BUILDING A SUSTAINABLE 'BELT AND ROAD'

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SINCE 2013, two global development frameworks have been born: the United Nations' Sustainable Development Goals (SDGs) and China's 'One Belt, One Road' (OBOR) Initiative. The SDGs and OBOR are mutually supportive development agendas. In fact, OBOR can, and should, be made into the world's first regional attempt to implement the SDGs.

To be achieved, the SDGs require a revolution in economic planning, political cooperation, business leadership, and technological advancement. Simultaneously achieving economic growth, social inclusion, and environmental sustainability—the three pillars of sustainable development—runs counter to recent development history in most parts of the world. From an investment perspective alone, the SDGs will require an additional annual $1-2 trillion of public and private investment, with over half of this incremental capital being required for infrastructure and low-carbon energy needs. Achieving the SDGs will not be easy for any country or region.

OBOR can help guide the way. This initiative, first announced in 2013 by President Xi Jinping, seeks to further integrate Asia, Europe, and Africa through the development of land and maritime infrastructure, components known as the Silk Road Economic Belt and the twenty-first-century Maritime Silk Road. This massive push for development includes roads, rails, airports, seaports, energy pipelines, and other core projects for economic development in the region. Under the leadership of China, OBOR will also further the political, social, and cultural linkages between over 60 countries that will be part of this initiative.

The ambition and scale of OBOR is precisely what is needed for the SDGs.

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The New Silk Road by Land and Sea

Although OBOR is not explicitly an SDG initiative, it embodies many of the same principles that are needed for SDG implementation: long term planning, cooperation between states, and the development of public-private partnerships. OBOR should be undertaken with the SDGs in mind.

If the SDGs and OBOR can be successfully integrated, a new form of multilateralism will have been created. This new model will combine the best of the United Nations, including global consensus around future direction, and the best of China's growing leadership in the world—namely, a focus on long term investments and infrastructure development. In so doing, OBOR can prove to be a new and innovative form of multilateralism for the twenty-first century—one that focuses on solving the most pressing sustainable development challenges of the world. The world will also have a blueprint for similar regional initiatives for sustainable development.

IMPLEMENTING THE SDGS

During the 67th Session of the UN General Assembly, the United Nations began negotiating on an unprecedented framework: a set of goals for sustainable development that were acceptable for all its 193 Member States. The SDGs serve as a follow-up to the Millennium Development Goals (MDGs), the previous UN framework for global development cooperation, covering the 2000–2015 period. The MDGs were a powerful means to focus political attention, financial resources, and investments on the fight against poverty and preventable diseases.

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The MDGs were on the whole successful, although not all of the MDGs were achieved. Debt cancellation under the Heavily Indebted Poor Countries (HIPC) program gave financial space for the restoration of public investment in many poor nations—particularly in Africa. The revolution in information and communication technology helped spread mobile telephony, online banking, e-health, and other technologies throughout the world. During the period of the MDGs, the number of people living on less than $1.25 a day fell from 1.7 billion to 836 million; primary school enrollment increased from 83 percent to 91 percent; and new HIV infections dropped from 3.5 million to 2.1 million.

One of the key contributors to the success of the MDGs was the economic success of China. From 2000 to 2015, the Chinese economy grew at an average of 8 percent per year. The investment-led growth model of China, which began with the economic reforms of Deng Xiaoping in 1979, has led to 500 million people within the country escaping from poverty. In addition, China's economic growth created significant demand for natural resources, which increased trade and linkages with resource-rich regions such as Africa and Latin America. This contributed significantly to growth and poverty reduction in those regions as well. China's development model of heavy investment in infrastructure and manufacturing, as well as targeted poverty reduction strategies, will remain relevant for other countries during the SDG era.

The SDGs build on the MDGs in three important ways.

First, the SDGs are holistic, in that they combine economic growth, social inclusion, and environmental sustainability. In short, developing countries will not be able to destroy their natural environment, or jeopardize social cohesion through increases in equality in the pursuit of economic growth. This is possible due to technology, and is essential due to growing environmental constraints. Technological improvements in the cost and efficiency of renewable energy, agriculture processes, and urban planning mean that developing countries no longer have to choose between economic growth and environmental sustainability. Given the increased health impacts of pollution and the challenges of climate change, this is vital.

