

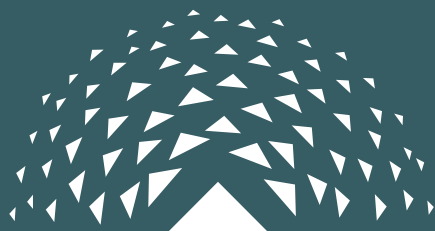
Blue Chip Networks:

Two Case Studies of Countering the Belt and Road Initiative

Blue Chip hálózatok:

két esettanulmány az Övezet és Út riválisairól

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KKI Policy Brief

Series of the Institute for Foreign Affairs and Trade

Publisher:

Institute for Foreign Affairs and Trade

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ISSN 2416-0148

<https://doi.org/10.47683/KKIElemzesek.KE-2021.65>



Abstract: While debates over China's Belt and Road Initiative (BRI) dominate the discourse over global infrastructure development, countries sceptical of the purpose or potential of the BRI have launched multiple alternative initiatives. This analysis compares two case studies: the Asia-Africa Growth Corridor (AAGC) launched by Japan and India in 2017, in part building on Japan's Quality Infrastructure concept, and the G7's 2021 Build Back Better World (B3W) plan, which is effectively a follow-up on the Blue Dot Network announced by the United States, Japan, and Australia in 2019. The paper concludes that the set of high financial and project quality standards of these initiatives may lead to better overall return but also prohibitive initial costs, while admirable goals like gender equity or digitised governance may not always respond adequately to the infrastructure priorities of developing countries. Furthermore, while these initiatives rely heavily on mobilising private capital, the literature clearly shows that infrastructure projects, especially in developing regions, are typically rather unattractive for private investors. Nevertheless, with a staggering USD 15 trillion gap in projected needs and actual spending on global infrastructure by 2040, there is no reason for a zero-sum competition between Chinese and Western connectivity programmes. Thus, Hungary should remain open to all and not commit exclusively to any of these initiatives.

Keywords: China, USA, India, Japan, BRI, New Silk Road, Blue Dot Network, B3W, infrastructure, connectivity

Összefoglalás: Miközben Kína „Egy Út, Egy Övezet” programja (Belt and Road Initiative, BRI) a globális infrastruktúra-fejlesztésről szóló diskurzus uralkodó témájává vált, a BRI valódi céljával vagy potenciáljával szemben kétkedő országok több alternatív kezdeményezést is útnak indítottak. Az alábbi elemzés két esettanulmányt vet össze: Japán és India 2017-es „Ázsia–Afrika Növekedési Folyosóját” (Asia-Africa Growth Corridor, AAGC), amely részben Japán „Minőségi Infrastruktúra” (Quality Infrastructure) koncepciójából merített, valamint a G7 országcsoport „Build Back Better World” (B3W) tervét, amely lényegében az Egyesült Államok, Japán és Ausztrália által 2019-ben bejelentett „Blue Dot Network” utódjának tekinthető. A tanulmány arra jut, hogy az e kezdeményezések által hirdetett szigorú pénzügyi és minőségbéli sztenderdek pozitív hatással járhatnak a projektek végső megtérülésére, ugyanakkor a célszágok számára elérhetetlenül magas kiinduló költségekhez vezethetnek. Mindeközben a nemek közötti egyenlőség, az államigazgatás digitalizálása és más hasonlóan tiszteletreméltó célok előtérbe helyezése nem feltétlenül tükrözi a fejlődő országok infrastruktúra-fejlesztéssel kapcsolatos prioritásait. Ezen felül, miközben a vizsgált kezdeményezések döntőrészt a magántőke mobilizálására építenek, a szakirodalom egyértelmű álláspontja szerint az infrastrukturális projektek

jellemzően nem kifejezetten vonzóak a magánbefektetők számára, különösen a fejlődő régiókban. Figyelembevétel azonban, hogy egyes előrejelzések szerint a 2040-ig várhatóan megvalósuló infrastrukturális beruházások értéke és a tényleges világméretű igény között 15 billió dolláros rés fog tátongani, semmiféle ok nincs a kínai és nyugati regionális összeköttetési kezdeményezések közötti zéróösszegű versengésre. Ennek fényében azt javasoljuk, hogy Magyarország mutasson nyitottságot valamennyi ilyen jellegű kezdeményezés irányába, és tartózkodjon a bármelyik felé történő kizárólagos elköteleződéstől.

