ONE BELT ONE ROAD

China's Belt and Road Initiative: Why We Should Talk About It

by Gavin Alban

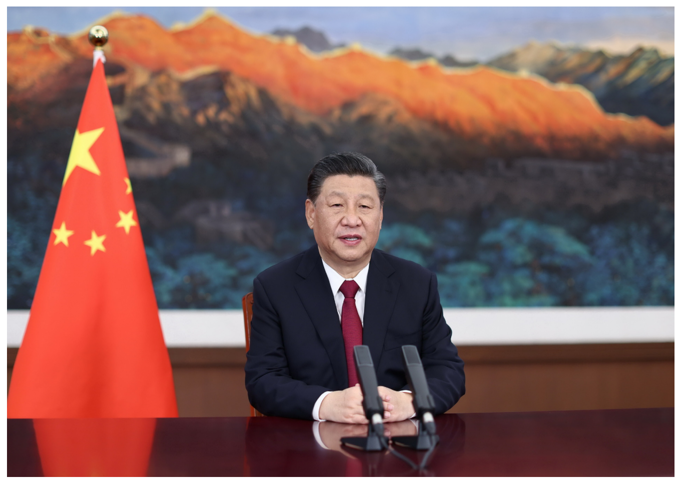
In 2013, the People's Republic of China's (PRC) President Xi Jinping announced the One Belt One Road (OBOR) project which was later renamed the Belt and Road Initiative (BRI). So, what is it, and why should we talk about it? The BRI is shaping up to be one of the most disruptive initiatives in modern history. It is the centerpiece of President Xi's foreign policy: it is a development program set to take place in almost 150 countries around the world. With a planned budget amounting to multiple trillions of dollars and over 900 billion invested already, the size of this initiative is difficult to digest (*Betz*). In simple terms, the BRI is made up of varied infrastructure projects ranging from railroad and highway construction to green energy resourcing. "Belt" is short for "Silk Road Economic Belt" and refers to land routes through Asia while "Road" is short for "21st Century Maritime Silk Road" and refers to Indo-Pacific Sea shipping routes spanning from Asia to Africa and the Middle East. This takes obvious inspiration from the famed Silk Road centuries ago (*Betz*). This Chinese outreach is part of Xi's "Major Country Diplomacy" (one of the central tenets of his goal as president) which seeks to have China achieve a national rejuvenation and take a larger role in global affairs amidst its growth.

One of the most identifiable characteristics of the BRI is its ambiguity. The Chinese government has never been one to be fully transparent, and this case is no exception. Publicly released documents regarding the BRI use vague terminology and conceptual descriptions rather than specific details. This creates a large gray area and is up for interpretation (*EIU*). Speculations from leaders and critics all over the world vary greatly. Some have trouble identifying China's concrete motivations and quantifying its success. And some even see the BRI as a predatory strategy that takes advantage of vulnerable nations for China's profit. The PRC claims that its initiative relies on voluntary participation and cooperation. The purpose is for the collective good, they say. Its framework is one in which any country, big or small, rich or poor, can participate in on equal footing. The BRI's official constitution states, "It aims to promote regional development, prosperity and stability, and expand dialogue and mutual learning between civilizations," and that China is committed to maximizing win-win cooperation ventures (*Building*). The BRI will create a more well-knit community through mutual prosperity. The following are some comments from President Xi when asked about the goals of the BRI:

"[The Belt and Road Initiative] aims to enhance connectivity among countries and regions, promote interconnected development, and create new space for global growth."

"It is guided by the principle of consultation and collaboration for shared benefits."

