



PLMR CHINA BRIEFING THE BELT AND ROAD INITIATIVE — BOOM OR BUST?

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PLMR CHINA BRIEFING

THE BELT AND ROAD INITIATIVE – BOOM OR BUST?

This Report is the fifth in a series of private papers prepared by PLMR which will look at the challenges and opportunities presented by working with and in China in 2019 and beyond.

For further information please contact

Kevin Craig

Chief Executive Officer

kevin.craig@plmr.co.uk

www.plmr.co.uk

0207 622 9529

PLMR – COMMUNICATIONS WITH IMPACT

Public Affairs - Political Campaigns – Public Relations – Crisis Management - Planning & Development – Digital Communications & Media Training

Church House, 29 Great Smith St, Westminster. SW1P 3BL

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EXECUTIVE SUMMARY

- The BRI has been a cornerstone of Xi Jinping's foreign policy since 2013 and is the subject of fierce international debate
- It has a growing roster of partner countries but is garnering increasing criticism
- The BRI has been written into the CPC constitution, failure is not an option but it will be repositioned and reframed
- The BRI is a broad vision, based on infrastructure and industrial development, spanning the globe and comprising land and sea routes
- Multiple BRI projects predate the formal inception of the initiative
- The BRI is underpinned by the principles of policy co-ordination, facilities connectivity, unimpeded trade, financial integration, and people to people bonds
- The BRI is tied to China's domestic agenda serving as a conduit for consumption of excess capacity, trade opportunities, and addressing geographic economic imbalances within China
- There is a perceived paradox between international calls for opening up and criticism of the BRI which is intended as a key vehicle for opening up
- Numerous BRI projects have been paused or halted due to infeasibility and the international community accuse China of using the BRI to extort strategic concessions from partner countries
- Leadership maintains the BRI is a benevolent mechanism for co-operation and view their approach to debts owed as purely pragmatic
- There is a drive to consider projects more carefully in the context of striving for quality over quantity
- Beijing recognizes the need for more diverse sources of funding, there are opportunities for international organisations and enterprises
- BRI is the masthead for an approach to interdependence with Chinese characteristics but it does not exist in a vacuum, it affects and is affected by the strategic environment
- Officials double down on positive messaging in the face of criticism but there is a growing view that prioritization must take place and the scope should narrow
- Some academics encourage a focus on the maritime element of BRI based on strategic interests
- Beijing is reshaping its approach in order to preserve the reputation of the initiative
- The BRI could see a rebranding as a multilateral initiative
- The BRI is neither booming nor busting but China will ensure its survival

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BOOM OR BUST?

The Belt and Road Initiative (BRI) has been a corner stone of China's foreign policy since Xi Jinping first made mention of it in 2013. The initiative has firmly found its way into public discourse and has garnered praise, scepticism and outright condemnation. As the most ambitious Chinese foreign policy initiative in the history of the People's Republic of China (PRC), with both domestic and global ramifications, it is a palpable demonstration of China's increasing global engagement.

The BRI has captured the attention of the international political, academic, corporate, legal, and media sectors among others and sits at the heart of fierce international debate. With east-west connectivity as its lynchpin, it has been characterised as a noble developmental initiative, branded a means to realise expansionist ambitions, and labelled a range of descriptors in between. Now in its sixth year, the BRI has a growing roster of partner countries but, it has simultaneously been facing escalating criticism from the international community, including from some of its most high-profile partners, and its future has been called into question.

Unsurprisingly, the initiative and its impacts on both the global arena and on China itself are complex. The BRI presents an intricate challenge as actors are faced with a delicate balance in the attempt to realise positive outcomes and avoid what, in some cases, seems like the inevitable flip-side. BRI naysayers are quick to denigrate the initiative as a failure based on the trials and tribulations that some of the initiative's flagship projects have faced, but for Xi Jinping, who had the initiative written into the Communist Party of China (CPC) constitution¹, failure is not an option.

For international businesses, the BRI may present opportunities, risks, or both, but whether or not a company is faced with a need to directly navigate this expansive initiative, it is an unstoppable force and one which is reshaping their global operating environment. Chinese policy advisors suggest that BRI's future isn't likely to be one of success or failure. Rather it will be determined by how China repositions the initiative and reframes its measures of success.

