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Plenary 3 Transcript
Weaponizing Capital: One Belt, One Road, One Way**

SPEAKERS:

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MODERATOR:

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Yalda Hakim: Good morning. One Belt, One Road: Xi Jinping's grand vision, the world's biggest project. And its aim? To make China great again. Sixty countries are involved, from Asia to the Middle East and Europe. The message: everyone who signs up will be a winner. There are plans, for example, for a pipeline and ports in Pakistan, bridges in Bangladesh, and railways in Russia, all with the aim of creating what China calls a modern-day Silk Road, a new era of globalization. But of course views are sharply divided. There are some who say it's a massive waste of money with very little practical gain. And there are others who say it will kick-start worldwide development. Its ambition is huge, and the scope is immense.

But how are they going to go about doing this? And what about all the political and security concerns along the way? Well, my expert panellists are going to try and answer some of these questions. We have with us here on the stage Secretary Richard Spencer, the Secretary of the Navy for the United States. We've got General Bryan Fenton, the Deputy Commander for the United States Pacific Command; Edward Luce, Washington Columnist and Commentator for The Financial Times; and Ambassador Ong, the one-time Secretary General of ASEAN and now with the Nanyang Technological University in Singapore.

Let me begin by asking you, Edward, if you could just sum up in 30 seconds what the One Belt, One Road actually is.

Edward Luce: So it's – it's something that President Xi in his first term announced in 2013 in central Asia. The new Silk Road was what it was quickly dubbed, but it has since become a much more formal, multinational effort. And of course earlier this year the One Belt, One Road Initiative, since renamed the Belt and Road Initiative, summit was held in China – 30 heads of state, 60 countries. We're talking about a trillion dollars over five years of infrastructure projects that span, you know, ports in Pakistan – which are already underway, by the way; buying up the Port of Piraeus in Athens; Mombasa-Nairobi Railway; \$65 billion already in debt from Venezuela for various projects. There's not actually that much coherence to this from a commercial point of view, except to say that – that China has a lot of surplus capital, that its rate of growth at home for the capital it's investing is falling. There's just so much excess capacity. And it's exporting a lot of capital and getting others to join in.

The – the one other point that's really interesting here is it's obviously not just a surplus domestic savings situation; it is a central political goal of Xi Jinping. And we all know that Xi Jinping thought was elevated into the Chinese Constitution last month. You know, he joined Mao Tse Tung and Deng Xiaoping. What was perhaps last remarked upon is that the One Belt, One Road Initiative was also incorporated into the Chinese Constitution. And this has a lot more than a five-, ten-year horizon. All infrastructure projects are very long-horizon projects. And so if Xi Jinping wants to prolong his power, the fact that this initiative, his initiative, as much as the Great Leap Forward was Mao's initiative, is there, enshrined in the Constitution now alongside Xi Jinping's thought should give you some sense of the longevity not just of the infrastructure projects but of Xi Jinping's – of the arc of his political career.

Yalda Hakim: General Fenton, a lot of people are comparing this to the Marshall Plan. Would you say that's the case?

General Bryan Fenton: I'd say there are probably comparisons. We do hear that. You know, though, as – as I look at it, certainly as – as I've had the chance to see it, you know, if you look at the Marshall Plan, significant effort to rebuild Europe, certainly one that I think went in with high aspirations and goals and was part of the framework that eventually got set up, that has guided us for these 70 years and led to a very, very prosperous era, as we talked about yesterday, I think probably in the enormity, yes. In the contrast, though, certainly with the Marshall Plan, as – as I've had the chance to study, a lot of leanings toward grants. I think on the One Belt, One Road, or the Brick Road Initiative, they're loans, maybe some of them high-interest loans; an import of labour from China to many of the projects, maybe to all the projects, in a way we didn't do with the Marshall Plan. I think on the – certainly on the scale and size of

expenditures that China's undertaking, there – there's the – that comparison to the Marshall Plan is out there, though. Certainly on today's dollars, what China's got against that is – is exponentially larger.

I think the key take-aways are, I think, maybe the – the import of labour, the high-interest loans, maybe even some practices that look nothing like we did in the Marshall Plan, with 99-year leases. Some folks have called them predatory, the way China goes about it, and I don't think that was the case when we taught the Marshall Plan back in – in World War II.

Yalda Hakim: Secretary Spencer, I'll bring you in because China, the way it deals with nations, is very transactional. So as General Fenton was saying, they – they don't necessarily take into account corruption, for example, or – or human rights issues. If you want to do business with us, we're open.

Hon. Richard Spencer: Yalda, before I answer that question, we're all here as – as friends and allies, and – and I would be remiss if I didn't share with you that don't know, we have a situation of distress on the high seas right now. Our Argentine friends have lost contact with one of their submarines 36 hours ago. The US, the UK, the Chilean Navy are all on-loaning assets and services to help in the location and recovery of this. But I would ask that, for the crew and their loved ones, we keep them in our thoughts and prayers as this unfolds.