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Second, the SDGs apply to both rich and poor countries. The challenges of sustainable development exist around the world. For example, the United States—one of the world's richest countries, with a GDP per capita of $45,000—has experienced significant increases in income and wealth inequality over the past 30 years. This has led to unhealthy political polarization, increased health challenges for lower-income citizens, and a rise in disorder in many regions. Of course, climate change knows no borders, and is affecting wealthy regions such as North America and Europe, as well as poorer regions such as Africa.

Third, the SDGs require a significant scale-up of public and private focus and resources to be achieved. The MDGs focused mainly on decreasing poverty and preventable diseases around the world. Although the private sector played a useful role in these pursuits (for example, the role of pharmaceutical companies for vaccinations), the role that private enterprise and investors played was limited. This is markedly different for the SDGs, which require an additional $1-2 trillion per annum worth of energy, transportation infrastructure, urbanization, health costs, and so on. Over half of such investments will have to come from the private sector.

Given the ambitions of the SDG agenda compared to the MDG one, new approaches are needed at all levels of government, business, civil society, and academia. There are three specific pillars of SDG implementation that must be understood.

At their core, the SDGs require long term, national economic planning to be achieved. This planning is a far cry from the rigid, Soviet-style "Five-Year Plans" of the past. Instead, the SDGs will require dynamic strategies that take into account evolving technologies, new financing mechanisms, multi-stakeholder contributions/partnerships, and cross-border cooperation. One key element of SDG planning will be 'back casting'—an approach whereby long term goals are defined by the SDGs and then pathways are created to see how those goals can be achieved. This is particularly vital in the planning of energy transitions.

In addition, the SDGs will also require a higher degree of cooperation between countries, given the global nature of the sustainable development challenge. International cooperation for sustainable development is required on a variety of fronts. These include technological development, regulation of financial flows and taxes, and issues concerning peace and conflict. It is safe to say that the SDGs are as much a test of multilateralism as they are of development policies, technologies, and financing strategies. Without a concerted global effort, the SDGs will not be achieved.

Finally, the SDGs will require new financing vehicles that most efficiently bring together public and private resources. They will require a significant flow of savings from the developed world to the developing world in the form of public and private capital. Overseas development assistance will remain vital for low-income countries unable to finance basic social spending out of their government budgets. However, given the trillions of dollars that are needed for infrastructure and energy investments, financial markets will need to intermediate capital from the world's large saving pools—particularly in the U.S., Europe, and China—to the regions that require capital investments. Global, regional, and national development banks can also play a critical role in this intermediation.

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These three pillars—national economic planning, international cooperation, and new financing vehicles—for the SDGs are well encapsulated by OBOR. It is for this reason that OBOR can play a meaningful role in furthering the SDGs.

China and OBOR

China played a critical role in the MDGs and is poised to do so again with the SDGs. OBOR is a continuation and exportation of the development successes that China has experienced since the early 1980s. If OBOR can successfully integrate the sustainable development agenda into its own plans, it will help shape a new kind of multilateralism—one that exists outside the structures of pre-existing international organizations, but can have significant development impacts if guided appropriately.

It bears repeating: China has been very successful in poverty reduction and infrastructure build-out—two key elements of the SDGs—over the past 30 years. Recently, China has taken a leadership in renewable energy investment, having invested more in renewable energy in 2015 than the United States, the United Kingdom, and France combined. China's development model—based on large state-intervention in economic affairs, exports, infrastructure development, and limited political participation—is not entirely replicable in other countries for a variety of reasons, including differing political systems, unacceptable environmental impacts, and changes in global economy since the late twentieth century.

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However, China's successes in development should be understood clearly for SDG implementation—with OBOR as the internationalization of this model. The nation's creation of comprehensive economic plans and financing structures to support those plans—for instance, the China Export-Import Bank and the China Development Bank—are especially noteworthy.

In 1999, China initiated its *zou chuqu,* or 'Going Out Policy,' to support Chinese industries in expanding internationally. OBOR should be viewed as a continuation and acceleration of this original policy.

The 'Going Out Policy' was developed for three main reasons. First, China needed to expand its industries beyond the borders, as more foreign businesses began entering China after its ascension to the World Trade Organization in 2001, causing competition. Second, China has been developing a growing foreign reserves balance, creating upward pressure on its currency and an impact on manufacturing competitiveness. Third, China sought to gain access to key natural resources for its ongoing investment-led growth. The 'Going Out Policy' has been very successful, with Chinese outward FDI increasing from $5.4 billion in 2004 to $101 billion in 2013.

