The Belt and Road Initiative

By Patrick Irish

In 2013, Chinese President Xi Jinping delivered a groundbreaking speech that promoted “a bid to enhance regional connectivity and embrace a brighter future”. Originally called One Belt, One Road, the Belt and Road initiative is geared toward increasing the quantity and quality of connections between nations to increase trade, consumption, jobs, and cultural exchange. The short-term goal is to fuel China’s economic growth. The long-term goal is for China to go from a participator to a shaper of globalization. This paper will discuss what has happened so far and look at what it means for the future.

The Belt and Road Initiative for China is about investing in its future. This is a continuation of its policy since the late 1970s of investments in infrastructure from the state. Many economies wait for demand to necessitate spending in infrastructure. China reverses this and builds the infrastructure first expecting the demand to follow. So far, with some exceptions, this strategy has worked out nicely. The Chinese economy went from ranked eleventh in the world in 1980 to the second biggest today. The Belt and Road Initiative hopes to continue this success but on a global scale. The difference today is that its investing in global infrastructure outside of its borders.

The Belt and Road Initiative is composed of two parts. The first is the Economic Belt or “Silk Road” and the second is the Maritime Road or “Maritime Silk Road”. The goal for the Economic Belt is for high speed rail freight to span from China to Europe with highways, bridges, and passenger trains supplementing the network. (Brave NewCoin, n.d.) The goal for the Silk Road is to modernize ports to increase the speed of moving cargo on and off ships. Both road and maritime options face soft barriers such as legal and regulatory obstacles that China hopes to tackle along the way. (Lu, n.d.)

The flagship country in the Belt and Road Initiative is Pakistan. The China-Pakistan Economic Corridor (CPEC) is a group of infrastructure projects that include power generation, pipelines, ports, economic zones, and high-speed rails. The value of the combined projects is over $63B. The port of Gwadar gives China the ability to access the Indian Ocean and bypass the Malacca Straight near SE Asia. From there, a network of high-speed rails and highways will link the southern portion of Pakistan with the Northeast that borders China. This will ensure China does not suffer from a failure of a single route when getting oil from the middle east.

The CPEC is not just limited to roadways and ports as there are quite a few energy projects. Pakistan has suffered from blackouts and has enlisted China’s help to build out its electric infrastructure. Through a combination of coal and nuclear energy, Pakistan hopes to eliminate its problems by 2030 when its third nuclear plant will come online. (Clercq, n.d.) But this will be contingent on Pakistan being able to sustain the added debt, a recurrent theme on countries involved in the BRI.

In Iran, the Tehran-Mashhad railway was a small but important upgrade for the BRI. China promised $1.5B in funding to increase its capacity, speed, while reducing pollution. The plan is to electrify the rail system in 48 months. The project is being done with 60% of workers from Iran with China supplying the rest. (Financial Tribune, n.d.) Due to economic sanctions from the west and its lack of reserves, Iran is grateful for foreign investment to improve its infrastructure.

In Ethiopia, Addis Ababa is the capital of Ethiopia but is also known as the "political capital of Africa" because it hosts the African Union Headquarters. Giving this city access to the water through its neighbor, Djibouti, was a top priority for future growth. The China Rail Engineering China Rail Engineering Corporation and China Civil Engineering Construction company constructed the Addis- Ababa-Djibouti railway, a BRI project, from Ethiopia to Djibouti. It was backed with $3.3B in loans from the Export-Import Bank of China. However, due to underuse of the railway, the Chinese insurance firm Sinosure has had to pay out $1B to investors after its first year of operation. (Ng, n.d.)

At the end of the Addis-Ababa-Djibouti railway, China has built out a naval base in Djibouti for military and economic reasons. Centered at the gateway to the Suez Canal where 20% of all commercial goods travel, China recognizes the horn of Africa's significance and built a naval base alongside the US, Italy, Germany, Spain, France, and Japan own naval bases. In a move away from supply vessels to overseas bases, China looks to exert its political and military influence abroad while protecting its economic interests. (Jeong-ho, n.d.)

