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Solo, Chorus or Mix, BRI in Thucydides's Dilemma?

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Introduction

This article discusses China's One Belt One Road Initiative (BRI), the divergent views of it, and the implications they have for China and for the world. Following a brief review of its historical background and the initial performance in the past five years, including especially the financing aspect, the article focuses on the risk factor. It argues that, as both a rising power and a novel player in the international investment arena, China faces daunting challenges ahead, the nature of which is more geopolitics than economics in a hitherto unipolar global system still dominated by the U.S. Increasingly seeing BRI as part of a "revisionist" (rather than integrationist) threat of "illiberalism" against the liberal post-WWII international architecture, the U.S. has made an about-face or "re-set" from its previous policy of engagement with China to a looming strategy of competition+containment (where operationally feasible). Theoretically, it reflects a return from liberalism to a particular strand of realism -- offensive (rather than defensive) realism to be specific -- as evidenced in part by Trump administration's "America First" policy. Trapped in Thucydides's dilemma with the danger of self-fulfilling prophecy, unless China and the U.S. can find a new *modus vivendi* to accommodate each other in the years to come, the potential for a smashup is high. But for the purpose of the article, to predict is to prevent; and hopefully rationalism will prevail with the benefit of history and theoretical hindsight, if not foresight.

The rest of the article has four parts. Part I puts BRI on the broader canvas of history. Part II outlines the contour of BRI and its initial performance. Part III examines the risk factor, especially with a focus on the looming strategy of the U.S. with respect to

the rise of China on the global scene. The final part, Part IV, provides the theoretical lenses – offensive realism in particular -- through which one can better understand the nature of the current global system, the risk or challenge associated with systemic power transition, and in this large context, why BRI has been viewed differently -- with implications that go far beyond mere economics.

To save time, for those who are already familiar with BRI per se, but are interested in the risk factor, including geopolitics, they may want to skip parts I and II, and go straight to parts III and IV.

Part I

A rising China

In a time span of just some 30 years, with a dynamic growth model based on its comparative advantages and heavy in investment and exports, China developed rapidly from a poor agricultural country to a global manufacturing powerhouse, and became the world's second largest economy in 2009, and the world's largest exporting nation in 2010. From 1978 to 2007, average annual growth rate of China was 9.75%, aggregate GDP increased 14.9 times, and international trade 104 times. In the process, China lifted some 700mn people out of poverty. Its per capita GDP was US\$156 in 1978, lower than that (average US\$490) of many Sub-Sahara African countries; now it is close to US\$9,000. This is tremendous achievement, although China still has a long way to go to reach the level of advanced economies. In 2017 per capita GDP was about US\$53,000 in the US, US\$48,000 in Japan, and US\$40,000 in the Euro area.

Since the 2008 global financial crisis, however, faced with economic slowdown, many countries, including China,¹ have been searching for new ways to stimulate or sustain growth. Indeed, in a post-Trump and post-Brexit world where the US and the UK are both retreating genuinely or symbolically from their commitment to globalization, many have been expecting China to play a larger role in the world economy. China's economy is now some US\$12trn in magnitude (as compared to US\$18trn for the US), contributing about 1/3 to world economic growth in recent years.

Viewed in this context, the Belt and Road Initiative (BRI) can be taken as China's response to a global challenge. On the one hand, China itself has had to deal with industrial overcapacity such as in steel, aluminum, cement, chemicals, ship-building, and construction.² On the other hand, many developing countries are experiencing rapidly rising demand especially in infrastructure, but with huge gaps of financing and

¹ In China, growth rate in recent years has slowed from previous double digits to a yearly rate around 6.5%. There is a growing consensus is that the previous growth model needs to be rebalanced from investments and exports to more domestic consumption.

² For a discussion on this subject, see *Overcapacity in China: An Impediment to the Party's Agenda*, by European Chamber of Commerce, February 2016.

industrial capacity. According to the Asian Development Bank,³ infrastructure development in Asia and the Pacific, which is emerging as the center of economic growth for the 21st century, would exceed US\$22.6trn in 2016-2030 period, or US\$1.5trn per year, to maintain 3-7% economic growth. The estimate rises to more than US\$26trn, or \$1.7trn per year when costs for climate change adaption and mitigation are included.

Not surprising, Chinese Foreign Minister Wang Yi, in a press conference with foreign and Chinese journalists in 2016, billed BRI as “both a major step in China’s all-round reform and opening-up under new historical circumstances, and a most important public good that China contributes to Eurasia.”⁴ He was somewhat echoed by UN Secretary-General Antonio Guterres: ‘While the Belt and Road Initiative and the 2030 Agenda are different in their nature and scope, both have sustainable development as the overarching objective. Both strive to create opportunities, global public goods, and win-win cooperation.’⁵

The beginnings of a new concept

BRI, “one belt one road initiative” or “*Yidai yilu changyi*” in Chinese,⁶ is an abbreviation of two components, i.e., the “silk road economic belt” and the “21st century maritime silk road”, first proposed by Chinese President Xi Jinping during his visits to Kazakhstan and Indonesia in September and October 2013 respectively. Along similar lines, Chinese Premier Li Keqiang also emphasized the need to revitalize the “maritime silk road” for ASEAN countries, and to rev up growth propellers for hinterland regions at the China-ASEAN Expo in 2013.

Rolling out easily in Chinese tongue but somewhat awkward in English translation, the “belt” component is an overland belt that includes countries situated on the traditional Silk Road through Central Asia, West Asia, the Middle East and Europe. The “road” part refers to ocean-going Silk Road routes that connect China with Southeast Asia, Oceania, and Africa through several contiguous bodies of water -- the South China Sea, the South Pacific Ocean, and the Indian Ocean into the Mediterranean. Taken together, countries along these Silk Road routes represent approximately 2/3 of the world’s population and more than 1/3 of the world’s wealth (See Figure I).

³ *Meeting Asia’s Infrastructure Needs*, by the Asian Development Bank, February 2017.

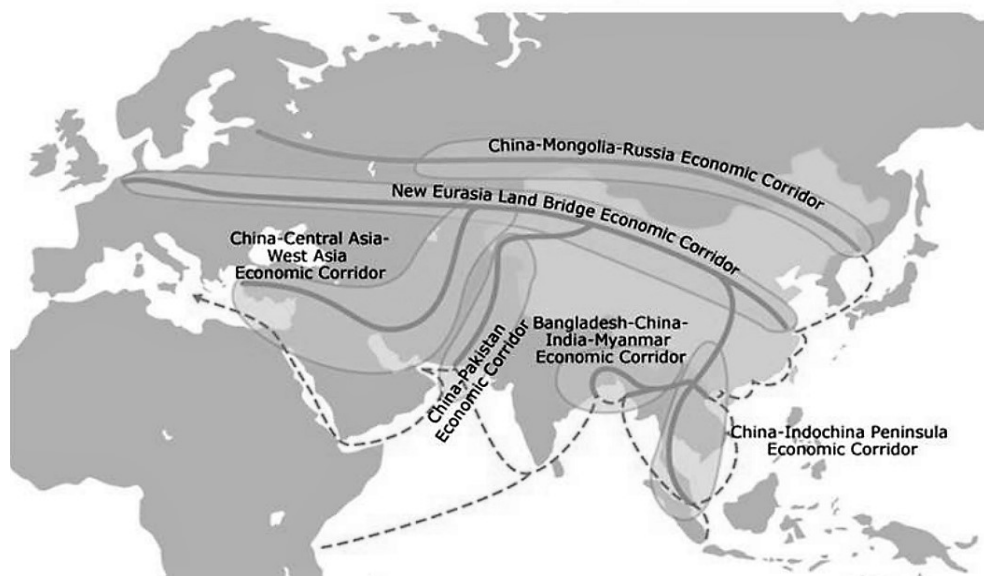
⁴ www.xinhuanet.com/english/2016-05/22/c_135377975.htm

⁵ Nicholas Rosellini, *Harnessing the Belt and Road Initiative as a Platform for Sustainable Development*, July 2017, www.cn.undp.org.

⁶ “The Belt and Road Initiative” is the official English translation, according to a note issued in 2015 by the Chinese government. Previously “*Yidai yilu changyi*” had been translated alternatively as “one belt one road strategy (project, program or agenda)”. Notably, by rejecting “strategy” and adopting “initiative”, the note emphasized that “strategy” connotes a unilateral foreign policy tool, whereas “initiative” means a proposal to work with other countries to improve connectivity.

The appellation “silk road”, however, is not new. Historically, the so-called Silk Road emerged as early as China’s Han Dynasty (202-220 BC). It began from China’s Chang’an (now Xi’an) in the East and ended in the Mediterranean in the West. As silk was China’s chief trade product then, Ferdinand Von Richthofen, a German geologist, coined the term *Die Seidenstrasse* (the Silk Road) in mid-19th century.⁷ To be sure, the Silk Road was not just one road but rather a network of trading routes linking commerce and cultural ties between China, India, Persia, Arabia, Rome and Mediterranean countries. It flourished during China’s Tang Dynasty (618-907 AD) but withered away in the mid-15th century, with the rise of the Ottoman Empire whose rulers opposed the West. However, the term “silk road” has remained to stir imaginations with its evocative mystery. Indeed, many have preferred to dub BRI as China’s new Silk Road.

Figure I: The Belt and Road initiative: Six Economic Corridors



Part II

What is on the menu?

Initially, details of BRI were patchy. They became clearer two year later in 2015 after the Chinese government published an Action Plan entitled “Vision and Actions on

⁷ For a good discussion on ancient Silk Road, see *Integral Study of the Silk Road: Roads of Dialogue*, by UNESCO, 2008.

Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road.”⁸ The document was issued jointly by China’s central planning agency -- the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs, the Ministry of Commerce, and with the State Council’s authorization – an indication of extensive intra-government consultation and coordination that had taken place in the meantime.⁹ And in October 2017, BRI was written into China’s Constitution, signaling an all-out effort for the country to realize the vision in line with what Chinese president Xi Jinping called a “community with shared future for mankind” -- “open, inclusive, clean, beautiful, peaceful and prosperous.”¹⁰

As envisioned by the Action Plan, BRI is an ambitious economic framework developed to enhance connectivity between China and countries along the ancient Silk Road land and maritime routes and beyond, primarily in Asia and Europe, but also in Oceania, Africa and Latin America. The Action Plan defines connectivity as having five foci: policy coordination, infrastructure development, investment and trade facilitation, financial integration, and cultural and social exchange.

