



Unpacking the Belt and Road Initiative

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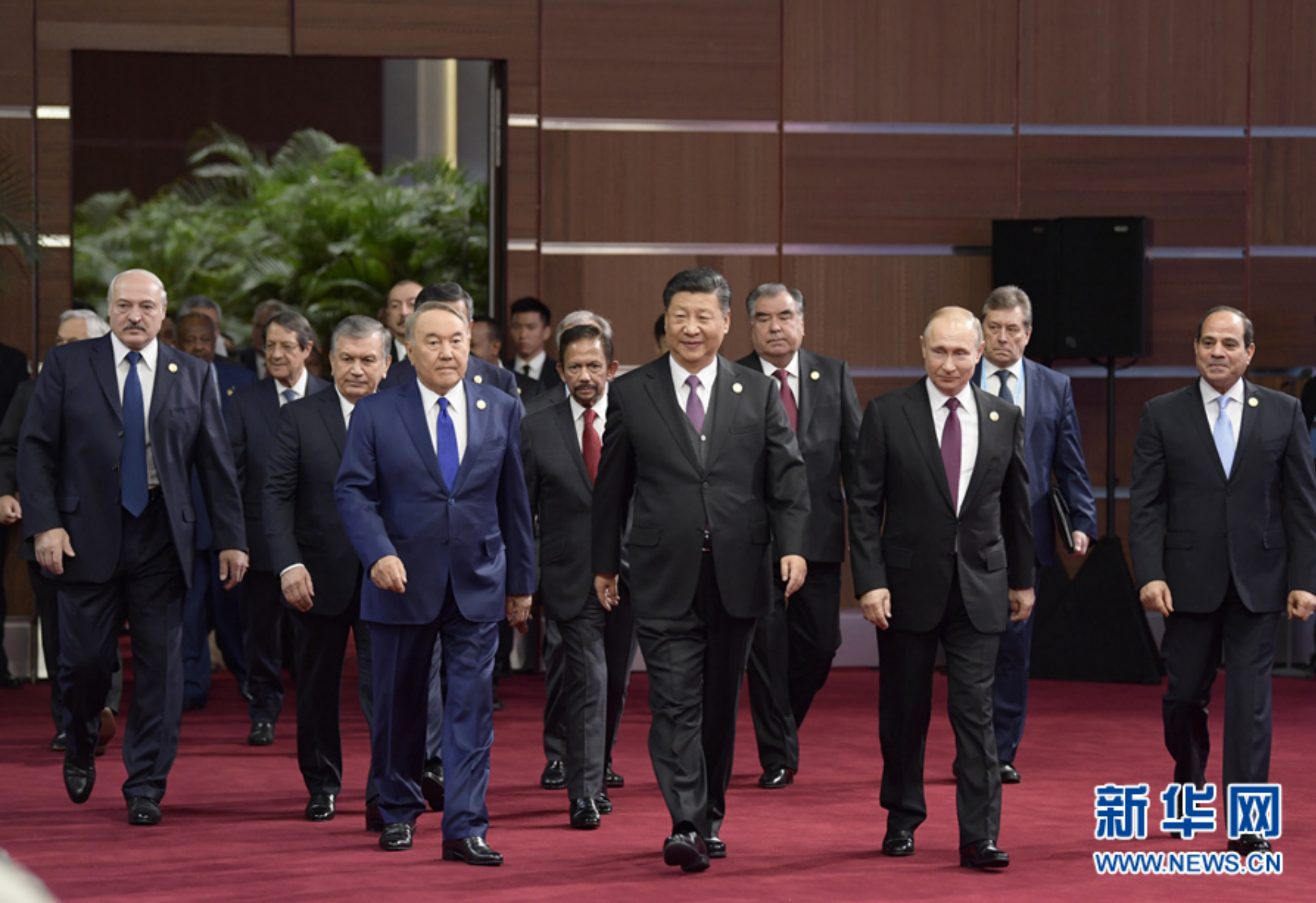


Outline

- **What** is the BRI?
- **Where?** Projects, scope, and impact
- **Why?** Understanding China's motivations and context
- Issues and challenges
 - Sri Lanka
 - Pakistan
- Discussion: why this matters from a philanthropic, development perspective

What is the BRI?

Opening of BRI Forum, April 2019



Attendees to the second BRI Forum, April 2019



Source: Shannon Tiezzi, "Who Is (and Who Isn't) Attending China's 2nd Belt and Road Forum?" *The Diplomat*, April 27, 2019

September 5, 2019

Pangea Giving

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Perspectives on the BRI

- In collectively building ‘One Belt One Road,’ the objective is to focus on interconnectedness and deepening pragmatic collaboration, jointly addressing each and every danger and challenge faced by humanity side-by-side, and to implement mutually beneficial, win-win, mutual development...As the facts show, collaboratively building ‘One Belt One Road’ not only provides a new economic development opportunity for each of the world’s nations, but also opens China’s economic development up to a new world.”
 - *General Secretary Xi Jinping at opening of 2019 BRI Forum, April 26, 2019*
- “China’s Belt and Road Initiative purports to address the legitimate infrastructure demands of the world’s less-developed economies, but primarily aims to export China’s own economic imbalances—industrial overcapacity, excess labor, large foreign currency reserves—and to convert these into political influence and strategic military access.”
 - *Senior Trump Administration Official, August 28, 2019*

What is the BRI? (And What It's Not)

- Silk Road Economic Belt
- 21st Century Maritime Silk Road
- “Digital Silk Road”
- Soft infrastructure, e.g., FTZs
- Enshrined in CCP constitution at 19th Party Congress in October 2017 and PRC constitution in March 2018.
- National Development and Reform Commission
 - Manages day-to-day central oversight and coordination of BRI
 - Belt and Road Promotion Center founded under NDRC in 2017

Timeline

- September and October 2013: Xi announces BRI in Kazakhstan and Indonesia
- December 2013: 3rd Plenum of 18th Party Congress calls for facilitating the BRI.
- November 2014: Xi pledges \$40 billion for creation of Silk Road Fund (SRF) from forex reserves.
- June 2015: China Development Bank (CDB) announces will invest \$890 billion in 900 BRI projects.
- December 2015: Launch of AIIB
- January 2016: AIIB starts operations with \$100 billion in capital.
- May 2017:
 - First Belt and Road Forum for International Cooperation held in Beijing.
 - NDRC announces investments of \$600 billion to \$800 billion over next five years.
 - Xi pledges additional \$14.5 billion for SRF.
- January 2018: CDB commits \$250 billion in loans.
- April 2019: Second BRI Forum held.

