



ISSUE 07

BELT AND ROAD TROUBLES

2018

& CLIMATE COSTS
& DIGITAL AUTHORITARIANISM

Karakoram Highway Silk Route - Photo by mhtoori on Wikimedia Commons

1. Belt and Road troubles

It's been almost five years since Xi Jinping announced China's Belt and Road Initiative. With the immensely ambitious infrastructure project, China seeks to expand its sphere of influence, to boost trade and stimulate economic growth across Asia and beyond. However, problems are emerging. BRI is dealing with economic challenges and resistance, slowing its momentum. After almost five years, reality has proved unruly and key projects are experiencing setbacks.

In 1999, the Chinese government introduced the Go Out policy, encouraging Chinese companies to invest in countries abroad, which was further promoted under the BRI policy. Essentially, firms were incentivized to be active in countries where they did not necessarily have experience. The same counts for the investments made under the Belt and Road Initiative. Not only have BRI FDIs dropped in **volume and number**, aggregate returns on Chinese foreign investments are dwindling. The total return on Chinese foreign investments in 2016 was **0.4%**, which is substantially lower than the usual 4% earned by foreign reserves globally. The International Monetary Fund is now actively **supporting** Chinese President Xi Jinping in preventing the infrastructural plan from investing in white-elephant projects. These projects were financed with cheap and easy credit from China's policy banks. Beijing now recognizes how this lending poses a risk to the broader Chinese economy because it fuels risky projects. Furthermore, the country is currently putting efforts into reducing debt levels.

Projects that might be easy to execute in China face delays and cost overruns, growing debt and deficits, political opposition because of Chinese labor immigration, and the risk of being cancelled by new leadership in the country. Two BRI projects are particularly fraught with these challenges and are testing the BRI ambitions.

First, the China-Pakistan Economic Corridor, which is pivotal for China, is facing resistance. Pakistan has received \$62 billion of investment pledges to build it. But the country is facing a high current account deficit and the imports of Chinese machinery for the project have pushed this. The country is dependent on cheap credit from China. Another risk is that if Pakistan's new government were to seek a bailout from the IMF, this would include restrictions on borrowing and spending and thus limit the BRI program with China.

In Malaysia, the second-biggest recipient of Belt and Road loans after Pakistan, the new Prime Minister Mahathir Mohamad has promised to review the "unequal treaties" signed with the Chinese state-owned companies on BRI projects by his predecessor Najib Razak. Malaysia has halted Chinese projects worth \$22 billion. Mohamad blames Najib's relationship with China for corruption and bad decisions, including a controversial rail link along the country's east coast.

As China is struggling economically and "flagship projects" are facing threats, the BRI ambitions seem further away from being realized than ever.

