

# **The Belt and Road Initiative and the South China Sea conflict**

## **Chinese ambitions in the new era**

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Since 2013, China has initiated a building and development process based on increased investments in infrastructure at the international level. The Belt and Road Initiative (BRI) based on promotion of trade, infrastructure, and commercial associations with 65 countries in Asia, Africa, and Europe, was announced as the ‘road of peace, and prosperity,’ and from then on it continues to characterize China’s positioning in the international context. The BRI is an initiative that tends to revive China’s ancient trade routes, through development and investment in infrastructure in two directions: Eurasia, which represents the Economic Belt, and the Indo-Pacific which is referred as the Maritime Silk Road. Since the launch of the BRI, China has persistently devoted investments to building ports, highways, high-speed rails, land bridges, as well as digital connectivity centers across the countries that joined the initiative. Together, these hard and soft infrastructure projects form a network of ‘dots’ and ‘lines’ on the BRI map, connecting interests, cultivating stakes, and consolidating

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interdependence between Beijing and other capitals along and far beyond its peripheries.<sup>1</sup> In this setting, the Southeast Asian region occupies a central place on the map of the BRI. Mainland Southeast Asia is one of the six economic corridors of the BRI, while maritime Southeast Asia is where the Indian and Pacific Oceans converge, sitting on the intersection of sea lanes vital for communication, trade, and transportation of energy and other critical resources.<sup>2</sup>

Although initiated by Xi Jinping, BRI is also true to Deng Xiaoping's essentially conservative maxim on the aims of Chinese foreign policy: "to create a stable external environment for China's domestic economic growth."<sup>3</sup> However, almost nine years since its initiation, it is obvious that BRI's huge infrastructure investments are not mere building of railways, airports and shipping docks. They are also about building political and diplomatic influence, reshaping positions of power and pushing toward developing the multipolar world order.

At the same time, there is the South China Sea (SCS) dispute, which has been going on for years in Southeast Asian region. China has competing claimants over the islands and various zones in the South China Sea, with several countries of the Association of Southeast Asian Nations (ASEAN) region such as Indonesia, the Philippines and Vietnam. The areas are rich with natural resources and fishing areas, and also have critical strategic importance.

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1 Cheng-Chwee Kuik, "Irresistible Inducement? Assessing China's Belt and Road Initiative in Southeast Asia", Council on Foreign Relations, June 2021, [https://www.cfr.org/sites/default/files/pdf/kuik\\_irresistible-inducement-assessing-bri-in-southeast-asia\\_june-2021.pdf](https://www.cfr.org/sites/default/files/pdf/kuik_irresistible-inducement-assessing-bri-in-southeast-asia_june-2021.pdf).

2 Ibid.

3 "China's Belt and Road Initiative (BRI) and Southeast Asia", CIMB ASEAN Research Institute and LSE IDEAS, October 2018, <https://www.lse.ac.uk/ideas/Assets/Documents/reports/LSE-IDEAS-China-SEA-BRI.pdf>.

With this in mind, it is useful to evaluate the two points independently, as they represent different issues based on different foundations; the South China Sea conflict is focused on territorial claims over islands, the creation of artificial islands, and the setting up of military infrastructure in several islands (including the Spratly and Paracel Islands, among others); on the other hand, BRI engages with infrastructure investment and trade throughout Asia, Europe and Africa.

However, if we scratch the surface, we would find that there is a lot more behind the SCS dispute, connected to the BRI development and future. If we look back in the history, the South China Sea was an important part of the ancient Silk Route trade. The eastern shore of China was the point where trading vessels sailed from, in order to transport goods to markets around the Red Sea, Persian Gulf, and Indian Ocean. With the narrative of “renewing China’s ancient trade roots” in mind, it becomes clear that there is far greater interest at stake in the SCS, than just a few rocks and islands.