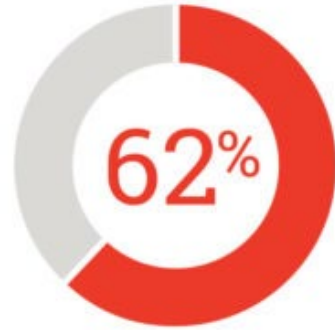
Belt and Road Initiative

By the numbers

The Belt and Road Initiative



Combined population of all countries involved in BRI



BRI touches 62 percent of the world's population



The less developed BRI partners have an average yearly income of \$6,312.

\$26 trillion

Estimated cost of infrastructure needs

\$1 trillion

Amount China has pledged

The estimated cost of infrastructure needs in the developing parts of the Asia-Pacific through 2030 is \$26 trillion. China has pledged \$1 trillion.



Combined GDP of all countries involved



Trade between China and BRI countries between 2014-2016

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES | CHINA POWER PROJECT

Geographic Scope

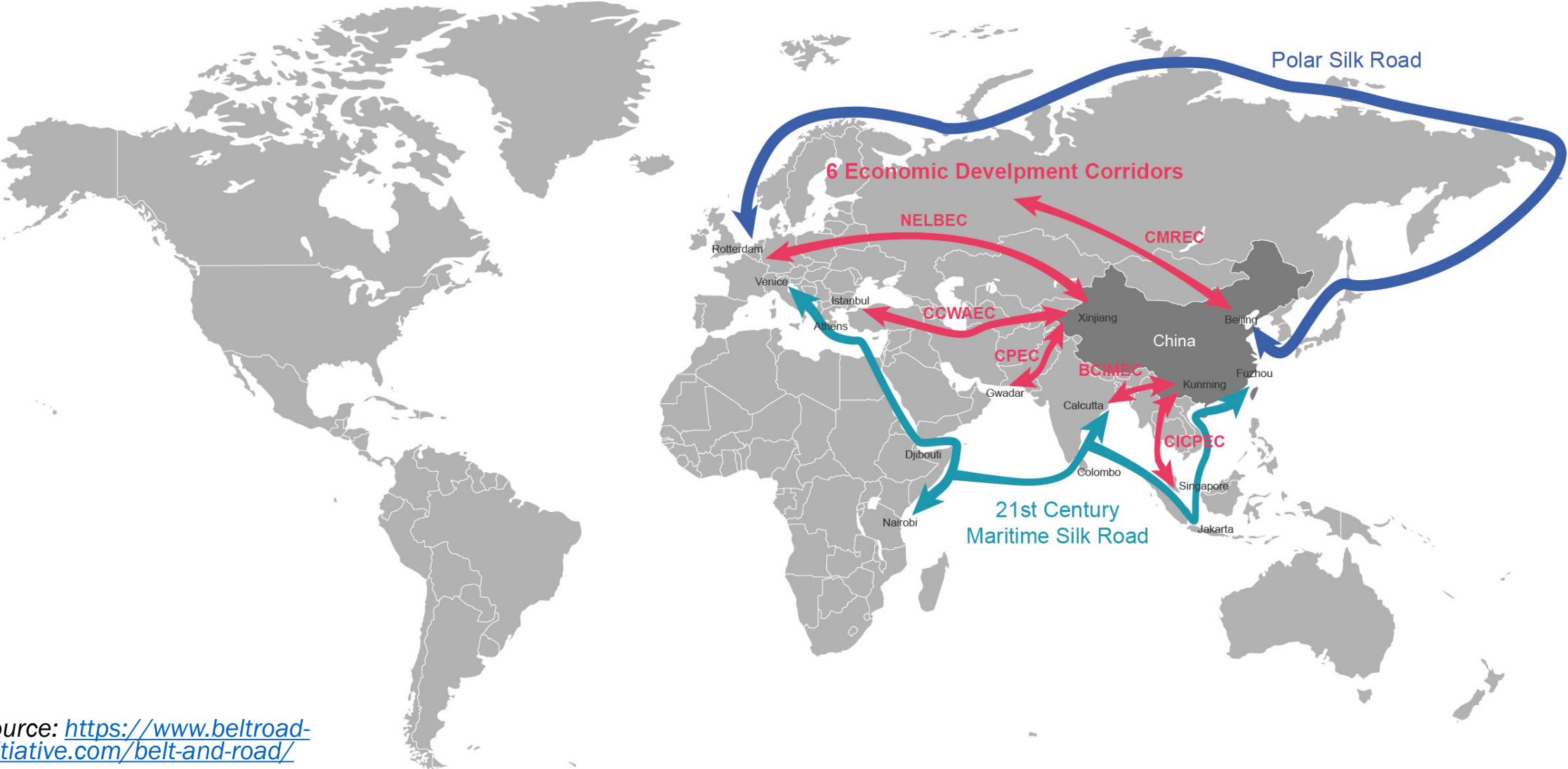
Economic Corridors

- China-Mongolia-Russia
- New Eurasian Land Bridge
- China-Central Asia-West Asia
- China-Pakistan
- Bangladesh-China-India-Myanmar
- China-Indochina Peninsula

Blue Economic Passages

- China-Indian Ocean-Africa-Mediterranean
- China-Oceania-South Pacific
- China-Arctic Ocean-Europe

