

CHINA EXPLORING WAYS TO ADJUST BELT AND ROAD INITIATIVE — COMPROMISING TO MEET INTERNATIONAL STANDARDS AND THE LIMITS OF SUCH ADJUSTMENTS —

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SUMMARY

- With the objective of achieving “high-quality international cooperation,” China is exploring ways to adjust the course of the Belt and Road Initiative (BRI), centered on the methods and means of investment and financing. Background to such shifts includes a series of problems with projects and demand from host countries for revisions to plans, along with increasing criticism from Western countries. Improving the quality of the projects has become an urgent issue for China as well in order to reduce the setback risk.
- China is promoting the BRI based on principles of international cooperation that are different from those held by Europe and the US, creating an ideological divide that underlies the friction between China and the West. China will continue to maintain an attitude that keeps a certain distance from the international standards demanded by the West.
- Meanwhile, in order to improve the quality of the BRI, China shows a willingness to form partnerships with international organizations and pursue third market cooperation with countries such as Japan and European nations. In projects being pursued multilaterally, it is possible that China will show a compromising stance to a certain degree to meet international standards.

The Chinese government held the Second Belt and Road Forum for International Cooperation (hereinafter referred to as the Belt and Road Forum) in Beijing on April 25-27, 2019. The forum provided evidence that support is steadily expanding for the Belt and Road Initiative (BRI). At the same time, the opening address delivered by Chinese President Xi Jinping revealed that China is actually exploring ways to adjust BRI approach. Behind this are a series of problems with projects and demands from host countries for revisions to plans, along with increasing criticism from Western countries. Among the various aspects of the BRI, this report focuses on the aspect of the international cooperation framework for strengthening relations between China and emerging countries,¹ and gives attention to China’s moves to adjust the course of the BRI, centered on investment and financing approaches. First, broad picture of BRI investment and financing, then the future direction of the initiative in accordance with its adjustment and its background are reviewed, taking the gap between China’s principles for international cooperation and those promoted by the US and Europe into consideration.

¹ The viewpoint that the BRI is aimed at “strengthening the comprehensive relationship between China and emerging countries” is based on the following report: page 20, chapter on “*Chūgoku-Shinkōkoku Nekusasu to ‘ittai ichiro’ Kōsō*” by Asei Ito (Japanese language publication, The China-Emerging Economies Nexus and the Belt and Road) edited by Akira Suchiro, Toshio Tajima, and Tomoo Marukawa, University of Tokyo Press, 2018.

1. BROAD PICTURE OF BRI INVESTMENT AND FINANCING

(1) Review of the BRI

The BRI stems from Chinese President Xi Jinping's proposals for the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road” concepts announced in September and October 2013. Later, at the 19th National Congress of the Communist Party of China, held in October 2017, the BRI was incorporated into its constitution, which is the party's highest statute of regulations. The Chinese government positions the BRI as one of the most important initiatives in its foreign policy, as illustrated, for example, by its hosting of the large-scale international conferences that focus specifically on the initiative, called Belt and Road Forum, already held twice in May 2017 and April 2019. International support for the BRI is also expanding, as indicated by the increase in the number of countries that have dispatched head-of-state level leaders to the Belt and Road Forum from 29 in the first session to 37 in the second. As of April 2019, a total of 127 countries (and 29 international organizations) had signed BRI cooperation statements with China, including Italy (signed March 2019), the first of the G7 countries.

A policy document of March 2015 defines the BRI as “a way for win-win cooperation that promotes common development and prosperity, and a road towards peace and friendship by enhancing mutual understanding and trust, and strengthening all-round exchanges.” On top of that, the document identifies the five priority areas of cooperation as “policy coordination, connectivity of infrastructure, unimpeded trade, financial integration and closer people-to-people ties.”² A subsequent policy document issued in April 2019 emphasizes the openness of the BRI, stating that the initiative “focuses on Asia, Europe, and Africa, but is open to all partners.”³ By keeping the definition and geographical coverage of the BRI rather vague, the Chinese government seems to be leaving room for flexible interpretation and making it easier to attract support from as many countries as possible.

