordination, infrastructure building, unimpeded trade, financial integration, and people-to-people exchanges. These are the tools that Beijing uses to develop new markets and create economic and technological dependency. Beijing uses these tools in non-BRI countries too. For example, investments by PRC firms in Darwin Port (2015) and Newcastle Port (2014) would be classified as BRI projects if they were in, say Malaysia. In fact, the owner of Landbridge Group said his company's Darwin Port investment was "our involvement in One Belt, One Road."[2]

Though Beijing encourages PRC firms to invest more in BRI countries, PRC investment flows into BRI countries as a percentage of total flows have barely changed.[3]

China's overseas direct investment (ODI) in BRI countries



Source: Economist Intelligence Unit BRI Update 2019 Q1

Joining the BRI makes little difference to trade either. The proportion of PRC imports from BRI countries hardly changed between 2013 and 2017.[4]

There is no definitive PRC government-to-government lending data. Most countries that have borrowed from the PRC government do eventually sign a BRI Memorandum of Understanding (MoU). But it is not a prerequisite. No Pacific Island nation signed a BRI MoU before 2017, yet Vanuatu borrowed USD 53 million in 2014.[5]

Therein, there is little difference between the BRI and the PRC's broader overseas economic policies. Both seek to open up overseas markets for PRC companies and products while also fulfilling a geopolitical role.

Economic dependence

The BRI's five "connectivities" seek to build even further on already significant economic interdependence. The benefits are well known – it creates jobs, government revenue and foreign currency for recipient countries. Beijing uses economic dependency to further its political goals in the region. This can be in the form of positive inducement or punishment, by promising or blocking market access, investment or loans.

Direct coercion is most commonly applied to trade. The PRC is the leading export destination for Australia (30.6% in 2018), New Zealand (19.1% in 2017) and ASEAN (14.1% in 2017). The level of export reliance on the PRC varies by ASEAN country, while most of the PI nations are relatively less reliant on exports to the PRC. But almost every country has industries that could be a target for PRC punitive measures.

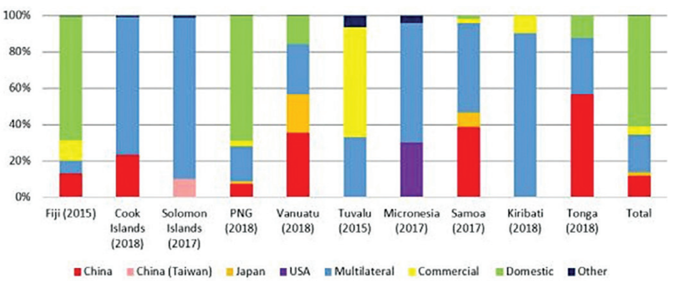
A common target is tourism. Surging tourist numbers have generated economic benefits for our region. The PRC market is difficult to replace for most countries. And now the China National Tourism Authority is prioritising tourism to BRI states. Beijing is willing to curb outbound tourism as a punitive measure.

Like other countries, the PRC combines trade, investment and loans as a form of economic inducement to alter political behaviour. Prior to President Duterte's 2016 Beijing visit, Beijing blocked Philippine bananas and group tours. Since the visit, the Philippines has barely mentioned the Permanent Court of Arbitration 2016 ruling on maritime boundaries in its favour. The bans were lifted and Beijing promised USD 24 billion in investments and loans. At this point, the Philippines had not signed a BRI MoU but the toolkit was very much in the BRI mould. Cases like this render rulings by international bodies meaningless, which is not in Australia's interest.

Other PRC goals are not in Australia's interest – for example, the erosion of liberal norms throughout the region and acceptance of the PRC's militarisation of the South China Sea.

Few countries in Australia's neighbourhood have heavy debt burdens to the PRC. According to the IMF, Laos, Samoa and Tonga are the only countries in Australia's neighbourhood which have borrowed heavily from the PRC and also have high levels of debt distress. The PRC is a major lender to Vanuatu but the IMF does not consider Vanuatu at high risk of debt distress.[6] All three countries borrowed from Beijing before the BRI was announced.

Pacific Island countries: government debt by lender



Source: Rohan Fox, Matthew Dornan,
"China in the Pacific: is China engaged in 'debt-trap diplomacy'?"

Some ASEAN countries, notably Malaysia and Myanmar, have renegotiated or are renegotiating large BRI loan projects, arguing they are overpriced, too opaque and do not provide enough benefits to locals. Beijing is well aware of the problems. Xi Jinping announced a new debt sustainability framework at the 2019 BRI Forum.