That being said, Yalda, exactly, it's transaction oriented. And coming from the world of finance prior to taking this role, we always viewed capital as the universal lubricant of trade and global prosperity. And when we talk about weaponizing it, it puts a different spin on it. And as I was thinking about the topic and the title, I really flashed back on what happened in the – in the global financial world, and we actually have weaponized it. There's a – there's a product called debtor in finance – debtor-in-possession financing, which is when someone is about to go under, a financial source comes in at the last minute and provides a financing package that, if in fact the company fails or the asset fails, the – the provider of the finance owns that asset. I see nothing different in what China is doing with their expansion right now, which, if you look at Sri Lanka, if you look at the Philippines, Piraeus, it's a dual-edged sword. Yes, we're seeing economic benefit, but at what cost? And over what term are we seeing this?

We have to have open transparency as we all work together as global trade partners. We look at Djibouti. All of a sudden the garrison that's being put in Djibouti and the army numbers from the PLA are increasing there. It's something we really have to keep an eye on and monitor very closely. The US Navy, its strategic, overarching role is to keep the sea lanes of – of transportation open because they are the arteries of trade for global prosperity. We will continue to do that, and we will continue to keep a sharp eye and ply the freedom of

navigation actions that we do in order to keep the lanes open. We really have to keep an eye on this because everyone should be asking at what cost.

Yalda Hakim: I'll just to go Ambassador Ong really quickly. Just give us the view from Asia. Does Asia view this as a double-edged sword?

Amb. Ong Keng Yong: Yes, of course. But at the moment most of us are interested in developing the infrastructure needed for our high-growth economy, so if there is a guy who is prepared to fork out money, why not? It is not commercially viable in all these proposal, but since he has a lot of money, we just go along with it. The important thing, as Secretary Spencer points out, is that at the end of the day many of these projects are infrastructure connectivity projects, which do not yield immediate returns. So along the way, due to whatever reason, maybe poor management or lack of customer to use the infrastructure built, somebody has to continue to fork out money.

And in certain circumstances, we see that the countries hosting some of these projects may not be able to pay up, so then they will convert their loan into equity, which means they will take over the infrastructure in due course. So as Secretary Spencer put it, you have to think about it. At the end of the day, do you want to relinquish your ownership of many of these infrastructure, which in ordinary times anybody who want it will (inaudible) have to get it. But now, through this One Belt, One Road or what the call the Belt Road Initiative, you can go around it and acquire ownership in due course.

Yalda Hakim: Because the fact remains that China has helped a lot of these countries economically, these Asian countries.

Amb. Ong Keng Yong: Yes, but the so-called assistance is quite different. They help us in many ways to develop the capacity, but mostly based on trade and commercial deals, transactional, as one of the speaker put it. It's quite different from getting into infrastructure and eventually acquiring ownership of infrastructure if the hosts cannot pay it up (inaudible) due. But overall, I think for now most Asian countries would approach it as something of a necessary evil. We try to ride with the economic growth that is seen in Asia, and the fact is that capital is limited. Whatever capital we have in Asia, we probably will have to provide the other part of the governance, which is institutions and other kind of development like education, protecting the environment, all that. So very little money left for actual physical infrastructure development. So if there is a investor, why not?

Yalda Hakim: Edward, whether it's true or not, there is a feeling globally that the United States in a – is in a state of self-imposed decline, so there are some benefits then with working with China.

Edward Luce: Well, so look. I mean, one trillion over five years sounds like a lot. But if you look at estimates of the demand for infrastructure worldwide over the next five years, it's five to seven trillion dollars of investment is the kind of ballpark number we're talking about. So this isn't huge. A lot of it is needed. There are dangers of loans, punitive loans being converted by China into equity, and I think that's a big explanation for why India boycotted this summit. You know, where – where we see foreign direct investment, India sees the East India Company. You know, they have a – they have a sort of historic scepticism of commercial investments just being commercial.

That said, though, maybe there will be white elephants; there always are with infrastructure investments. But if you look at the record of the ADB and the World Bank, littered with concrete dams that, you know, displaced people, that didn't actually add up when you do the cost-benefit analysis. Look at our public procurement standards in the west. I mean, did we have open public procurement when – when Halliburton took all the contracts in Iraq? I don't think so.

So the Chinese, you know, should be given some due here that they're not actually trashing rule books that are sort of established and set in stone. The Asian Infrastructure Investment Bank that China launched has got, you know, 50, 60 countries now belonging to it, and they made a precondition of joining the A double IB of it having best practice public procurement standards and so forth. So you know, there are – there is a double-edged sword here. There is definitely a weaponizing of capital. There – there is a geostrategic element to this. But the world needs infrastructure investment, and China is not, you know, is not shoving it down people's throats. It's --

Yalda Hakim: There are 60 countries already signed up.

Edward Luce: Indeed. There are 60 countries already signed up. And this is a fraction of the infrastructure investment that – that the world needs. And to be frank, the western-backed institutions, which remain, you know, under western lock – the World Bank, it's always an American head; the IMF, it's always a European head, and they don't reflect the rest of the world's weighting in the world's economy. They are not providing this capital. We're not – we're not signing up in – in, you know, the replenishment rounds to vast increases in the – in the balance sheets of the World Bank and the ADB and so forth to provide some of this capital. And capital markets don't do project finance. They're 15-, 20-year returns. They just don't do them. So it's a bit more nuanced than China simply gobbling up its neighbours.

Amb. Ong Keng Yong: But I would – one point here so far is that, although the AIIB is designed for such kind of investment on infrastructure, those money that they have actually allocated for project on the Belt and Road Initiative is still

small. If you look at the overall capital of a hundred billion bucks, I think so far they have only spent about two or three percent on the Belt and Road Initiative. So to be fair, they have not yet pour all the money from the AIIB into the Belt and Road project yet.