### **BRI AS CHINA’S MAIN TOOL OF STRATEGIC EMPOWERMENT**

Since 2013, China has taken giant steps toward increasing its presence on the international stage, with the BRI being one of the key pillars in this activity. The BRI framework operates through commercial loans that the Chinese government provides to recipient countries where BRI projects are to be implemented. The construction of infrastructure in BRI projects is usually outsourced to Chinese firms, using Chinese labour and suppliers. However, although announced as purely infrastructural-based, the central goal of the BRI is not only economic but also political and strategic; through cross-border infrastructure, China aims to increase its influence in the rest of the world. This form of support to a wide range of initiatives and to enhancing connectivity throughout Eurasia strengthens

China's economic and security interests, and provides opportunities for overseas development at the same time. Comprised of a multitude of projects designed to promote the flow of goods, investment, and people, the BRI is intended to reshape relationships, reset economic routes and activities and shift power between states.

The Chinese Ministry of Foreign Affairs in March 2015 published an Action plan on the Belt and Road Initiative, that pointed out its specific policy goals, such as:

- Improving intergovernmental communication to better align high-level government policies like economic development strategies and plans for regional cooperation;
- Strengthening the coordination of infrastructure plans to better connect hard infrastructure networks like transportation systems and power grids;
- Encouraging the development of soft infrastructure such as the signing of trade deals, aligning of regulatory standards, and improving financial integration;
- Bolstering people-to-people connections by cultivating student, expert, and cultural exchanges and tourism.<sup>4</sup>

Investments in hard infrastructure offer quite attractive opportunities for the beneficiary countries worldwide. Using its economic strengths to meet infrastructure needs of the underdeveloped and developing countries can bring, and is already bringing, significant political gains for China. China is making use of the fact that some of the countries where BRI investments are aimed are struggling to raise such investments

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4 “Full text: Action plan on the Belt and Road Initiative”, The State Council, The People's Republic of China, March 30, 2015, [http://english.www.gov.cn/archive/publications/2015/03/30/content\\_281475080249035.htm](http://english.www.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm).

at a domestic level and are ranked among the lowest on the United Nations Human Development Index (HDI).

This is particularly the case with some of the ASEAN countries that are broadly targeted with the BRI such as Laos – ranked 137<sup>th</sup> on the HDI, Cambodia – 144<sup>th</sup> and Myanmar – 147<sup>th</sup>.<sup>5</sup>

Laos is an extreme example of particularly high dependence on China in Foreign Direct Investment (FDI), much of it connected to the BRI. According to the ASEAN investment report, in 2017 and 2018, China was the source of 77 per cent and 79 per cent, respectively, of inbound FDI into Laos PDR; the Bank of Laos’ provisional numbers suggest that in 2020, China accounted for 87 per cent of the inflow.<sup>6</sup> China is also the top investor and donor for Cambodia, and cumulative Chinese investment capital from 1994 to 2019 in the country was USD 23.43 billion, accounting for 49.84 per cent of total foreign direct investment in Cambodia.<sup>7</sup> When it comes to Myanmar, just five months after the military grabbed power, the coup leaders’ moves reveal that they have put China-backed projects at the top of their economic agenda,

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5 UNDP, “Human Development Index (HDI) Ranking - From the 2020 Human Development Report”, [https://hdr.undp.org/en/content/latest-human-development-index-ranking?utm\\_source=EN&utm\\_medium=GSR&utm\\_content=US\\_UNDP\\_PaidSearch\\_Brand\\_English&utm\\_campaign=CENTRAL&c\\_src=CENTRAL&c\\_src2=GSR&gclid=EAIaIQobChMI7caeyoCK9wIVO5BoCR3f6w\\_EEAAYASAAEgIjPD\\_BwE](https://hdr.undp.org/en/content/latest-human-development-index-ranking?utm_source=EN&utm_medium=GSR&utm_content=US_UNDP_PaidSearch_Brand_English&utm_campaign=CENTRAL&c_src=CENTRAL&c_src2=GSR&gclid=EAIaIQobChMI7caeyoCK9wIVO5BoCR3f6w_EEAAYASAAEgIjPD_BwE).