(2) BRI Investment and Financing

BRI investment and financing correspond to the “financial integration” of the five priority areas of cooperation mentioned above. Figure 1 shows the main investment and financing entities and their methods for the BRI. The methods consist of various flows of funds from China to emerging countries, including those with strong political aspects, such as foreign aid, and those with strong commercial aspects, such as direct investment by

Figure 1: Major entities and methods for Belt and Road investment and financing

Government agencies (foreign aid)	<ul style="list-style-type: none"> • Grants • Interest-free loan • Preferential loan
Government-controlled banks (loans)	<ul style="list-style-type: none"> • Export-Import Bank of China (Including preferential buyers credit) • China Development Bank
Public funds (investment and loans)	<ul style="list-style-type: none"> • Silk Road Fund • Regional funds <ul style="list-style-type: none"> – China-Africa Fund for Industrial Cooperation – China-ASEAN Investment Cooperation Fund – China-Central Eastern Europe Fund, etc. • Others (South-South Cooperation Fund, etc.)
Commercial banks (loans)	<ul style="list-style-type: none"> • 4 major state-owned commercial banks (Industrial and Commercial Bank of China, etc.) • Other commercial banks
Corporations (direct investment)	<ul style="list-style-type: none"> • State-owned enterprises • Private enterprises

Source: Created by MGSSI based on OECD classifications on flow of investment to developing countries and Chinese government data

² China's National Development and Reform Commission, *et al.*, “Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road,” March 2015, (<http://www.mofcom.gov.cn/article/i/dxfw/jlyd/201601/20160101243342.shtml>, accessed September 5, 2019)

³ Office of the Leading Group for Promoting the BRI, “Building a Belt and Road Initiative: Progress, Contribution and Prospects,” April 2019, (http://www.xinhuanet.com/world/2019-04/22/c_1124400071.htm, accessed September 5, 2019)

private companies. The following is an overview of the characteristics and scale of related investment and financing systems.

There are three types of foreign assistance provided by Chinese government agencies: grants interest-free loan and concessional loan. (RMB-denominated low-interest loans).⁴ Since China is not a participant in the OECD's Development Assistance Committee (DAC), detailed data on its foreign assistance is not publicly available, but according to calculations based on the DAC definition, the amount of China's foreign aid (excluding multilateral assistance) is estimated at US\$5.7 billion.⁵

Other than foreign aid, investment and financing channels that are backed by strong policy support include financing from the Export-Import Bank of China (China Exim Bank) and the China Development Bank (CDB), and investment and loans from the Silk Road Fund. In addition to providing the above-mentioned concessional loans included in foreign aid, the China Exim Bank offers concessional buyer's credit,⁶ which is an export credit but has almost the same loan terms as the concessional loans. At the first Belt and Road Forum held in May 2017, it was announced that the China Exim Bank would set up lending scheme of 130 billion yuan (approximately US\$19 billion), and that the CDB would earmark 250 billion yuan (approximately US\$35 billion) for BRI projects. According to media reports, the two banks had exhausted their credit lines by the time of the second forum held in April 2019. The Silk Road Fund was established in December 2014 with capital of US\$40 billion for the purpose of investment and financing for the BRI⁷ and had committed to invest US\$11 billion in 28 projects by the end of 2018.⁸

Investments and financing with strong commercial elements include loans from commercial banks, centered on the four major state-owned commercial banks, and foreign direct investment by state-owned and private companies. In the following, trend of China's foreign direct investment (FDI) in emerging economies is reviewed in order to show trend of BRI-related investment or funding.