" It is not an exclusive club that is closed to non-members, nor is it a 'trap' as some people have labeled it." (Ting)

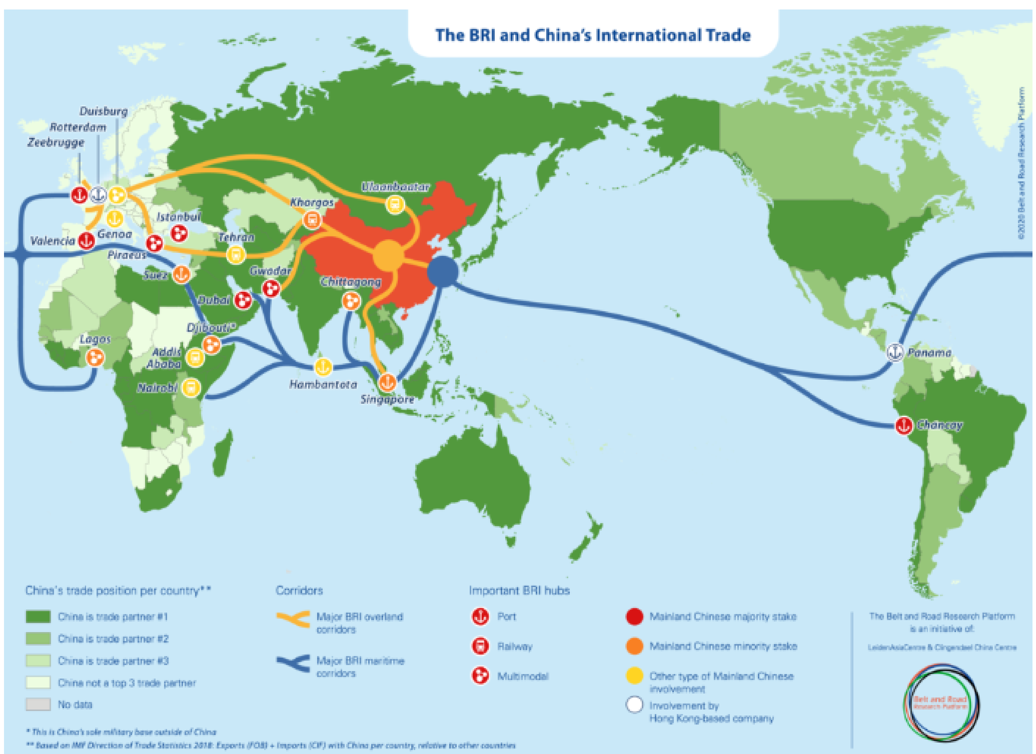


The BRI was recently rebranded again as the Global Development Initiative (GDI) in order to address collective criticisms and more closely align itself with Chinese policy updates. The main components of this fresh start are: development first, a focus on people rather than capital, non-discrimination in all respects, technology innovations, a green development approach, and action orientation. For the sake of simplicity, I will still refer to it as the BRI for the remainder of this paper. It was also noted that the initiative is aligned with the UN's 2030 Sustainable Development Goals (SDG). This rebrand came at a time of uncertainty at the exit of the Covid pandemic (*Muhammad*). Essentially, China doubled down on their belief in the future of the BRI. There are still many uncertainties with the project. This essay will seek to better discuss the current state and reach of the BRI. I will also address key topics such as how it is managed, where the money comes from, and how the BRI has affected its present host countries.

The discussion of management for the BRI is a slightly diluted one. In line with the overall ambiguity of the project in its entirety, there are certain parts of the leadership organization that aren't fully clear. One thing is for sure however: The BRI is the "in" thing to be associated with among the elites of China (*EIU*). There was an initial leading group formed at the tail end of 2014. Its information was mostly publicized in the next year. Then Vice-Premier Zhang Gaoli was put in charge along with Wang Huning, Wang Yang, Yang Jing, and Yang Jiechi as the right-hand men. This group reports directly to the State Council of China which is the chief administrative authority of the People's Republic of China. There are also individual branches in the leadership focused on the development of particular macro regions such as the Forum on China-Africa Cooperation (FOCAC) or the China-Arab States Cooperation Forum (CASCF). For the most part these groups are all multilateral. Many other institutions have been created to aid in the success of the BRI - these will be discussed in the next section. Who exactly represents these groups, committees, and institutions is not always clear, so this topic is not discussed as much as normal (*Belt*).

