China's 'Belt and Road Initiative' Revisited

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The Belt and Road Initiative, China's foreign policy hallmark, faces problems over magnitude, mismanagement, and excessive indebtedness for the recipient countries. Notwithstanding its opposition to China–Pakistan projects traversing Pakistan-occupied Kashmir, India's hopes for using Chabahar port investments in Iran can be valorised only via China-built rail and road links to Afghanistan and Central Asia. Incipient India–China cooperation in Afghanistan might provide a platform for an Indian reassessment.

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In 2013, Chinese President Xi Jinping announced his ambitious New Silk Road, also called "One Belt, One Road" (OBOR), and later the "Belt and Road Initiative" (BRI). This vast, fluid, and growing amalgam of projects consists of a set of infrastructure and related investments, linking China by land and sea with Asia, Africa and Europe, even Latin America, and building other infrastructure in the partner states. Since then, OBOR "has firmly established itself as China's major foreign policy" (Chan 2018).

Because China's policymaking and much of its implementation is a closed box, we tend to see it as messianic and profoundly calculated. The reality is more banal. It is subject to the same compromises and unseen consequences as the rest of us, and it tends to make mistakes. That is true of the BRI as well.

Institutional Changes

March 2018 witnessed significant changes in the BRI supervision and diplomacy management, covering three entities. This was unusual, as China tends to be conservative in such actions. First, it created a new Central Foreign Affairs Commission, answerable to the Chinese Communist Party (CCP), unifying oversight on foreign affairs. Second, a China International Development Cooperation Agency was established, supervised by the State Council; this was clearly aimed at reducing tussles between the foreign and the commerce ministries. Third, the political rank of the Foreign Minister Wang Yi was elevated, with his designation as a state counsellor. It is still a far cry from the days of Marshal Chen Yi (foreign minister from 1958 till his demise in 1972), who was a key member of the politburo, but no successor has held such rank. In the past two decades foreign ministers have not even been on the Party Central Committee. Reduced political status of the foreign minister had long rankled personnel of the Chinese Ministry of Foreign Affairs, and had also reduced its clout within the bureaucracy.

This central commission replaces the secretive Leading Small Group (LSG) on foreign affairs, which Xi had headed, as also the LSG on BRI. This new commission strengthens the CCP's direct control on foreign affairs. A recent article states:

> The commission has a coordinating role between state institutions, but is also tasked with strengthening the CCP's role, and its general office will likely be equipped with more staff and authority than that of the previous Leading Small Group … The establishment of the China International Development Cooperation Agency points to more centralised control in an area two state institutions previously competed over: the ministries of commerce and foreign affairs … Wang Xiaotiao, who heads the new institution, promoted the BRI as deputy director of

> the powerful National Development and Reform Commission, and in his new role makes the BRI central to every statement. His appointment may indicate a shift from Chinese development cooperation being driven by short-term commercial benefit to subordination to longer-term strategic interests. (Eder 2018)

These changes might also end a long-standing tussle between the foreign and the commerce ministries, centred on the fact that the latter handled all external economic issues on its own, including foreign trade, investment promotion and foreign aid. Before 2003, an even more powerful Ministry of Foreign Trade and Economic Cooperation (MOFTEC) had ruled the roost (Rana 2007). But clearly those changes did not work as intended, to improve coordination between these two ministries.

Objectives and Financing

Because of the BRI's scale, and Xi' personal backing, anything connected with the BRI managed to receive open-hand access to funds.[1] Poorly managed, it snowballed into a mega-collection of projects—beyond anyone's anticipation, producing a series of problems. Studies place the number of countries participating in BRI projects at around 70 (including 37 African states), but in practice the number expands continually, and extends to countries in South and Central America. In 2015, a reputed Beijing business journal had estimated that Chinese banks would invest more than $890 billion in more than 900 projects in 60 countries as part of its efforts to finance the BRI projects.[2] Some reports speak of the investment figure reaching $1.5 trillion.

Borrowers may not have realised that the loans China disbursed to their country might reach a point where the borrower could no longer afford to pay them back. With Sri Lanka unwilling to service a $8 billion loan at 6% interest that was used to finance the construction of the Hambantota port, China agreed in July 2017 to a debt-for-equity swap accompanied by a 99-year lease for managing the port (Center for Global Development 2018).

We should consider some unique features of China's foreign loans under the BRI. While some of the loan packages are concessional, other elements are strictly commercial. As details and terms of the loans are kept secret, it is impossible for people in the recipient countries or others to grasp their level of indebtedness. Some of the conditions are onerous to say the least. For example, Pakistan is committed to repaying the commercial segments of its loans, which represent the bulk of the $60 billion it has obtained, in US dollars. This means it must bear the consequences of an inevitable ongoing gradual devaluation of Pakistan's currency against the dollar. There have been press reports in Pakistan of a guaranteed rate of return for China, estimated at around 16%, but taken together with all the other concessions that China has received, it will take the repayment level to well over 20% per annum (Kardar 2017).