RISKS MARKED ON THE RISK RADAR AS NUMBER 1:
CHINESE/OTHER EM'S ECONOMIC SLOWDOWN

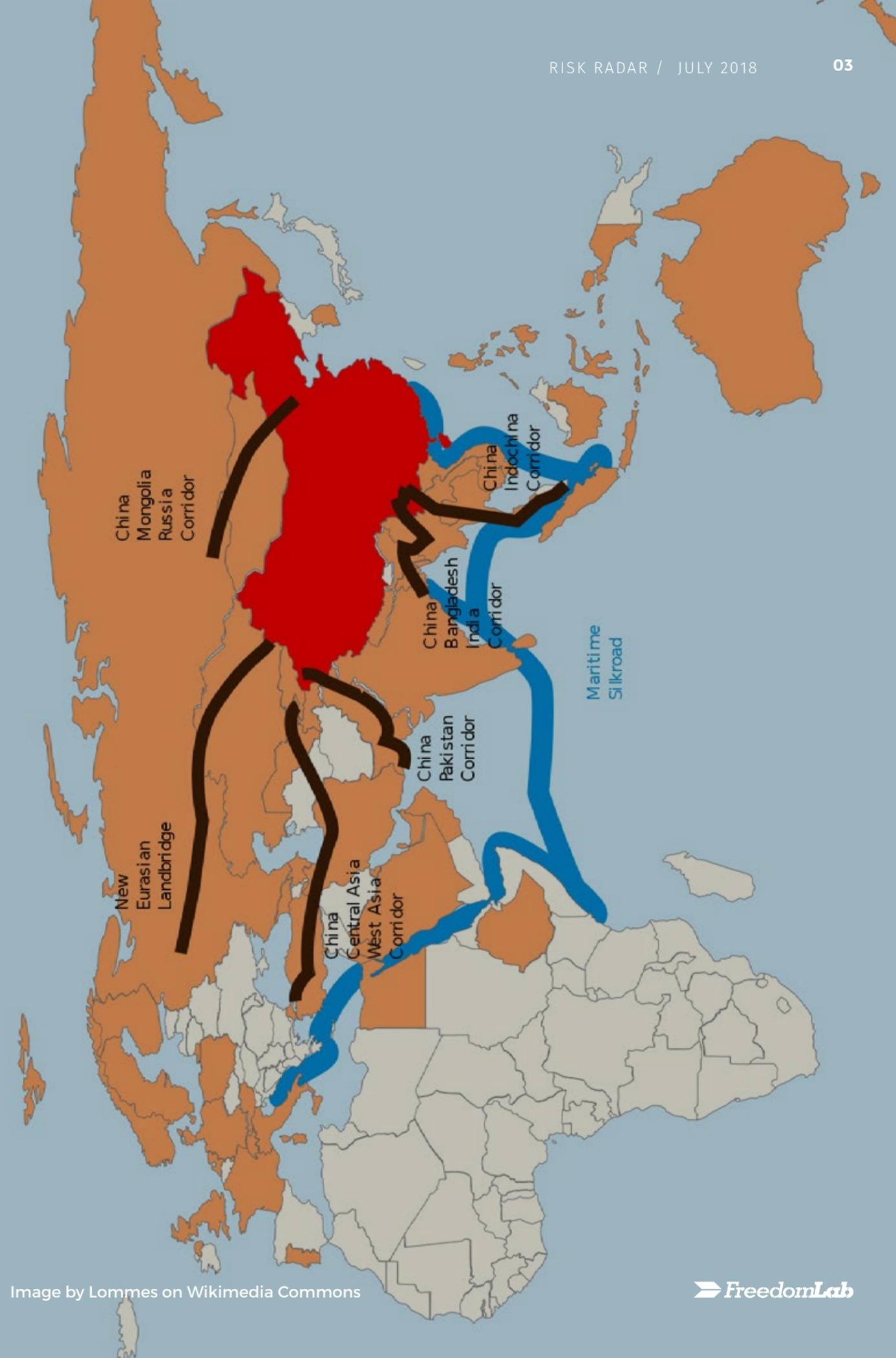




Photo on Pexels.com

2. Climate costs

This summer, temperatures across the Northern hemisphere, specifically in Algeria, California, Canada, Oman and Taiwan, have broken records, causing droughts, wildfires and crop failures. The European Drought Observatory (EDO) has [described the drought](#) as “an extensive and severe anomaly” across Europe. The record temperatures are causing crop failures and bankruptcy, affecting farmers in Scandinavia, Scotland, Ireland, the Baltics, the Netherlands and northern Germany. Moreover, the droughts have caused immense wildfires throughout the continent, from dozens of forest fires sweeping across Sweden to fast-moving wildfires causing deaths in Greece.

More than crop failures and wildfires, droughts can lead to conflict. In Nigeria, a conflict deadlier than that with Boko Haram is taking shape. Desertification and competition for resources have played a major role in pushing cattle farmers farther south in search of fertile grazing lands for their cows. As land becomes scarcer, competition for it becomes fiercer, leading to conflict. According to a new [report](#) from the International Crisis Group, the conflict is destabilizing the region and has already killed 1,300 people this year.

The consequences of climate change are further driving migration, as we wrote in last month’s Risk Radar. A new [report](#) by the UN outlines the risks of climate instability

across Arab countries. The Arab region has 14 of the world’s 20 most water-stressed countries. The region is experiencing frequent and severe cycles of drought that have contributed to “famine and food insecurity, loss of livelihoods and life, and the displacement of millions”. A common example of this is Syria, where drought from 2006 to 2010 led to a mass migration from farmlands to urban centers.

Drought has been attributed in part to human interference in the climate system and the costs of climate change are immense. Nature scientists have [estimated](#) the costs of even missing the set climate goal of preventing temperatures from rising more than 1.5 °C, at \$20 trillion.