The usual question that arises when considering the BRI as a whole is where the funding comes from. The BRI is sometimes compared to the Marshall Plan which was a massive loan package that the US gave to countries in Western Europe post-WWII for the reconstruction effort. However, there is a stark difference between the two: the BRI is actually based on loan financing rather than aid or foreign direct investment (*EIU*). The Asian Infrastructure Investment Bank (AIIB) was the first bank proposed specifically dedicated to lending for BRI infrastructure related efforts. The main goals of this institution are “to address the expanding infrastructure needs across Asia, enhance regional integration, promote economic development and improve public access to social services”. Along with this primary bank, there are a multitude of other financial institutions devoted to BRI development all falling into different categories. Some more examples of Chinese banks are the Silk Road Fund and the China Development Bank. There are also more multilateral organizations like the New Development Bank. Several commercial Chinese banks give support to the BRI like the Commercial Bank of China and the China Construction Bank (*Wang*). This list is far from complete, but as one can see there is a long line of foundations that are willing and able to lend money to countries that are interested in receiving it.

The BRI’s reach is few steps away from being completely global. Its influence can be found in every continent aside from North America and Antarctica. To the right is a map of the current completed and planned trade routes (*New*).



The following sections will take a brief look into the macro regions in which BRI projects have started development.

BRI in Africa - Kenya, Tanzania and Zimbabwe

In previous decades China has been a relatively small player in African economies. With the start of the BRI that has changed completely. China is now Africa's largest funder and largest infrastructure development agent. Projects here have largely consisted of road and bridge construction, but there is also technology development like mobile phone networks and electricity generation structures. Kenya has seen the most loans out of any African nation. (This country will be discussed further in another section.) Chinese leaders refer to their actions in Africa as "Shuangying" or win-win. But with a deeper look into the political, economic, and societal risks that inflict these less developed nations it is easy to see that their relationship with China is inequitably costly. According to foreign critics, Africa's growing debt to China is considered "problematic" and "complicated." There have been calls from African nations to restructure their debt plan with China (such as longer repayment terms) but it seems improbable that this will be successful. Impoverished nations have a much more difficult time with investment in this format because the burden falls on them as the recipient rather than the investor (*EIU*).

BRI in Central Asia - Turkey, Kazakhstan, Azerbaijan, Georgia, Mongolia, Armenia, Tajikistan and the Kyrgyz Republic

Central Asia represents the source of inspiration for the Belt and Road Initiative. The historical Silk Road had its main route passing directly through this region. President Xi states that it is time to “use innovative methods of co-operation to mutually establish a ‘Silk Road Economic Belt’”. The most prominent projects in this region include road/highway improvements for ease of trading and gas pipeline networks such as the Central Asia-China Gas Pipeline and the Power of Siberia I and II. Another visionary endeavor that has yet to be started is a high-speed railway that crosses through Central Asia and beyond into the West. This area seems to be a target of great importance for Chinese project leaders, but as with other regions it is not without its political and economic risk (*EIU*).

BRI in Eastern Europe - Poland, the Czech Republic, Romania, Hungary, Ukraine, Albania, Macedonia and Moldova.

Eastern Europe is the farthest-reaching section of the BRI geographically. It is also represents the most involvement China has had with historically advanced capitalist nations. The wealthiest nation in the region, the Czech Republic, is partnering with China to develop sectors such as aviation, biology, education, finance, healthcare, high-speed rail, machinery, nanotechnology, nuclear power, steel and tourism. Hungary has secured loans for automotive and airline manufacturing. Prior to the Ukraine-Russia conflict, Chinese investment packages were working to help Ukrainian plants run on coal rather than Russian natural gas. This region presents significantly less risk to the Chinese and strikes an opportunity for them to push their influence into Europe. The only thing inhibiting this is the power and distance from these individual countries (*EIU*).