Yalda Hakim: There's also rising debt fears within China as well, isn't there?

Amb. Ong Keng Yong: Yeah.

Yalda Hakim: Yes.

Amb. Ong Keng Yong: But the debt in China depends on how you look at it. The guy who owns the money are all state-owned enterprises, which the government can just simply turn on and turn off. So if the debt is owed to a private company or to an international banking system, and the debt is due and you don't pay, there can be very serious consequences. But when you look at the debt in China, mostly carried by state-owned enterprises, and very often the government can come in and build them up, or they just shut down the pipeline and then the debt would remain constant. So it's not quite as simple to analyze it based on just an amount of debt.

Yalda Hakim: General Fenton, just tell us what some of the security concerns are, the challenges for this.

General Bryan Fenton: Certainly, and I – I appreciate that because it was one of the things I certainly want to bring up. There's a security aspect here I think that, well, we – we certainly focus on. And you know, on the first part, security inextricably linked to economic prosperity. So we understand that, and China's desire with some of these ports to maybe expand the naval presence, on one end probably linked to that. But I think as a military teammate, I'm paid to look at the world through a dark pair of glasses. They have some spidey senses up about what's really going on. And – and not to do that based on just, you know... maybe no examples out there. But maybe an example that we're certainly have been looking at for some time, the South China Sea is a micro-manifestation of that. My – my sense, there's – there's the potential for some bait and switch. And the bait and switch might be, as we hear in the South China Sea, that these reclaimed features are out there for only peaceful purposes, maybe to rescue a wayward seaman or a fisherman, somebody out there who got lost. But when you take a look – and anybody here certainly can get on the net and Google these things – what you see is quite a large runway, military emplacements that would make any proud who's got a military background, with aircraft hangars and – not aircraft in them at times, and certainly weapons emplacements. My point back is, is that to rescue a wayward fisherman or somebody who's lost at sea?

And so when you take that and the continuation of a number of those features out there that have been developed over time, I think almost 3200 acres kind of reclaimed in the last two years or a little bit more to make these places, what then in Hambantota? What then in Sri – in Guadar (ph)? What then in Djibouti, as has just been mentioned, where I think there's a fairly significant number of PLA forces already? I think – so that has our attention. That certainly has our focus. And – and again, as I self-admit, spidey senses and paid to look at the world through a different pair of glasses causes us to at least want folks to understand that and bring that into the conversation, as well as the economic – the economic pieces.

Yalda Hakim: Yes, Secretary.

Hon. Richard Spencer: If I could carry on, as I said, I'm not paranoid but I know everyone's out to get me.

(Laughter)

I share exactly what General Fenton just said. In – and I take a step back and realize the – the contradiction that China presents. If you look – take Piraeus as an example, they've done some very significant investment in the port in Greece, and the traffic through there and the dollars flowing through there has actually helped Greece out in their present situation. That's fantastic. And – and that's – that's the positive side of the equation. And then I go and look at the Spratly Islands and the Nine-Dash Line, and it flies in the face of every other responsible nation that either follows UNCLOS or – or freedom of navigation.

I was sitting down with Admiral Harris the other day, who has a very interesting posit. He said take a look at this. He said when Tiananmen Square happened, the world was absolutely appalled at China, and put them in the penalty box in complete disgust. Twenty years later, when the Olympics happened, the world beat the doors down to hug the panda. So there's 20 years it takes for the country – the – the world to forget. Twenty forty-nine is the hundredth anniversary of the revolution and the – what could be the strongest socialist economic society celebration on the face of the Earth. If we back up 20 years from – from 2049, we're in the period where we can probably see some aggressive actions, if not some outrageous actions, and the hope is they'll forget in 20 years and be at our door. If you take that as a precept, China is a conundrum in that regard. And we're going to have to – it's – it's my job, it's the General's job to look at the side of what we're going to have to do if in fact they start to restrict travel lanes and they start to restrict free travel on the – on the high seas. We will not tolerate that, period.

Yalda Hakim: So what will you do?

Hon. Richard Spencer: There's going to have to be some sort of coming to the table, hopefully in a negotiated manner. As we say in Washington, please have the conversation with Secretary Tillis because you don't want to have the conversation with Secretary Mattis.

Yalda Hakim: But (crosstalk) – yeah.

General Bryan Fenton: (Crosstalk) Yalda, what I would – what I'd answer, two – two other things on – on the security aspect. So certainly as we look at the security aspect, one of the take-aways for us is what is a belt and what is a road. Certainly it can also be military access lines. So the – the linking together of the various ports, passing through various oceans at some points, certainly are great access vectors, and same on land. Second is what we're doing right now is we're certainly out there every day in the Pacific asserting the right to sail, fly, or operate wherever international law allows. And the freedom of navigation and operations are about that, are about not ceding international space, those domains of sea and of – and of air that have been discussed in the international community as places for international travel. And we're out there ensuring that that – that continues.

Yalda Hakim: But I mean, as Ambassador Ong said, if a guy comes along and says I'm going to build you roads, I'm going to do this, I'm going to create business in your country, they're not going to turn them away. Either of you (crosstalk).

