Belt and Road Isn’t Going Away: Get Used to It

By David Dodwell

IT SEEMS FASHIONABLE to argue that China’s ambitious Belt and Road Initiative is in trouble. The storyline is that BRI projects have been driven by politics and Chinese hegemonic aspirations, not economics. The projects, so the argument goes, are often white elephants, suffering from opaque tendering processes and financing arrangements that are locking many poor countries into long-term debt traps.

Critics point to the US$20 billion on-again-off-again East Coast Rail Project in Malaysia; to Sri Lanka’s Hambantota port where the Chinese contractors have converted debt into a 99-year lease to operate the port; to controversial hydropower projects in Pakistan and Myanmar.

US Vice President Mike Pence warned the APEC Leaders meeting in Port Moresby in November last year against projects that are often unsustainable and of poor quality. “The consequences are dire,” he said, because “they come with strings attached and lead to staggering debt.”

He followed with a blunt sales pitch: “Know that the United States offers a better option. We don’t coerce or compromise your independence. The United States deals openly, fairly. We don’t coerce or compromise your independence, and we don’t doff our partners in a sea of debt. We don’t coerce or compromise your independence, and we don’t doff our partners in a sea of debt.”

This claim is, of course, a bit disingenuous from a country that has been near the heart of debt crises in South America, across Asia in 1998 and more recently among Western economies in 2008. But that aside, the idea that the BRI is floundering is nonsense. It is not going away, and remains central to Chinese foreign economic policy.

First, the BRI is not some grab-bag of random big infrastructure projects. Rather, it is a 100-year vision of how China sees its place in the world as it emerges from a century of poverty, turmoil and introversion to re-engage with the global economy.

Without question, the BRI is as much a strategic vision as an economic one. It is also in certain respects a chimera that embraces and gives shape to a long-established foreign economic policy. For most of the 138 countries now signed up to the BRI, economic relationships remain unchanged. That includes the 28 members of the European Union and the 10 economies of ASEAN. It includes most of the African economies that are hosting BRI-badged investments. It includes Russia, Japan and South Korea.

The new and original aspect of the BRI is the embrace given to the “stans” spread across Central Asia from Pakistan and Afghanistan in the east, through Kazakhstan, Turkmenistan and Uzbekistan in the west. Beijing’s priority here is clearly strategic — building infrastructure in order to improve the stability of a chronically unstable neighboring region. Projects by necessity are state-enterprise driven, because of these countries’ obscure and untrusted legal and political systems, and because they are tiny, poor markets that offer little of interest to private-sector investors.

But just because the BRI is a chimera does not mean it lacks the potential to provide substantial economic stimulus to regions that have long been neglected or ignored.

For Beijing, infrastructure-building is seen not just as “good aid,” but also as a critical precursor to boosting two-way trade. Research from the French credit insurance agency Euler Hermes predicts that BRI projects will this year add US$17 billion to global trade — an extra US$56 billion in exports from China, and an extra US$61 billion in Chinese imports. The number of BRI-branded projects in any one year will ebb and flow, but the strategy and philosophy behind the initiative is unlikely to falter. The aid policies of former colonial powers in another era were built around food aid; China’s aid strategy aims to help countries build their own infrastructure. In other words, provide fishing rods, not fish.

Three years ago, Jin Liqun, the head of the China-led Asia Infrastructure Investment Bank (AIIB), said in the Financial Times: “The Chinese experience illustrates that infrastructure investment paves the way for broad-based economic social development, and poverty alleviation comes as a natural consequence of that.” He sees the AIIB as “really an opportunity for China to show it can work with other countries and to better international practice — not just western practice — so people can be convinced China is a force for peace and prosperity in the world.”

He was obviously talking not about the BRI, which is run by the Chinese government and at present mainly employs mainland companies and banks, but about the AIIB, which has 80 shareholders and runs on lines similar to the World Bank or the Asian Development Bank. But their philosophies come from a common source.

The BRI is not about to fade away for another very good reason: the need for better infrastructure is gigantic. The Asian Development Bank says the Asia-Pacific region alone needs to spend US$27 trillion on infrastructure between now and 2030 on everything from roads, bridges and ports to schools, hospitals, clean water systems and digital infrastructure. McKinsey has estimated the infrastructure need amounts to US$57 trillion. Whoever is right, the global need is massive and in many parts of the developing world it remains unmet.

Putting aside the sniping from the US administration, the bad BRI press speaks more than anything else to the formidable challenges of building “long-gestation infrastructure” projects in poor countries with fragile governments and shaky legal systems. Even in rich and well-financed economies, “big infrastructure” is tough as the sheer size of projects generates daunting financing challenges.

While on balance Chinese efforts to help countries improve their infrastructures are admirable, it is regrettable that the authors of the BRI did not at the outset listen more closely to the time-tested experience of the World Bank, the ADB and other development banks on the challenges of organ-