More a sweeping vision than a detailed operational blueprint, the main course on the menu are nonetheless infrastructure projects – roads, railways, air and sea ports, oil and natural gas pipelines, power plants and power grids, and fibre-optic lines. This emphasis reflects China’s own experience in the past 40 years, i.e., “*yaozhifu, xianxiulu*” (if you want to be rich, build a road first). As Chinese President Xi Jinping emphasized at the Belt and Road Forum in Beijing in May 2017, “infrastructure connectivity is the foundation of development through cooperation. We should promote land, maritime, air and cyberspace connectivity, concentrate our efforts on key passageways, cities and projects and connect networks of highways, railways and seaports.” Notably, the Action Plan says that these infrastructure projects are to be developed in the principles of “*gongshang, gongjian, gongxiang*”(mutual consultation, mutual construction, and with mutual benefit). These principles were highlighted again during the Belt and Road Forum in May 2017, presumably to allay international concerns or clarify misunderstandings that “One Belt, One Road” is China’s *solo* show.

The core of BRI is geographically structured with six economic corridors. Specifically, the 21st Silk Road is envisioned to have two economic corridors: China-Indochina Peninsula Economic Corridor (from China to Singapore through Vietnam, Laos, Cambodia, Thailand, Myanmar and Malaysia), and Bangladesh-China-India-Myanmar Economic Corridor. The other four will make the Silk Road Economic Belt: The New Eurasia Land Bridge (which will horizontally link China’s Jiangsu province with Rotterdam in Holland through over 30 countries on the way); China-Mongolia-

⁸ For a full text, see <http://cb.mofcom.gov.cn/article/ydy/201504/20150400930895.shtml>

⁹ In late 2014, China established a leading BRI group, headed by Zhang Gaoli, a member of the 7-man Politburo Standing Committee of the Chinese Communist Party, the highest *de facto* decision-making body in China.

¹⁰ Xi Jinping, “Work Together to Build a Community with Shared Future for Mankind” delivered at the UN Office in Geneva. January 2017. www.xinhuanet.com/english/2018-01/24/c_136921370.htm

Russia Economic Corridor (from Northern China to Russia's Far East); China-Central Asia-West Asia Economic Corridor (from Western China to Turkey through Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan); and China-Pakistan Economic Corridor (again see Figure I).

This makes BRI an ambitious plan for long-term cross-border infrastructural development that will take decades to complete. The overall time-scale was estimated at roughly 35 years, according to a think tank in China.¹¹ These immense economic corridors aim to facilitate trade, investment, the flow of information, the movement of people, and the creation of local jobs and markets. To turn vision into reality, the Action Plan has also emphasized the need of “*zhanlue duijie*”, or strategic synergy or dovetailing with partner countries. In other words, given different levels of development, it is critical to find a good fit of supply and demand between China and BRI host countries in mapping out growth strategies. Here, at least at the inter-state level, the wording is meant for a *duet* rather than *solo* show.

What is going on in the kitchen?

Initial numbers, although incomplete and elusive, are impressive -- elusive partly because the parameters of BRI are not exact, and indeed are still evolving. With vague parameters comes versatility of the initiative. According to the Chinese Ministry of Foreign Affairs, senior officials from 140 countries and 80 international organizations attended the Belt and Road International Forum in May 2017; and China had signed intergovernmental agreement on BRI cooperation with 80 countries and organizations, and made over US\$50bn outbound investment in BRI countries. According to the Chinese Ministry of Commerce, in 2017, China's trade with BRI countries increased by 17.8% year on year, of which exports were up by 21.1% and imports by 26.8%. China's outbound investment in BRI countries was US\$14.5bn in 2016, while the inbound figure hit US\$7.1bn -- with a net figure of US\$7.4bn representing a 17.5% increase over the previous year.¹²

According to the NDRC, in the five years from 2013 to 2018, China signed or upgraded five free trade agreements with 13 BRI countries, and became the largest trading partner with 25 BRI countries, with a total trade volume with BRI countries reaching US\$5trn. During the same time, Chinese firms set up 82 trade and economic cooperation zones in BRI countries with a total investment of US\$28.9bn, creating some 244,000 local jobs, and generating US\$2bn tax revenues to host countries.¹³

A LehmanBrown report notes that in 2015 alone Chinese firms signed 3,987

¹¹ “Silk Road Economic Belt construction: vision and faith”, in Chongyang Institute for Financial Studies, ed., *The Eurasian era: Blue Book of Silk Road economic study 2014-2015* (Beijing: China Economic Publishing House, 2014), p 23.

¹² Numbers here are from the websites of the Chinese Ministry of Foreign Affairs, and the Ministry of Commerce.

¹³ www.yidaiyilu.gov.cn/xwzw/qnxw/62327.htm

construction contracts in BRI countries, representing 44.1% of the value of all Chinese overseas construction projects.¹⁴ A McKinsey & Company report finds that local employment rate of Chinese firms in Africa is as high as 89%, indicating that Chinese overseas business operations are fairly inclusive.¹⁵

One example of big-ticket projects is the Nairobi-Mombasa Standard Gauge Railway (SGR), Kenya's biggest infrastructure project since independence in December 1963. This 471km-long railway, an integral part of Kenya Vision 2030, connects Nairobi, the capital city of Kenya, with Mombasa, the largest port in East Africa. Along the way, 33 crossing stations, as well as bridges and tunnels, were added to reduce the impact on wildlife. China invested US\$3.6bn in this project, about 85% of total investment. The construction started in October 2014, and the line opened in June 2017, creating nearly 30,000 local jobs, and cutting cargo costs by 40%. This line is only the first section of a larger rail network designed to connect six East African countries – Kenya, Tanzania, Uganda, Rwanda, Burundi and South Sudan.

Similarly, China also invested in 80% of the US\$3.4bn Ethiopia-Djibouti SGR, a 752km rail pathway linking Addis Ababa of Ethiopia, a landlocked country, to Djibouti, a transshipment seaport in the Gulf of Aden country Republic of Djibouti. When launched in October 2016, it greatly reduced transport time and cost. While the Nairobi-Mombasa SGR trains are diesel-powered, the Ethiopia-Djibouti railway is electrified – so far the longest electrified railway on the African continent. These infrastructural projects are critical for African countries to establish a foothold in the global value chains, by bringing to the fore their comparative advantages of resources and low cost labor.

Another example is the China-Pakistan Economic Corridor, a 3,000km route all the way through the underdeveloped northern part of Pakistan. It starts in China's hinterland city of Kashgar in Uygur Autonomous Region of Xinjiang, and ends in Gwadar, a deep-water port of Pakistan along the Arabian Sea, thus connecting the hinterland of the Silk Road Belt in the North to the Maritime Silk Road in the South. China already invested US\$62bn worth of joint development projects spanning power, transport, industry and services. About half of the mega-investment is earmarked for power projects to combat Pakistan's energy shortage, and near Gwadar, a special economic zone of about 9.7mn square meters is planned to promote FDI in manufacturing and services. But the benefits are two-ways. Once the corridor is completed, a bulk of China's oil imports from the Middle East, for instance, will no longer have to pass through the Strait of Malacca, thus dramatically reducing shipping distance from 16,000km to 5,000km, and associated transport costs. Currently about 80% of China's oil imports by sea pass through the strait.

¹⁴ www.lehmanbrown.com/insights-newsletter/belt-road-initiative

¹⁵ Kartik Jayaram, Omid Kassiri, and Irene Yuan Sun, "The Closest Look yet at Chinese Economic Engagement in Africa", June 2017. www.mckinsey.com

In Europe, China has invested in both airports and seaports. For instance, China took 9.5% of London Heathrow Airport in 2013, 49.9% of France Toulouse Airport in 2014, 82.5% of Germany's Hahn Airport near Frankfurt. China is also active in Eastern and Central Europe, with controlling stakes in Albania's Tirana Airport and Slovenia's Ljubljana Airport.¹⁶

Piraeus is a Mediterranean Greek port city that connects Asia, Europe and Africa. In August 2016, China's COSCO Shipping acquired a 51% stake in Piraeus Port Authority for EUR285.5mn, with an option to acquire an additional 16% share for EUR88mn after 5 years. The deal also included an investment of EUR350mn from COSCO to upgrade the port over the next decade. Under COSCO's management, Piraeus has turned itself from a once sleepy port into a busy transshipment hub, and saw profits surging with earnings of EUR11.3mn in 2017, a dramatic increase as compared to EUR6.7mn a year earlier.

Incidentally, China-Europe maritime trade is three times larger than trade by airfreight and Eurasian railways, while the last alternative – the Northern Route through the Arctic Ocean, that China dubs the “Ice Silk Road” or the “Third Arch of BRI” – is only just starting to develop. This line could reduce transport time to 35 days, as compared to 48 days via the traditional Suez Canal route. Globally, according to the Chinese Ministry of Transport, Chinese companies have participated in the construction, upgrading, and operation of a total of 42 ports in 34 countries -- including Piraeus in Greece, Vado Ligure in Italy, Hambantota and Colombo in Sri Lanka, and Gwader in Pakistan -- since the inception of the BRI five years ago.¹⁷

In the Middle East, Dubai Hassyan Energy in United Arab Emirates provides a glimpse into the nature of an energy project of multiple participation. With investment estimated at US\$3.4 bn, this 2,400MW clean coal power plant is a joint venture (JV) between Dubai Electricity and Water Authority (51%) and a Chinese consortium of Harbin Electric International and the Silk Fund (49%). In support of the Dubai Clean Energy Strategy 2050, the project aims to provide electricity to 250,000 households. The construction has involved EDF, GE, and Harbin Electric. The lenders include First Gulf Bank, Union National Bank, Standard Chartered Bank, Bank of China, the Industrial and Commercial Bank of China, Agricultural Bank of China, and China Construction Bank.