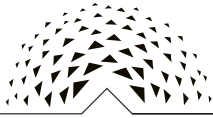
Kulcsszavak: Kína, USA, Japán, India, BRI, Új Selyemút, Blue Dot Network, B3W, infrastruktúra, regionális összeköttetés

INTRODUCTION

China's Belt and Road Initiative (BRI) is among the most thoroughly researched and reported-on developments in a shifting economic order, arguably elevated to a symbol of this shift. Announced in 2013 and [envisioning](#) open, inclusive, and balanced regional co-operation and increased connectivity between Asia, Europe, and Africa, with [estimates about its actual financial scope](#) ranging from a few hundred billion to 8 trillion USD, its geographic scope has expanded from eight overland Eurasian corridors and a Maritime Silk Road to practically include any developing region.

[States suspicious](#) about the purpose of the BRI have announced multiple, superficially similar counter-initiatives, though they usually avoid direct comparisons. Opinions about the viability of such 'BRI alternatives' on the one hand, and the complementarity of competing global infrastructure initiatives on the other hand vary greatly. Some argue that there is considerable [opportunity in co-operation](#) or believe such initiatives [force each other to adjust](#) and offer better standards and solutions. Others warn that horizontal rivalry between state-driven initiatives [undermines non-state initiatives and thereby actual regional connectivity](#).

Against this backdrop, this paper looks for answers to the following questions: (1) Are certain international connectivity initiatives viable alternatives to China's Belt and Road Initiative? (2) If so, is this competition zero sum; in other words, can their success be measured in the absolute decrease of China's geographical centrality as well as its role in terms of financing, ownership, and standard-setting in international infrastructure development? To answer these questions, the paper uses a mix of quantitative and qualitative methods and various primary and secondary sources to analyse projects along the following dimensions: their geographical and sectoral scope; the resources allocated to them; their potential to set international standards; and their history or prognosed ability to deliver tangible results. The paper presents



two case studies: first, the Asia–Africa Growth Corridor of Japan and India (with Japan’s Quality Infrastructure concept representing its standard-setting aspect); and second, the strongly connected duo of the G7’s Build Back Better World plan and the Blue Dot Network, a set of standards on which the former is based and which had been announced by the United States, Japan, and Australia.

As one key delimitation, the paper does not provide an analysis of the BRI in terms of the above-mentioned dimensions and relies on the existing literature and expert takes. Furthermore, other formally announced global infrastructure initiatives, such as the European Union’s Global Gateway, or functional multimodal connectivity corridors without at least some level of institutional framework, like India’s Arab-Mediterranean Corridor, fall outside the scope of this analysis.

BACKGROUND: GLOBAL INFRASTRUCTURE INVESTMENT NEEDS AND THE TANGIBLE RESULTS OF THE BRI

Over the recent decades economic growth has lifted hundreds of millions out of poverty. Much of this transformation has been [focused in the Asia-Pacific and Indo-Pacific regions](#), where most countries have been propelled to Upper Middle-Income Country (UMIC) or Advanced Middle-Income Country (AMIC) status. To keep up with this trend, developing regions are in massive need of infrastructural investment. According to the Asian Development Bank, Asia will need [USD 26.2 trillion](#) in infrastructure investment by 2030 to sustain economic growth and adapt to climate change. The [G20 Global Infrastructure Outlook](#) estimates an USD 94 trillion need for global infrastructure investment as well as an USD 15 trillion investment gap by 2040 based on current trends.