Geographic Scope



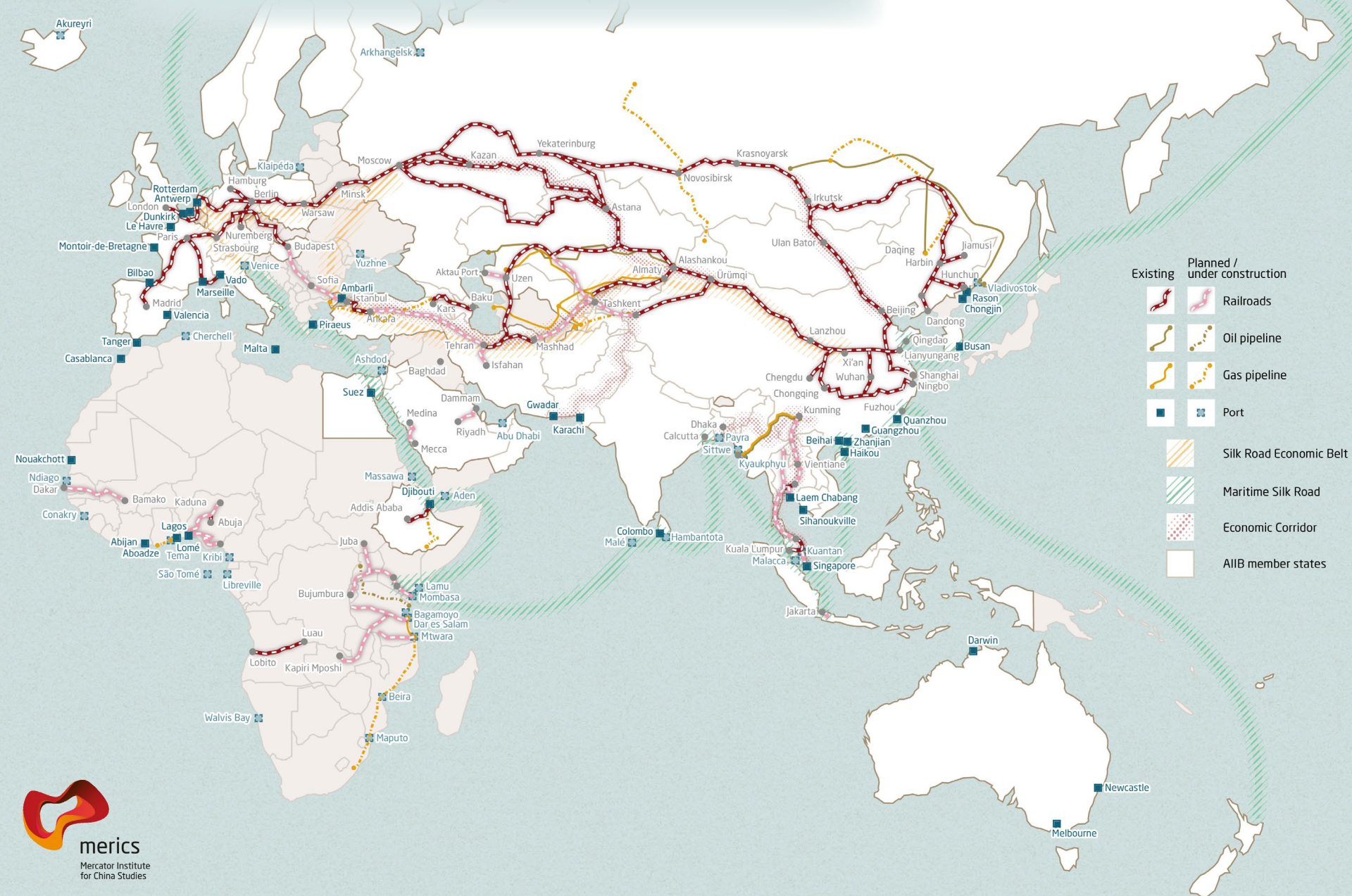
Source: <https://www.beltroad-initiative.com/belt-and-road/>

Notable Investments

- Gwadar Port
 - Linking Kashgar to Arabian Sea and Persian Gulf
- Railway to London
- Railway to Iran
- Central Asian Gas Pipeline
- Khorgos Gateway
 - Connecting Kazakhstan to China by rail.

The Belt and Road Initiative creates a global infrastructure network

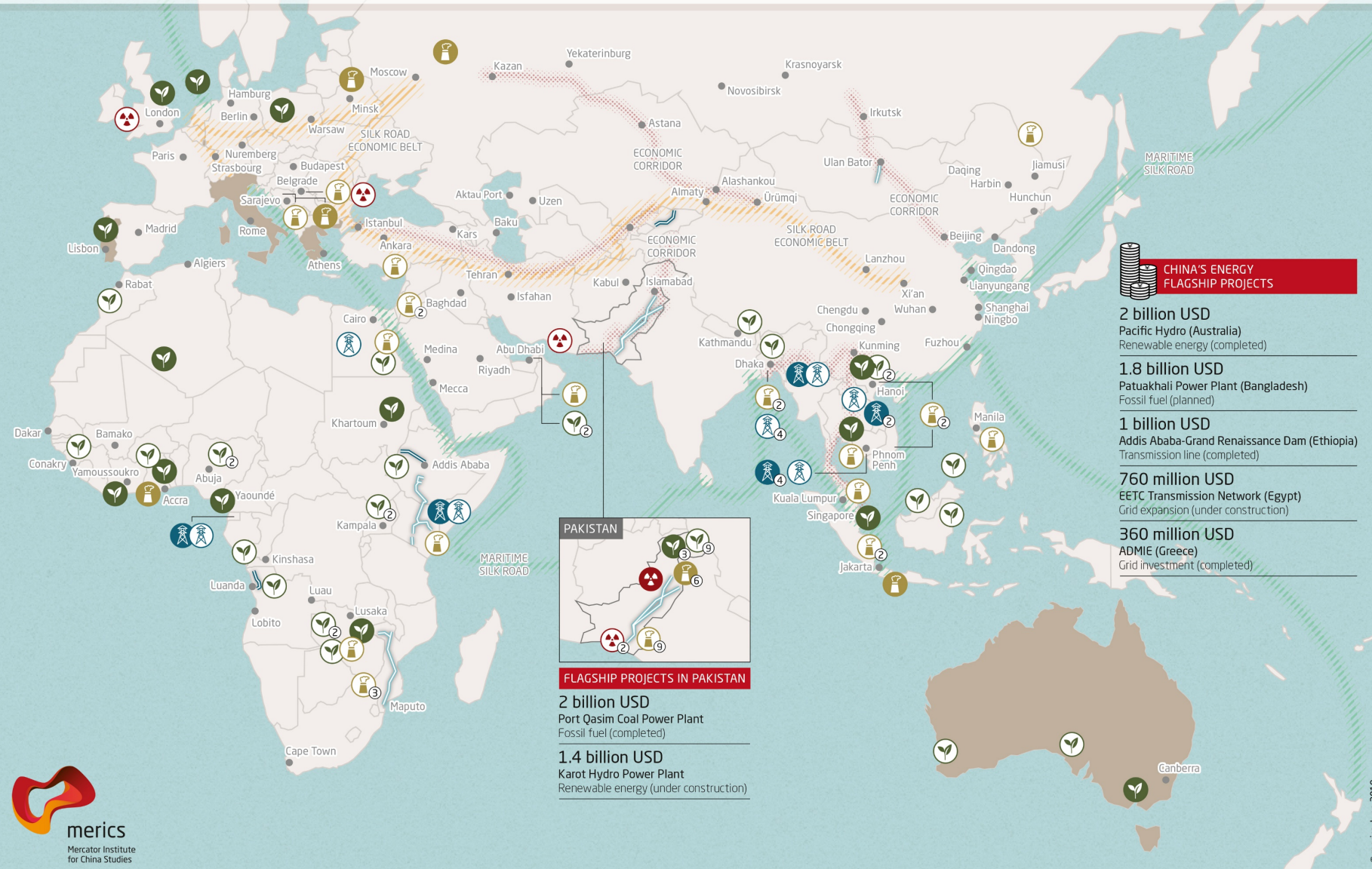
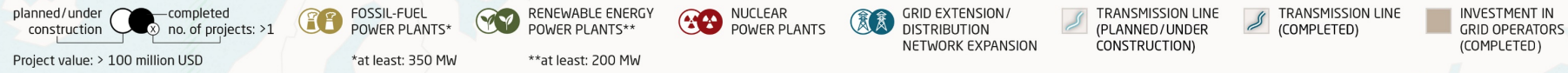
China uses, acquires and builds railroads, ports and pipelines