What about financing?

As indicated above, investments will have to be massive and long-term to build BRI infrastructure projects. Presumably, many will be build-transfer-operate (BTO) or

¹⁶ Philippe Le Corre, Chinese Investments in European Countries. www.belfercenter.org/sites/sites/default/files/files/publications/10.1007%2525f978-981-10-5915-5_10-1.pdf

¹⁷ <https://gbtimes.com/china-invests-in-42-overseas-ports-under-belt-and-road-project>

build-operate-transfer (BOT) schemes in which large Chinese SOEs will lead the way, but smaller companies will have to follow to substantiate the value chains across borders.¹⁸ While China seems willing to play a major role (see Figure II), and was generous to provide significant debt reliefs to under-developed nations,¹⁹ realistically it does not intend -- nor does it have the capacity -- to go it alone. The Action Plan states that BRI “is open to cooperation...to all countries, and international and regional organizations for engagement.”

Indeed, China’s deep pockets have limits, with the country’s total debt to GDP at over 280%, with subnational governments bearing the lion’s share, having borrowed heavily via financial vehicles after the 2008 global financial crisis and now grappling with repayments.²⁰ China’s foreign currency reserves also dropped rapidly from US\$4trn in 2014 -- due to massive capital outflows -- to US\$3trn in 2017,²¹ which was about 13% of its broad money supply (M₂), but lower than the 20% ratio recommended by the IMF for reserve adequacy.²² Further, China itself faces the “middle-income trap”, now that its population has been aging more rapidly than almost any other country in recent history and its labor force has started to shrink.²³

Nevertheless, debt-financed infrastructure projects, when managed well, could play a key role in catalyzing economic growth, as evidenced by the Chinese own experience of growth, and debt sustainability will depend in part on the productivity of the projects themselves, and in part on the macroeconomic dynamics of the host countries. In any case, successful implementation of BRI would require a slew of complex financial tools, including investment banking, sovereign- and non-sovereign-backed project financing, third-party facilities, risk analysis, credit-rating, and financial management. Further, an incremental multilateralization of BRI would also increase the scale and scope for engagement of both governments and private businesses globally.

Evidence suggests that so far while much of Chinese loans has been intermediated through bilateral arrangements (e.g., with Export-Import Bank of China, and China Development Bank, etc.), the Chinese government has also encouraged blended approaches -- a mixture of domestic and foreign, and public and private money. To begin with, in addition to existing financial institutions, various banks and funds with

¹⁸ About 50 Chinese SOEs had invested in 1,700 BRI projects since 2013, according to the spokesman of the Belt and Road International Forum in May 2017.

¹⁹ By the end of 2010, China granted over 23.8bn yuan worth of debt reliefs for the 44 most underdeveloped countries. Chinese president Xi Jinping also announced during the 2015 UN Assembly that China would write off intergovernmental interest free loans due by the end of 2015 for LDCs, landlocked nations, and small island countries.

²⁰ Although other big economies are not far behind, it is China’s rapid credit expansion that has caused concerns about sustainability. www.mckinsey.com/featured-insights/employment-and-growth/debt-and-not-much-deleveraging

²¹ Noting an “irrational tendency”, the Chinese government set stricter rules for China’s ODI, which fell about 40% year on year in 2017. www.chinadaily.com.cn/business/2017-11/16/content-34598170.htm

²² <http://www.imf.org/external/datamapper/ARA/index.html>

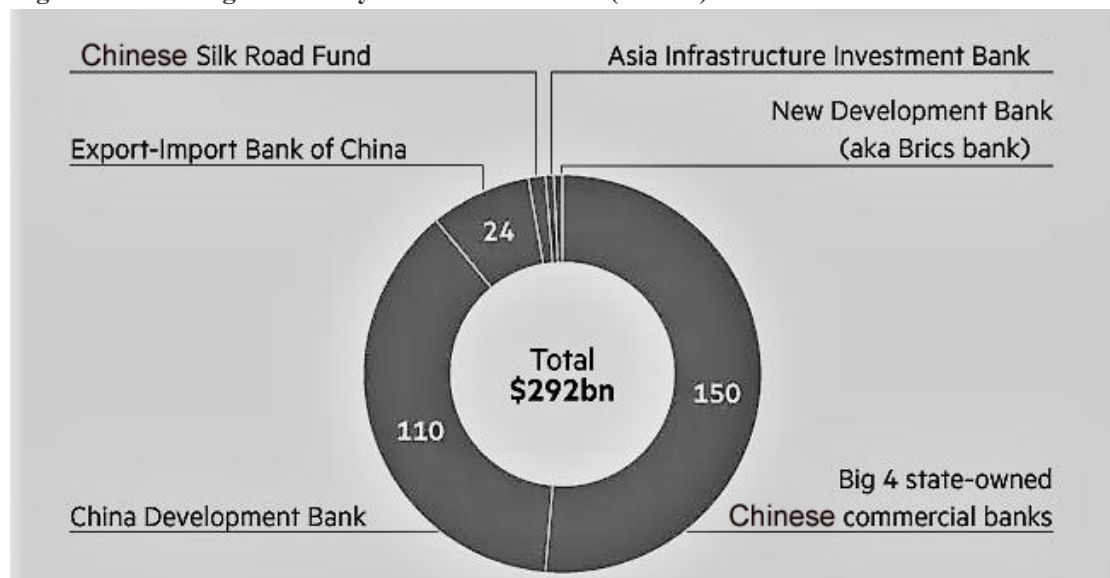
²³ More on middle-income trap, see Fang Cai, “Is there a middle-income trap: theories, experiences and relevance to China”, *China and the World Economy*, Vol.20, no. 1, 2012, pp. 49-62.

an international orientation have been set up and involved in BRI financing (again see Figure II).

The Silk Road Fund is one example. With a total capital of US\$40bn, the Fund was a state-owned limited liability company established in February 2014 by four Chinese shareholders – State Administration of Foreign Exchange (65%), which manages China’s foreign currency reserves, China’s Export-Import Bank (15%), China Development Bank (15%), and China Investment Corporation (5%), the Chinese Sovereign Fund. As of the end of 2017, the Fund invested US\$6bn -- 80% of which equity investment -- including US\$1.65bn in the Karot Hydropower project along the China-Pakistan Economic Corridor. Notably, the Silk Road Fund and the European Investment Fund signed an MOU in 2017, each committing 250mn euros towards private equity and venture capital fund.

Two newly-established multilateral financial institutions – the Shanghai-based New Development Bank (NDB) and the Beijing-based Asian Infrastructure Investment Bank (AIIB) -- are also major financiers of BRI projects. The very creation of these two multilateral development banks (MDB) demonstrates a willingness on the part of China to embrace multilateral norms and standards of international banking such as lending transparency, procurement standards, concessionality and debt sustainability. The NDB was established in July 2014 by the five BRICS countries -- Brazil, Russian, India, China, and South Africa. The bank was seeded with US\$50bn, with intention to increase to US\$100bn, to finance infrastructure projects. The initial subscribed capital is be equally distributed among the founding members. The bank will allow new members to joint but the BRICS capital share cannot fall below 55%.

Figure II: Funding for BRI by source at end-2016 (US\$bn)



Sources: Oxford Economics and Financial Times

The AIIB now has 87 approved members from around the world, including countries and economic entities. Initially proposed by China, the AIIB began operations in January 2016 -- with a registered capital of US\$100bn, equivalent to 2/3 of the capital of the Asian Development Bank and about half that of the World Bank. The bank provides sovereign- and non-sovereign-backed project financing. Pledging to be “lean, clean and green”, the AIIB has invested US\$5.34bn so far in projects in Azerbaijan, Bangladesh, China, Egypt, Georgia, India, Indonesia, Myanmar, Oman, Pakistan, Tajikistan, the Philippines, and Turkey. A supplement to existing MDBs, the AIIB and the Asian Development Bank have so far jointly provided combined loans of more than US\$700mn for four infrastructure projects, three of them in South Asia.²⁴ In June 2017 the AIIB also teamed up with the World Bank in providing a US\$380mn loan to Andhra Pradesh in India to build a power plant. The loan takes the ratio of 60:40 for the World Bank and the AIIB.

Put in comparative perspectives, however, alongside quite a number of policy and commercial banks (e.g., China Development Bank, Import and Export Bank of China, Industrial and Commercial Bank, China Construction Bank, Agriculture Bank of China, and Bank of China), the AIIB remains – and so does the NDB -- small as a share of China’s total international development financing, with annual investments of some US\$2bn, as compared to some US\$30-40bn by bilateral arrangements. But the devil is in the details. According to a study by the Center for Strategic and International Studies (CSIS), a Washington-based think tank, Chinese firms have had a much higher share of contractor distribution by bilateral arrangements (89%) than by multilateral arrangements (29%)²⁵ – a source of international complaints about lack of transparency. And along the spectrum of financial institutions from private money, to MDBs, to SOEs, arguably the last category is most susceptible to the issue of moral hazard. Economist Paul Krugman described moral hazard as “any situation in which one person makes the decision about how much risk to take, while someone else bears the cost if things go badly.”²⁶

To encourage both private capital and the multilateral financing, the World Bank has given both verbal and monetary support to BRI. In May 2017, the bank pledged US\$86.7bn towards development and connectivity projects in BRI countries. And MIGA, the World Bank’s insurance arm that specializes in political risk insurance and credit enhancement, has provided US\$1bn in guarantees, which has facilitated US\$1.8bn of investment in BRI countries. In the words of the World Bank President Jim Young Kim: “The Belt and Road Initiative has *potential* [emphasis added] to lower trade costs, increase competitiveness, improve infrastructure, and provide greater connectivity for Asia and its neighboring regions... can be a catalyst for a new approach to development, where we crowd in *private capital* [emphasis added] to

²⁴ “Asian Development Bank says Chinese lender AIIB not a rival”, *South China Morning Post*, May 3, 2018.

²⁵ <https://www.ft.com/content/76b1be0c-0113-11e8-9650-9c0ad2d7c565>.