(3) Trend of China's Foreign Direct Investment in Emerging Economies

China's FDI surged through 2016 and then began to decline. According to statistics from the Chinese Ministry of Commerce, the country's FDI has continued to decline year on year since 2017, resulting that the first half of 2019 total was US\$53.8 billion, down 5.9% from the same period the previous year. According to surveys by private institutions that have accumulated data on an individual-project basis related to China's FDI and M&As, the decline in the first half of 2019 was even more severe, with the think tank American Enterprise Institute (AEI) estimating a decrease of 51.0%, the major accounting firm Ernst & Young (EY) reporting a decrease of 61.4%,

⁴ State Council Information Office of China, "White Paper on Chinese Foreign Aid 2014," July 2014 (http://www.gov.cn/zhengce/2014-07/10/content_2715467.htm, accessed September 13, 2019)

⁵ Naohiro Kitano, "Estimating China's Foreign Aid: 2017-2018 Preliminary Figures" (September 27, 2019), JICA Research Institute, page 11. The breakdown for 2018 is US\$3.3 billion for grants and interest-free loans and US\$2.5 billion for concessional loans. The estimate also shows that multilateral assistance, including funding to the Asian Infrastructure Investment Bank (AIIB), was US\$1.5 billion. Since this report focuses on "China-led investment and loans" in BRI investment and financing, investment and loans by international development financial institutions, such as AIIB, are not included for consideration.

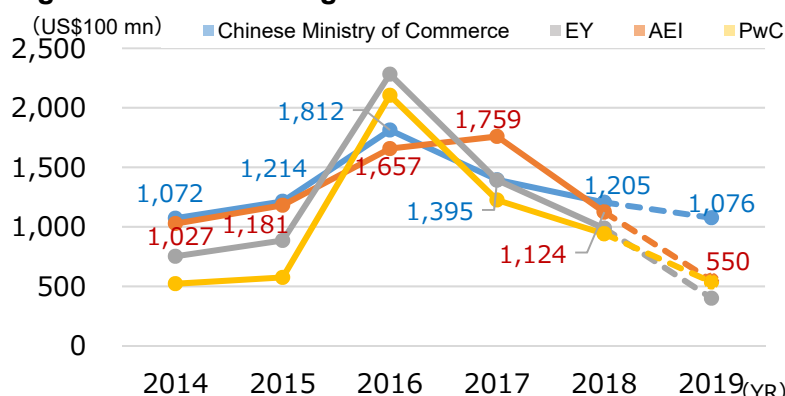
⁶ Lending terms for concessional loans and concessional buyer's credit generally include a financing ratio of 85-90%, repayment period of 20 years, and an interest rate of 2%. Tetsushi Uemura *et al.* "Infura Yushutsu ni okeru Nitchū no Kyōgō to Hokan" (Japanese language publication, Japan-China Competition and Complementary Relationship in Infrastructure Exports), Nomura Research Institute, Knowledge Creation and Integration, November 2017, page 46.

⁷ After the first Belt and Road Forum in May 2017, the capital was increased by 100 billion yuan.

⁸ "Yà tóuháng jí sī lù jījīn tóuzī qíngkuàng" (Chinese language publication, State of Investments by AIIB and Silk Road Fund), China Economic Times—China Economic News Network, April 22, 2019, (http://jjsb.cet.com.cn/show_507721.html, accessed October 8, 2019).

and PricewaterhouseCoopers (PwC) calculating a decrease of 33.3% (Figure 2).⁹ China's direct investments in emerging countries tend to have the two characteristics described below.