Network connecting China to Western Europe.

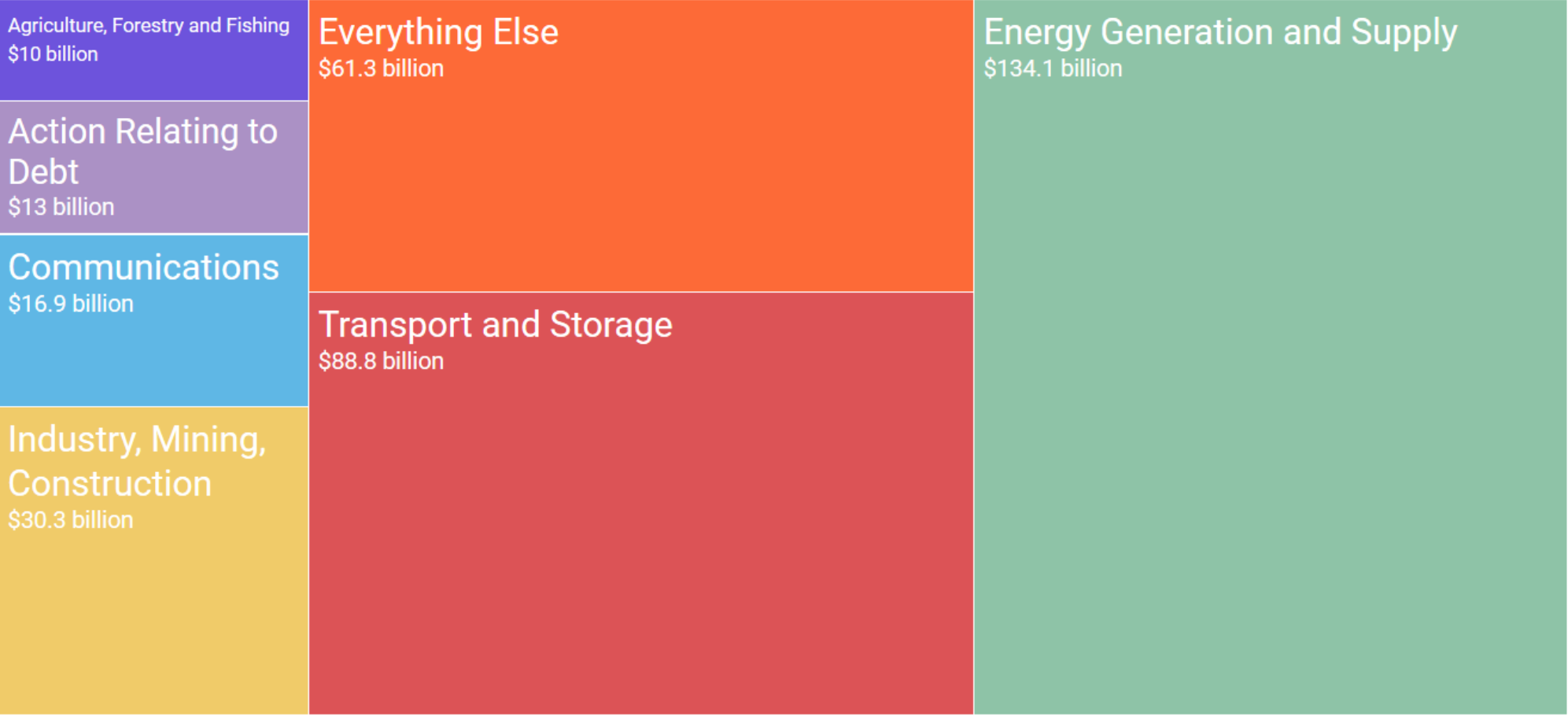
Powering the Belt and Road Initiative

China builds and invests in power plants and grid infrastructure worldwide



Large focus on energy infrastructure, including grid and power generation.

Chinese Foreign Aid



Chinese foreign aid by sector, 2005-2014

Source: AidData, College of William & Mary, 2019: <https://www.aiddata.org/china-official-finance>