As climate change intensifies, some areas will be more affected than others. This year’s [Global Climate Risk Index](#) found that less developed countries are generally more affected than industrialized countries. This is a red flag when it comes to climate change-related consequences such as conflict and migration in these countries, especially when combined with high population growth rates and weak governance and institutions.

RISKS MARKED ON THE RISK RADAR AS NUMBER 2:
CLIMATE CHANGE / NATURAL DISASTERS, LARGE-SCALE MIGRATION, AFRICAN TERRORISM, TENSIONS THROUGHOUT THE MIDDLE EAST

3. Digital Authoritarianism

The U.S., China and the EU are exporting their electronic surveillance capabilities, practices, and legislation all over the world. Privacy International recently released the report [“Teach ‘em to phish”](#), showing that worldwide, governments of powerful countries are financing and equipping developing countries with surveillance capabilities. Among the countries are authoritarian regimes where the rule of law and human rights are under pressure. This is posing a threat to the citizens of these countries. Especially surveillance tools such as [mass untargeted surveillance](#) or [state hacking](#) pose risks to international human rights by undermining privacy rights.

Digital authoritarianism around the globe is increasing and undermining democracy. The spread of surveillance tools is feeding this trend. In a digitally authoritarian regime, governments draw on data of citizens they should not be allowed to use in liberal democracies. Data from different sources – tax returns, medical records, criminal records, financial information, genetic screenings, and data from the family and closely connected friends – can be combined to analyze and predict behavior and exert control. According to the Privacy International report, countries with the most extensive security and military agencies – the U.S., China, and countries in the EU – are the ones who are most actively transporting their surveillance skills globally. Even if there have been efforts to curb the sale of surveillance technology to undemocratic nations, such as those exerted by the European Union, Dutch [research](#) on the European security industry (2014-2017) found that goods and expertise have still continued to be exported to authoritarian states. Almost one-third of licenses granted by the EU have been to export surveillance products to countries deemed “not free” by watchdog [Freedom House](#). As we wrote [earlier](#), as there are substantial benefits for the providing countries to export surveillance – creating new markets, fighting migration, accessing data from other countries – this trend is unlikely to lose force.

Furthermore, the internet, once designed as an open and free space, is also increasingly under threat of being controlled by governments. The number of internet shutdowns is dramatically increasing around the world. According to [Access Now](#), 2018 already is a record year for intentional disruptions of the internet, with the large majority of these happening in Asia and Africa.

As surveillance tools become more ubiquitous and present in multiple domains of our daily lives, we are afraid of moving increasingly towards an Orwellian scenario. The constraints on a free and open society and control by repressive government through surveillance might create increasing distrust among citizens in the government.

RISKS MARKED ON THE RISK RADAR AS NUMBER 3:
DECLINING INTERNET FREEDOM



RISK RADAR

EUROPE

JULY 2018

The potential political, sociological, economic and technological threats.

PRIORITY OF RISK

Is a determination of the likelihood of occurrence and the estimated impact.