In 2013, President Xi Jinping announced OBOR while on foreign trips to Kazakhstan and Indonesia. At its broadest level, OBOR seeks to rebuild the historical Silk Road—which connected China to Europe during the Han Dynasty—through the development and upgrading of regional infrastructure projects. According to the Hong Kong Trade Development Council, the 'Belt and Road' Initiative aims to connect Asia, Europe and Africa along five routes. The Silk Road Economic Belt will focus on: (1) linking China to Europe through Central Asia and Russia; (2) connecting China with the Middle East through Central Asia; and (3) bringing together China and Southeast Asia, South Asia and the Indian Ocean. The twenty-first-century Maritime Silk Road will focus on using Chinese coastal ports to: (1) link China with Europe through the South China Sea and Indian Ocean; and (2) connect China with the South Pacific Ocean through the South China Sea. Six international economic cooperation corridors will be built to along these routes. These have been identified as the New Eurasia Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar.

So OBOR will include rail networks connecting China, the Middle East, and Europe; maritime ports in countries ranging from Indonesia and Malaysia, to Sri Lanka and Tanzania; energy pipelines from Northwest China through Kazakhstan and beyond; and other projects. In 2015 alone, Chinese enterprises signed nearly 4,000 project contracts across 60 countries associated with OBOR, for a total of $92.6 billion.

There are many reasons that China is seeking to do so at this time in its economic history. First is the macroeconomic case. China has a very high Gross Savings Rate of 49 percent, and this needs to be invested in productive investments. As China shifts its economy away from being investment-led to consumption-driven, Chinese savings can be used for regional infrastructure. Second, and relatedly, China has significant overcapacity in its industrial sectors, which could be used for regional infrastructure development. Third, Beijing is seeking to expand its sphere of influence throughout the region, as China becomes a competing superpower to the United States of America.

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There are five announced pillars of OBOR: policy communication, road connectivity, unimpeded trade, money circulation, and cultural understanding. To support this initiative, the Chinese government has created two dedicated financial institutions: the Asian Infrastructure Investment Bank (AIIB), with a total initial capitalization of $100 billion, and the Silk Road Fund (SRF), with total investment of $40 billion led by the China Investment Corporation. The establishment of large dedicated public financial institutions like AIIB and SRF will be crucial to the success of OBOR. In addition, three existing Chinese financial institutions will play a critical role in financing OBOR—the China Export-Import Bank, the China Development Bank, and the China Investment Corporation.

The China Export-Import Bank and the China Development Bank are two of three institutions established by the Policy Banks in 1994 to finance the nation's trade and infrastructure development. The importance of these two financial institutions is hardly understood by Western observers. In 2015 alone, the China Export-Import Bank lent $80 billion, approximately three times the Asian Development Bank, and financed over 1000 projects in 49 countries involved in OBOR. The China Development Bank, meanwhile, has been almost singularly responsible for financing China's extraordinary infrastructure development over the past 20 years. Understanding the role of these two policy banks in OBOR is critical.

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The China Investment Corporation (CIC), China's sovereign wealth fund, will also play a key role in financing OBOR. The CIC is a lead seed-funder in the $40 billion Silk Road Fund. As a sophisticated long term investor with over $700 billion of assets, the CIC could play a critical role in ensuring the commercial viability of OBOR projects for private sector investors around the world.

Despite the ambition and organization around OBOR, there remain many unanswered questions and challenges regarding its viability, three of which I highlight below.

The *first* is coordination. Cross-border investment projects require significant coordination between different regulatory and legal regimes, currencies, and cultural constructs. From a financing perspective, the AIIB can play the crucial role in project preparation. However, it is not clear which (and whether) political institutions and associations will play a role in overall political harmonization. OBOR will cut across the Shanghai Cooperation Organization (SCO), the Association of Southeast Asian Nations (ASEAN), the South Asian Association for Regional Cooperation (SAARC), and other regional groupings—let alone various financial institutions, including the Asian Development Bank, the World Bank, and the IMF.

The *second* concern is the sustainability of the projects. Although China has had considerable success in developing high-quality modern infrastructure in a short period of time, the environmental sustainability of this infrastructure build-up is questionable. After all, China is the world's largest carbon dioxide emitter. In 2012 alone, China emitted 8.5 Gt of CO_2, approximately 25 percent of global carbon emissions (although on a per-capita basis, this was still less than half of U.S. per capita carbon emissions). China suffers from severe water scarcity and pollution, with over 60 percent of groundwater being poor in quality. As highlighted by the AIIB's head, Jin Liqun, in the Summer 2015 issue of *Horizons*, the Bank is dedicated to being "lean, clean, and green." Yet it remains to be seen what standards are being used to judge infrastructure projects for OBOR.