Chinese Foreign Aid

Cumulative aid, 2005-2014

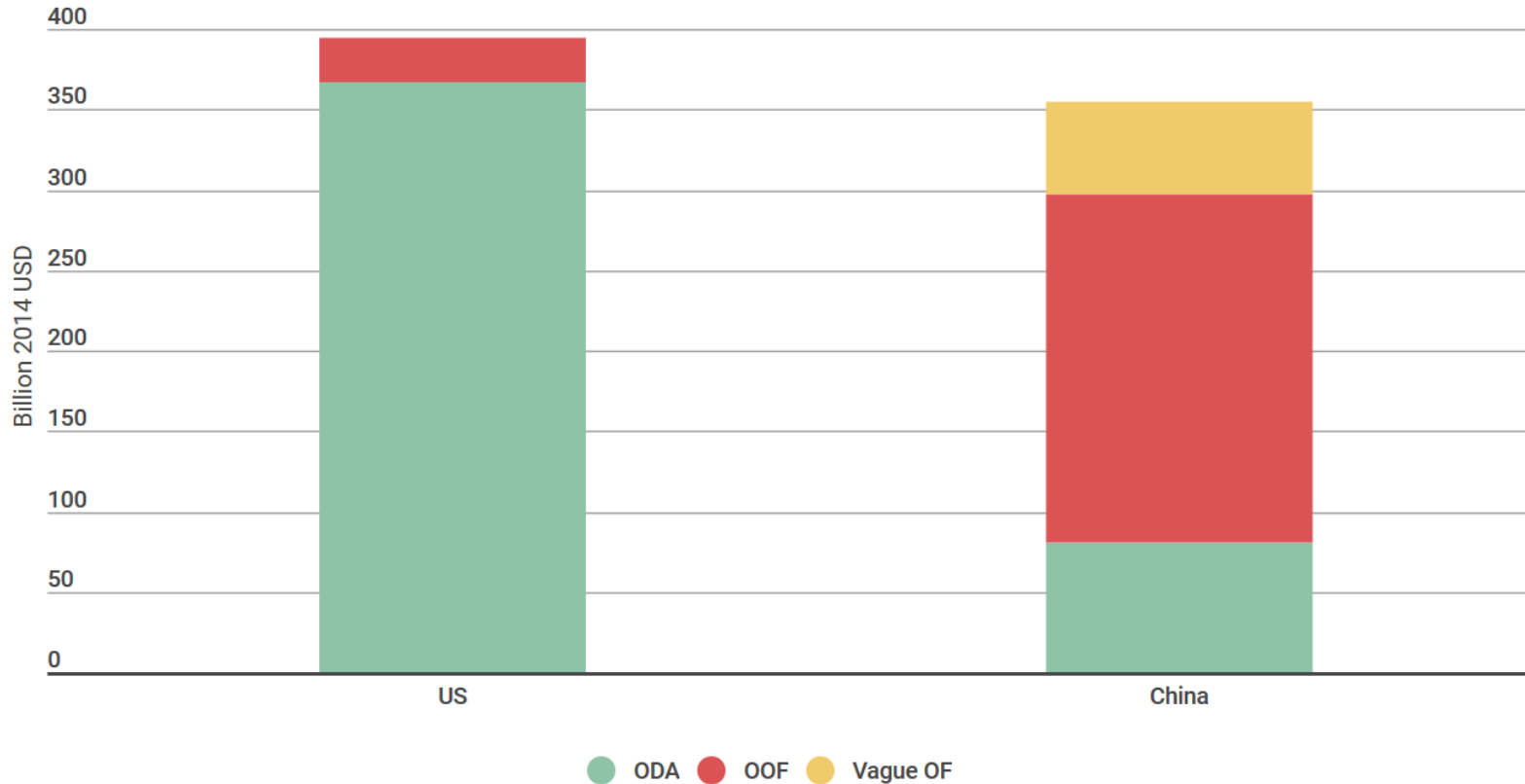
Sector	Share of All Aid, 2005-2014	Share Official Development Assistance
Energy Generation and Supply	23.0%	6%
Other Multisector	20.0%	5%
Transport and Storage	18.2%	18%
Industry, Mining, Construction	12.0%	5%
Unallocated / Unspecified	10.6%	20%
Communications	4.3%	10%
Other Social infrastructure and services	2.3%	22%
Agriculture, Forestry and Fishing	1.6%	8%
Banking and Financial Services	1.5%	0%
Action Relating to Debt	1.2%	93%
All other	5.2%	37%
Total	100%	12%

Source: AidData, College of William & Mary, 2019:
<https://www.aiddata.org/china-official-finance>

- Official development assistance aid is concessional aid, i.e., at least 25% grant component.
- Majority of aid has been energy-related, only 6% of which ODA.

Chinese Foreign Aid

How does China compare against the United States?



Source: AidData, College of William & Mary, 2019:
<https://www.aiddata.org/china-official-finance>

- **Total Official Finance:** Between 2000-2014, Chinese official finance was at \$354.3 billion. During the same period, US official finance was at \$394.6 billion.
- **Development Aid:** US ODA dwarfs Chinese ODA.
- **Other Flows:** Less concessional and more commercially oriented projects make up the bulk of the China's global official finance portfolio.

Why is China Pursuing the BRI?