General Bryan Fenton: They're may be those out there who are. And I don't know that there's a – there's not a lack of buyer's remorse out there right now as you go from place to place and hear about some of the experiences. And that – I would offer that certainly as somebody who gets a chance to travel through the region. There are stories starting out there about buyer's remorse and what folks have gotten themselves into.

Yalda Hakim: Is there buyer's remorse, Ambassador Ong?

Amb. Ong Keng Yong: Depends on some of the circumstances. Yeah. But I think the Southeast Asian countries, the ASEAN countries, they look at the issue of the South China Sea quite different from the Chinese investment in the Belt and Road Initiative, yeah. Because --

Yalda Hakim: They – they see it as two separate things?

Amb. Ong Keng Yong: Two separate – yeah, two separate issues. And while they may welcome Chinese investment in infrastructure, I think the countries of ASEAN which are involved in the dispute in the South China Sea with China, they don't look at the issue as being welcoming investment and all that because

it is a sovereignty angle involved. And as the General mentioned, there might be impact on freedom of navigation and overflight. Yeah. So this far, I believe that most of the Chinese diplomacy has been concentrated on trying to contain the South China Sea in a specific sphere. And they are not so easily convincing to try to involve that South China Sea issue with the Belt and Road Initiative.

But we must bear in mind traditionally the Chinese have been using continental land routes rather than the maritime sea route that we are seeing today. Yeah, General? So they – they – this is new for them, having ports and, you know, collecting points on the – on the ocean. I think that their policy is still being resolved (inaudible) agency process is still going on. Because the Belt and Road is something quite different. As I say, it's infrastructure, whereas the activity they do in the South China Sea, reclaiming some of the reefs to become islands so that they can use it to measure their exclusive economic zone and so on and so forth, these are different issues which the ASEAN country would like to put it separately.

Hon. Richard Spencer: You know, it's interesting. Putting down my naval binoculars for just a minute, if you look at – from Deng Xiaoping, when we were at – when it – China was an inward-looking wait the time, let's grow, and now we have President Xi saying we're going to go outward bound right now. I – I think when you say who can – what – what country can be scorned for accepting an infrastructure shot in the arm, this is where the global community, I think, needs to weigh – weigh in and mandate and say OK, China, you want to come to the global stage of international trade, you have to be transparent, and you have to come to the norms and the precepts that we operate in, so everyone does know the rules of the road and everyone does know the terms of the loans and what's going on.

Yalda Hakim: I'm just going to bring in Edward.

Edward Luce: I agree every – with everything the Secretary just said, and – and the General, about the security dimensions of this. The rules of the road point is very good. And I know you're – you're public servants and you're doing your best, but your President has just pulled out of – America out of the TPP, which is the gold standard of rules of the road. He then gave a speech in Da Nang last week in which the message was America first, America first. It wasn't we're in this together, that this is not a zero-sum game. It was America first, we need bilateral trade deals in which we get a surplus with you. And unsurprisingly, nobody – nobody is taking him up on that. And they're not going to because, you know, bilateral obviously favours America. America's huge. Whoever else it's going to be is going to be small – Vietnam, for example. They're going to do collective, multilateral – the kinds of things that America has taught the world. So the fact that the President is saying something different to what you just said at this point, with China showing this kind of ambition, is – is, I think, a huge and

epic strategic failure. And it's – America really could be winning this situation. But – but it's not.

And so just one other sort of point. After Trump spoke in Da Nang, Xi Jinping spoke. And Xi Jinping spoke in words that you just used. He used your language. He has a plan. Trump doesn't have a plan. So I mean, to quote Tim Geithner, plan beats no plan. And I think this is, as I say, an opportunity that China couldn't have planned for, and they are making the most of it. But I agree with every word you have just said and that the General has just said. But I think it's really worth pointing out there is a President here who's saying exact opposite.

Yalda Hakim: On that note, I'm going to open it up to the floor. And I'll take two or three questions. If you could please stand up and introduce yourself, and please comments and questions short, please, because we've – haven't got much time. So yes, if I can take one there and the gentleman just there. Yeah.

Question: Thank you. I'm Michael Bostakew (ph), former spokesperson for the USC (ph) and a columnist. You know, it's interesting, Lee Kwan Yew, the founder of modern Singapore, used to boast about what a special relationship he had with the Chinese officials, and yet he went to China, tried to set up a whole bunch of special economic zones, and they didn't work out, they flopped. And a big reason for that, he actually told me once, was that it didn't have high-level support. So even friends have problems in China.

My question is, you know, wherever you go in Africa, you see a lot of Chinese investment. In fact, what we're seeing play out in Zimbabwe right now may have a Chinese element to it. Mugabe is good friends with the Chinese Premier, there's a lot of Chinese investment in Zimbabwe. I'm wonder, their lack of respect for human rights, for labour codes, bringing in their own workers, could in itself create instability in some of the countries where they invest. And I'm wondering if you see that as a risk, as a – as a concern.

Yalda Hakim: Thank you. And we'll just – one there, please.

Question: Hi. My name is Aju al Madi (ph). I work as the economic advisor to the President of Afghanistan. And one of our major initiatives is regional integration projects. So I just came from Turkmenistan, where we had a regional economic forum there. I work on the TAPI pipeline, which is the Turkmenistan-Afghanistan-Pakistan-India natural gas pipeline that we hope to initiate soon. And we were – recently inaugurated the Chabahar Port, which is a port initiative between Iran, India, and Afghanistan. And so these sort of initiatives are very important for us. Some of them align with the One Belt, One Road, and some of them are actually in contrast to them, but it's – it's of vital interest for us. And so one of the questions that come – that I'm faced with is, for example, when I talk with Indian

businessmen, is they're not exactly sure of the stance of the US as it pertains to – it could be the China One Belt, One Road, but as it relates also to Iran regarding the Chabahar Port. So the question for the panel is what is the US position.