What the BRI has delivered against this backdrop is a matter of debate. Some believe it is at this point little more than a [fancy public relations slogan](#), or at best a [rather incoherent design](#) and an expression of China’s [fragmented authoritarianism](#). Indeed, international enthusiasm around the BRI has cooled down since endemic difficulties around implementation, China’s insistence on [highly unusual lending conditions](#), and [high-profile cases of failure](#) have come to dominate much of the discourse. What rival powers portray as Chinese [debt-trap diplomacy](#) is recognised even by [more impartial analysts](#) as a [worrying lack of transparency](#) and willingness to lend money for financially less than sound projects [put forward by recipient countries](#). Low levels of environmental standards and project quality are also common points of criticism.

At the same time, the BRI appears to have delivered limited but nonetheless material results in terms of ongoing or completed infrastructure development projects. In 2018, according to the [Chinese Ministry of Commerce](#), only 13% of total Chinese non-financial direct investment abroad (USD 15.64 billion) was directed to

the 56 countries along designated BRI corridors. The impact of the BRI is more marked when the participation of Chinese companies in infrastructure development is considered: 62 BRI countries account for 52% of the total volume of completed turnover of foreign contractual projects (or USD 89.33 billion). And [an analysis of over 13 thousand projects financed by China](#) across 165 countries over an 18-year period found a tripling of ‘megaprojects’ worth over USD 500 million in the first five years of the Belt and Road Initiative. The share of [China–Europe railway cargo traffic](#), one measure of the success of overland alternatives to the

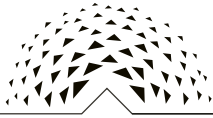
Strait of Malacca, is still low, but its volume has been growing steadily. These figures and qualitative assessments suggest that while the delivery of the BRI may have fallen behind the expectations, it has nonetheless delivered tangible results. This is the context in which the impact of various BRI alternatives ought to be evaluated.

THE ASIA–AFRICA GROWTH CORRIDOR (JAPAN AND INDIA)

India’s deep suspicion towards China’s regional connectivity plans is nothing new. It dates back at least to the start of Chinese works on the Pakistani port of Gwadar and the expansion of road connections between Pakistan and China. Merging these projects into the China–Pakistan Economic Corridor (CPEC) and other deep water port development projects into the 21st Century Maritime Silk Road, while bringing all of them under the BRI framework has only exacerbated Indian fears of geo-economic isolation and strategic encirclement. In addition to the usual criticism of China-centrism, insufficient multilateralism, lack of transparency, and disregard for sustainability, [New Delhi’s main objection](#) to the BRI is the CPEC crossing through what it claims is India’s sovereign territory in Kashmir. Compared to India’s vehement opposition, Japan has been less openly confrontative about China’s BRI. Nonetheless, in its Partnership for Quality Infrastructure and Free and Open Indo-Pacific concepts, Tokyo has framed its own regional and global vision in direct opposition to what the BRI has often been portrayed to be by its critics.

The [Asia–Africa Growth Corridor](#) (AAGC) was announced in 2017 by Indian PM Narendra Modi at the 52nd meeting of the African Development Bank (AfDB) in Gujarat, India. Previously, in 2016 he and his Japanese colleague, Abe Shinzo, had agreed to jointly build industrial corridors between Asia and Africa while capitalising on the complementarities of India and Japan. Details of the plan were elaborated on in a 2017 [Vision Document](#) written by Indian, Japanese, and African think tanks.

Unlike China’s BRI, the underlying geo-economic concept behind the AAGC is not the connecting of a middle-income manufacturing hub to high-income markets, but the connecting of two major developing regions, Asia and Africa. The Corridor would be built through joint projects in the Indian Ocean Region, from South-East Asia to



India to Africa's eastern coast, focusing on four areas: Development and Cooperation Projects (e.g. agriculture, health and pharmaceuticals, manufacturing), Quality Infrastructure and Institutional Connectivity (e.g. transportation, telecommunications, power grids, renewable energy), Enhancing Capacities and Skills (education, digitalisation, etc.), and People-to-People Partnership (which should make AAGC unique compared with other regional connectivity projects). Resonating with [Project Mausam](#), an earlier (and mainly cultural) connectivity initiative of India, the Indian Ocean has been portrayed as a link between the traders, peoples, and cultures of Asia and Africa since time immemorial.