²⁶ Paul Krugman, *The Return of Depression Economics and Crisis of 2008*, (WW Norton Company, 2009), p.10.

meet people's rising aspirations.”²⁷

The IMF has increasingly recognized China as a positive force on the global economic stage. In fact, China is the first emerging economy, whose currency RMB was included (with a weight of 10.92%) by the IMF on October 1, 2016 in the Special Drawing Rights (SDR) Basket -- other currencies in the basket being USD (41.73%), EUR(30.93%), JPY (8.33%) and GBP (8.09%). Being in the SDR Basket boosts RMB credibility with international investors. It was, in the words of Christine Lagarde, Managing Director of the IMF, “an important milestone in the integration of the Chinese economy into the global financial system.”²⁸ In line with the RMB internationalization process, the Chinese government supports foreign governments, financial institutions and companies with good credit-rating to issue RMB bonds in China to help finance BRI projects, according to the Action Plan.

In recent years, capital market reforms in China have expanded the options available to foreign and domestic investors from “dim sum” bonds to “panda” bonds. While the local currency RMB-denominated “dim sum” bonds are issued outside the mainland, the RMB-denominated “panda” bonds are issued by non-Chinese entities but sold in mainland China. On the offshore side, 14 public deals of dim sum bonds worth of RMB25.06bn were sold in 2017.²⁹ On the onshore side, Russian aluminum producer United Company RUSAL PLC was the first foreign company to issue RMB1bn (US\$140mn) worth of panda bonds in the onshore Chinese bond market in March 2017.³⁰ In March 2018, broadening the investor base to include the private sector, the Philippine government issued its inaugural panda bonds worth of RMB1.46bn (US\$230mn) in China to help fund its infrastructure projects.³¹

Part III

Challenges ahead

Perhaps mirroring the Chinese own growth story sensitive to path-dependence and stage of development, when looked at statically, BRI seems to represent a move away (or rather different) from standard development models that emphasize institutional reforms -- often with accompanying conditionalities -- towards a more investment driven approach focusing on infrastructure, jobs creation and trade. Dynamically,

²⁷ www.worldbank.org/en/news/speech/2017/05/14/remarks-of-world-bank-group-president-jim-yong-kim

²⁸ “IMF’s Executive Board Completes Review of SDR Basket, Includes Chinese Renminbi,” *IMF Press Release*, no. 15/540, November 30, 2015. www.imf.org/external/np/sec/pr/2015/pr15540.htm

²⁹ www.globalcapital.com/article/b16hyxds0qxq61/dim-sum-bonds-here-today-gone-tomorrow

³⁰ <https://pakobserver.net/first-company-along-belt-road-issues-panda-bonds/>

³¹ www.bwordonline.com/philippines-issues-panda-bonds-today

however, it could evolve either way, depending on both internal and external dynamics. Many countries seem to have welcomed it, particularly in the developing world, as evidenced by the intensely high-level international participation in the chorus of the Belt and Road International Forum in May 2017. In September 2018, 53 of all 54 African nations attended the Forum on China-Africa Cooperation (FOCAC) in Beijing.

But the glass is half full and half empty. Implementation of BRI is likely to entail risks. International investment in contemporary history is a field where China is a novel player, and as such, learning costs will be high.³² Even before the onset of BRI, from 2004 to 2012, reportedly 14 Chinese overseas investments had already incurred a loss close to RMB100bn, which was only “a tip of an iceberg”, according to Huang Liming, research fellow at China Institute for International Studies, and more than 70% of Chinese overseas business operations were losing money.³³ Indeed, cross-border infrastructure projects are some of the most difficult to implement, as they require sophisticated communications skills, good PR (public relations), and complex and often protracted negotiations over proposed routes, development rights, environmental standards, financing and investment returns, including debt sustainability especially in foreign currencies.³⁴

BRI countries are in various stages of development, and their regulatory frameworks vary, including levels of corruption, social and environmental standards. Some are politically unstable, which would make investment and debt servicing particularly vulnerable to demagoguery;³⁵ many remain unfamiliar to Chinese investors both linguistically, institutionally, culturally and religiously, which would add to misperception, misunderstanding, or miscalculation.³⁶ Given these multifaceted risks and uncertainties, overconfidence should be avoided and extra cautions are called for – indeed if only as a clear-minded reflection of China’s own practical wisdom epitomized in what Deng Xiaoping famously said – “*mozhe shitou guohe*” (crossing the river by touching the stones). This is a gradualist approach which allows learning time for decision-makers to optimize policy options through experimentation -- a hallmark of China’s own reforms and opening-up process in the past 40 years.

³² In 1999, in the wake of the Asian financial crisis, the Chinese government adopted a “Go Out” strategy, encouraging Chinese firms to invest overseas. In 2015, for the first time China’s yearly outbound direct investment (ODI), i.e., US\$145.7bn, exceeded inbound foreign direct investment (FDI), i.e., US\$135.6bn.

³³ <http://finance.huanqiu.com/roll/2012-02/2432673.html>

³⁴ For instance, when Sri Lanka was unwilling to service a US\$8bn loan at 6% interest rate used to finance the construction of the Hambantota Port, China agreed in July 2017 to a debt-for-equity swap accompanied by a 99-year lease for managing the port.

³⁵ For historical evidence on political instability, financial development and economic growth, see Mark Roe and Jordan Siegel, “Political instability: Effects on financial development, roots in the severity of economic inequality,” in *Journal of Comparative Economics*, Volume 39, Issue 3, Sept. 2011, pp. 279-309. Specific to the case of Chinese overseas businesses, the 2006 anti-China riots in Zambia and the 2011 Libyan civil war, for instance, prompted the PLA to conduct emergent evacuation of around 35,000 Chinese oil workers. See, e.g., Mathieu Dchatel, Oliver Brauner, and Zhou Hong, *Protesting China’s Overseas Interests* (Stockholm International Peace Research Institute, 2014).

³⁶ See Ilaria Maria Sala, “More Neighbors Are Saying ‘No Thanks’ To Chinese Money – For Now,” Quartz, December 4, 2017. www.qz.com/1136000/more-neighbors-are-saying-no-thanks-to-chinese-money/.

Evidence also suggests that state-led or subsidies-driven investment, when pursued in a hot dash, tends to cause boom-bust cycles. As a transitional economy from plan to market, China managed to have weathered quite a few rounds in the past due to its unique features of the political economy of central-local relations³⁷ and land-based financing.³⁸ In particular, land-based revenues played a significant role in financing the 4trn RMB (roughly 12.5% of its GDP) stimulus package in the wake of the 2008 global financial crisis. Would it also work in different and cross-national institutional settings especially where the state capacity is weak, tribalism looms large, ethnic conflicts are rife, and/or terrorism lurks in the background? While China has rich experience managing infrastructure risks within its borders, it has far less experience overseas. Although it is too early to have the verdict, the risk there is obvious; and if not managed well, could boomerang to hurt China or besmirch its image.

Indeed, BRI is a work in progress, and still in early phase. China should remain watchful for early signs of alert, stay resilient, and stand ready, when necessary, to make adjustments, adaptations, and/or corrections. For China's success will depend in part on the reactions of other countries. According to a recent *Financial Times* report, 234 out of 1674 Chinese-invested infrastructure projects in 66 BRI countries since 2013 encountered problems or setbacks.³⁹ Many of the problems, e.g., public oppositions, disputes over labor policies, and performance delays, derive from domestic political rivalries, natural disasters, environmental concerns, lack of local knowledge, poor risk analysis, and/or inadequate transparency.

Of late Malaysia under PM Mahathir Mohamad, having ousted the former leader Najib Razak, suspended three Chinese-invested projects worth some US\$22bn – one high speed railway and two pipelines – reportedly for graft probes and cost re-considerations.⁴⁰ In 2015, Dragon Mart Cancun was reportedly suspended by Mexican authorities for environmental concerns. With an initial cost of US\$180mn of which the Chinese investor owned 10% of equity, this huge shopping complex involved the building of 722 homes, 22 commercial spaces and 3 thousand stores all in over 200 hectares of land.⁴¹ According to a 2015 Shanghai Securities report, there were over 20,000 Chinese businesses investing overseas, 90% of them were losing money.⁴² According to a 2017 Moody report, 54% BRI investments had gone to countries with poor (i.e., Ba1 or lower) investment ratings.⁴³

³⁷ For more on this subject, see Yasheng Huang, *Inflation and Investment Controls in China: The Political Economy of Central-Local Relations during the Reform Era*. (Cambridge: Cambridge University Press, 1999).

³⁸ Shen Guo, Lezheng Liu, Yan Zhao, "The Business Cycle Implications of Land Financing in China," *Economic Modelling*, 46 (2015), 225-237.

³⁹ James Kyngé, "Infrastructure project managers have been wrongfooted by local controversies". www.ft.com/cot/-835c-11e8-a29d-73e3d454535d

⁴⁰ www.afr.com/news/world/pmalaysia-suspends-us22-billion-in-chinabacked-projects-20180705-h12afh

⁴¹ <http://mexicodailyreview.com.mx/dragone-mart--cancun-suspected-environmental-authorities/>

⁴² <http://business.sohu.com/20150210/n408884671.shtml>

⁴³ David Ho, "Cost of Funding 'Belt and Road Initiative' is Daunting Task," *South China Morning Post*, September 27, 2017. www.scmp.com/special-reports/business/topics/special-report-belt-and-road/article/2112978/cost-funding-belt-and.