The *third* question regarding OBOR is the economic health of China itself. The country's economy is slowing down from a 8-10 percent to a 6-8 percent growth rate. In order to support its currency, China's reserves have fallen sharply over the past 18 months. Although OBOR is not a China-only development strategy, it is certainly China-led. So if China were to go through a major economic or financial crisis, it is not clear how OBOR would be impacted.

Key Elements of a Sustainable OBOR

The SDGs and OBOR need one another for their mutual success. For the SDG Agenda, OBOR presents an ambitious initiative in one of the most important regions in the world for sustainable development: Eurasia. In addition, China—whose development model lends itself to key aspects of sustainable development—is leading OBOR. This is welcome news.

For OBOR, the SDG agenda provides much needed guidance on the social and environmental aspects of the projects being considered. Given the imperatives of the COP21 Paris Climate Agreement, this is vital.

If the SDGs and OBOR can be integrated, a new form of multilateralism will be born. It will combine the global consensus of the SDGs, point to the necessity of a more sustainable world, and the successful development policies and financing strategies of China—a major global development finance player.

In coming to the conclusion of this essay, I submit the following six elements that will help ensure the mutual benefits of the SDGs and OBOR.

First, a clear coordination structure should be created between the United Nations, the government of China, and the various regional actors in order to ensure the sustainability of OBOR. The UN is perhaps the only global organization that can convene the various political and financial organizations involved with OBOR, while also impartially supporting the initiative. By involving the UN, the successes of OBOR can also be translated to other regions in the world. How the United Nations plays a role in OBOR will demonstrate the institution's relevance in multilateralism for the twenty-first century.

Second, OBOR should drive the need for all countries in the region to develop long term SDG implementation and investment strategies to ensure that proposed OBOR projects are aligned with sustainable development. This is particularly important for energy and infrastructure projects. The COP21 agreement requires all countries to develop mid-century Low Emission Development Strategies—which are aligned with the two degrees Celsius goal—by 2020. The Deep Decarbonization Pathways Project provides a very useful starting point as countries consider what investments need to be made in their energy systems to be aligned with a two degrees Celsius pathway. This means that all major infrastructure projects, including OBOR projects, must be aligned with a two degrees Celsius world. This is critical for the sustainable development of the region.

Third, OBOR should push for the creation of well-capitalized national development banks throughout Asia, Europe, and Africa. Development banks will play a critical role in financing the 2030 Agenda for Sustainable Development, the core of which is the SDGs. The creation of the AIIB and the New Development Bank, both led predominantly by Beijing, shows the acceptance of this financial model within China. This needs to be emulated across the region, as OBOR projects will only be a fraction of the total infrastructure development needs.

Fourth, local financial institutions and saving pools—commercial banks, pension funds, insurance firms and sovereign wealth funds—throughout the OBOR region should be activated for investment in OBOR projects. This must be done in a systematic and coordinated way, led regionally perhaps in partnership by the China Investment Corporation and the Asian Infrastructure Investment Bank. The Global Infrastructure Facility of the World Bank—which brings together development banks, institutional investors, project developers and commercial banks—can serve as a model. One of the key lessons of Chinese—and broader Asian—development is the channeling of local savings for local development. This is required for OBOR. Through such a coordinated approach, the bankability of OBOR projects will be enhanced.

Fifth, regional universities and think tanks should play a central role in developing the policy frameworks, research agendas, and cross-cultural exchanges, that will be needed for the success of OBOR. The SILKS Network, co-hosted by the Center for International Relations and Sustainable Development and the Development Research Center of the State Council of the People's Republic of China, is a wonderful initiative that can be transformative for the OBOR project. The research agenda around OBOR should focus on the integration of sustainable development with the OBOR initiative.

Sixth, OBOR must keep in mind the social development of the region. Large-scale infrastructure investments are very powerful tools for economic development. However, they need to be mirrored with social policies and oversight that ensures no corruption, fair labor standards, proper environmental oversight, and other such aspects.

The UN SDG agenda and OBOR can and should be integrated. If done well, a new model of sustainable development finance and integration will be created for the world to emulate.