In contrast to the BRI, no specific resources have been allocated to the AAGC by its member nations; the question of what financial tools support the initiative has only been addressed through the vague notion of 'effective mobilisation of resources'. The Vision Document also commits to high standards in terms of environmental and social impact, economic efficiency and durability, inclusiveness, safety, disaster-resilience, and sustainability. These goals are almost identical to the ones articulated in Japan's Partnership for Quality Infrastructure, which has put forward a 'high price, high quality' proposal against China's 'low cost, no strings attached' BRI pitch. While the substantive effect of declaring such principles may be questioned, they were soon embraced by fora and organisations like the World Bank, OECD, or the G20. It has even been [argued](#) that some financial institutions involved in the BRI, such as the Asian Infrastructure Investment Bank (AIIB), started behaving more prudently than expected in part because they felt the need to adjust their policies to Japan's Quality Infrastructure concept. Specific criteria to meet these standards have, however, never been developed under the framework of the Asia–Africa Growth Corridor.

While the AAGC has often been depicted as a mere reaction to (and sign of strategic anxiety about) China's Belt and Road Initiative, there is an [underlying reality of aligned interests](#) and synergies between Japan and India vis-à-vis the African continent. For example, multiple Japanese car and consumer electronics manufacturers use their plants in India as well as India's South-South business networks as a springboard to Africa. Meanwhile, Japanese companies using India as a manufacturing base are helping to establish India's role as a global manufacturing hub. These interests, however, have very little to do with some of the more ambitious and imaginative parts of the AAGC agenda, such as its major emphasis on people-to-people connection, healthcare, education, or environment.

The Asia–Africa Growth Corridor has indeed seen little follow-up. Modi and Abe's 2018 summit did not even mention it by name, instead establishing a new Platform for Japan–India Business Cooperation in Asia-Africa Region. Neither has any other event, policy paper, let alone specific project given any sign of the AAGC's continued existence after 2018. The Asia–Africa Growth Corridor has stayed a compelling vision that signals the existing alignment of interests but lacks a concrete implementation plan. Reinvigorating it may require the toning down of its overly ambitious human development agenda and pragmatically focusing on elements that are firmly rooted in the common interests of Japan and India in Africa.

THE BLUE DOT NETWORK AND THE BUILD BACK BETTER WORLD (US & ALLIES)

The [BlueDotNetwork](#) (BDN) was announced by the United States, Australia, and Japan in 2019 as an initiative of their respective international development agencies, and it was later endorsed by or incorporated into treaties with partners like India, Taiwan, or the [OECD](#). It aims at mobilising private capital into 'quality infrastructure' around the world through providing project assessment and certification on measures of financial transparency, environmental, financial, and social sustainability (including maintenance and operating costs throughout the whole life cycle of a project), and impact on economic and social development. US officials, [quoted by the Indian Express](#), described the BDN as a 'Michelin Guide for infrastructure projects'. The Network has no clearly delimited geographical scope; it is aimed at all developing or emerging economies (indeed, US officials are promoting it as far from Eurasia as [Latin America](#), as do Chinese officials when it comes to the BRI). The BDN does not, however, include any funding mechanism, leaving financing entirely to willing private actors swayed to participate by the above-mentioned standards.