Figure 2: China's foreign direct investment and M&As

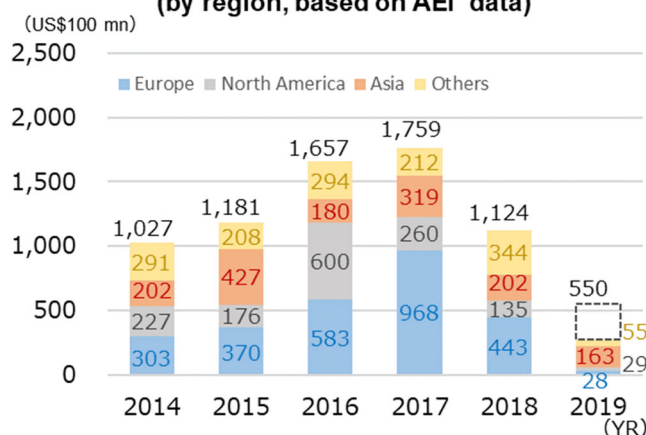


Note: Estimates for 2019 are double the figures for the first half, Chinese Ministry of Commerce and AEI data are for foreign direct investment, EY and PwC data are for foreign M&As.

Source: Compiled by MGSSI based on data from the Chinese Ministry of Commerce, AEI, EY, and PwC

First, while the amount of investment in advanced countries, mainly on Europe and the US, is fluctuating sharply, the amount for emerging economies, concentrated in Asia, remains relatively stable. According to AEI data, China's FDI grew sharply in the North American market in 2016 and the European market in 2017, but then declined sharply. Meanwhile, China's FDI in Asia and other regions hovered between US\$47 billion and US\$63 billion from 2014 to 2018 (Figure 3). In the first half of 2019, investment in Europe amounted to US\$2.8 billion (down 87% year on year), with that in North America at US\$2.9 billion (down 44% year on year), continuing to fall sharply, while investment in Asia and other regions totaled US\$21.8 billion (down 25% year on year), marking a smaller decrease in comparison. This is attributable to the fact that Western countries are tightening restrictions on Chinese companies' investments in the high-tech industry and other fields.

Figure 3: China's foreign direct investment (by region, based on AEI data)



Note: Estimate for 2019 based on double the figure for the first half.

Source: Compiled by MGSSI based on AEI data

Second, investments for advanced countries are mainly in the form of M&As, while the ratio of greenfield investments for establishing new infrastructure facilities and factories is high for emerging economies. According

⁹ According to statistics from the Chinese Ministry of Commerce, 57.6% of investments (2017) went to Hong Kong, which appears to be a transit point, and the actual end destinations of the investments are unknown. On the other hand, while surveys by private institutions are disadvantageous in that they can only gather statistics on projects of a certain size or larger (for example, AEI covers projects of over US\$100 million), the data can be analyzed by region, industry, and individual project.

to AEI, out of China's total FDI in Asia and other regions in the first half of 2019 (US\$21.8 billion), greenfield investments accounted for 49%, or US\$10.7 billion worth. By project, in addition to infrastructure investments such as for transportation and energy, investments in the manufacturing sector also stand out, with one being the construction of a factory in India by the Chinese consumer electronics major Haier (Figure 4). China's FDI in emerging countries is centered on infrastructure investment to improve the industrial base of the host country, but there are signs showing that FDI in the manufacturing industries, which leads to job creation and technology transfer benefits for the host countries, is also gradually increasing.

Figure 4: China's greenfield investments in emerging countries (top 10 in 2019 first half)

	Company	Investment amount (US\$1 mn)	Country	Sector	Subsector
1	China Communications Construction	1,950	Cambodia	Transport	Roadways
2	China Energy Engineering Corporation	1,310	Pakistan	Energy	Hydropower
3	China National Petroleum Corporation	1,070	Iraq	Energy	Gas
4	China Datang Corporation	970	Pakistan	Energy	Coal
5	China Telecom Corporation	860	Philippines	Technology	Telecom
6	Roadbot Tyre Industries	610	UAE	Transport	Automotive
7	Haier Group	420	India	Other	Consumer electronics
8	CITIC Dicastal	390	Morocco	Transport	Automotive
9	Zhejiang Jingxing Paper Joint Stock Co.	300	Malaysia	Other	Paper/pulp
10	China Railway Construction Corporation	300	Philippines	Transport	Railways

Note: List includes only investment projects for which details can be identified.