Yalda Hakim: Sure. Thank you. And just the gentleman there, and then we'll come back to this.

Question: Thank you. I'm Manoj Joshi from the Observer Research Foundation in New Delhi. The question I wanted to ask Mr. Luce, you look at any of the maps that the Chinese put out on the One Belt, One Road, they all head to Europe. We haven't had Europe in this discussion. In my view, Pakistan, Zimbabwe – well, Tanzania or Kenya, these are minor issues. The real goal of the One Belt, One Road is to consolidate China as the – the power in Eurasia. And you can see from the – the railway networks that have been created across central Asia, the use of the Russian network, the sea, the Port of Piraeus, which has been bought up by the Chinese, and their investments in eastern Europe. Eastern Europe is the springboard with which they intend to go to western Europe, which is the richest economy in the world.

So I think the – all these other small states are distractions. And I have a feeling that the Chinese don't mind if they default in their loans because these then become dependencies. So – so they're quite happy if the – if Sri Lanka or Pakistan or anyone defaults, you know, five billion, ten billion, no big deal. But their goal, 2049. Twenty forty-nine they want to be up in the economic scale. They want to be producing innovative, original goods, for which they need a market. So the market is not Pakistan; the market is Europe.

Yalda Hakim: Thank you, sir. Thank you. We'll come back to the panel now. So the first question that we had was Chinese investment in Africa. Do we see it as creating instability there as well? Perhaps, General Fenton, if you wanted to answer that.

General Bryan Fenton: I – I probably shouldn't be the one to answer that --

Yalda Hakim: Sure.

General Bryan Fenton: -- since I'm in the Pacific. So I'm not sure how (crosstalk) Africa.

Yalda Hakim: OK, so Secretary Spencer, if you want.

General Bryan Fenton: But thank you for that.

Yalda Hakim: That's alright.

Hon. Richard Spencer: Let me see if the Navy can help the Army out here.

Yalda Hakim: Yeah.

(Laughter)

Hon. Richard Spencer: We have a football game coming up, for those of you who don't know.

(Laughter)

If you look at China's activity in Africa, which started in the – in the nineties, and this was obviously way before BRI or any, I think, concerted efforts, it was extraction of commodities to help grow fundamental growth within in China and – and to feed the machine there. And I think it actually did teach them a huge lesson, which was you can't come in and – and acquire rights to the resources, bring in Chinese labourers, displace local labourers, displace local companies, and expect to live happily in that community. Speaking to Mr. Luce's comment, yes, President Xi has said all the right things in – in Vietnam during the – the conference, and it will be very interesting to see how this plays out. Because track record to date in Africa has not been that good, and it is destabilizing in that factor. So that's where we get concerned, yes.

Yalda Hakim: Can you answer the other question as well, then, that the –

Hon. Richard Spencer: I can't remember what it was.

Yalda Hakim: The other question was the – the US stance on – on places from Iran to Afghanistan, Pakistan is just not clear.

Hon. Richard Spencer: My canned answer for that is I'm focusing on the US Navy, and it consumes a hundred percent of my resources. So that's – I – I don't really have a formulative (ph) answer there. One of the things – one of the comments I will make, which – which, when I bring this up in conversations with people who do not touch the US military that they're kind of surprised sometimes, so I'll put it out there. On all fronts, and I think the General might endorse this also, but if you don't, please speak up. On all fronts, the professional US military communicates with every single military on the face of the Earth, whether it be Russia, whether it be China, whether – there might be a couple of outliers in there, but there is a professional line of communication that is always in place and must remain there at all times. Because we have to have communication to ensure stability. And – and sometimes that comes as a – as a surprise to folks, but that, when we talk about stability in regions, we do have communications that are going on.

General Bryan Fenton: And you know, I'd like to just take that a little further. The discussion earlier about, you know, maybe events in Vietnam, I would tell you from the Pacific Command's perspectives, to the Secretary's point, we have phenomenal relationships in the region. The partnerships are thicker than they've ever been before. We recognize that many of these are not, you know, solvable, any of these challenges are not solvable by one country, and frankly, not – many of them not by two countries, but really by a coalition of teammates. We have what is more habitually a multinational approach to almost everything we do out there. Very, very tight ties.

So you know, there's been discussion earlier in the conference about a retraction in the region and – from the military side, I – I think it's stronger and the bonds are thicker and deeper than – than ever before. And they're not focused strictly on – on, you know, hard power pieces. There's humanitarian assistance, there's disaster relief efforts that many of us go to together if somebody's in need in the region. And many of the – the nations in the region, our partners, are fantastic exporters of that of their own in that type of capability and capacity.

So I – I just – I want to make sure at least – and I speak only from the PaCom perspective, which is why I didn't answer General Waldhauser's AfriCom question, could have been for – for his team on the China piece there – that we absolutely have very thick, very deep relationships with our teammates in the region. And most of the approaches we take are multilateral in nature, sometimes four, five or six or us that will work an issue, and – and has just gotten better for the four years I've – I've been there.