NEW RISK



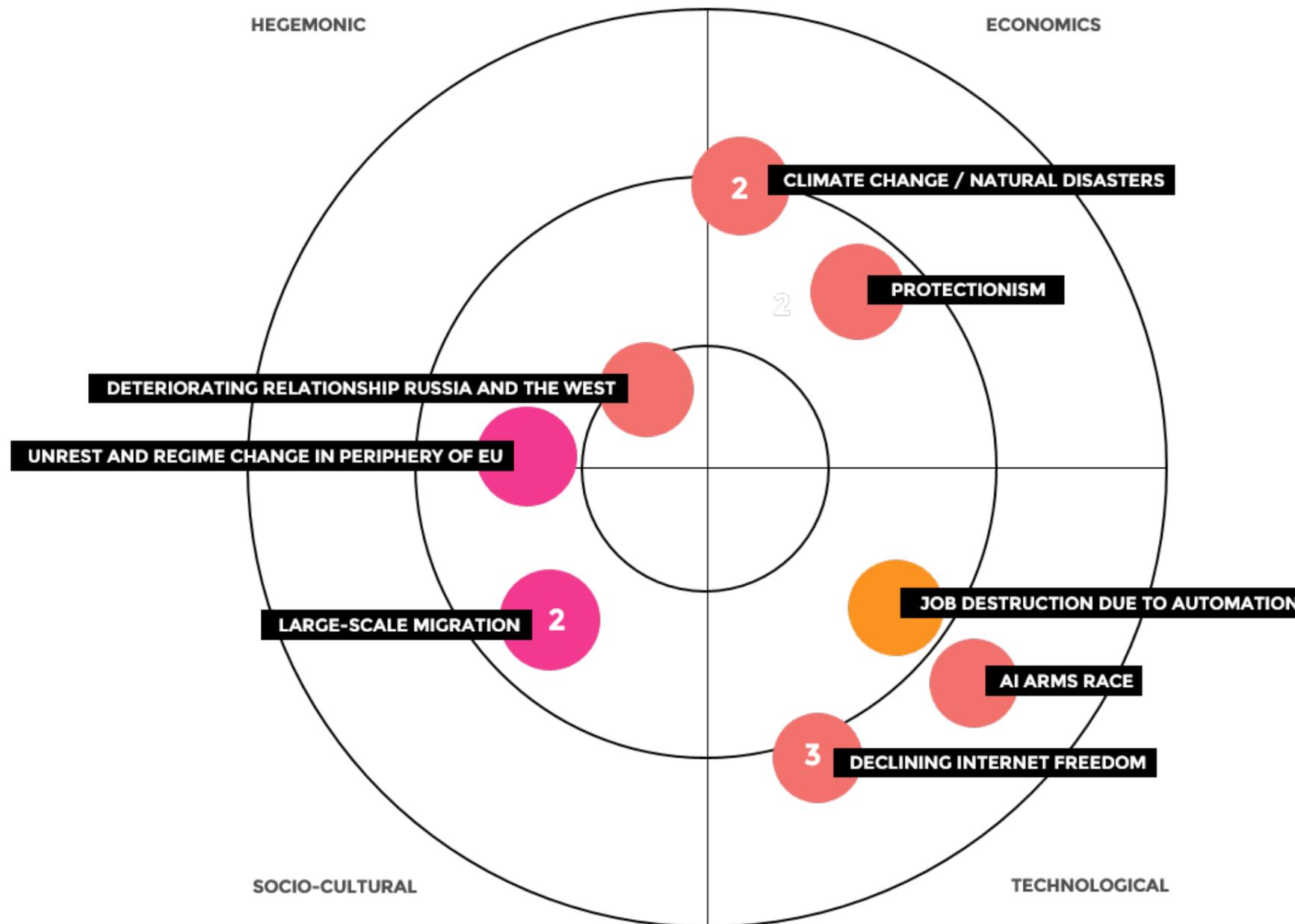
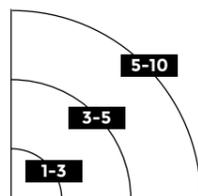
ESTIMATED IMPACT



LIKELIHOOD OCCURENCE



TIME HORIZON (IN YEARS)



KEY RISK SHIFTS

1. Belt and Road troubles
2. Climate costs
3. Digital Authoritarianism

OTHER TOP EUROPE RISKS

- Rising inequality
- Weak Southern European Economies
- Eastern European slow implosion
- Chinese / other EM's economic slowdown
- Policy uncertainty
- Friction over Arctic Sea
- Declining internet freedom
- Anti-establishment parties come to power
- Terrorism
- Secular stagnation
- Global debt glut
- Digital Infrastructure Failures
- Ageing population
- Exits from the EU

RISK RADAR

WORLD

JULY 2018

The potential political, sociological, economic and technological threats.