Source: Compiled by MGSSI based on AEI data

2. ADJUSTMENT OF THE BRI AND ITS BACKGROUND

The view that China is trying to adjust the path of the BRI was strengthened at the second Belt and Road Forum held in April 2019. This is because President Xi Jinping's keynote address contained comments that indicated a change in focus, compared to the keynote address delivered at the first forum in May 2017. Among such comments were, promoting the Belt and Road in the direction of "quality development," "encourag[ing] participating companies to follow general international rules and standards in project development, operation, procurement and tendering and bidding," and "ensur[ing] commercial and fiscal sustainability." Moreover, the keynote address delivered at the second Belt and Road Forum included references to phrases that did not appear in the first keynote address, such as "high quality," "international rules and standards," and "third-market cooperation," and also contained a marked increase in the number of references to "sustainable" (Figure 5). "High quality" has become a key phrase representing the new direction of the BRI, and it has also been

Figure 5: Number of keyword mentioning in President Xi Jinping's speeches delivered at the Belt and Road Forums

	First forum (May 2017)	Second forum (April 2019)
High quality	0	2 note
Sustainable	4	9
International rules and standards	0	1
Green, environmental protection	8	10
Anti-corruption, eradication of corruption, integrity	2	4
Third market cooperation	0	1

Note: "High quality" was mentioned 6 times, but only 2 times in direct reference to the BRI. The full text of President Xi's speech was approximately 6,300 Chinese characters in the first forum and approximately 4,300 characters in the second forum.

Source: Compiled by MGSSI based on full text of speeches released by Xinhua News Agency

confirmed that the number of mentions of “high quality” in BRI-related articles in the People’s Daily, which is the Chinese Communist Party’s official newspaper, has been increasing sharply in 2019.¹⁰

In his keynote speech delivered at the second Belt and Road Forum, President Xi Jinping also referred to the Debt Sustainability Framework for Participating Countries of the BRI. The framework for assessing debt was announced by the Chinese Ministry of Finance in line with the second Belt and Road Forum, and the ministry explained that it was established “based on the IMF/World Bank Debt Sustainability Framework for Low Income Countries, as well as the national conditions and development stages of BRI countries.” By compiling the framework, China seems to be advertising to the world that it emphasizes the importance of the financial sustainability of countries that host Belt and Road projects.

The direction of the corrected course of the BRI was already suggested at the 5th Anniversary Symposium on Promoting the BRI held in August 2018. In this occasion, President Xi Jinping stressed the achievements of the BRI over the past five years, but at the same time, stated that the next priority was to advance the Initiative to “realize its high-quality development.” Furthermore, he pointed out that “investment activities should be regulated, and businesses should operate in accordance with laws and regulations, pay attention to environmental protection, and fulfill their social responsibilities.” It can be said that adjustment of BRI approaches was publicly announced in the second forum.

China’s reasons for seeking to change the trajectory of the BRI can be attributed to three developments. First, there have been a series of demands for the revision of project plans in Malaysia, Myanmar, Pakistan, and elsewhere (Figure 6). In these countries, upon the changeover of administrations and other developments, there has been an increase in concerns about huge debt burdens and criticism of one-sided business conditions favorable to China. Secondly, major delays and other problems have surfaced one after another in high-profile projects, such as the Jakarta-Bandung high-speed railway and the Belgrade-Budapest (Hungary-Serbia) high-speed railway. Among reasons for the problems, it has been pointed out that business plans and estimates were inadequate, including for the expropriation of land for construction. Thirdly, criticism of the BRI from the US and the EU has also increased. China is being forced to reformulate its foreign policies against the backdrop of worsening US-China relations, and it is thought that China has come to recognize the need to show a certain degree of consideration for the criticism coming from the West toward the BRI.