6 Stewart Paterson, “Are China’s investment projects in Laos a window into the future?”, *Hinrich Foundation*, March 8, 2022, <https://www.hinrichfoundation.com/research/article/fdi/china-investment-projects-in-lao/#:~:text=According%20to%20the%20ASEAN%20investment,on%20one%20source%20for%20FDI>.

7 Vannarith Chheang, “BRI Projects in Cambodia and Laos Roll On Despite Covid-19”, *ISEAS - Yusuf Ishak Institute*, July 27, 2021, [https://www.iseas.edu.sg/wp-content/uploads/2021/07/ISEAS\\_Perspective\\_2021\\_99.pdf](https://www.iseas.edu.sg/wp-content/uploads/2021/07/ISEAS_Perspective_2021_99.pdf).

despite the fact that deep-seated resentment towards China is increasing across Myanmar.<sup>8</sup>

To support the BRI, China has invested significant amounts of money through its public financial institutions, such as the Chinese Development Bank (CDB) and the Export-Import Bank of the Republic of China (China Eximbank). In this way, Chinese state-own companies that are engaged in BRI projects can take very cheap loans from these banks, since their bonds are treated as government debt with very low interest rates. These cheap loans make Chinese companies highly competitive in bidding for infrastructure project abroad, against other foreign companies that have no such benefits in their countries.

The BRI is, furthermore, dedicated to gaining political benefits. Financial aid given to partner countries is already used in influencing the policies of these countries, and this is particularly the case in certain countries of Central and South Asia, which lack good governance and rule of law (such as Turkmenistan, Pakistan and Sri Lanka). Chinese financial aid is also highly attractive for countries that lack quality anti-corruption policies, because it comes with more simple procedure, with less conditions to fulfill. Other potential sources of finance (World Bank and others), require fulfilling certain conditions prior to providing infrastructure loans, such as limitations to government spending or introducing stricter anti-corruption legislation. Chinese investment on the other hand, has been historically less likely to require recipient countries to adhere to such conditions. China emphasizes the fact that its development cooperation does not include any strings attached.<sup>9</sup>

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8 “Myanmar Junta Implementing China’s BRI Projects by Stealth”, *The Irrawaddy*, July 23, 2021, <https://www.irrawaddy.com/opinion/analysis/myanmar-junta-implementing-chinas-bri-projects-by-stealth.html>.

9 A Krstinovska, “China’s development assistance to the Western Balkans and its impact on democratic governance and decision-making”, *Journal of Liberty and International Affairs*, Volume 8, Number 1, 2022, pp. 229-242.

However, Chinese investments, although generous in amount, and loose when it comes to respecting the rule of law and anti-corruption policies, are provided on quite harsh financial terms for the beneficiary countries. Most of these strict conditions are thus not aimed at building the system of the beneficiary countries toward democratization and liberalization, but at strengthening the Chinese position and influence, thus increasing Beijing's economic and political influence.

For example, there is a widespread use of the 'No Paris Club' and 'no comparability of treatment' clauses – that expressly prohibit the borrower country from restructuring their outstanding debts to China in coordination with Paris Club creditors and/or on comparable terms with them, meaning that Chinese state-owned banks are effectively seeking to position themselves as 'preferred creditors' exempt from restructuring.<sup>10</sup> Furthermore, Chinese contracts give lenders considerable discretion to cancel loans and/or demand full repayment ahead of schedule, a provision that gives lenders an opening to project policy influence over the sovereign borrower, and effectively limit the borrower's policy space to cancel a Chinese loan or to issue new environmental regulations.<sup>11</sup>

In a situation where the global context is filled with complex challenges, the BRI initiative is becoming even more significant in terms of boosting bilateral investment between China and countries along the route, promoting regional economic development. As a skillful crisis manager, China has a clear vision of the need to give context to its overall strategy and international positioning, and therefore in January 2021, it published a White Paper *China's International Development*

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10 A. Gelpren. et. al., "How China lands, A Rare Look into 100 Debt Contracts with Foreign Governments", 2020, <https://docs.aiddata.org/reports/how-china-lands.html>.