Hon. Richard Spencer: If I could put a point on that just to carry it outside of PaCom, as far as the Navy's concerned, if you have listened to Secretary Mattis' three priorities, number two is hug our allies. As he says, being the historian that he is, our – if you look through society and – and history, those cultures that have allies – strong allies and strong bonds, go on for many, many centuries. Those that don't are in the dustbin of history. As far as the US Navy is concerned and our charge going forward, we are out there hugging our allies and – and hugging new relationships. I mean, what we're doing with India, Sri Lanka is – is fascinating, it's – it is exciting. What we're doing with Vietnam is amazing. We're just sending a ship over there, donating a ship to the Vietnam Navy. So we are, as far as just even outside of the PaCom area, enhancing what General Fenton said, it – it is truly to enhance existing relationships, deepen them, and also make new relationships.

Yalda Hakim: And Edward, there was a comment there for you about all roads leading to Europe and wanting to have more of a discussion about Europe on this panel.

Edward Luce: Yeah, there's – there's clearly, I mean, a huge geopolitical, Eurasian sort of element to the One Belt, One Road Initiative. I mean, it should be mentioned, though, that the Asian Infrastructure Investment Bank, Europeans' rush to join it, perhaps slightly unseemly rush led by my own country by the David Cameron government, which has then prompted many of the other Europeans and Australia eventually to join the A double IB. Will these projects give China leverage in Europe? Well, Piraeus Port has been mentioned, and Greece's vote on what the European Union's stance should be at the UN Human Rights Council has changed. So you know, I – I am sharing all the perspectives about the potential for China to weaponize this capital. My – my concern – and I am admiring of America's alliances in the region and its amazing multilateral record at that level. It's just the cognitive dissidence [sic] between the Commander-in-Chief and everybody else that – that I think is a concern.

I, being British, cannot, you know, help but see things through the Brexit lens now. And countries like Britain are, you know, again, in a rather unseemly fashion I think, going to be – going to be begging China for investments. China's already running – taking over the biggest nuclear power plant in Britain. All kinds of other assets – there's going to be fire sale kinds of conditions. And China, you know, is thinking strategically, and we are not. We're talking strategically here up on the panel, but we're not acting strategically as western powers.

Yalda Hakim: Does that concern you, Secretary Spencer, when you hear that, you know, Britain is rushing – you know, has rushed to join the A double IB and – and would be rushing to join any other initiative by China?

Hon. Richard Spencer: Yes. It does. I was – can't think of any other answer because it actually – it's a – it's – I think Mr. Luce hit the nail on the head. China has command of the clock, and they think very strategically and – and in a longer-term nature. We are in the western world, I believe, much more transaction oriented and much more tactically focused. And – and it's to our – our own fault, I think. And we really – talk about a cultural shift. I don't know how we get there, to be very frank with you. And again, my job is to make sure that we have security on the high seas. Any sort of – of threat to that we have to pay attention to. And what we've learned is you've got to pay attention early. And again, if everything's transparent and in the open, and we know exactly what's going on, that helps.

Yalda Hakim: Just open up the floor again. Just two questions here. Yeah.

Question: Hello. I'm Maurizio from Mexico. My question would be this. How would you link this panel to the earlier panel? We were talking about the importance of China in the – in regards to – to the North Korean issue. And right now it seems to me that we've been talking about how to counter or stop this

Chinese strategic view. So how would you link this to issues and how would you work with China to solve North Korea while at the same time trying to, you know, try to – to stop the effort of – of this expansion that could undermine certain nations and so forth?

Yalda Hakim: Thank you. I believe –

Question: Luis Rubio, Mexican Council on Foreign Relations. I think that it's pretty obvious that there is a geopolitical agenda behind this challenging US hegemony, and made probably easier by – by President Trump's stand at present. Two quick comments. One is that China has built more infrastructure in east Africa in the last ten years than the World Bank has done in its whole history. And the other one is that there is the argument that China's plan is really to rebuild the British Empire but through logistics, not through colonies. Any comments about that?

Yalda Hakim: Thank you. And I'll just take one here, and then we'll come to the front.

Question: Joseph Joffrey (ph). My question goes to the US Navy. You've been telling us we have to pay attention, we have to look out what they're doing as they expand into the Pacific with these little islands and all the way to Djibouti. And my question is what are you going to do about it. You say well, we mu – we'll have to have a conversation. The strategic problem is once you're there, as the Chinese are, you have to dislodge them. And dislodging is always a lot more risky and dangerous than somebody who puts his pawn there. Is there any way that the US can itself grab the initiative and confront the Chinese with being there, with getting there firstest with the mostest, so to speak?

Yalda Hakim: Thank you. And I – one question here, and then I'll come back to the panel.

Question: Thank you. Rocky Meade, Chief of Defence in Jamaica. I think we have made a lot of important points here, and there are different ways to tackle challenges. So I don't think it's a secret that all the countries with the ability for dominance will want to be dominant. It's no secret what the ultimate aim of China is. But they are planning long term, they're putting their resources there. Now, you can deal with that in two ways: either find ways to block them and prevent them doing what they're doing, and then, you know, what alternatives are provided for the countries that need infrastructure support? The other alternative is to provide a more attracting plan. So – because I don't think the states that are seeking support want to deal with the necessary consequences down the road, but maybe they have no option. So it's – it's nice to say there's some alternative motives, and – and yes, there are, but what's the other plan? And if there's no other single country with the economic depth to provide an

alternative, what about a coalition of the willing who sees an alternative to get together and to provide a real alternative for the countries that need infrastructure support?