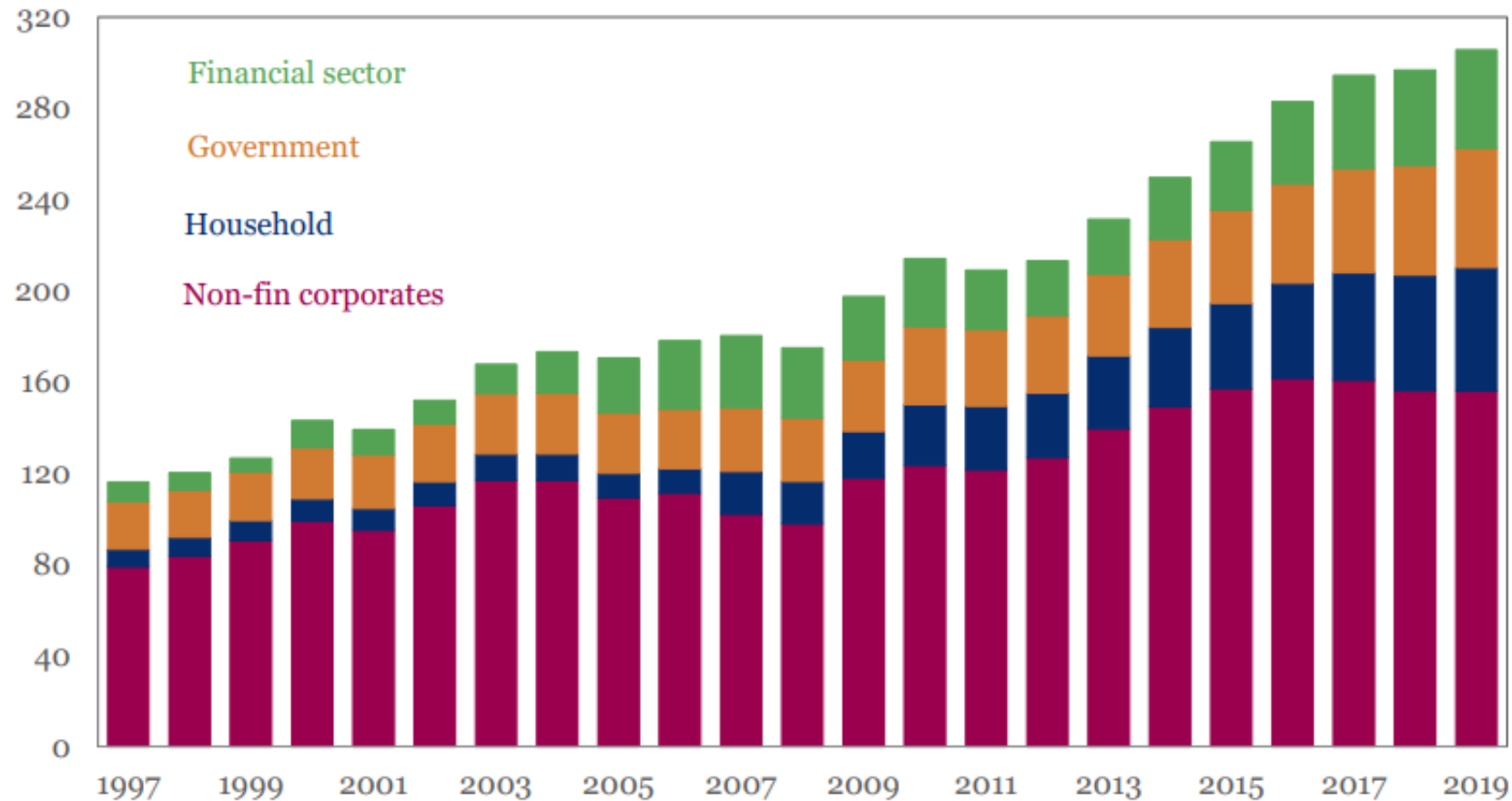
Objectives and Motivations

- Domestic
 - Overcapacity of state enterprises
 - Geographic economic disparities between East and West
 - Exporting savings
- Geopolitical
 - Malacca Strait “dilemma”
 - Energy supply routes and arteries
 - China’s sphere of influence
- Other
 - Gradual internationalization of RMB
 - New growth opportunities for Chinese tech firms, e.g., Huawei

Exporting Overcapacity

China: Total Debt-to-GDP

percent of GDP, Q2 of each year



Source: Institute of International Finance, 2019

- China's debt-to-GDP ratio now above 300%.
- Nearly 50% of debt with state enterprise sector.

Uneven Economic Growth in China

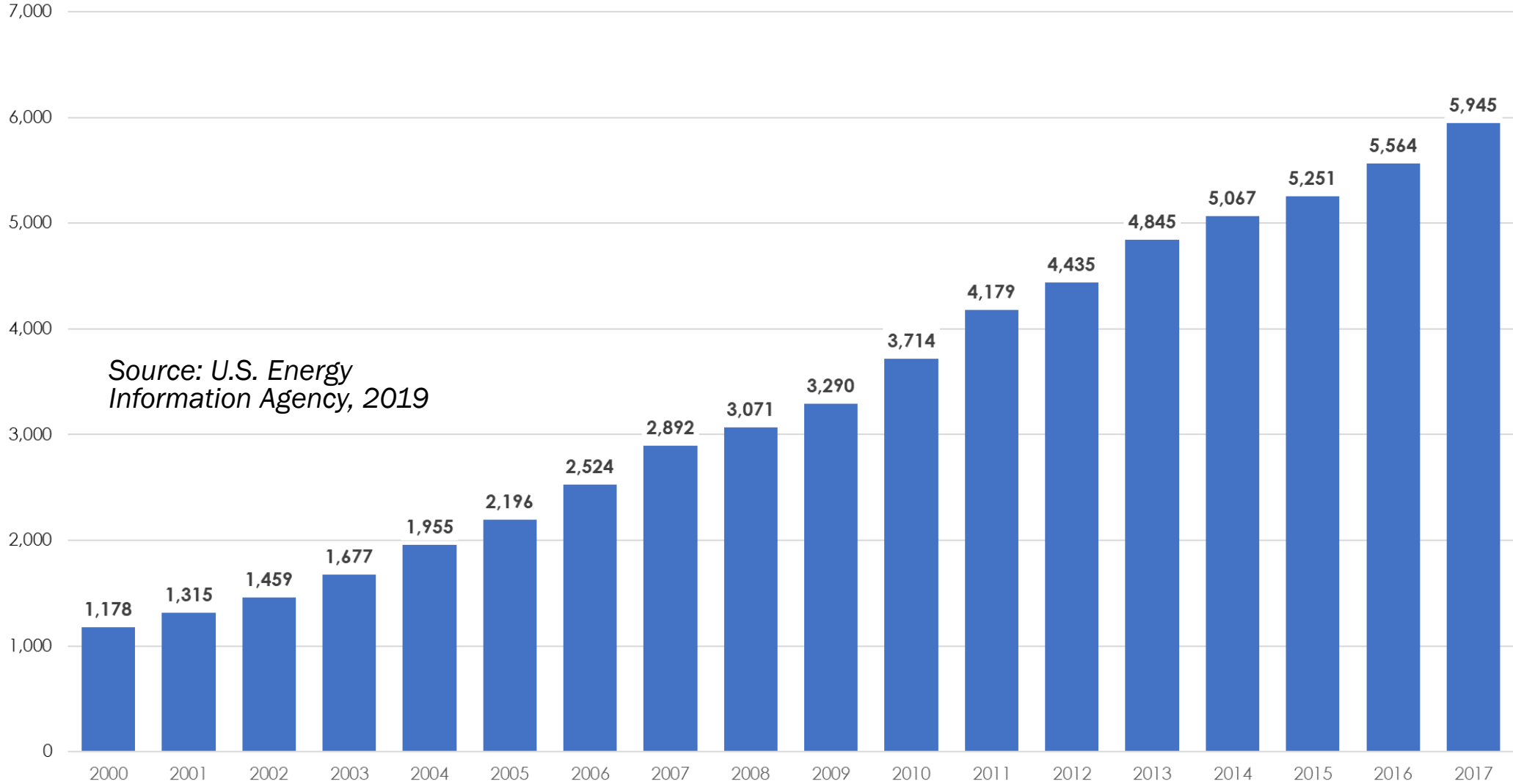
Per capita GDP by province



Western regions the poorest and least dynamic economically.