Figure 6: Examples of plan revisions and problems in infrastructure-related projects led by China

Host country	Date	Details of revised plans and problems
Hungary & Serbia	Feb 2017	The EU delegation in China commented that the European Commission and the Hungarian government are in discussions regarding the appropriateness of the public procurement process for the construction of the Hungary-Serbia high-speed railway led by China.
Sri Lanka	Jul 2017	Repayment of the debt for Hambantota Port, which was developed with a loan from China, became impossible. A 70% equity stake in the port’s operating company is then transferred to the Chinese side for a period of 99 years.
Malaysia	Jul 2018	Construction of the China-led East Coast Rail Link is cancelled. Later, after renegotiations with the Chinese side, the project cost was reduced and construction resumed in July 2019.
Pakistan	Oct 2018	A plan is announced to reduce the cost of the Karachi–Peshawar Railway upgrade project, one of the main infrastructure projects of the China–Pakistan Economic Corridor (CPEC), from US\$8.2 billion to US\$6.2 billion.
Myanmar	Nov 2018	Concerning China-led development of Kyaukpyu Port, the Chinese side agrees to review the plan, including downsizing the project and increasing Myanmar’s investment ratio.
Kenya	Jun 2019	A Kenyan court suspends the plan to build a coal-fired power plant in the coastal city of Lamu with support from China, deeming that appropriate environmental impact assessments have not been conducted.
Tanzania	Jun 2019	Tanzania’s President John Magufuli demands on China for revising the project terms of the Bagamoyo Port, which is expected to become one of Africa’s largest ports, with the support of China.

Source: Compiled by MGSSI based on various reports

¹⁰ Asei Ito, “China’s Quest for a ‘High-quality Belt and Road Initiative’” AJISS-Commentary No.272, July 18, 2019, page 3 (https://www2.jiia.or.jp/en_commentary/201907/18-1.html, accessed September 4, 2019).

3. DISPARITY BETWEEN WESTERN AND CHINESE PRINCIPLES FOR INTERNATIONAL COOPERATION

Examples of EU and US criticism of the BRI can be found in the 2018 annual report of the US-China Economic and Security Review Commission (USCC), which is a congressional commission of the US government, and the 2018/19 position paper issued by the EU Chamber of Commerce in China. The USCC report points out, “China has not adequately addressed concerns ... about whether BRI projects will conform to international standards on environmental and social protection, transparency, and fair competition,” and calls attention to the problems detailed in Figure 7.¹¹ Also the position paper of the EU Chamber of Commerce in China states, “the procurement and tendering processes are often opaque, and the share of projects and contracts going to Chinese firms is simply too high to indicate a fair system.” The report adds, “In addition to concerns about costs and quality, unfair procurement under BRI projects raises serious consternation across the world.” The report goes on to say that in order for any countries and businesses to be able to participate in the initiative fairly, transparency should be improved “by mandating that all projects and contracts under the BRI publish their engineering, procurement, and construction tendering information online and release the appropriate information about the winning bidders and suppliers for any given contract in line with international best practices.”¹²

Figure 7: Problems with BRI investment and financing pointed out in the USCC annual report

Lack of transparency	Insufficient disclosure of loan conditions, etc. regarding loans to individual countries by China's policy banks
Lack of fairness and openness	China claims BRI projects are open to all, but in reality, orders are mostly awarded to Chinese state-owned enterprises.
Increased debt burden	Increased debt burden associated with Belt and Road projects hinders economic growth in the host country.
Promotion of corruption	In countries with weak governance and corruption issues, funds may be misappropriated.