Yalda Hakim: Thank you. Ambassador, I'll now come to you because obviously there are great concerns about China's relationship with North Korea and the current state of play. So if you can please explain for us how that plays into the One Belt, One Road.

Amb. Ong Keng Yong: Well, basically, I believe that all the countries in ASEAN, in Asia, we want to continue to grow economically, and the way to do it is to use the old order that most of us have been socialized with. So if we can continue to expand trade, have, you know, easy access to market, this will be attractive to China. And if you have a outbreak of violence in Korean Peninsula, it will affect everybody's economic growth, and that will not be something to the benefit of China.

So I think to connect what we discussed earlier this morning and we – what we have now, basically, the strategy of China is to continue to open up market, access to market, as – and the gentleman, Mr. Moshi (ph), say about – Joshi – say about going to Europe, yeah. But unfortunately, now the Trump administration is changing the language, and, in fact, also the strategy. So all this have now thrown a spanner into the works of Chinese thinking. It was based on economic multilateralism, free trade, market access, and now it's America first, or what we call bilateral liberaliz—bilateral dominance in calculating economic and trade development. So I suppose people are still learning how to reconcile all this, but the fact is that China's strategic goal is to open up market. And the original plan was to bring Chinese goods through the railway and other road access into Europe. So that is the strategic plan which I think Xi Jinping still maintain.

Then along the way, other things like bilateral issue came up, and opportunity came up – going to Pakistan, going to Djibouti and all that. So the thing that we worry about in some point – part of Southeast Asia is that can Xi continue to maintain his strategic goal. Because once he started to broaden all these things, all the bureaus, bureaucratic agencies in China, as well as all the bilateral relationship, all come into play. So his very strategic goal of using the Belt and Road Initiative to get to market, to maintain the international trading system, is now all convoluted because there are bilateral consideration how to – how to help – even how to help Pakistan, how to help Sri Lanka, blah-blah-blah.

So that is the – the trouble today, and how do we now connect with North Korea? The North Korean situation, no one can have a good answer. And I think American leadership has given us different idea of going forward. So we need

clarity from Washington, DC how to deal with the North Korean situation, how do deal with these kind of greater initiatives coming out from China.

Yalda Hakim: General Fenton, did you have –

General Bryan Fenton: I did, Yalda. And so earlier I – I talked about how I view the world, and – paid to view the world through a dark pair of glasses. But I've got admit in front of everybody now, please don't hold it against me, I'm – I'm also an optimist. Right? And I – I've got to say that because, when you look at the – the region, the region in which I live right now, and the region of which certainly the United States is a part, a huge part, it is, by many accounts, certainly now and in the future probably one of the most economically diverse and probably important regions of the world.

And when you think about the number of folks that live there, I think the – the count now is more folks live inside the region than in the rest of the world, and by 2050 we're told that more folks will live inside that region than in the entire world right now, and the three largest economies are there, I've got to believe there's something beyond one belt and one road. As the SecDef likes to talk about, Secretary Mattis, there are many belts and many roads, and there should be many ways. Beyond physical infrastructure being built, what – where's the – the virtual, the digital capabilities that exist out there when you talk about our nation, India, Singapore, Japan, South Korea. There are just a lot of opportunities, and – and an assessment might be that we focus a lot on one way, One Belt, One Road, for OBOR. And I've got a colleague in the Pacific with us, Mohan Malik at the Asia-Pacific Center for Security Studies, that likes to say sure, I'm thinking for OBOR as well, but order based on rules, and many belts and many ways.

And so, you know, my – my optimism kind of comes out and in that way that, because of the potential, and certainly already realized and more to go, there ought to be thoughts on many belts, many roads, many ways in which we get after this. And again, not just physical development or – or that type of construction or infrastructure.

And then just to take the comment on China vis-à-vis North Korea, I – I didn't have the honour to sit on the earlier panel so I don't know exactly where that went, but I – I can tell you that Admiral Harris has certainly been on record, I think as a lot of our seniors in – in the administration certainly at PaCom, we talk it, that we just – we assess China can do more in terms of the – the resolution on things in North Korea. There – there's a relationship between China and North Korea that we think needs to continue to be – be leveraged for that to be solved via diplomatic means. And so I would just say that, from our perspective, certainly that we – we think China can do more on that. And that's what powers do who want to be in the global scene. They – it's been said that they should be

able to chew gum and walk at the same time, take some bit of criticism and also be able to get after very complex problems.

Yalda Hakim: Edward, did you want to pick up on that (crosstalk)?

Edward Luce: Just a very brief thing. General, if I could borrow your dark glasses for a second and –

General Bryan Fenton: These are my optimistic glasses.