Chinese Net Energy Consumption

Billions Kilowatts



Source: U.S. Energy Information Agency, 2019

Issues, Concerns, Opportunities

Promise and Optimism

- Huge need for infrastructure investments
- China filling need not met by other countries
 - Can force U.S. and others to respond with own investment packages.
- China acting more like a responsible global power

Concerns

- Chinese SOEs have access to very cheap capital. Can outbid other firms but then need to revise project budgets.
- Perceived debt-trap diplomacy
- Use of BRI for military expansion and/or thwart U.S.
 - Djibouti as China's first overseas base.
- Viability of projects and “bridges to nowhere”
- Economic sustainability
- Questions about secrecy of deals with Chinese SOEs.
- Marketing effort—way to persuade countries to side with China on geopolitical issues in opposition to U.S., e.g., South China Sea, Taiwan.
- **Infrastructure not necessarily precondition for economic growth.**

IMF Lagarde says Belt and Road progressing but warns of debt risks

2 MIN READ



International Monetary Fund (IMF) Managing Director, Christine Lagarde, delivers a speech at the University of Hong Kong, in Hong Kong, China April 11, 2018. REUTERS/Bobby Yip

Expansion of State Enterprises into Foreign Ports

- COSCO acquired majority stake in Piraeus Port Authority in 2016
 - In charge of container terminals (100%), cruise ship piers, and ferry quays.
- Major stakes in 16 ports in Europe and Mediterranean by COSCO, China Merchants Port Holdings, Qingdao Port International Development.



Source: Joanna Kakissis, "Chinese Firms Now Hold Stakes in Over a Dozen European Ports," NPR, October 9, 2018.

Concerns and Narrative

Parsing meaning and views on BRI

Malaysia has axed \$22 billion of Chinese-backed projects, in a blow to China's grand plan to dominate world trade

Alexandra Ma Aug. 21, 2018, 9:40 AM



How Hwee Young/Getty

- **Mahathir Mohamad has cancelled two major Chinese-funded projects to avoid his country going into further debt.**

★ Commentary | Commentary

Commentary: Sri Lanka's debt problem wasn't made in China

Sri Lanka faces a record foreign debt repayment of nearly US\$6 billion in 2019, say economists Dushni Weerakoon and Sisira Jayasuriya.



The example of Sri Lanka handing over a port to China shows the Belt and Road Initiative was never meant to be pure altruism

► Hambantota Port has become the prime example of how the BRI can go wrong but it is up to both sides in each instance to make sure the reality is a win-win co-operation



Sri Lanka's Hambantota port has been given to China on a 99-year lease. Lakuwan Wanniarachchi / AFP

Case Study: Sri Lanka Port of Hambantota



Case Study: Sri Lanka Port of Hambantota

- Maritime port built in 2010 for about \$1.4 billion, 85 per cent of which was funded by the Exim Bank of China.
- Preceded BRI but folded into after 2013.
- Strategic location in the Indian Ocean.
- First major loan was in 2010 from China Ex-Im Bank for \$307 million. Required to use China Harbor as port building.
- By 2015, annual payment of \$4.7 billion, including from other projects, owed to Beijing.
- China Harbor accused of interfering in 2015 election.

Port of Hambantota

- Faced with a cash shortage in 2017, government leased the port and 15,000 acres of associated land to China Merchants Port Holdings (CMPH) for 99 years.
- 70% of profits to CMPH

The New York Times

Sri Lanka, Struggling With Debt, Hands a Major Port to China



The Hambantota port on Sri Lanka's southern coast. China has been shoring up its presence in the Indian Ocean. Lakruwan Wanniarachchi/Agence France-Presse — Getty Images

Case Study: Sri Lanka Port of Hambantota

- But is this good for China?
- Was meant to be a new node in shipping lane but has not attracted many more port-of-calls.
- By 2012, struggled to attract ships—only 34, versus 3,667 at Colombo port.

China's white elephant: \$1-bn Sri Lanka port shows what's wrong with BRI

The experience has fueled fears that Xi's plans to finance more than \$500 billion in projects could see China take control of strategic infrastructure that also has military uses

Ian Marlow | Bloomberg
Last Updated at April 18, 2018 17:44 IST

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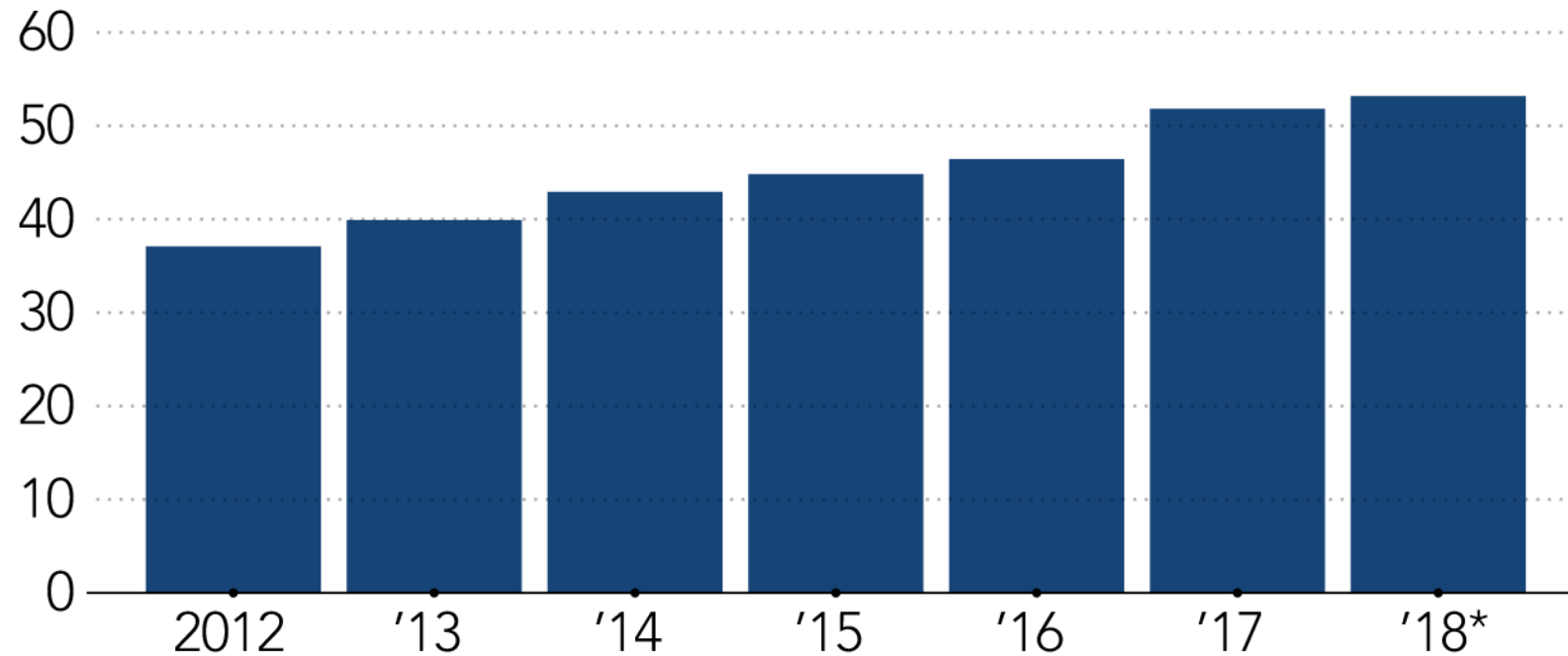
Inside China's \$1 billion Hambantota port where ships don't want to stop