Source: Prepared by MGSSI based on USCC annual report (2018)

Behind the EU and US criticism is the principle of promoting transparency and fairness of development aid and official export credits through the formulation of international standards, and promoting wider adoption of good practices. These principles are embodied in various declarations and recommendations of the OECD-DAC and mechanisms, such as the OECD's Arrangement on Officially Supported Export Credits, which is organized among participating countries with support from the OECD Trade Committee serving as the secretariat.¹³

Meanwhile, it is said that China's foreign aid basically takes the form of tied assistance that obligates procurement from Chinese companies, although details of China's foreign assistance are not available because China is not a member of OECD-DAC. Moreover, as China does not participate in the above-mentioned arrangements, the official export credits of the China Exim Bank are not subject to those arrangements.

¹¹ US-China Economic and Security Review Commission, “2018 Annual Report,” November 14, 2018, page 266, 278, (https://www.uscc.gov/Annual_Reports/2018-annual-report, accessed September 4, 2019).

¹² The European Union Chamber of Commerce in China, “European Business in China Position Paper 2018/2019,” September 18, 2018, pp 20-21, (https://www.europeanchamber.com.cn/en/publications-archive/658/European_Business_in_China_Position_Paper_2018_2019, accessed September 4, 2019).

¹³ The arrangement is a gentlemen's agreement aimed at “providing a framework for the orderly use of officially supported export credits.” It includes various provisions for regulations on the repayment period, interest rate system, and extendable amount of official export credit, as well as regulations related to tied development aid. Daichi Kano, “*Kōteki Yushutsu Shin'yō kara mita OECD — Level Playing Field no Tsuikyū-sha ni Wagakuni wa dō Taiji Subeki Ka*” (Japanese language publication, OECD from the perspective of official export credits — How should Japan deal with those seeking a level playing field?), January 25, 2018, JBIC website: (https://www.jbic.go.jp/ja/information/reference/reference-2017/contents/20180125_kano.pdf, accessed September 2, 2019).

Behind China's stance to distance itself from the OECD and promote international cooperation on its own is its rationale for positioning foreign aid as "South-South Cooperation" (cooperation between developing countries). South-South Cooperation embodies the idea of equality between China, which is the provider of assistance, and the recipient country, and that both should benefit, with tied aid representing the basis of aid from China.¹⁴ Furthermore, China strives to refrain from attaching any political conditions to aid recipient countries based on the idea of non-interference in domestic affairs that is advocated in its "Five Principles of Peaceful Coexistence," the basic principle of Chinese diplomacy.¹⁵ It thus stands apart from the EU and other countries that put a premium on human rights in aid recipient countries. This divide between China's philosophy on international cooperation and the thinking of the US and Europe is inciting criticism from the West, with critics saying that China is not compliant with international standards, and is also causing China to distance itself from the international standards promoted by the West.

4. FUTURE DIRECTION OF THE BRI INITIATIVE

Based on a review of adjustment of the BRI, the outlook for the future direction is summarized as below.

First, China's determination to actively promote the BRI will not change. Intensifying friction with the US is placing greater importance on the BRI as a gateway through which China can strengthen relations with emerging countries, in consideration of both reducing its dependence on the US as an export market, and in increasing the number of countries in the global community that support China. Since the resolution to promote the BRI has been incorporated into the Communist Party of China's constitution, which is the party's highest statute of regulations, the BRI will remain one of the most important initiatives in China's foreign policy over the long term. In reality as well, the relationship between China and emerging countries has deepened, especially in terms of trade (Figure 8),¹⁶ and this trend will continue.

Figure 8: Changes in China's exports to advanced and emerging countries

	2000		2018	
	Amount (US\$1 bn)	Percentage (%)	Amount (US\$1 bn)	Percentage (%)
Total	249	100	2501	100
Emerging economies	69	28	1179	47
Asia/Middle East	46	19	744	30
Africa	5	2	106	4
Central & Eastern Europe	7	3	122	5
Latin America	7	3	149	6
Oceania	4	2	57	2
Advanced countries	136	54	1019	41
Japan	42	17	148	6
North America	55	22	516	21
Western Europe	39	15	356	14
Hong Kong	45	18	304	12

Note: Asia excludes Japan and Hong Kong. As the figures are based on the cumulative total of monthly data, there may be discrepancies with annual data.