Edward Luce: Those are your optimistic glasses. The – the – beyond the One Belt, One Road, the investments China is making in artificial intelligence, the investments it's making in cybernetics, in all kinds of things that, you know, will – will dictate the future of the global economy, and the acquisitions – we've talked about its infrastructure investments, but Chinese acquisitions in other markets of smaller AI companies, the number of unicorns in the world that are Chinese, it's about a third of the billion-dollar non-listed companies in the world now start-ups are Chinese. Forty percent of global e-commerce goes through Chinese companies. It's Tencent, it's Alibaba, etcetera. And then this very clever acquisition of American AI companies below the hundred-dollar limit that sparks a CFIUS scrutiny. So there is – there is again a Chinese strategy here beyond the sort of infrastructure level, and – and sorry to – to belabour the point, but there isn't a western one.

Yalda Hakim: Which comes back to the question that was being asked. I mean, what's the alternative, then, if – can the US and the west offer an alternative, Secretary Spencer?

Hon. Richard Spencer: Well, just to – to go back to Mr. Luce for a second, it's a – there's a fascinating group inside the Pentagon, OCEA, the Office of Commerce and Economic Analysis, that has been looking at this whole issue. And I – I won't use commercial names, but they – they electronically disassembled a turbofan engine and drilled down as to the ownership of the manufacturers of the subparts, and they found in the neighbour – they had to go down four and five legal layers to find out, at the end of the day, 20 percent of the parts made in that engine were owned by China Inc. And of those 20 percent of the parts, somewhere in the neighbourhood of ten to 15 percent of those parts were sole-supplied parts.

There is a definite strategy. China Inc. – and I'll be bold enough to say it – it's RD&S: research development and steal. And it's blatant, and it's happening. Corporate America has to wake up to it. Global corporate has to wake up to it and address it. And in some cases, it's not an easy – it's not an easy answer. The concept of – of the islands that was asked of the Navy, the gravity of – of the – of the hat that I wear in Title 10, which is to man, train, equip, and supply, means that I don't point the weapons but – but I take America's treasures in

both dollars and – and lives and – and put them in harm's way. It's a sobering – it's a sobering application of power, and you hope it's the last resort. The only thing that I've learned in the last ten years of working around Washington are there are many – there – there are many more levers than feel apparent. And we have to be bold enough to use other levers because the kinetic – the kinetic order, it should be the last order to go.

Yalda Hakim: We've got time for maybe one or two more questions. Just one at the back there, please.

Question: Thank you. Hussain Haqqani, Hudson Institute, otherwise born, raised, jailed in Pakistan. My question is very simple. At the end of the Second World War, there was clarity in American thinking that the Soviet Union is the emerging challenge. By 1947, George Kennan's Mr. X article had come about containment. It was easy to make a containment strategy. Henry Wallace didn't have many takers, so by 1948/49 the contours of a containment strategy had started emerging. What I am seeing is not only lack of strategy, as Edward Luce has rightly pointed out, a lack of clarity. Is China a threat, or are we going to just look at it from the angle of American corporate interests and in companies that are deeply invested in China and are happily making money from China and so therefore do not really care if the stewardship of the world passes on to China.

And a secondary layer of that is the lack of clarity in situations like relating to Pakistan. I mean, there's no doubt that Pakistan is very clearly aligned with China, has been consistently. Its ambitions are very different from what America would like it to be. And yet, while PaCom understands it because it works with India, CentCom doesn't because, while working with Pakistan, they end up becoming advocates of Pakistan. So with that lack of clarity, how will we actually have a strategy in relation to China in the immediate future?

Yalda Hakim: Thank you, Hussain. And I'll just take this lady just here. Yeah. Just very briefly, yeah.

Question: Hi. Thank you. Alyssa Ayres from the Council on Foreign Relations. I want to pick up on this issue of the lack of clarity and the kind of mixed messages coming from the Trump administration. To me, I think one of the most important strategic statements that the administration has made is in focusing on the idea of the Indo-Pacific, kind of expanding the idea of what Asia means to incorporate India as a part of that geographic region. In the same speech that Secretary Tillerson made to roll out that strategy, he also spoke quite a bit about the problem of what he called predatory economics, which was referring specifically to this issue of non-transparent financing in the Belt and Road projects that have left smaller countries in, you know, a debt trap.

What I see happening from our government is a lack of connection between our economic policies – Ed referred to the TPP pull-out – but we're not talking about development finance and where we could be doing more on the development finance front. Our Secretary of the Treasury at the World Bank IMF meetings did not endorse a call to expand the capital base, which would allow the World Bank to be doing more on development finance, providing a kind of alternative to the enormous investments that China's making in the Belt and Road. So I would just welcome some reflections on this issue. How do we better link up an economic strategy to meet the strategic needs of what China is doing?

Yalda Hakim: OK. So we've just got a couple of minutes. So if we can sum up really quickly just this lack of clarity, lack of strategy.

Amb. Ong Keng Yong: This is democracy at work, right? So everyone has to offer their opinion. In my opinion, I feel that you need to have strong leaders. The leadership matters. It's not like many of these issues are appearing for the first time, but in the past there's someone in charge and they say OK, this is the way to do it. We may not all agree, but for country, we do it this way. And then we see how the opportunity come out, and we deal with the situation as and when.

The other element that buttress all these thing is what General Fenton mentioned about the rules and the law. Yeah. So we need to go back to all these – the specific premises which we have used in the past. Unfortunately, now politics is such that we have to go through this phase. We just have to have enough stamina to withstand all these knocks and obscurity and what-not.

Yalda Hakim: As you said, democracy at play. That brings us to the end of our session. Ladies and gentlemen, please thank our panellists for their very (inaudible – applause).

(Applause)