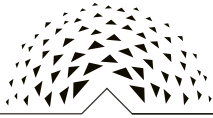
The lack of financial resources behind the Blue Dot Network has been partially addressed by a formally separate initiative that nonetheless heavily builds on the Blue Dot Network's set of standards. The [Build Back Better World](#) (B3W) design, approved at the [2021 G7 meeting in Cornwall](#), includes the USD 60 billion capital of the [U.S. International Development Finance Corporation](#) (DFC) to finance infrastructure development in low and middle-income countries. Unlike its predecessor, the Overseas Private Investment Corporation (OPIC), DFC can not only lend, but it can also take equity positions in infrastructure development projects. There is no detail yet about the participation of similar agencies in other partner countries, but (in contrast with the format of the BRI) multilateralism is claimed to be a key characteristic of the B3W framework. Nevertheless, with the American pledge at USD 60 billion, it can safely be assumed that any conservative estimate of the financial scope of the BRI will still dwarf the most optimistic expectations of the total capitalisation of B3W tools. Proponents of the B3W claim this is not a shortcoming but the by-design strength of the plan. Like the Blue Dot Network, the B3W still primarily builds on private capital, with the ambition of catalysing investment in the hundreds of billions of dollars in the coming years. Western policy makers believe there is huge untapped potential in boosting these types of investments. Global private sector commitment to infrastructure was [USD 96.7 billion](#) in 2019 (and USD 45.7 billion in 2020, after a drastic drop during the first year of the COVID-19 pandemic). Private investment from G7 countries into the infrastructure of developing countries only reached [USD 22 billion](#) during the 2015-2019 period, compared to USD 112.7 billion in public official development assistance or ODA.



The recipe of reducing private investors' anxiety about the risk of infrastructural projects in developing regions chiefly through rigorous standards has, however, been met with some scepticism. A large chunk of the private capital that US policy makers wish to channel into countering the BRI is in pension and insurance funds. Long-term return and low risk are paramount for these entities. Physical infrastructure is by default not a particularly attractive investment for private investors even in developed, let alone developing regions. Risks related specifically to infrastructure as a unique asset class (e.g. long investment cycles, high risks, low returns, or [uncertainties around public-private partnership contracts](#)), barriers to infrastructure investment in a given country, and general 'country risks' [all contribute](#) to low private sector interest in such types of investment. While on a relatively small scale, the B3W plan would leverage the capabilities of national and multinational development banks and make equity contributions to address these issues and reduce investor risk. Another solution proposed by the literature, the [standardisation of infrastructure as its own asset class](#), which would allow investors to enter, exit, or repackage such assets more easily, remains a work in progress outside the scope of the B3W.

Practical problems with applying robust certification systems in developing regions may also arise. A certification process that would in meaningful ways sway private investors would have to be [rigorous, complex, multidimensional, and likely not cheap](#). This, by ensuring higher project quality and financial sustainability, may result in lower operation and maintenance cost and an overall better cost-to-benefit ratio. However, despite these long-term benefits, higher direct project costs may still prove prohibitive for developing countries. While Chinese-built infrastructure is possibly less cost-effective in the longer run, their lower initial cost may still make them an attractive option to kick-start economic growth.

Overall, Chinese investors are usually regarded as [less risk-averse](#) than their Western counterparts. This, combined with China's willingness to directly finance infrastructure projects and not enforce demanding standards, has allowed several projects to take off – albeit fewer than expected, including financially less than sound ones. While debacles like that of Hambantota may be unlikely to happen under the B3W, it is questionable whether Western investors would invest in most infrastructure items needed by low and middle-income countries at all, and whether a strict certification process tailored to the taste of an American domestic political audience would be a viable option for many countries to attract investors.



AN UNEQUAL BUT NON-ZERO-SUM GAME

The initiatives analysed in this paper cannot compete with China's Belt and Road and indeed do not aim to do so. Initiative in terms of allocating state-funded credit to infrastructure projects in developing countries. Catalysing private investment into such projects is therefore paramount for the success of any BRI alternatives that Western liberal democracies or large but still developing economies like India have or conceivably can propose in the foreseeable future. At this point only the B3W has promised to allocate actual resources to addressing private sector concerns about infrastructure development, but its planned financial capacity still falls far behind that of the BRI. At the same time, the very framing of the Blue Dot Network and B3W may raise questions about prioritisation from the perspective of developing countries. The B3W definition of 'infrastructure', with its emphasis on climate change, healthcare, digitised governance, and gender equity and equality, may reflect the priorities of the domestic political audience of the Biden Administration. However, especially when compared with China's flexible approach, it may come across as [being out of touch with and downplaying the actual need of developing countries](#) for paved roads and electricity in rural areas, clean water and affordable housing in urban slums, and ports and highways connecting local economies to the world market.