¹ Pursuing the BRI was formally adopted into the Party constitution by the 19th National Congress in October 2017

SCOPE, PRACTICALITIES, & PRINCIPLES

The BRI is a global economic and foreign policy initiative with multiple domestic and international aims. In 2013, Xi first introduced elements of the initiative separately as an ‘economic belt along the Silk Road’ and a ‘Maritime Silk Road of the 21st century’. These two schemes, spanning land and sea trade routes covering more than 70 countries, hark back to the ancient land and sea trade routes which linked east and west and are commonly referred to as the Silk Road. Combined they form the Belt and Road Initiative².

The BRI is a nebulous guiding principle within which projects may be incorporated. It is a sweeping vision, open to participation from governments, state owned enterprises, private sector companies, financial institutions and international institutions amongst other entities. Since 2013, China’s commitment to the BRI has been constant, however its implementation has rolled out in fits and starts.

The vast geographic reach of the BRI spans Asia, Europe and Africa. It comprises a corridor of shipping lanes through the South China Sea, South Pacific Ocean and Indian Ocean, and a belt of six land corridors as follows –

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

Xi Jinping presents the BRI as an ambitious but benign economic initiative, the practical elements of which include improving infrastructure along the route, enhancing free trade, and improving the facilitation of investment. The more conceptual elements of the BRI include the assertion that countries along the route should intensify political trust, and engage in cultural understanding.

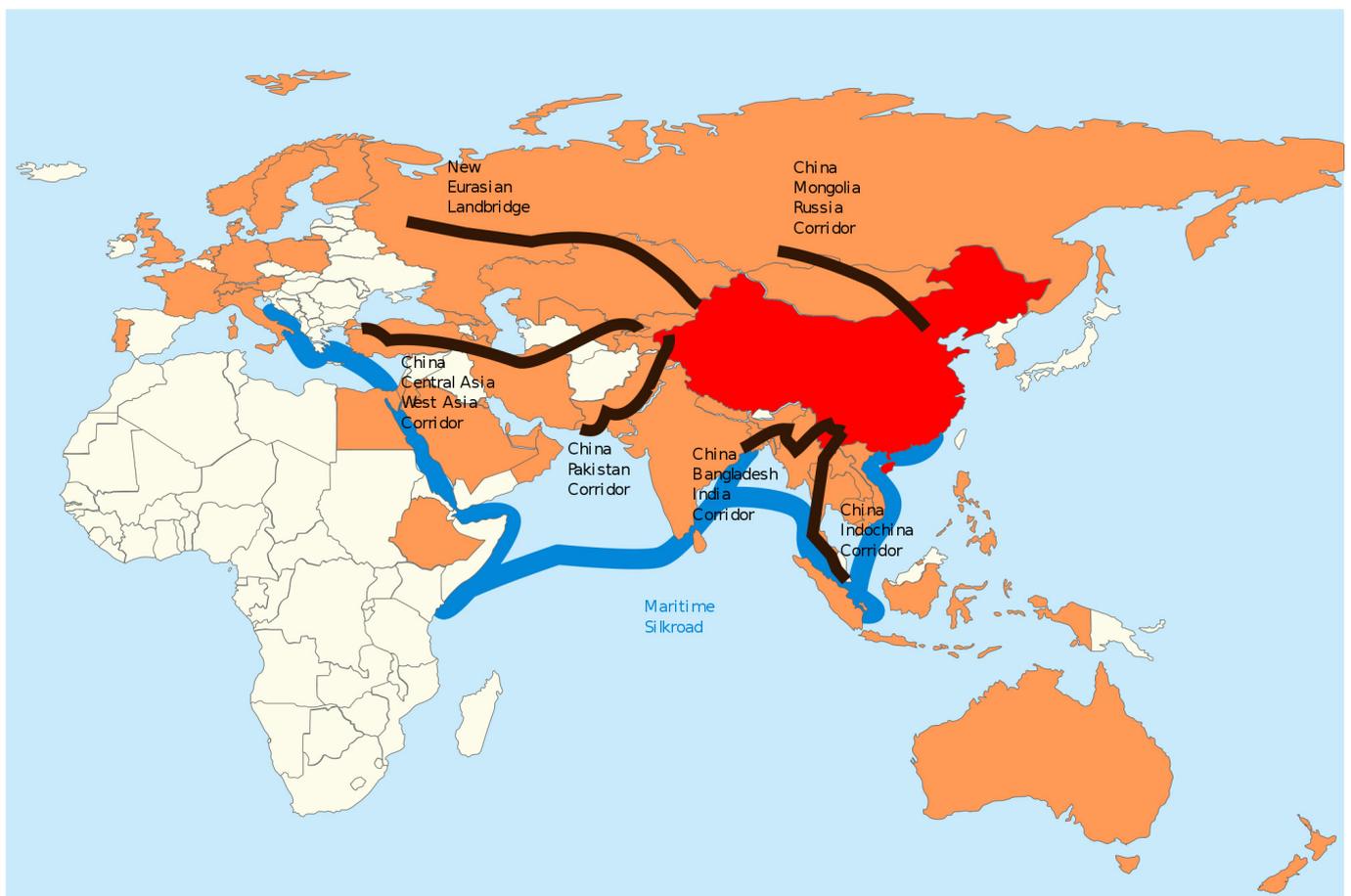
Chinese infrastructure investments in a number of BRI countries predate the formal announcement of the BRI, in some cases by a decade. The BRI is the realisation of a major branding campaign to pull together, and build on, a sprawling range of existing projects along the BRI route in countries which had increasingly been the focus of China’s outbound investment strategy over more than ten years. To date, construction projects are either being planned or already underway in more than 60 countries. Over 120 Memorandums of Understanding (MoU) have been signed with existing and prospective BRI partners and this includes 29 international organisations.