Some news reports have held that the Asian Infrastructure Investment Bank (AIIB) based in Beijing will finance the BRI projects, but one should not overestimate this. The AIIB's current annual lending is around $2 billion. With some 70 countries participating, it pursues wider objectives. The New Development Bank (NDB) set up by the BRICS countries is smaller than the AIIB, and does not have a direct BRI focus. There is also a putative Shanghai Cooperation Organisation (SCO) bank, reportedly under establishment; it would surely have closer connections with BRI, than the AIIB and the NDB. Delay in its formation may point to possible difficulties. In net terms, these three institutions will be minor contributors to the BRI funding.

Other published reports on the BRI acknowledge that the bulk of the financing comes from Chinese official sources and its banks; all of the latter are, in effect, state entities. "Debt trap diplomacy" is probably an unintended consequence of BRI projects, not the result of deliberate calculation. But that distinction matters little to the countries caught in such a financial bind.

At least some of the projects undertaken by the BRI are often not bankable, in traditional development terms; that is surely one of the reasons that other lenders, international and bilateral, have not shown much interest in most of these projects. This means that their financial viability is in question. One study, after identifying 23 countries "at significantly or highly vulnerable to debt distress," estimates that "eight countries are at particular risk of debt distress based on an identified pipeline of project lending associated with BRI" (Center for Global Development 2018).

Other Problems

Some problems with BRI projects have become apparent only with the passage of time. Chinese officials have had limited experience with international projects and that has contributed to the inefficiencies. In this regard, the International Monetory Fund (IMF) has been trying to help China acquire the needed skills (Clover 2018).[3] Further, no competitive bidding means that the project cost is inevitably higher than optimal. That also applies to assessment of the ability of the recipient to repay loans; an intrinsic problem with political loans. Chinese companies, private or state-owned, have driven most of the projects, evidently willing to cover the rent-seeking actions of foreign leaders and their associates, which of course, adds to the project cost, further eroding viability. Some foreign partners may perhaps have calculated that the reckoning will be a long time coming. We also know that private Chinese companies have used foreign investments for illegal capital flight, and this also affects some of the BRI projects.

China's method of sending hundreds and thousands of its personnel, engineers as well as skilled labour to implement its projects is unique among foreign aid investors. It may make sense for China, but it blocks the transfer of know-how and do-how. This issue may not be prominent in the early stages, but it can only lead to bitterness among recipients, as some news reports now suggest.

For example, Tajikistan is host to a $3 billion portion of the Central Asia–China gas pipeline and reports indicate that the project may have stalled; China is the country's largest creditor, accounting for 80% of the increase in its borrowing between 2006 and 2017. In 2006, Zambia received a generous IMF deal which allowed it to write off many of its outstanding debts. But by 2018 it is again at the limit of its repayment capacity, with the only difference being that this time about a third of its foreign debt is to China.[4] A month after the Forum on China–Africa Cooperation (FOCAC) meeting in Beijing in September 2018, the Sierra Leone President cancelled a $318 million loan extended by China several months earlier to his predecessor for a new airport, saying that the present airport is "grossly underutilised" (Marsh and Westcott 2018). Overall, China's actions in writing off foreign debt are selective; it is not a member of the Paris Club which lays down terms for multilateral relief, though it has sometimes acted in harmony with those norms. It is possible that China may be forced by circumstance to take a significant haircut on some of its loans to foreign states.

In handling potential disputes China prefers state-to-state mediation, but it is now also developing arbitration procedures for the BRI projects, which "do not diverge too much from the beaten track regarding international arbitration" (Kluwer Arbitration Blog 2018). That is a positive sign of movement towards international norms.

Asian Reactions to the BRI

With the change of government in Malaysia, its prime minister has scrapped $23 billion worth of BRI projects, principally a railway line (Wong 2018). While most Asian countries do not speak up in public, a debate on the television channel NewsAsia in Singapore on 9 May 2018 showed that 48% of Singaporean participants felt that the Association of Southeast Asian Nations (ASEAN) should have greater centralised control over the BRI projects. Responding to a question on whether China was going to involve itself in the internal affairs of other countries, some responded, "it is already doing that." A panelist commented that not only was China a bigger player in world affairs, but it was also much more involved in your backyard.[5] Japan has long harboured partly similar reservations over the BRI, and has advocated a "Free and Open Indo–Pacific," advancing its signature "Africa–Asia Growth Corridor" project (AAGC) to link Africa with the Pacific region. But visiting China at the end of October 2018, Japanese Prime Minister Abe put aside those reservations to declare that it would actively participate in the BRI projects.