The Chinese government has become increasingly aware, and indeed has become more discerning of the risks involved. Looking forward, the focus of BRI would likely be recalibrated -- as Chinese President Xi Jinping put it subtly by the analogy of traditional Chinese brush paintings in a speech for the 5th anniversary of BRI in August 2018 -- from “*Daxieyi*” (genre of free strokes) to “*Gongbihua*” (genre of fine brushwork).⁴⁴ But exactly how would the newly directed focus be translated in field operational terms? Let us wait and see. For one thing, loans and investments will be managed with more scrutiny. To wit, NDRC, home to the executive office of China’s BRI leading group, had announced that beginning in March 2018 it would tighten regulations for Chinese firms to prevent what it dubs as “irrational investments” in BRI countries and beyond. This indicated a move toward a greater policy coherence and discipline than erstwhile ad hoc approaches when it comes to *avoiding* bad overseas investments.⁴⁵

Willy-nilly, geopolitics is back

The biggest risk, however, is not economics but geopolitics. To many observers, implementation of BRI will likely have an important effect on the regional economic architecture – patterns of infrastructure development, trade, investment, energy supplies, IT outlays (or digital silk roads),⁴⁶ policy coordination and institutional setup, and in turn, willy-nilly, have geostrategic implications for China, the US, and other major players such as Japan, India, Russia and the European Union.⁴⁷ As international relations scholar Robert Gilpin has observed, “the evolution of any system has been characterized by successive rises of powerful states that have governed the system and have determined the patterns of international interactions and established the rules of the system.”⁴⁸

In the case of Russia, there exist anxieties about BRI impeding or eclipsing its own plan for a Eurasian Customs Union and a Eurasian Economic Community linking Russia with central Asia. Or alternatively, for China to get closer with Russia would likely be taken as evidence of strategic balance against the U.S. and thus provoke security competition there.⁴⁹ In the case of India, New Delhi tends to see BRI as likely to contain India’s own regional influence and security.⁵⁰ The China-Pakistan Economic Corridor is a key reason why New Delhi has been hesitant to embrace BRI, as the corridor runs through Kashmir and Gilgit-Baltistan – both considered by New

⁴⁴ <http://news.sina.com.cn/c/2018-08/doc-inifuvpi0954406.shtml>

⁴⁵ www.nbd.com.cn/articles/2017-12-16/1176079.ktml

⁴⁶ Keshav Kelkar, “China is building a new Silk Road, and this one is digital.” World Economic Forum. www.weforum.org/agenda/2018/08/china-is-building-a-new-silk-road-and-this-one-s-digital

⁴⁷ Nagege Rolland, “China’s ‘Belt and Road Initiative’: Underwelming or Game-Changer?” *The Washington Quarterly* 40:1 (2017), 136.

⁴⁸ Robert Gilpin, *War and Changes in World Politics* (New York: Cambridge University Press, 1981), pp. 42-43.

⁴⁹ See footnote 117.

⁵⁰ For a systematic study on China-India strategic relations, see, e.g., Geoge Gilboy and Eric Heginbordham, *Chinese and Indian Strategic Behavior: Growing Power and Alarm* (Cambridge: Cambridge University Press, 2012).

Delhi to be Indian territories.⁵¹ In the case of Japan, in 2016, it launched its own version of a US\$200bn infrastructure development and security plan for Asia, designed as an alternative to BRI.⁵² Remarkably, there is consensus in Japan to adjust to the rise of China by strengthening its defense capability; the only debate is how much and how fast Japan should adjust.⁵³

For the time being, the Europeans seem to have chosen to sit on the fence, or at least on the surface. But privately they are tilted towards the US, as both -- shades of difference notwithstanding⁵⁴ -- fundamentally share economic liberalism, including market and the rule of law, and are opposed to the statist approach. Notably, the EU as a collective entity has refused to grant China market economy status, allegedly for lack of substantive progress on the part of China to tackle the dominant position of its state-owned enterprises (SOEs). Individually, however, European countries are less vocal or assertive, considering the overwhelming and still growing magnitude of the Chinese economy.

According to Handelsblatt, the German financial newspaper, 27 of the 28 EU ambassadors to China (all except Hungary's) had critical comments about BRI, arguing that "it runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies." And the European Commission was probing whether Hungary had infringed EU legislation on public tenders for cross-border infrastructure projects by awarding the contract to China to build Belgrade-Budapest rail - a section of the "Land Sea Express Rail" that China has proposed to connect Hungary, Serbia and Macedonia with Piraeus in Greece.⁵⁵

In September 2018, as a concerted effort to speak with one voice, the EU issued its own new "Connectivity Strategy" for Europe and Asia, thus laying down a marker that the EU will be part of the game, competing for influence, presumably with a focus mostly in the commercial realm, as it has so far deferred much of its security concerns to the US through the military alliance of NATO countries. The new "Connectivity Strategy" said that it would emphasize economic, environmental, and financial sustainability, in addition to transparency, labor rights, open procurement rules, and level playing field for businesses.⁵⁶ Indeed, although a mixed bag of both economics and politics, the core of the new "Connectivity Strategy" can nonetheless be interpreted as a statement of economic liberalism against statist approach.

⁵¹ Notably, when India agreed to join the AIIB, it specifically pushed for a provision in the charter of the bank that "requires project financing in disputed territory to have the agreement of the disputants."

⁵² Keith Johnson, "Japan's Own Belt and Road: Tokyo is ramping up international partnerships and investments to offer an alternative to Beijing's signature foreign-policy project." <https://foreignpolicy.com/2018/02/09/japan-takes-the-lead-in-counteracting-chinas-belt-and-road/>

⁵³ Akio Takahara, "A Japanese Perspective on China's Rise and the East Asian Order," in Robert Ross and Zhu Feng ed., *China's Ascent: Power, Security, and the Future of International Politics*, (Ithaca: Cornell University Press, 2008), pp. 218-237.

⁵⁴ Peter Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford: Oxford Scholarship Online).

⁵⁵ <https://global.handelsblatt.com/politics/eu-ambassadors-beijing-china-silk-road-912258>.

⁵⁶ <https://thediplomat.com/2018/09/europes-answer-to-chinas-belt-and-road/>

In the case of the US, as a hegemon in the current unipolar global system, it appears to be have more concerns other than merely commercial. Having boycotted the AIIB, Washington has increasingly seen BRI as a threat of what it dubs as “illiberalism” to the liberal post-WWII international system.⁵⁷ This concern has been aggravated by what it has perceived as China’s “assertive” behavior to seek dominance militarily through the South China Sea⁵⁸ and technologically via its program of “Made in China 2025”.⁵⁹ To illustrate what may be called “anxieties complex” here, for instance, while Hambantota port in Sri Lanka, near the tip of the Indian peninsula, is an important link of BRI, and China said that the investment by China Merchants Port Holdings (listed in Hong Kong Stock Exchange) there is for commercial purposes only, Washington, as well as India, however, has remained suspicious about its military implications,⁶⁰ in light of the fact that recently China established a naval base in Djibouti in the Gulf of Aden – the southern gateway to the Suez Canal.⁶¹

As a response, of late Washington has tried to upgrade the profile of the Quadrilateral Security Dialogue or Quad, a like-minded partnership that includes the US, Australia, India and Japan, as a counterweight against China.⁶² This is in addition to its already increased multifaceted involvement in the Taiwan region⁶³ and the South China Sea, which overlaps with much of the maritime Silk Road of BRI.⁶⁴ And all this fits into its recent terminological pivot from “Asia Pacific” to “Indo-Pacific” with deep implications for the reorientation of US foreign policy as well as its military posturing towards China. As Sen. David Perdue put it, “When we’re up against ‘China, Inc.’ who thinks in terms of millennia, we need a plan for the long haul to ensure that our nation maintains its leadership and strategic role in the Indo-Pacific region that covers defense, diplomacy and economics.”⁶⁵ Apparently, Washington no longer looks at

⁵⁷ Former US Treasury Secretary Lawrence Summers opined that London’s decision to join the AIIB “may be remembered as the moment the US lost its role as the underwriter of the global economic system.” Lawrence Summers, “Time US leadership woke up to a new economic era”, *Financial Times*, April 5, 2015. www.ft.com/content/aoao1306-d887-iae4-ba53-00144feab7de

⁵⁸ Bill Hayton, *The South China Sea: The Struggle for Power in Asia* (New Haven: Yale University Press, 2014)

⁵⁹ Although the goal is to upgrade Chinese industry writ large, the program “Made in China 2025” highlights 10 priority sectors: 1) new advanced information technology; 2) automated machine tools and robotics; 3) aerospace and aeronautical equipment; 4) maritime equipment and high-tech shipping; 5) modern rail transportation equipment; 6) new-energy vehicles and equipment; 7) power equipment; 8) agricultural equipment; 9) new materials; and 10) biopharma and advanced medical products. <https://www.bloomberg.com/news/articles/2018-04-10/how-made-in-china-2025-frames-trump-s-trade-threats-quicktake>

⁶⁰ Reportedly, India conveyed security concerns to Sri Lanka on several occasions. In return, Sri Lanka assured India that the ports would not be used by Chinese military. <https://www.indiatoday.in/india/story/sri-lanka-leases-hambantota-port-china-non-military-sue-india-worry-1027012-2017-07-29>

⁶¹ <https://www.nytimes.com/2017/02/25/world/africa/us-djibouti-china-naval-base.html>

⁶² Thomas Cavanna, “What Does China’s Belt and Road Initiative Mean for US Grand Strategy.”

<https://thediplomat.com/2018/06/what-does-chinas-belt-and-road-initiative-mean-for-us-grant-strategy/>

⁶³ In 2017 the US government announced the sale of US\$1.42bn package of advanced weaponry to Taiwan. In February 2018, the US Congress passed the Taiwan Travel Act as a follow-up to the Taiwan Relations Act to allow high level officials to visit Taiwan, and the State Department reportedly requested Marines to help guard a new de facto embassy compound in Taipei. These underscore what seems to be newfound willingness within the US government and Congress to challenge China. www.voanews.com/a/china-sounds-alarm-as-us-taiwan-relations-test-new-highs/4477889.html

⁶⁴ Ely Ratner, “Course Correction: How to Stop China’s Maritime Advance,” *Foreign Affairs*, July/August, 2017.

⁶⁵ Josh Rogin, “Trump’s Indo-Pacific Strategy: Where is the Beef?,” www.washingtonpost.com/news/josh-rogin/wp/2018/06/06/trumps-indo-pacific-strategy-wheres-the-beef/

BRI purely in economic or commercial terms.