11 Ibid.

*Cooperation in the New Era*, confirming that it would push forward the Belt and Road Initiative as its main platform, further support developing countries, and contribute to tackling international humanitarian challenges.<sup>12</sup> With this document, China reaffirmed its open position towards international cooperation, support for multilateralism, and willingness to participate in the reform and creation of the global governance structure.

The BRI is aimed at gaining both economic and political points for China. This is something the Chinese officials have explicitly acknowledged throughout various initiatives, such as the expansion of China's export markets and the promotion of Renminbi (RMB) as an international currency, in that way "emphasizing the Chinese currency's role as a vehicle to raise capital in overseas financial centers to fund railways, highways, ports, airports and other infrastructure projects across Eurasia."<sup>13</sup>

Moreover, the BRI tends to build comprehensive ties investing in both hard and soft infrastructures. The first one is used for reducing transport time and costs and the second allows for a broader range of goods to be traded with fewer regulatory obstacles. Raising capital for these infrastructure projects by issuing bonds in RMB will also encourage the use of this currency in international financial centers. In particular, China's lower-income western provinces stand to gain, as the creation of overland economic connectivity with Central Asia will boost growth there. BRI is also aimed at re-orienting a

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12 "Full text: China's International Development Cooperation in the New Era", The State Council, The People's Republic of China, January 10, 2021, [http://english.www.gov.cn/archive/whitepaper/202101/10/content\\_WS5ffa6bbbc6d0f72576943922.html](http://english.www.gov.cn/archive/whitepaper/202101/10/content_WS5ffa6bbbc6d0f72576943922.html).

13 Kyngé James, "One Belt, One Road set to turbocharge renminbi usage", *Financial Times*, November 30, 2015, <https://www.ft.com/content/6f105c2a-7f02-11e5-98fb-5a6d4728f74e>.



large part of the world economy toward China. Increasing the amount of trade, investment, and connectivity between China and countries throughout Eurasia is making these countries more dependent on the Chinese economy, increasing China’s economic leverage over them. This empowers China as a rule-maker, particularly in the economic affairs of the region.

South East Asia, being geographically close to China, is one of the most important regions in the realisation of BRI projects, with increased numbers of trade and financial investments year after year. Figure 1 represents total BRI investments in all regions, compared to the BRI investments in South East Asia in the period 2014-2020, where we can see that percentage of SEA investments in the total BRI investments rising from around 13 per cent in 2014 up to more than 36 per cent in 2020.<sup>14</sup>

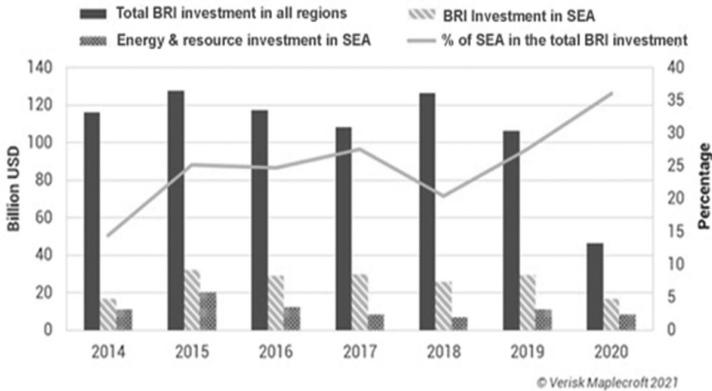


Figure 1: The trend of BRI investment in South East Asia 2014-2020. Source: <https://www.iseas.edu.sg>.

14 Kaho Yu, “The Belt and Road Initiative in Southeast Asia after COVID-19: China’s Energy and Infrastructure Investments in Myanmar”, *ISEAS-Yusuf Ishak Institute*, April 6, 2021, <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2021-39-the-belt-and-road-initiative-in-southeast-asia-after-covid-19-chinas-energy-and-infrastructure-investments-in-myanmar-by-kaho-yu/>.