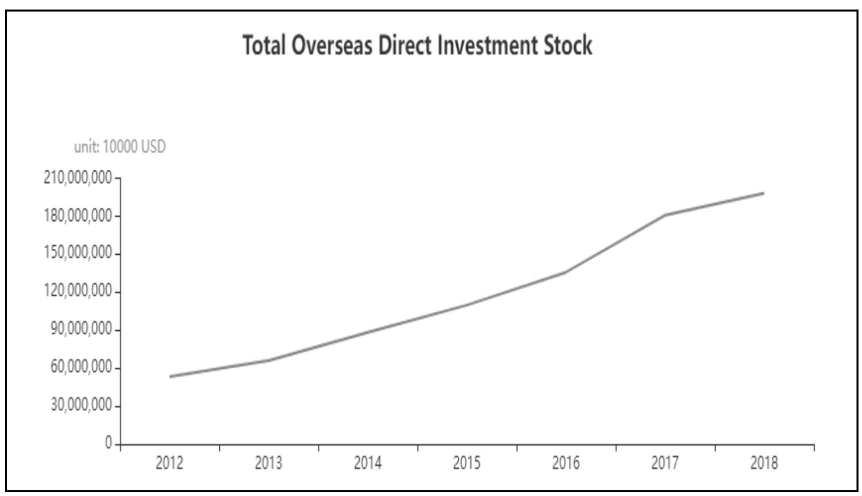
BRI in the Middle East - Egypt, Israel, Iraq, Qatar, Kuwait, Oman, Jordan and Bahrain.

The media often depicts countries in the Middle East as riddled with corruption and political instability, but in the majority of cases this is actually the opposite. The average security risk level around the world is about 38 out of 100, and many Middle Eastern countries have risk levels below 20! This makes the region, which is wealthy in natural resources, a priority target for the Chinese. For example, President Xi visited Iran in 2017 where he and the then president, Hassan Rowhani, agreed to increase trade from $50 billion to $600 billion in the next 10 years. Even the Qatar World Cup of 2022 was partly funded by the Chinese state-owned company Sinohydro. The Middle East has a firm legacy of being the oil jackpot of the world, but governments are working to develop their solar energy infrastructure as well. This region represents a unique, yet extremely profitable investment opportunity for China (*EIU*).

Southeast Asia - Indonesia, Thailand, the Philippines, Malaysia, Singapore, Vietnam, Myanmar, Cambodia and Laos

These countries represent the members of the Association of South-East Asian nations (ASEAN). China has close geographical proximity and strong cultural ties with these nations. These relationships have not all been positive in the past, however. China's assertiveness in the South China Sea has put a damper on some of the potential progress in the region. Countries like Malaysia and Vietnam who have maritime claims in the area have voiced their concern time and time again. There has even been public outcry over the idea of cooperation with China on large scale projects in Vietnam. Regardless, with the exception of Singapore, all of the ASEAN Nations are facing infrastructure deficits. This is a perfect opportunity to push the goals of the BRI. China's statements about the BRI do align with ASEAN's commercial development aspirations, but China is not extremely interested in the goal of a unified region. Rather than linking each nation individually with China, the vision of a connected region needs to be kept in mind in order for the ASEAN countries to gain an even deal (*Vu*). In order for these nations to continue their strong economic growth, they will need to address these issues. Rail systems could be used for China to access the economies of Myanmar, Thailand, Laos, Vietnam, Cambodia, Malaysia, and even Singapore. One project that has already begun is a high-speed rail network linking Vientiane, the capital of Laos, with China. This cost $6 billion. Another project of note is one won by China Railway International over a competing Japanese company in Indonesia. China was able to secure this by not requiring funding guarantees from Indonesia - certainly a red flag but a successful one at that. Southeast Asia won't be the easiest region to tap into, but it could be one of the most profitable (*EIU*).