PRIORITY OF RISK

NEW RISK



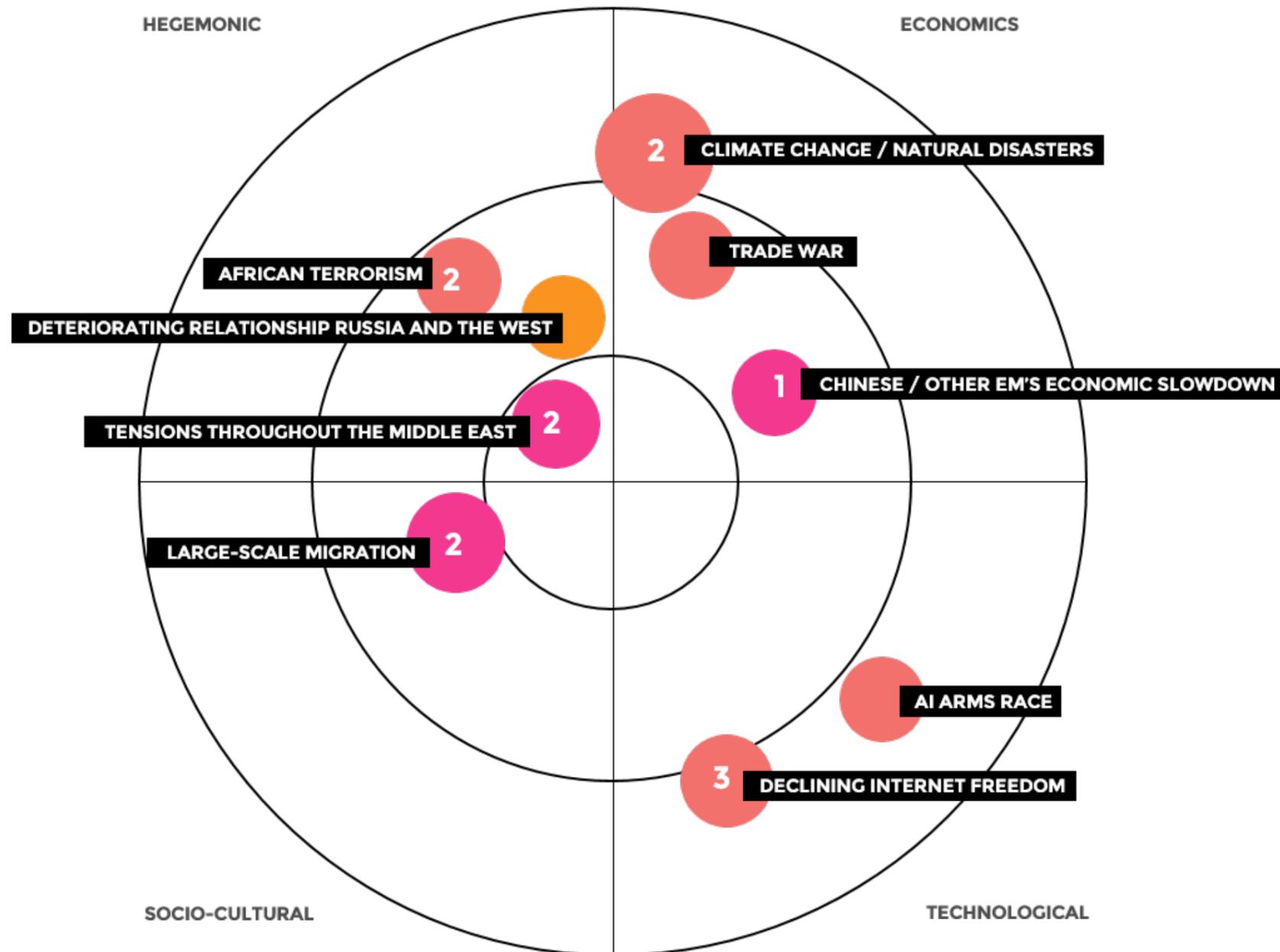
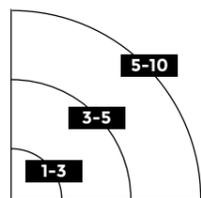
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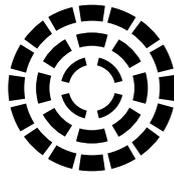


KEY RISK SHIFTS

- Belt and Road troubles**
- Climate costs**
- Digital Authoritarianism**

OTHER TOP WORLD RISKS

- Rising inequality
- Unrest in South Asia
- Implosion North Korean State
- Water crises
- Territorial disputes South China Sea
- Friction over Arctic Sea
- Declining internet freedom
- Terrorism
- Global debt glut
- Continuing slow growth OECD-countries
- Digital infrastructure failures
- Spread of infectious disease



 **FreedomLab**

INTERNAL SOURCES

Filtering Hegemonic Shifts
Filtering Technological Shifts
The Macroscope
Risk Radar June 2018

EXTERNAL SOURCES

Business Times
Deutsche Welle
Foreign Policy
Financial Times
Global Climate Risk Index 2018
IMF
New York Times
South China Morning Post
United Nations
Washington Post