The Hambantota port's weak performance has fuelled impressions that it simply serves China's broader strategic interests to secure crucial trade routes and international supply chains.

Case Study: Sri Lanka Port of Hambantota

Sri Lanka's rising external debt

Gross external debt *(in billions of dollars)*



*As of end of September

Source: Central Bank of Sri Lanka

Source: Yuji Kuronuma, "Sri Lanka set to avert debt crisis this year: central bank chief," *Nikkei Asian Review*, January 27, 2019.

- Predatory lending, or poor decisions by Sri Lanka?
- Port was questionably viable—in home district of president, since voted out of office.

Case Study

China-Pakistan Economic Corridor (CPEC)

- “中巴经济走廊”
- Will open port access for Western China regions.
- Projected costs ~\$62 billion.
- 3,200 kilometers
- Highway, port, rail, and pipeline/energy infrastructure.
- Announced in summer 2013.
- Between 2017 and 2030.
- Pakistan's largest infrastructure project since independence. China has invested \$248 million as part of phase I.
- Airport with 12,000-meter runway completed with Chinese financial grant of \$250 million.

September 5, 2019



Case Study

China-Pakistan Economic Corridor (CPEC)

- As of January 2019, CPEC included 9 completed early harvest projects and 13 projects under construction
- Total investment of US\$19 billion.
- Chinese government provided US\$59 billion in concessional loans to Pakistan, with a consolidated interest rate of only 2%,
- China also provided US\$143 million in interest-free loans for the Gwadar East-Bay Expressway project.

Gwadar Port

- Baluchistan province, at intersection of Arabian Sea and Gulf of Oman
- Main feature of BRI CPEC
- China Overseas Port Holding Company
 - State enterprise
 - Plans to expand Gwadar Port
 - Constructing nine, new multipurpose berths along 3.2km of seafront to the east of the existing berths.
 - Pakistan awarded the contract for construction and operation to China in 2013.
- Will provide alternative shipping route to the Malacca Strait.
- Shipping route from the Middle East to China, via the strait, is about 12,000 km long.

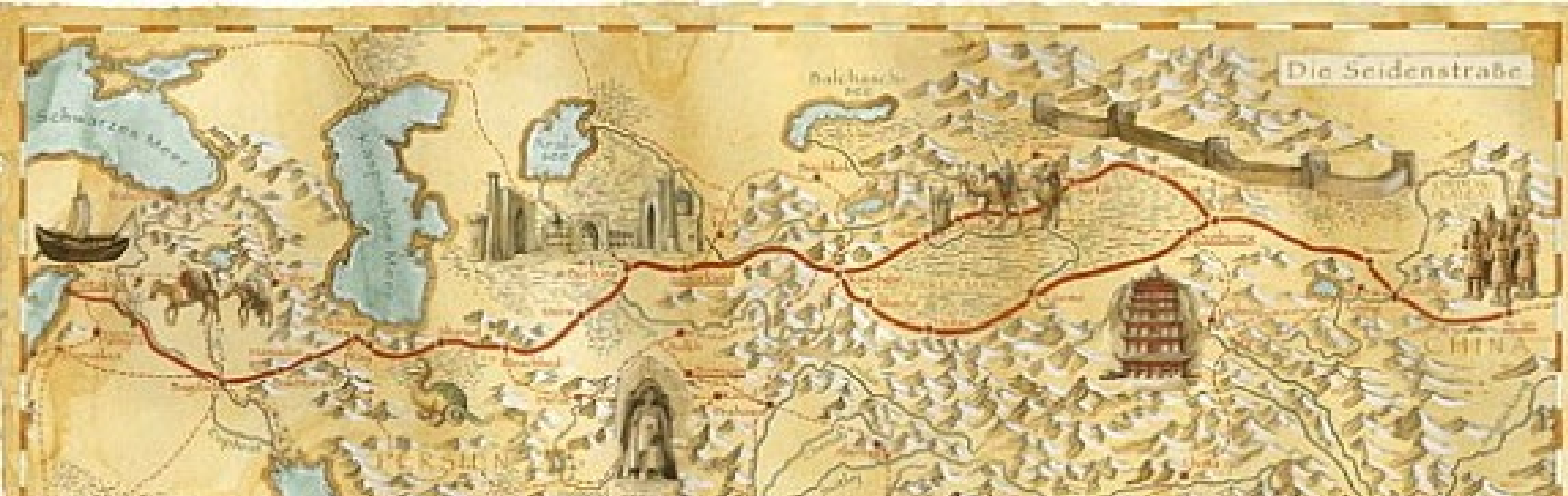


Case Study

China-Pakistan Economic Corridor (CPEC)

- \$19 billion of \$62 billion in projects completed by 2019
- However, Pakistan has had problems balancing its finances
 - Reduction in Pakistan BRI investments
 - Needed \$2.1 billion emergency loan from China (and more from Saudi Arabia and UAE) to stave off BOP crisis and negotiate IMF bailout.
 - Received IMF staff loan of \$6 billion in exchange for austerity.
- Recent leadership change in part due to heavy criticism of how BRI deals were handled.
 - Many projects put on hold
 - Some funds (\$171.6 million) redirected to UN Sustainable Development Goals program
- Would need to pay China back \$40 billion over next 20 years for projects already undertaken
- Now negotiating for more aid for socioeconomic initiatives, e.g., health and education.

Discussion and Outlook



Thank you!

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