As one might have guessed, the BRI is not without its challenges. Most critics say that the fundamental reasoning behind the start of the BRI is to increase China's trade dominance and control for competitive efforts with the United States. From a US lens, this is obviously not favorable. But even from the perspective of other countries this gain in global influence strikes a worrisome note. In recent years Chinese foreign direct investment (FDI) has risen significantly in all BRI economies - even prior to the start of the initiative. The graph on the right displays the increasing trend on a six-year range (*Belt*). China now accounts for over 20 percent of the total FDI inflows from the cumulative



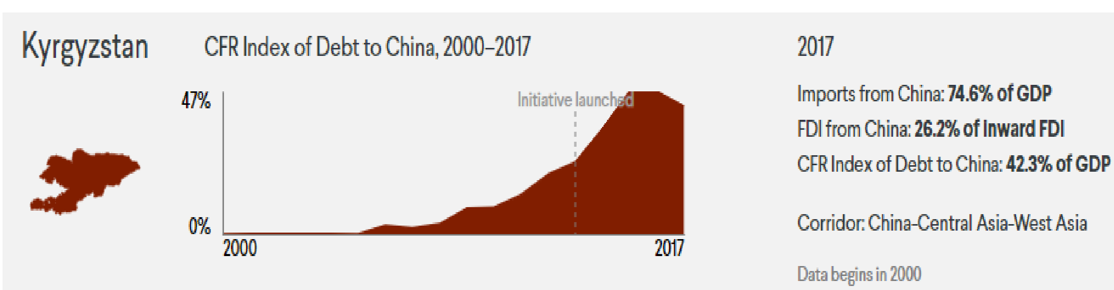
BRI partnered countries. Individual FDI statistics vary greatly by country (*Xiaoyang*). Too much global power for any one country is always looked at skeptically. Worse, China has not been known to be an easy partner to bargain with in past decades.

As alluded to above, many speculators believe China is engaging in "debt-trap diplomacy". This can take shape in many ways, but in the simplest terms a country that is unable to repay its debts to China would have to give in to whatever else it demanded. World leaders across the globe have expressed their concern over this type of behavior. In 2018, 16 senators addressed a letter to the Secretary of State and the US Treasury in which they voiced their concerns. This letter sums up what many officials were worried about when it highlighted that "Beijing's attempt to weaponize its capital is not just limited to Asia and Africa but extends to Europe". This letter described China's lending as a malicious strategy in which we do not understand the full consequences (*Wang*). These worries are not baseless. There are multiple instances that bring up valid questions as to the motivations and reasons behind China's Belt and Road Initiative. Below are some examples of controversial moves that point towards China's debt trap diplomacy within the projects:

- **Kenya:** One of the more prominent infrastructure projects in East Africa is that of the Standard Gauge Railway (SGR). This project is estimated to cost over $14 billion, which is not a necessarily shocking number considering the relative size to other projects. The real surprise comes when comparing this number to the international standard on similar railway projects. The SGR costs about $5.6 million per kilometer whereas the international average is only $2 million. Why is this project costing over double what it normally does? This type of debt is not sustainable for an insatiable economy like

Kenya’s. Worse, the contracted China Road and Bridge Corporation undertaking construction efforts is accused of breaching its promise to source 40% of goods and services from local companies (*EIU*).

- **Sri Lanka and Tajikistan:** In 2017 a port in Hambantota, Sri Lanka was constructed via a BRI inspired Chinese project. Unable to fulfill its loan financing obligations, Sri Lanka had to sign away this port and its surrounding territories to China on a 99 year lease. In a similar example, Tajikistan was forced to give China 1,158 square kilometers of its territory as a write off for an unspecified loan (*Is*).
- **Kyrgyzstan:** This country serves as an example of a nation that is being overwhelmed by debt. The Council on Foreign Relations reports that as of 2017 Kyrgyzstan’s debt to China measured up to 42.3 percent of its annual GDP. This is a stunning statistic as it provides an example of a debt that has no feasible chance of being repaid. Prior to the BRI, Kyrgyzstan found China as its number one trade partner already. But after the initiative began statistics on its unsustainable trade levels skyrocketed and continue to progress further and further. The graph below illustrates Kyrgyzstan’s debt to China from



2000 to 2017. These numbers have continued on this trend. (*Steil*).

- **Djibouti:** Djibouti has just recently suspended its debt repayments to two of its creditors (China and another undisclosed party). Djibouti has been pinpointed as a critical part of

> the BRI because of its geographical location as a crossroads between Africa, the Middle East, and Europe. The World Bank reported that in 2022 Djibouti's external debt tripled from $54 million to $184 million. Projects like the Doraleh port, the free trade zone, and a water pipeline to Ethiopia have proved to be too costly for the country, and financial pressures have caused it to default on its loans (*Hoque*).