Source: Prepared by MGSSI based on CEIC data

¹⁴ Shino Watanabe, "Chūgoku no Taigai Enjo no Kakudai to Kokusai Kaihatsu Enjo no Genkai" (Japanese language publication, Expansion of China's Foreign Aid and Limitations of International Development Assistance), Toyo Bunka Vol. 97 (2017), page 25-26.

¹⁵ Watanabe, *ibid.*, page 18.

¹⁶ Figure 8 is based on the following: Chapter on "Sekai Keizai no Kōzō Henka to Chūgoku-Shinkyōkoku Nekusasu" (Japanese language publication, Structural Changes in the Global Economy and the Nexus between China and Emerging Economies) by Tomoo Marukawa, page 10., *op. cit.*, edited by Akira Suehiro, Toshio Tajima, and Tomoo Marukawa

Secondly, in terms of bilateral investment and financing through such as government-affiliated banks and the Silk Road Fund, China will continue to promote them in a way that is different from practices employed by the West, which seeks transparency and fairness in providing development assistance and official export credits. In actuality, not all recipient countries of BRI projects necessarily seek transparency, and this is especially true in countries with authoritarian political systems. Some analysts look upon China's adjustment of the BRI positively, saying it can be seen, to a certain extent, as an accomplishment for advanced countries from the perspective of getting China to participate in international standards. On the other hand, some also voice negative views, saying that there is no way to reflect transparency or international standards for financing arrangements, provided solely by China, even in the future.¹⁷ As such, the friction between China and the West, stemming from the disparity in their thinking on international cooperation, will persist.

Third, in BRI investment and financing, China will begin to place greater importance on the economic feasibility and risk management of the projects, and the sustainability of the participating country's finances. This is because global support for the BRI itself may weaken if more projects face problems and the host countries continue to demand revisions to project plans. Improving the quality of projects has become an urgent matter for China as well in order to diminish the risk of setbacks. For projects already in progress, it is expected that China will respond flexibly to requests for reassessment from host countries, and in the future, it will likely strengthen the process for project selection and make more careful investment decisions.

Fourth, in order to improve the quality of BRI projects, China will increasingly turn toward cooperation with international organizations and third market cooperation with such partners as Japan and European countries. At the second Belt and Road Forum, President Xi Jinping said, "We welcome the participation of multilateral and national financial institutions in BRI investment and financing, and encourage third-market cooperation. With the involvement of multiple stakeholders, we can surely deliver benefits to all." The Asian Infrastructure Investment Bank (AIIB), established under China's initiative, has developed into an international development financial institution that shares Western principles, such as transparency and fairness, in the process of letting major advanced countries join. There is the possibility that China will move toward compromising, to a certain extent, with the West's international standards on the BRI projects that are being promoted multilaterally, such as with international organizations and other countries like Japan and European nations.

Japan and China held a Japan-China Third Country Market Cooperation Forum in conjunction with Prime Minister Shinzo Abe's visit to China in October 2018, and 52 memorandums of cooperation were signed. At the forum, Prime Minister Abe pointed out that for investment in infrastructure, it is important to facilitate projects "in line with international standards of openness, transparency, economic efficiency, and financial soundness" of the host countries, and called on Japan-China cooperation that is based on international standards. In May 2019, the Japan Bank for International Cooperation (JBIC) and the CDB held the Japan-China Third Country Market Financing Cooperation Forum, showing Chinese government-affiliated banks' willingness to cooperate with Japan. While it is necessary to watch the trends going forward to determine just how much China's adjustment to the course of the BRI will bring about actual changes in investment and financing, Japanese companies should actively seek cooperation with Chinese companies, based on an objective evaluation of adjustment of the BRI and the limits of such compromise.

¹⁷ Based on an interview-based survey conducted in Beijing by MGSSI in May 2019.