In Indonesia, a BRI project for a high-speed rail has hit some speedbumps. "'The Jakarta-Bandung high-speed train represents everything that's wrong with Belt and Road' Tom Lembong, Indonesia's investment chief, said in a March interview, adding that he remains a supporter of Chinese President Xi Jinping's ambitious plan to finance global infrastructure. 'It's opaque and non-transparent -- even us cabinet members are having trouble getting data and information," Lembong said. While he doesn't doubt that the populous area can sustain a network of high-speed rail lines over the next few decades, he called the project "deeply troubled" and lamented the lack of financial modeling or due diligence.'

Despite the controversy over the costs and a quick cancellation, in October 2015, Indonesian and Chinese state-owned companies signed a deal to build the Jakarta-Bandung railway. Spanning 88 miles, the railway will cut the time from two hours to 30 minutes. The project has had trouble from the start due to land acquisitions, budget overruns, and political uncertainty. Speculation has pushed up land prices and there is major doubt on the profitability when completed. (Xuan, n.d.) The Jakarta-Bandung high speed rail is on track to be completed in 2021.

On its southern border, China has signed up Laos for a high-speed rail to cut through its impoverished country of 7 million. The China-Laos railway could be groundbreaking for a country where 80% of people work in agriculture. Like most infrastructure, whether highway or internet, it's tough to predict the economic benefits that will occur over time. Soon the railway will link Laos with China and Thailand and eventually go through Malaysia and end in Singapore. The question becomes if the railway is needed and/or will be profitable for the people of Laos. (Westerman, n.d.)

The details of the China-Laos project are opaque because both countries involved are tightly controlled communist regimes. But currently they estimate over 4,000 families will be moved and the railway will go across 9,500 acres of land. The total cost will be over $6B, 60% from private investors and Laos and China providing the other 40%. The Laos portion is secured through bauxite and potash mines. The work will be carried out by 50,000 Chinese workers. While delays have hindered the project, the opening date has been moved from 2015 to 2021. The railway will open Laos to greater Chinese influence, but it was a tradeoff they were willing to accept. (Radio Free Asia, n.d.)

Regarding power generation, environmental concerns have plagued one project in Vietnam. The Vinh Tan Coal Plant was built through Chinese financing, Chinese contractors, and provides critical energy for Vietnam's growing economy. Yet the dumping of coal dust filled the air with dangerous pollution causing thousands of residents to protest on the highway. Three years later, a state audit showed multiple violations in excess pollution in the water and air. (Tuoitre, n.d.)

In the seas, China has been aggressively investing in many ports around the world. The goal is to secure an interest and always have a seat at the table for where it can trade. Currently in Europe they have over ten stakes in ports around the continent. One of its most successful investments was in Greece in 2008. One decade after it took over the port in Piraeus, its grown from a tiny operation to the second largest port in the Mediterranean. To China, this is its southern hub for getting goods into Europe. It was able to do this transformation through the state-owned company COSCO (China Ocean Shipping Company). It was a key project for the BRI where China poured in over $4B to upgrade the port. What was once fought ferociously by Greek unions, the minds are slowly being changed as they see progress. Once a "foreign invader", today they are partners in growing Greece's ports. (The National Herald, n.d.)

To the north, China bought a 50-year concession agreement in the Zeebrugge Terminal in Belgium. They consider this their main northern European hub as its another small port they plan to build out. COSCO, the entity that bought the controlling stake, did not have to drastically overhaul the labor workplace like in Greece. Instead, they worked alongside the existing union and plan to build it out together. So far, trade between Belgium and China has risen with exports from Belgium to China outpacing imports.

In the Indian Ocean, China has been very aggressive in their dealings with Sri Lanka and Maldives. The former, an island nation of 400,000, has accused the BRI of looting their coffers. With accusations of bribery, corruption, embezzlement, the previous Sri Lankan administration took every deal China offered them. Hospital, bridge, airport, and housing, China built out the Maldives with over $3B in unsustainable debt. The current administration is still figuring out the details and trying to solve their debt crisis. (FT, n.d.)