What is particularly notable in these numbers is that, despite a sharp drop in total BRI investments in 2020, Southeast Asia (USD16.9 billion) became the BRI's largest investment destination, accounting for 36 per cent of the total investment.<sup>15</sup>

#### **THE SOUTH CHINA SEA DISPUTE AND ITS ROLE IN CHINA'S AMBITIONS IN THE NEW ERA**

The South China Sea has hundreds of small islands with a bounty of natural resources. This has provoked decades-long disputes over competing claims on these islands and the maritime zones between them. Legal and territorial disputes in the South China Sea are mainly over the Spratly Islands, where more than 60 features are claimed by various countries such as Taiwan, Vietnam, the Philippines, China and Malaysia; as well as the Paracel Islands where there are overlapping claims by China, Vietnam and Taiwan. China makes the largest claim in the South China Sea, within a 'dash-line' map published by the Kuomintang Government in 1947; the ambiguous nine or ten 'dash line,' which China asserts is based on evidence of historical usage, is disputed by other South China Sea territorial claimants and lacks a legal foundation under the United Nations Convention on the Law of the Sea (UNCLOS).<sup>16</sup> 2012 was the first time the map delineating China's claims had been officially published since 1948.<sup>17</sup>

In the background of the SCS territorial claims, there are also Chinese historical traumas from the Second Sino-Japanese

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15 Ibid.

16 Lowy Institute, "South China Sea", <https://www.lowyinstitute.org/issues/south-china-sea>.

17 Lidya C. Sinaga, "China's Assertive Foreign Policy in South China Sea under Xi Jinping: Its Impact on United States and Australian Foreign Policy", *Journal of ASEAN Studies*, Volume 3, Number 2, 2015, <https://media.neliti.com/media/publications/27009-EN-chinas-assertive-foreign-policy-in-south-china-sea-under-xi-jinping-its-impact-o.pdf>.

War (1937-1945), when Japan took particular advantage of the South China Sea to cut China off from fuel and military equipment supplies, thus provoking one of the worst periods of economic devastation, hunger and political crisis. With the development of the BRI, not only has China invested in strengthening its land routes as an alternative in case of any constraints in the functioning of its ports, but it is also devoted substantial financial, diplomatic and military resources to securing the maritime routes traversing the South China Sea, so that it can prevent any recurrence of the ordeals of the past. China's position in the Sea is therefore a reflection of its aim to become a greater maritime power, both an instrument and symbol of the Communist Party's larger goal of 'national rejuvenation,' a concept referring to the restoration of China's pre-eminence following the 'century of humiliation' at the hands of the West and Japan.<sup>18</sup>

As the BRI gained strength and established its position in the region, the South China Sea again developed a central position in transpacific relations. With the development of trade between China and its partners in Europe, Africa and South Asia, dominating the South China Sea – which includes most of the shipping routes and crossings – became pivotal. It is not a coincidence that China started setting up military infrastructure in the Spratly Islands (located in the South China Sea, off the coasts of The Philippines, Malaysia and Vietnam) in 2014, only one year after the announcement of the BRI. This was only the beginning of a long-term initiative to claim possession and control over most of the area. In 2016, an *ad hoc* tribunal constituted under the UNCLOS invalidated

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18 "Competing Visions of International Order in the South China Sea", International Crisis Group, Asia Report No.315, November 29, 2021, [https://d2071andvip0wj.cloudfront.net/315-competing-visions-of-international-order%20\(1\).pdf](https://d2071andvip0wj.cloudfront.net/315-competing-visions-of-international-order%20(1).pdf).

China's expansive maritime claims in the South China Sea, in a case brought by the Philippines.<sup>19</sup> However, not only did China reject this ruling, it committed increased efforts to reclaim land in the South China Sea by physically increasing the size of islands or artificially creating new islands.