In May 2018, Defense Secretary Jim Mattis announced that the US Pacific Command was reorganized into Indo-Pacific Command, or INDOPACOM, which geographically covers much of the Maritime Silk Road of BRI. In August, Secretary Mattis and Secretary of State Mike Pompeo visited India to intensify defense relations, particularly on maritime matters.⁶⁶ Thus, the stage is being set for both the Indian and Pacific region as one single competitive arena against China. Retired Adm. Harry Harris was straightforward, “Great power competition is back.”⁶⁷ Later, the competitive tone was sharpened by US Vice President Mike Spence’s policy speech on China in October 2018 at the Hudson Institute in Washington DC.⁶⁸

On the front of international development, to counter what they see as “the rising influence of China” and “illiberal spillovers”, US lawmakers have sought to consolidate existing development finance agencies (e.g., the Overseas Private Investment Corporation (OPIC) and the US Agency for International Development (USAID) through the Better Utilization of Investments Leading to Development (BUILD) Act. With a lending cap of US\$60bn, double the size of OPIC, the legislation intends to create a new US International Development Finance Corporation (USIDFC) to support projects in a way that “promotes private enterprises and civic institutions, and provides for public accountability and transparency.”⁶⁹

It is increasingly evident that the US has been trying to cobble together a comprehensive, if not always logically coherent,⁷⁰ strategy with an aim -- in the words of Ely Ratner, Director of Studies at the Center for a New American Security -- to “arrest China’s momentum” and “prevent the growth of an illiberal order.”⁷¹ Although phrased differently and without the explicit word of “containment” of the Cold War era, all of this has in effect amounted to an about-face or “re-set” from the previous policy of engagement toward a looming strategy of competition and containment (wherever operationally feasible).⁷² This is not Trump-specific but has broad bipartisan support, insofar so US foreign policy towards China is concerned.⁷³ And signs could not have been clearer.

⁶⁶ <https://economictimes.indiatimes.com/news/defence/for-india-and-the-united-states-22-equals-more/articleshow/65736286.cms>

⁶⁷ <http://militarytimes.com/new/your-military/2018/05/30/indo-pacom-it-is-pacific-command-gets-renamed/>

⁶⁸ For a full text, see <https://www.hudson.org/events/1610-vice-president-mike-pence-s-remarks-on-the-administration-s-policy-towards-china102018>

⁶⁹ <https://www.heritage.org/budget-and-spending/report/hort/house-and-senate-revisions-have-not-improved-the-build-act-enough>

⁷⁰ In a way it is understandable, because foreign policy strategy does not develop in a vacuum but instead it has to develop in a highly uncertain context of interactions. Such being the case, insofar as logic is concerned, by necessity it has to be a Bayesian rather than Pareto approach.

⁷¹ Ely Ratner, “Geostrategic and Military Drivers and Implications of the Belt and Road Initiative”, *Council on Foreign Relations*, January 25, 2018.

⁷² From American realist perspective, containment as a strategy is still defensive, whereas encirclement is offensive. For more on realism on international relations, see the Part 4 of this article.

⁷³ Although Democrats and Republicans have remained divisive and contentious on a plethora of domestic issues and other international issues.

Most notably, in December 2017 Washington in its *National Security Strategy* and *National Defense Strategy* explicitly identified China, together with Russia, as a “revisionist” rival that tries to “shape a world antithetical to US values and interests.” Until then the plausibility that China would be an “integrationist” in the current unipolar global system dominated by the U.S. was not ruled out. And it is now, at least in the Washington foreign policy establishment. *The National Security Strategy*, a statutorily mandated document, is seen as a blueprint for US diplomatic and military leadership as they plan how to tackle global threats. According to the document, US foreign policy in recent decades had been based on the premise that China would liberalize as it developed and became integrated into the post-WWII liberal international system, which “contrary to our hope” had not occurred.⁷⁴

Apparently, the contention with China here is something very deep -- more ideational and institutional than technical – that cannot be measured merely by trade deficits. As Professor Aaron Friedberg at Princeton University has observed, “Ideology inclines the US to be more suspicious and hostile toward China than it would be for strategic reasons alone... For Americans the success of a mainland Chinese regime that blends authoritarian rule with market-driven economics is an affront.”⁷⁵ If the judgement here is basically correct, then it follows that trade dispute, trade skirmish or trade war -- whatever one calls it -- is only an effect rather than the deep cause of the rising tensions between China and the US in recent years.

But as a first salvo of what looks like a dynamic Bayesian gaming strategy⁷⁶ of offensive realism (we will come back to this ideational source in the next section),⁷⁷ the US has responded by launching a trade war with China.⁷⁸ The risk of trade war spreading into multiple other areas such as production, investment, technology, finance, and currency looms large. Uncertainty mounts. If history is a guide, trade wars are easy to start but difficult to stop, as domestic political costs of backing down escalate.⁷⁹ Trade wars, especially between large economies, tend to be pernicious and chronic, because, emotionally, they agitate nationalistic sentiments; rationally, the costs or the painful ramifications they cause are not distributed homogeneously; and technically at the firm level, just as the supply chain of global production takes time to develop, so does it to dislodge, remap, and rearrange

⁷⁴ For a full text, visit <https://www.whitehouse.gov/wp-content/uploads/.../NSS-Final-12-18-2017-0905.pdf>

⁷⁵ Aaron Friedberg, *A Contest for Supremacy: China, America and Mastery in Asia*, (WW Norton and Company, 2011), pp. 43-44.

⁷⁶ A dynamic Bayesian game is a sequential game in which the players have incomplete information on the other players, but they have beliefs with known probability distribution. Jean Tirole and Drew Fudenberg, *Game Theory*, (Cambridge, Massachusetts: MIT Press), pp. 326-331.

⁷⁷ Jonathan Kirshner, “The Tragedy of Offensive Realism: Classical Realism and the Rise of China,” *European Journal of International Relations*, 18:1 (2012): pp.53-75.

⁷⁸ Washington and Beijing already imposed 25% tariffs on US\$50bn of each other’s imports, and the US has threatened China with duties on another US\$200bn of Chinese imports. China said that it would retaliate. For background reading, see Brad W. Setser, “US-China Trade War: How We Got Here.” Council on Foreign Relations, July 2018. www.dfr.org/blog/us-china-trade-war-how-we-got-here

⁷⁹ For historical lessons, see e.g., Douglas Irwin, *Peddling Protectionism: Smoot-Hawley and the Great Depression*, (Princeton University Press, 2017). Also visit: www.visualcapitalist.com/history-u-s-trade-wars/ for a *Short History of US Trade Wars*.

elsewhere. It is plausible that part of the US aim of tariff escalations is to force US multinational companies to pull back their investments in China, so that the interdependence of the two rival economies starts to disengage. Indeed, China-US bilateral investment flows are already slowing down dramatically,⁸⁰ but so far the general public seems to have taken little notice, and there are signs that a technology cold war is looming, if not already underway, in an attempt to frustrate China's program of "Made in China 2025".⁸¹

For instance, the US Congress has passed the new National Defense Authorization Act (NDAA), which effectively bars US government agencies from purchasing any technology from Chinese telecom vendors Huawei or ZTE. Hot on the heels of the US move, in August 2018 Australia banned Huawei and ZTE from providing 5G technology for its wireless network, and similarly, Japan said that it would consider restrictions on Huawei and ZTE, allegedly for national security concerns, and in September, India banned Huawei and ZTE as well.⁸² The NDAA has also banned video surveillance equipment from Chinese firms Hikvision, Dahua, and Hytera.

And not coincidentally, in July the US Congress also passed the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA). The Act purports to "modernize" and "strengthen" the Committee on Foreign Investment in the US (CFIUS) to more effectively guard against risks to US national security posed by "certain types of foreign investments", which many take as a euphemism for tightening up Chinese investments in the US, particularly by state-owned entities. And notably, reflecting concerted efforts, the US, EU, and Japan have formally agreed to engage on investment security with a view to cooperation, information exchange, and potential coordination.⁸³

Having remained dormant for some time, now the debate on Samuel Huntington's "the clash of civilizations" has come back.⁸⁴ In his 1997 book *The Clash of Civilizations and the Remaking of World Order*, Huntington opined, "A more dangerous source of a global intercivilizational war is the shifting balance of power among civilizations and their core states. If it continues, the rise of China and the increasing assertiveness of this 'biggest player in the history of man' will place tremendous stress on international stability in the early twenty-first century."⁸⁵ Earlier, in 1993, he wrote in *Foreign Affairs*, "This is not to advocate the desirability

⁸⁰ According to a Rhodium Group and the National Committee on US-China Relations Report, in 2017 US-China FDI flows declined by 28% to US\$43bn from US\$60bn in 2016. <https://rhg.com/research/two-way-street-2018-update-us-china-direct-investment-trends/>

⁸¹ Jocelyn Kaiser, "NIH investigating whether US scientists are sharing ideas with foreign governments," *Science*, August 27, 2018.

⁸² <https://www.bbc.com/news/topics/cjnw/8q4qz2t/huawei>

⁸³ For a quick primer on FIRRMA's key provisions, visit <http://www.whitecase.com/publications/alert/cfius-reform-becomes-law-what-firma-means-industry>

⁸⁴ Graham Allison, "China vs. America: Managing the Next Clash of Civilizations", *Foreign Affairs*, September 2017.

⁸⁵ Samuel Huntington, *The Clash of Civilizations and the Remaking of World Order*, (New York, Touchstone, 1997), p. 312.

of conflicts of civilizations. It is to set forth descriptive hypothesis as to what the future may be like.”⁸⁶

In this larger context with the danger of “self-fulfilling prophecy,” for a rising China, and indeed, for the incumbent power, the US as well, how to manage big-power relationship in light of “Thucydides’s Trap” has been and will remain the biggest challenge.⁸⁷ No doubt, the knowledge, sensitivities and skills required here will have to go way beyond the purview of mere economics.