Slightly to the north of the Maldives is the island nation of Sri Lanka. Their biggest port, Columbo, was more than big enough for their needs and even had room for expansion. However, when President Rajapaksa wanted to build a port in his hometown the Chinese were willing lenders. Over $1.5B in loans built a port, Hambantota, that is uneconomical, and the debt is unsustainable. With little room to negotiate with the Chinese, Sri Lanka signed over the strategically important Hambantota port to a Chinese state-owned company on a 99-year lease in 2017. The transfer of the port was to lift some of the enormous billion-dollar debts Sri Lanka owed to Beijing, debts which helped fund Hambantota in the first place. (CNN, n.d.) This is the shining example to outsiders that when China offers money for building out infrastructure, tread carefully or risk losing sovereignty.

Due to debt levels rising in developing countries and examples of China strong-arming countries who can't pay back their loans, many BRI projects have been cancelled. In Malaysia, over $23B in projects such as high-speed rail and pipelines are cancelled for further review. In Pakistan, the CPEC is being rethought as a $14B hydro dam and $2B coal power plant is cancelled. In Myanmar, debt concerns have forced them to reduce a project to build a port from $7.3B to $1.3B. In Bangladesh, they have banned Chinese companies from doing business after reports of government officials being bribed. And in Nepal, a $2.5B hydro dam was cancelled.

Over 40 world leaders did not accept invitations to the April 2019 Belt and Road Initiative summit due to concerns over “opaque financing practices, poor governance, and disregard for internationally accepted norms and standards, which undermine many of the standards and principles that we rely upon to promote sustainable, inclusive development and to maintain stability and a rules-based order." (Reuters, n.d.) “Many were already heavily in debt and the countries’ average liability and debt ratios had reached 35 and 126 per cent, respectively, far above the globally recognized warning lines of 20 and 100 per cent” (CNBC, n.d.)

With Chinese influence spreading fast both the USA and India are concerned. In India, Prime Minister Modi has announced Project Mausam. Its aim is to reconnect and re-establish communications with trading partners around the Indian Ocean. While details are light, they want to focus on culture and other strategic dimensions outside of trade.

The US is greatly concerned over the economic and political influence over Eurasia. China’s BRI may build out infrastructure but it does so with decreased standards in labor and environmental norms. With bribes and other forms of corruption, there is an erosion of western development standards. And the more that China increases its trade with other countries, the more the US is economically marginalized. Lastly, the port expansions overseas could easily expand China’s naval bases around the world. “China’s return on investment from increased port access and supply chains is not all about economics. In five cases—Djibouti, Walvis Bay (Namibia), Gwadar (Pakistan), Hambantota (Sri Lanka), and Piraeus (Greece)—China’s port investments have been followed by regular People’s Liberation Army (PLA) Navy deployments and strengthened military agreements. In this way, financial investments have been turned into geostrategic returns.” (Nantulya, n.d.)

To add to the US concerns, the cheap funding for infrastructure across Asia and Europe will likely make countries indebted to China on top of being linked economically. This will allow China to export its own values and standards across the globe. Over time, this will economically marginalize the US. The fears go beyond economic control. “Up to the recent times, the flow of religions, doctrines, ideas and ideologies has mainly been from the West to the East, often accompanied by Western colonialism. Now, if the BRI is successfully implemented, for the first time in history a model of Eastern origin may affect the West and the rest of world.” (Shichor, n.d.) There is also a chance it will allow China to expand its military presence through ports around the globe.

However, the US and China could be allies in this push for better infrastructure around the world. Collaboration on higher standards, financial leverage for smaller countries, and sharing of ideals could be beneficial for both nations. Instead of worrying what the other side may take, imagining what each side could add could best serve each nation’s interests. (Chance, n.d.)

In conclusion, China’s BRI results are a mixed bag. While it would be easy to highlight the failures, there are many success stories that result in a “win win”. China also faces criticism at home because some projects have become “lose lose” situations. For now, the formula of low-cost foreign infrastructure loans to fuel growth is a winning formula. The debt traps that do occur are usually due to bad assessments on both sides. Occasionally, outside influence from China is an issue which has tarnished the BRI’s reputation. Overall, the BRI will be heavily scrutinized but its global infrastructure improvements cannot be denied.

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