These are just a few of the many examples that would suggest that there might be more to the BRI than we are being led to believe by the CCP. The worry lies within the targets of the BRI. While it is certainly obvious that countries in need of development would be targets for infrastructure projects, there is an element of vulnerability at play as well. If these countries originally cannot afford to build these projects themselves, how should they be expected to finance them under tight loan constraints. The examples above showed what happens when countries cannot pay back their debts. But it is also important to note that not all collateral from BRI loans is physical property. It is preferred that the debts are collateralized on liquid assets, such as a cash balance in an offshore lender-controlled account (*Kuo*). The scale almost always ends up being tipped far more into the direction of China.

The BRI has also come under fire over labor concerns. In most partnerships it, in alignment with the "win-win" principle, it is agreed that projects will increase employment, income, and skill transfer in the local economies of which they are taking place. This, however, is not always how the situation plays out. Chinese firms seek to lower labor costs via importing Chinese labor. They believe Chinese workers are more productive than local workers. They also believe that local workers are unable to adequately perform in high-skill positions, so they often transfer pre-existing employees. The previously discussed railroads in Laos are a good example of this as it is difficult to find even a few domestic workers. Further, in this project Chinese workers who protested wage payments and delays were deported. There are cases however that have yielded positive results. In Cambodia, BRI projects have created over 20,000 Cambodian jobs, and this number continues to climb (*Hillman*). Statistics vary from project to project, and averages are different in every country. In general, BRI firms hire local laborers for low skill positions which hinders the possibility of skill transfer.

There are definitely tangible benefits from the BRI already being felt in host countries. The name of the game is connectivity, and it would be incorrect to say that development in this realm has yet to be achieved. Connectivity has become multi-modal. Different types of transport paths such as roadways and seaports are now providing a large network of paths for a much more efficient route. Countries have far more options for trade and transport than they did before. This is not only physically helping these developing nations but also reframing their mindset and approach to international trade. Further, awareness of the digital economy has increased tenfold. The BRI has been a learning tool for countries to understand the importance of information and technology backed relationships. While this presents trouble with propaganda and misinformation exposure, it does bring these countries into the technology developed world we live in. Finally, the BRI has been largely synergistic with previously installed infrastructure. Rather than cannibalizing and disrupting historical trade routes it has built off of them. Local economies are still able to function as they did before if wanted or utilize new infrastructure for its benefits.

Because of its adverse effects and inherent secrecy, the future of the BRI is difficult to predict. The BRI has been relatively successful so far at achieving the short-term goals listed by the Chinese. A multitude of factors are at play, such as relationship health, communication between host nations, political and economic risk, and global economy status. It is not easy to comprehend the combined force of all of these factors and see a clear picture of the results. One trend worth note is that of the funding institutions shift towards heavier multilateralism. As projects mature and multiply, more parties are becoming involved in the larger BRI network. These parties come from a wide variety of players - players who are not Chinese. It would be wrong to assume that none of these parties have Chinese interests in mind but it would also be foolish to think that all of them do. This dilution of Chinese influence on the BRI and affected nations could provide a better investing and negotiating stage. This could also result in the Chinese being forced to keep well on their promises such as their commitment to the UN SDGs. Another substantial forecast is the increasing tension in the US-China trade war. This "war" has been going on for years now and will continue to escalate as Chinese influence and partnerships spread. This could affect foreign exchange markets, trade flows, and monetary policy of all countries involved (*BRI and*).

The Belt and Road Initiative is a global strategy that the Chinese have taken in pursuit of expanding their economic and political influence on the macro regions that surround them. This is done by building relationships with individual countries by financing various infrastructure projects to foster economic growth. While the Chinese true intentions with this strategy for the long run have yet to be revealed, the harm caused by the initiative is currently negligible and the benefits reaped are plentiful. Nobody is to say for sure whether this trend will continue; the results and consequences lie in the belts and roads that will be made in the years ahead.

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