China also built ports, military installations and airstrips in these areas, demonstrating its strong determination to concretize and physically demonstrate its claims over most of the SCS. Continuous military exercises and regular sending of patrol boats to the SCS are a reiteration of Chinese intentions to maintain and strengthen its claims. In December 2013, China sent its first aircraft carrier, the Liaoning, to the SCS, which heightened regional tensions, especially following China's unilateral declaration of an Air Defense Identification Zone/ADIZ in the East China Sea – some people worried that China would make a similar declaration regarding the SCS.<sup>20</sup>

Another assertive Chinese adventure was the 2014 placement of the Haiyang Shiyou-981 oil rig at a location within Vietnam's Exclusive Economic Zone (EEZ), which triggered massive anti-Chinese protests in Hanoi; after nearly two months, on July 16, 2014, the China National Petroleum Corp finally shut down the rig and moved it closer to Hainan Island in southern China.<sup>21</sup>

Of course, in all of its activities related to the South China Sea, the authoritarian Chinese government is creating a narrative to distract the public from what is really happening and from its real intentions. As Chinese activities in the SCS region started drawing more attention, the Chinese response was that they were only protecting the livelihoods of the

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19 Ibid.

20 C. Sinaga, *op. cit.*

21 Ibid.

citizens living on remote islands. Later, the story shifted to providing the region with storm and weather warning systems. Nowadays, with the deployment of SA-6 missiles and coast guard frigates, none of these alibis works anymore, so more open military language is used.

The actions taken in the SCS are also in conflict with the ongoing “soft diplomacy” initiatives China is adopting in South East Asia. In its effort to further strengthen the effects of BRI in the South East Asia, China is practicing the initial steps of hard power. Significantly, China’s activities in the SCS are opposed by the United States’ interest in freedom of navigation. As the world’s pre-eminent maritime power, the US opposes what it calls China’s “excessive maritime claims;” claims to jurisdiction unsupported by UNCLOS or efforts to deny rights afforded to other states provided by international law, also known as restrictive claims.<sup>22</sup>

The expanding imprints and growing assertiveness are not necessarily resulting in greater Chinese influence in the region. Even if most ASEAN states have chosen not to confront China openly on the SCS issue, they show tendencies to diversification of collaboration and to avoid economic and political dependency only on China. Cambodia, a country widely perceived as a ‘client state’ of China, has been developing strong defense and trade partnerships with Japan, while Laos retains its longstanding ‘balanced’ policy between China and Vietnam.<sup>23</sup>

## CONCLUSION

The region of South East Asia and the ASEAN partners are among the most important directions of China’s expansion

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22 Ibid.

23 Cheng-Chwee Kuik, *op. cit.*

in the new era. The BRI provides broad and much-needed opportunities for the countries of this region to overcome the issue of poor and inadequate infrastructure, which is a major obstacle for economic growth and development. The lack of finance has long hobbled the implementation of such projects, and the BRI projects, with the support of China's national funding, has provided necessary finance, at the same time increasing investments into productive sectors such as manufacturing, energy and services. The importance of this investment is demonstrated by the fact that they have been held at a solid level even after the beginning of the pandemic.

However, China's assertiveness in the South China Sea, although connected to the progress of the BRI, could be a threat to its further implementation. The BRI is slowly becoming a representation of hard power, which is contrary to the projected basic principles of Chinese foreign policy in the last decades. Although dependent on Chinese investments to a certain level, most of the countries of the SEA region are now slowly starting to shift position and lower that dependency. The position of other great powers plays a critical role in this process as well. The United States and the European Union are now providing alternatives for developing countries to pursue quality and affordable infrastructure-building and connectivity development, at the same time pushing towards diplomatic resolution of the South China Sea issue.

China will however continue being a highly important partner of the SEA countries, particularly in the post-pandemic world and the recovery efforts countries are making. Much of the progress of this partnership will depend on the resolution of regional disputes, such as those in the SCS, that can turn into a game-changer for economic and infrastructure investment. Reaching comprehensive resolution can increase economic

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collaboration, the same way that undertaking hard power measures can push SEA countries toward seeking alternatives to Chinese dependence. Either these developments are an index of the political multi-polarism of the new era and the interdependence of geo-economics and geo-politics, two aspects that can no longer be analyzed separately.

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