Around 50% of the $60-plus billion worth projects consist of power stations, and some press reports speak of Pakistan Prime Minister Imran Khan's government seeking price reductions from China, as well as a new focus on other projects that aid Pakistan's development and add to its export capacity (*Financial Express* 2018). Implementation of the China–Pakistan Economic Corridor (CPEC) is likely to slow down; efforts to "multilateralise" it may take time (Stimson Centre 2018). One academic has concluded that China's

> motivation for involvement in Pakistan is geopolitical rather than geo-economic and … the proposed overland pipeline and transportation corridor is more a symbol of cooperation than a fully achievable goal. (Garlick 2018)

Another assessment is that the

> Beijing and Chinese companies face a steep learning curve with CPEC, but many problems could be mitigated through consulting and engaging the full spectrum of Pakistani stakeholders, from competing elites to the grassroots … That policy should have the well-being of Pakistani citizens at its heart, rather than treating it as something that can be negotiated away in the pursuit of mega-development or perceived strategic interests. (International Crisis Group 2018)

With massive financial commitments, Bejing's concern with the protection of its investments and local regime stability in the major investment destination states is gaining a new edge. The policy changes affecting the BRI projects in Sri Lanka, Malaysia and even Pakistan cannot but cause unease. China will surely be pulled into the domestic affairs of its major partner countries. While it appears that Chinese diplomacy has evolved sufficiently in accepting this reality, the major project changes that some new governments have implemented cannot but cause disquiet. In effect, such changes make China more of a "normal" great power, facing real limits on its ability to manipulate foreign governments.

Considering past undulations in India's policy towards Beijing, it is creditable that New Delhi decided to join the AIIB and become the second biggest contributor after China. In early 2017, India was among the first to flag the dangers of the BRI borrowing. New Delhi also stayed away from the May 2017 Beijing BRI international conference. It is now time to move beyond that posture of blunt opposition, especially now that a Western chorus of doubt over the BRI is loud—with the United States and the European Union in the lead.

One could imagine India altering its stand on the CPEC if, perhaps, Islamabad provided direct access to Afghanistan. Pakistan's blockage of landlocked Afghanistan is a high-handed act that defies international law and the basic norms to which landlocked states are entitled. China's position on this issue, that this is a bilateral matter between India and Pakistan, is disingenuous and evasive. But there is no sign that Beijing might exert pressure on Islamabad, or that Pakistan might lift the blockage.

But other factors are in play. India's investment in the vital Chabahar port project is viable only if rail and road links connect it to the hinterland, that is, Afghanistan and Central Asia. That in turn entails cooperation with China. Talmiz Ahmed (2018) writes:

> Like all major initiatives, BRI has several shortcomings, but with consultations these can be effectively addressed. Given widespread international support, many BRI projects are already underway; some have even been completed. India will be a major beneficiary of these linkages, particularly when it melds its own proposals for Chabahar with the other Eurasian projects. Only through participation can India ensure that its interests are safeguarded.

Is it far-fetched to anticipate that with the evolution of India–China cooperation in Afghanistan following the March 2018 Modi–Xi Wuhan summit, a formula can be found to give India this vital connectivity? This would also demand Indian flexibility.

Conclusions

Finally, we might step back and consider the way that the former Soviet Union, another statist, authoritarian country, had pursued its foreign development aid. Moscow pushed and persuaded the East Europe bloc, China, India and some others to buy into its economic model, setting up their own capital goods mega-projects, in effect creating a captive market for itself. For the recipients these increasingly became technologically obsolete white elephants—witness our own experience with HEC, MAMC, BHEL and the other big Soviet-model enterprises, though we managed to regain profitability from some, notably BHEL, with our home-crafted innovation. Serving in Algeria in the mid-1970s, I witnessed the Soviet hard-sell for setting up of a similar capital goods industry in Algeria; the Algerian heavy industry minister's 1978 eye-opener visit to India, and the demise of President Houari Boumedienne later that year ended that pipe dream (Rana 2015).

China's BRI infrastructure investments bear some resemblance to that method, especially the railway projects and power generation investments, with the difference that unlike Moscow's foreign implantations of capital goods manufacture, China's technology is more current. At heart, Beijing is creating long-term customers for its spares and services. One might say that such dependence is built into all project imports, but when new incoming investments are dominated by a single partner, it locks that client to one technology source, with quasi-permanent dependence. That danger of the BRI investments has not yet attracted much notice.

NOTES

1 At a conference held in Chengdu in May 2016, a Chinese academic said that any conference that includes OBOR in its work-plan or academic goal can get funds without further question.

2 Report in *21st-Century Business Herald,* Beijing, 28 May 2015.

3 "… Ms Lagarde announced the opening of a China-IMF Capacity Development Center, which will help train Chinese development officials to work abroad … China has agreed to contribute $50m over five years to an IMF effort to train officials in China and in several other countries, including many in Africa" (Clover 2018).

4 See: *South China Morning Post*, 23 September 2018, https://www.scmp.com/news/china/diplomacy/article/2165377/fears-zambia-huge-debt-bust-china-fuelled-building-boom.

5 Based on personal notes taken during the NewsAsia broadcast.

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