Technology

The PRC leadership has long deemed that dependence on foreign technology suppliers is a vulnerability. The PRC's largest import in dollar terms is semiconductors. Now, Beijing is incrementally creating technological reliance by other countries on the PRC as part of its Digital Silk Road (DSR). It does this by providing technology such as smart cities and telecommunications equipment at cheap prices.

As part of the DSR, Beijing seeks to set the norms around technologies that have the capacity to control information. The Ministry of Public Security provides extensive information management training to law enforcement officials from BRI participant countries and elsewhere. Officials from the Cyberspace Administration of China (CAC) wrote that "cyberspace has become a new field of competition for global governance, and we must comprehensively strengthen international exchanges and cooperation in cyberspace, to push China's proposition of Internet governance toward becoming an international consensus."[7] The PRC argues for "cyber sovereignty" globally which gives more control to governments over information flows and data. Vietnam already adopted a law that mirrors the PRC's cyberlaws. This is the antithesis of a mostly open internet, which is the norm in a mid-size liberal democracy like Australia.

Beijing has established informal groupings with ASEAN to discuss cyber governance and technical standards for emerging technologies, such as the "China-ASEAN and Neighbouring Countries Big Data Policing International Exchange and Cooperation Forum", first held in 2018. The aim of the groupings is to encourage recipient states to adopt PRC technology and norms.

Should Australia sign a BRI MoU?

A much-debated question is whether the Australian federal government should sign an MoU for projects in Australia. Canberra has already signed a BRI MoU for cooperation in third countries.

The MoUs vary by country. Most are vague with no concrete commitments. Some, such as Pakistan's are more comprehensive. Most, not all, explicitly say they are not legally binding. That is the case for the BRI MoU signed by Victoria for projects in that state.

The long-term strategic cost of any level of Australian government signing a BRI MoU is small. Beijing already has significant economic leverage over Australia. Beijing's strategic ambitions in the region will not be changed by an MoU. But it would annoy Washington in the short term.

The benefits would also be small. Australia has continued to trade significantly with the PRC without an MoU. The Australian government does not need PRC government loans. Generally, the correlation between a BRI MoU and increased investment is weak. Admittedly, Australia could earn short-term goodwill with Beijing, which would potentially reset relations. Though it would not prevent future tensions on sensitive issues.

Discussing a BRI MoU with Beijing is reasonable. However, Australia should not jump into an agreement unless there is something significant on offer. Otherwise it is not worth it because a BRI MoU will do little to improve the relationship long-term.

Policy recommendations

- In addition to the expansion of the Pacific Labour Scheme, the Australian government should open the working holiday visa to Pacific Island countries. Australia should consider a long-term work visa option especially for the Pacific Islands. These would need quotas to be politically feasible. The PRC is unlikely to use this as an economic tool.
- Australia should discuss with New Zealand, South Korea, Taiwan and Japan the possibility of opening their working holiday and labour mobility schemes to PI countries.
- Australia should establish a PI climate resilience fund, in partnership with New Zealand, PI countries, and other willing countries including the PRC.
- Australia should seek to work with PI nations and the PRC to improve the governance of PRC-funded projects in the PIs. This would depend on the willingness of the PRC and PIs. Beijing acknowledges the shortcomings in its lending and contracting practices.
- Australia and other signatories need to continue to push the US to join the Trans-Pacific Partnership (TPP). Standards and trade in the region would be more effectively managed within the TPP framework. Other ASEAN countries will only join if the US joins.
- Australia should push for Australian citizens to assume senior positions on global technical standards bodies. No Australians sit on the executive committees or general secretariats of the three leading standards-setting organisations.
- Canberra should establish a New Technologies Forum with ASEAN, Japan, South Korea and the PRC to pursue standards and norms for emerging technologies. It could be developed out of a pre-existing ASEAN-PRC grouping if that would make it more amenable to Beijing.

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China Matters welcomes your ideas and involvement

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This policy brief is published in the interests of advancing a mature discussion of the Belt and Road Initiative. Our goal is to influence government and relevant business, educational and non-governmental sectors on this and other critical policy issues.

China Matters is grateful to seven anonymous reviewers who received a blinded draft text and provided comments. We welcome alternative views and recommendations, and will publish them on our website. Please send them to ideas@chinamatters.org.au.

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