What is “Thucydides’ Trap”? The phrase is coined after the great ancient Greek historian Thucydides for a security dilemma in international relations. Thucydides wrote of the prolonged Peloponnesian War between Athens and Sparta (431-404BC), and concluded, “The growth of the power of Athens, and the alarm which this inspired in Lacedaemon, make war inevitable.”⁸⁸ And to highlight the danger of “self-fulfilling prophecy”, sociologist Robert Merton defined it as: “The self-fulfilling prophecy is, in the beginning, a *false* definition of the situation evoking a new behavior which makes the original false conception come *true*. This specious validity of the self-fulfilling prophecy perpetuates a reign of error. For the prophet will cite the actual course of events as proof that he was right from the very beginning.”⁸⁹

Part IV

Theoretical prisms

To add rigor to our initial analyses, let us go back to the original question. What is BRI, solo, chorus or a mix of varying proportions over time and space? Albert Einstein once famously said, “It is our theory that determines what we can observe.”⁹⁰ Einstein was of course a theoretical physicist, but here his intellectual gravita of force applies just as well in international affairs. Philosophically he was alluding to the critical importance of what Immanuel Kant -- arguably the most influential philosopher of the Enlightenment era -- called *a priori* knowledge, or *transcendental* aesthetic or logic,⁹¹ that structures the world of human experience, or how one understands and interprets it.

To begin with, relative to the Chinese philosophical view-- which is in any case more

⁸⁶ Samuel Huntington, “The Clash of Civilizations?” *Foreign Affairs*, Vol. 72, No. 3, Summer 1993, pp. 22-49.

⁸⁷ Graham Allison, *Destined for War: Can America and China Escape Thucydides’s Trap?* (New York: Houghton Mifflin Harcourt, 2017).

⁸⁸ Thucydides, *History of the Peloponnesian War*, 1.23.

⁸⁹ Robert K. Merton, “The Self Fulfilling Prophecy”, *Antioch Review*, 8 (2) Summer 1948: 195.

⁹⁰ Walter Issacson, *Einstein: His Life and Universe*, (New York: Simon & Schuster, 2008), p. 20.

⁹¹ Stephen Palmquist, “A Prior Knowledge in Perspective: (1) Mathematics, Method and Pure Intuition”, *The Review of Metaphysics*, 41(1), September 1987, pp. 3-22.

inductive than deductive -- of modern international relations,⁹² the contours of American (or Western) theoretical frameworks are arguably more discernable, if only because theories of international relations as a subfield of political science are taught explicitly with textbooks, and are debated and tested systematically with empirical evidence. Along the spectrum from realism to liberalism,⁹³ the realist tradition goes back to Thomas Hobbes, Niccolo Machiavelli, all the way to Thucydides. The realist theories, be it classic realist, neorealist or neoclassic realist, all tend to view international relations as a zero-sum game, and maintain that the doctrine of harmony of interest, if invoked at all, is used instrumentally by the privileged to justify their dominant positions.

The realist tradition is contrasted by the inherently more optimistic and cooperative ideals of liberalism, the roots of which lie in the broader liberal thought originating in the Enlightenment. Liberals, including neoliberals of the rationalist game-theoretic genre,⁹⁴ tend to believe that international institutions can play a key and constructive role in cooperation among states, the prisoner's dilemma is not a constant,⁹⁵ international relations are non-zero-sum, and states -- being not mere atoms but organic learning entities -- can work together to maximize prosperity and minimize conflict.⁹⁶ Thus, depending on where one stands along this theoretical spectrum, the answer will be different through different theoretical prisms, as evidenced by the following brief survey with respect to their views on BRI.

Perceived by Mr. Nicholas Rosellini, UN Resident Coordinator in China, "BRI has a strong *potential* (emphasis added) to act as an accelerator for the long-term implementation of the Sustainable Development Goals (SDGs) and the 2030 Agenda for Sustainable Development." He added, "Through tangible exchanges and a strong network among stakeholders, the UNDP hopes to further strengthen BRI as a

⁹² Traditionally (i.e., before the collapse of the imperial Qing Dynasty in 1911), the Chinese practice of international relations (IR) was characterized by the so-called "tributary system", which is hierarchical and driven by "realpolitik" -- a sort of mix of realism and pragmatism. (For more on tributary system, see David C. Kang, *East Asia before the West: Five Centuries of Trade and Tribute*, New York: Columbia University Press, 2010; on realpolitik, see John Bew, *Realpolitik: A History*, New York: Oxford University Press, 2015). In more recent history, modern political science as a discipline in China has remained underdeveloped. If and when IR is taught, most likely the approach continues to be historical and descriptive, *ad hoc* and *ex post*; and if theory is invoked at all, it tends to be western in origin, including the Marxian approach which is analytically class-based. Chinese efforts to develop their own theory remain embryonic, to say the best: the distinction between normative and positive theories is blurred; basic postulates often remain implicit, units of analysis fluid; rules of causal inference and empirical validation little developed, and the epistemic imperative of falsification is mostly ignored. *Ceteris paribus*, lack of a robust theory -- i.e., logically coherent and empirically validated with a relatively high degree of confidence -- makes prediction of future behavior difficult. And almost by default of a better alternative offered by Chinese scholarship, many Western observers would feel safer with the assumption that the core of Chinese foreign policy continues to be realpolitik, which by definition is highly contingent upon changing circumstances. As such, they remain suspicious of Chinese intentions even when pronounced in tones of economic liberalism.

⁹³ Or alternatively from structural realism, neoliberal institutionalism, and social constructivism.

⁹⁴ Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, (Princeton University Press, 2005).

⁹⁵ S.M. Amadae, *Prisoners of Reason: Game Theory and Neoliberal Political Economy*, (New York: Cambridge University Press, 2015).

⁹⁶ For a quick comparison of the core assumptions of liberalism and realism in international relations theory, visit <https://avrupaliz.wordpress.com/tag/compare-and-contrast-between-realism-and-liberalism/>

powerful platform for economic growth and regional cooperation.”⁹⁷ And in the eyes of Mr. Jin Liqun, AIIB President: “BRI is initiated by China but belongs to the world... It is open and inclusive and represents a path towards peace and prosperity.”⁹⁸ Apparently, their answer is one of chorus, reflecting a constructive role of multilateral international institutions, as can be predicted by the liberals.

In January 2018, during his first state visit to China, speaking on behalf of both France and Europe, French President Emmanuel Macron said that BRI “represents a real opportunity to create bridges, through exchange, between countries and civilizations, just as the ancient Silk Roads once did.” He also hastened to add that China’s new Silk Road should not be one-way. “After all, the ancient Silk Roads were never only Chinese. By definition, these roads can only be shared. If they are roads, they cannot be one-way. These roads cannot be those of a new hegemony, which could transform those that they cross into vassals,” he said.⁹⁹ Apparently, while generally positive on BRI, he had fixed feelings or concerns. Afraid of being crowded out, he was looking for something more than a duet.

“The Belt and Road is an economic cooperation initiative, not a geopolitical or military alliance. It is an open and inclusive process, and not about creating exclusive circles or a China club,” Chinese President Xi Jinping said at a seminar to celebrate the 5th anniversary of BRI in August 2018. Earlier in May 2017, he said, “We have no intention to form a small group detrimental to stability... What we hope to create is a big family of harmonious co-existence.”¹⁰⁰ But in the issue on July 1, 2018, *The National Interest* asserted that through BRI “China is making a bid for global primacy... given America’s abrupt withdrawal from its historical role as the anchor of the global free trade regime.”¹⁰¹ And US Defense Secretary James Mattis was reported to have quipped, “In a globalized world, there are many belts and many roads, and no one should put itself into a position of dictating ‘one belt, one road’”.¹⁰² Here, BRI is perceived as China’s solo show.

Note, however, that *The National Interest* is an American bimonthly international affairs magazine associated with the realist school of foreign policy thought. Note also that it is almost axiomatic for the realists that in the global Hobbesian jungle of anarchy -- where it is better to be the lion than the lamb -- states remain fundamentally uncertain and suspicious about each other’s present and future intentions. And such being the case, it is capabilities, mainly material rather than intentions, that drive threat perception.¹⁰³

⁹⁷ According to its official website. www.cn.undp.org

⁹⁸ Xinhua News Agency, July 2, 2018. <http://baijiahao.baidu.com>

⁹⁹ <https://www.reuters.com/article/us-china-france/chinas-new-silk-road-cannot-be-one-way-frances-macron-says-idUSKBN1EX0FU>

¹⁰⁰ Xi Jinping, “Work Together to Build the Silk Road Economic Belt and the 21st Century Maritime Silk Road,” Speech at the Belt and Road Forum for International Cooperation, May 14, 2017.

¹⁰¹ <https://nationalinterest.org/feature/china-making-bid-global-primary-24767>

¹⁰² www.forbes.com/sites/wadeshepard/2017/10/19/what-chinas-belt-and-road-initiative-is-really-all-about/#46c48524e4dc.

¹⁰³ Robert Jervis, “Cooperation under the Security Dilemma,” *World Politics* 30 (January 1978), pp. 167-215.

Note as well that the Trump administration's *National Security Strategy* was guided, in their own words, by "a return to principled *realism*" (emphasis added),¹⁰⁴ which, predictably, tends to see interstate relations as zero-sum, whatever the "principled" part means. Presumably, it means market liberalism, as against mercantilist state intervention, in the contemporary post-Cold War America-dominated unipolar global system.¹⁰⁵ Rather than balance of power and/or concert of power, a unipolar pyramid-like system with a conspicuous power disparity between hegemon and the potential challenger, according to structural realists,¹⁰⁶ provides the best structure for peace, alternatively known as the hegemonic stability theory in the academic world.¹⁰⁷

Further, in the context of the Trump administration's "America First" policy, a "return", as an active verb, indicates *offensive* rather than *defensive* realism. In practical terms of policy prescriptions, it means, rather than mere balance of power as defense realists would subscribe to,¹⁰⁸ offensive realists, having established hegemony in their region of the world,¹⁰⁹ would seek to ensure -- principally by way of off-shore balancing strategy of alliance formation -- that no rival great power dominates another area.¹¹⁰

How did offensive realism play out historically? In the Cold War era, for instance, Soviet-Russia, having emerged victorious from the destruction of the WWII, rose to become a potential hegemon and attempted to dominate Eurasia. But eventually it did not succeed partly due to the pressure of the US policy of containment beefed up by the military alliance of NATO countries.¹¹¹ In the words of NATO's first secretary general, its mission was "to keep the Soviets out, the Americans in, and the Germans down."¹¹²

Similarly, to deal with a rising China this time, offensive realists have since long advocated that the US should concentrate on slowing down the rise of China rather than stimulating it through the hitherto accommodating economic policies of engagement.¹¹³ The most forceful advocate of a policy re-set is John Mearsheimer,

¹⁰⁴ www.whitehouse.gov/articles/new-national-security-strategy-new-era/

¹⁰⁵ On unipolarity and great power politics, there is a large literature on this pattern of US postwar order. See, *inter alia*, John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major War*, (Princeton University Press, 2001), Geir Lundestad, *The American "Empire"* (New York: Oxford University Press, 1990); Charles S. Maier, *Among Empires: American Ascendancy and Its Predecessors* (Cambridge: Harvard University Press, 2006); T.V. Paul, James Wirtz, and Michael Fortmann, eds., *Balance of Power: Theory and Practice in the 21st Century* (Stanford: Stanford University Press, 2004).