Having said that, the massive global need for infrastructure investment makes the competition between established and emerging powers and their various financing models essentially non-zero-sum, at least on a global, and possibly even on a regional level. Competition for individual projects and markets may turn zero-sum, but (apart from the technology sector and the ongoing US campaign against Huawei) we are yet to see *individual* projects becoming flashpoints between competing visions for global infrastructure development. While Western alternatives at this point seem vague, it seems they place emphasis on different elements of infrastructure (that is, green and digital networks) than China's BRI (ports, railroads, highways, power plants, etc.). Even within a specific geography the outcome of competition between such different sets of offers may be very difficult to quantify.

In the meantime, there is some evidence that competing concepts may have an advantageous impact on the overall quality of the global supply for infrastructure solutions. Some believe that Japan's Quality Infrastructure approach has persuaded China to improve its own standards in infrastructure development. International criticism about the financing of coal power plants by BRI entities has also led to China vowing to abandon coal projects abroad. Some even suggest that the BRI's moneyball approach is not entirely incompatible with the Blue Dot Network's emphasis on standards, and the former may effectively address some common criticisms by embracing the latter. It is suggested that

this fusion may lead to the emerging of a [Blue Dot Market](#), where countries could browse infrastructure solutions vetted against the BDN standards. Considering that [both sides do see](#) each other's respective initiatives as a threat, this almost certainly will not happen. Yet their competition is unlikely to be upfront and on a project-by-project basis.

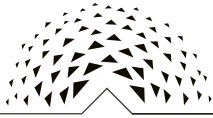
CONCLUSION AND RECOMMENDATIONS

Further to the delimitations outlined at the beginning, the findings of this paper ought to be evaluated in the light of a number of other limitations. The most important ones include the lack of a definitive database of BRI-related projects; the lack of details about newer initiatives; and the fact that the impact of newer initiatives can only be prognosed, not directly compared with the Belt and Road Initiative. These open questions, as well as some even more recent (supposed) BRI alternatives, such as the EU's ['Global Gateway'](#) and certain less institutionalised regional corridors, like India's [Arab-Med Corridor](#), should be the subject of further research.

With this in mind, the findings of this paper may help inform policy makers about how to approach competing global and regional infrastructure initiatives. In this respect the most important point made here is that infrastructure development in Eurasia and the world is – at least in absolute terms – not a zero-sum game. Competing initiatives may thrive in the same geo-economic space and drive each other towards better solutions even in a more pessimistic scenario, and they can co-operate or even merge among their complementarities in more optimistic ones. However, even if policy makers elect to take a confrontative or exclusively preferential position on any of these initiatives, some insights highlighted here may help identify their respective strengths and possible pitfalls.

In light of these findings, the paper puts forward the following policy recommendations specifically from Hungary's point of view:

- 1) Hungary should pragmatically approach all global and regional connectivity initiatives. Exclusive commitment to or demonstrative opposition towards any initiative has little benefit, and taking a hedging position is entirely possible given that these programs are not *formally* framed as being mutually exclusive.
- 2) Even when accepting Chinese loans, it is entirely at the discretion of the Hungarian government to rigorously apply high standards in terms of financial transparency and sustainability. China's flexible lending policy does not emphasise such standards but neither does it prohibit them.



- 3) Hungary should consider whether, regardless of its co-operation with China bilaterally or through the 16+1 forum, it should also voice support for the Blue Dot Network and the B3W plan. While such a stance may be perceived by Western allies as insufficiently committed, it would still be preferable over one-sided commitment against Western alternatives to the BRI.
- 4) Hungary should monitor the tangible outcomes of any connectivity initiative that involves Eastern or South-Eastern Europe, as well as the development of multimodal corridors independent of such frameworks. Increasing connectivity with the rest of Afro-Eurasia may open up new business opportunities in the Eastern Mediterranean region and beyond.