¹⁰⁶ See, e.g., A.F.K. Organski and Jacek Kugler, *The War Ledger* (Chicago: University of Chicago Press, 1980).

¹⁰⁷ See, e.g., Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981).

¹⁰⁸ Kenneth Waltz, *Theory of International Politics*, (New York: McGraw Hill, 1979).

¹⁰⁹ In this context, the recent conclusion of the US-Mexico-Canada trade agreement to replace NAFTA can be regarded as a further consolidation of US power in that region.

¹¹⁰ John Mearsheimer, 'The Future of America's Continental Commitments' in Geir Lundestad, ed., *No End to Alliance*, (London: Macmillan, 1998), pp. 221-242.

¹¹¹ Mary Elise Sarote, 'Perpetuating US Preeminence: The 1990 Deals to "Bribe the Soviets Out" and Move NATO In', *International Security*, 35(1), 2010, pp. 120-137.

¹¹² Jussi Hanhimäki, "Europe's Cold War," in *The Oxford Handbook of Postwar European History*, ed., Dan Stone (Oxford: Oxford University Press, 2012), p. 297.

¹¹³ Zbigniew Brzezinski and John Mearsheimer, 'Clash of the Titans', *Foreign Policy*, 146 (January/February

who as early as in 2001 argued that

America policy has sought to integrate China into the world economy and facilitate its rapid economic development, so that it becomes wealthy and, one would hope, content with its present position in the international system. This U.S. policy is misguided. A wealthy China would not be a status quo power but an aggressive state determined to achieve regional hegemony...Although it is certainly in China's interest to be the hegemon in Northeast Asia, it is clearly not in America's interest to have that happen...it is not too late for the United States to reverse course and do what it can to slow the rise of China.¹¹⁴

There is growing evidence that this particular strand of realism has now prevailed over the liberalist camp -- who argued for "interdependence"¹¹⁵ and took China as "integrationist"¹¹⁶ -- in guiding and shaping the US foreign policy agenda toward what many in the US have perceived as an increasingly "assertive" and "revisionist" China.¹¹⁷ Washington's recent efforts to revive the Quad, after 10 years of inactivity, (a partnership between the US, Japan, Australia and India) are widely seen as an initial attempt towards an "Asian NATO" to constrain China in the Indo-Pacific region increasingly in flux.¹¹⁸

Further, Washington has taken advantage of its regional hegemonic position to rewrite a trade agreement between the U.S., Mexico and Canada (USMCA to replace NAFTA), in what it has emphasized as "free, fair and reciprocal" principles at the axiomatic (rather than contingent) level of institutional building with "zero tariff", "zero subsidy", or "level-playing field".¹¹⁹ Which is likely to be a precursor or template for negotiations of similar agreements with off-shore allies such as Japan, UK, and the EU to keep China out as a "non-market economy". As a series of strategic moves to start something axiomatic anew, globally, it can be logically anticipated that, given relative weight of state power, the U.S. would follow a sequencing of unilateralism, bilateralism, and then -- only after a critical mass is reached -- multilateralism again.¹²⁰ All of this is consistent with the internal logic and prescriptions of offensive realism.

2005), pp. 46-51.

¹¹⁴ John Mearsheimer, *The Tragedy of Great Power Politics*, (New York: Norton, 2001), p. 402.

¹¹⁵ Robert Keohane and Joseph Nye, *Power and Interdependence revisited*. (Longman Classics in Political Science 2011), p. 58.

¹¹⁶ Alastair I. Johnston, "Is China a Status-Quo Power?" *International Security*, Vol. 27, No. 4 (2003), pp. 5-56.

¹¹⁷ See, e.g., Michael Swaine, 'China's Assertive Behavior' (Carnegie Endowment for International Peace, November 2010). <https://carnegieendowment.org/2010/11/15/china-s-assertive-behavior-part-one-on-core-interests-pub-41937>.

¹¹⁸ Cary Huang, "US, Japan, India, Australia...Is Quad the First Step to an Asian NATO?", *South China Morning Post*, 25 November, 2017.

¹¹⁹ This is an area to watch for further developments. For key contents of the new agreement and implications for China, visit www.csis.org/analysis/nafta.usmca-whats-new-and-whats-next.

¹²⁰ A corollary of this is that Washington is no longer enthusiastic about WTO reforms if not at the axiomatic level. Accordingly, it hasn't given China "market economy status" and would work to deny China "developing country status".

The 17th century philosopher John Locke, another influential Enlightenment thinker, perceptively observed that lukewarm water can feel hot or cold, depending on whether the hand touching it was previously in hot or cold water. And the unfortunate fact of human beings is that facts are not facts but always perceived facts. That itself, both on *empiricist* and *rationalist* grounds, is a profound challenge. One would be better off to be aware of it -- an insidious blind spot in human mind that often causes misunderstanding and misjudgment.

China being a rising power, Deng Xiaoping's maxim of practical wisdom for its foreign policy was "*Taoguang Yanghui*" (i.e., to hide your light and nourish yourself in the dark). Beyond that -- as if the genie is out of the bottle -- whether Beijing and Washington will be able to bridge difference through extraordinary diplomacy and statecraft in the coming years remains to be seen. It is nevertheless worth reiterating here that foreign policy is more often than not an extension of domestic policy, and the *deus ex machina* to prevent escalation of tensions therefore lies more likely in domestic reform agendas. Accordingly, there is an urgent need for China to refocus on and speed up the two-pronged reform agenda set in November 2013 by the 3rd Plenum of the 18th Chinese Communist Party Congress. That is, (a) to let the market play a decisive role in resource allocation; and (b) to build a system of the rule of law. This forward-looking agenda, if implemented systematically with actions, offers a best-case scenario of *convergence* rather than *divergence* between the world's two largest economies by the way of co-evolution, although teleologically the two will never become exactly the same, which no reasonable man would ever expect.¹²¹

Having said that, however, as long as the US and China remain committed to their current strategic postures with the same vectors without a new *modus vivendi* to accommodate each other, the potential for a smashup between what Sinologist David Shambaugh describes as the two "tangled titans"¹²² is high -- with a caveat that prediction in social sciences is inherently very difficult. For epistemologically, any prediction of the future is essentially a theoretical proposition.¹²³ Unlike statistics where the outcome is known, but the past causes are uncertain; in probability theory the initial, or *a priori*, conditions are known (or as already highlighted here), and the goal is to predict the most likely outcome, albeit indeterministic. And when the stakes are so high, as they are, involving China-US relationship, if one has to err, it would be better to err on the safer side.

But to predict is to prevent, often times not because the prediction is wrong but because one becomes aware, so that one can adjust and adapt accordingly -- a scenario

¹²¹ Alternatively, the option of getting closer to Russia, one may argue, while a short-term geopolitical lever, may have contributed to a "re-set" of US foreign policy from liberalism to offensive realism, and runs the risk of further regressing back to the Cold War era. Also see footnote 49. More remarkably, of late Washington has started to consider withdrawing from the INF Treaty with Russia on intermediate nuclear forces -- a move that, if implemented, would pose added threat to China as well. Martin Pengelly, "Trump says US will withdraw from nuclear arms treaty with Russia," *The Guardian*, October 20, 2018.

¹²² David Shambaugh, *Tangled Titans: The United States and China*, (Rowman & Littlefield Publishing, 2012).

¹²³ See footnote 91.

made more likely through constant interactions, dialogues, negotiations and, yes, iterated games as the liberals, particularly the constructivist type,¹²⁴ would predict and advise. “Interests are not just ‘out there’ waiting to be discovered; they are constructed through social interaction,” as Martha Finnemore, a constructivist international relations scholar, explains.¹²⁵ Indeed, like living organisms states do evolve, subject to both material and ideational forces, and here history shows that national leaders have a critical role to play, for better or worse.¹²⁶ And hopefully this time the evolving process is guided by a more enlightened intellectual paradigm for peace, security, and equitable and sustainable growth – one that calls for deep self-reflection in which one universalizes one’s reason against ideological prejudices. At the end of the day, it is the dynamic combination of both realism and liberalism of different proportions over time, rightly or wrongly, that has made or ruined the world in history.¹²⁷

This time around, our world could, one would hope, deal with the challenges better, in the face of the tectonic structural forces sweeping across the globe, with growth poles shifting from the Atlantic to the Indo-Pacific. *Sapere aude* (dare to be wise) is the Latin motto Kant defines “transcendental” rationalism of the Enlightenment.¹²⁸

¹²⁴ See, e.g., Alexander Wendt, *Social Theory of International Politics*, (Cambridge: Cambridge University Press, 1999)

¹²⁵ Martha Finnemore, *National Interests in International Society*, (New York: Cornell University Press, 1996), p. 2.

¹²⁶ Giacomo Chiozza and Hein Goemans, *Leaders and International Conflict*, (New York: Cambridge University Press, 2011)

¹²⁷ Emphasizing the ideational source of war and peace, the preamble to the Constitution of the UNESCO declares that “since wars begin in the minds of men, it is in the minds of men that the defense of peace must be constructed.” For a full text, visit www.unesco.org/new/en/unesco/about-us/who-we-are/history/constitution/

¹²⁸ Or transcendental aesthetic or transcendental logic. For a more systematic study, see, e.g., H. E. Allison, *Kant’s Transcendental Idealism* (New Haven: Yale University Press, 1983).