Beijing has outlined five key principles which underpin the initiative and which feature heavily in China’s general rhetoric regarding global affairs and China’s international engagement.

- Policy co-ordination – to be enhanced between countries to achieve collaborative policy solutions to problems and to drive long-term social and economic development
- Facilities connectivity – to support greater flow of people and goods through new infrastructure construction efforts and improvements to existing links

2 The BRI was formerly known as One Belt One Road (OBOR) but by 2017 it was officially re-branded

- Unimpeded trade – through reduced trade barriers and tariffs, lower trade and investment costs, and improvements to cross-border supply chains
- Financial Integration – through deeper monetary policy co-ordination between BRI countries, improved local currency settlement and exchange systems, and improved regulatory and risk management frameworks
- People to people bonds – to promote awareness and cultural understanding between the BRI countries through enhanced relations between the people



THE DOMESTIC AGENDA

International analysts rarely focus on the implications of the BRI for China itself however this aspect is critical to understanding the initiative. The fundamental aim for all Chinese policy is to ensure domestic stability. The mechanism for this is a prospering economy. China's slowing growth puts increased pressure on the leadership to deliver on domestic concerns and provide economic opportunities for the Chinese people. For Xi, the BRI is tied to China's domestic agenda and interests.

The leadership focus, outlined by Deng Xiaoping, was once to focus on domestic issues and maintain stability in China's external environment. With the BRI Xi has taken this a step further, looking to leverage the external environment in order to address internal affairs and encourage domestic economic growth. Through the BRI, China is developing access to new markets in order to develop investment and export opportunities. These will secure earnings for Chinese citizens and will drive an increase in domestic consumption which is at the core of Beijing's economic growth and reform plans.

The BRI serves as a conduit for the consumption of China's excess capacity. It is also intended as a vehicle to address the dramatic regional imbalances in China's economy by enhancing connectivity and, in turn, opportunity for China's more remote and lesser developed regions which have yet been able to profit from China's existing international economic relations. Further, the initiative affords key State-Owned Enterprises (SOEs) the opportunity to secure lucrative contracts which in turn should help to maintain economic growth³.

China's leadership has seen the success of a development model based on infrastructure and industrial development in China's recent history. This model was the root of China's own economic success story so it is no surprise that Beijing is looking to put it into action again with a BRI blueprint based on an interlinking network of railways, roads, energy pipelines, ports, and airports.

In addition to expectation for the BRI to open up new trade opportunities, as well as new production and supply chains to bolster China's own economic development by tackling the bottleneck in Asia's connectivity and the shortfall of infrastructure financing in the region⁴, China's officials have no reason to think that partner countries will not be able to derive the benefits as well. This sentiment, that the BRI should be beneficial to all involved parties⁵, is often repeated at official events, and in key speeches.

The BRI is seen as a facilitator of China's 'opening up'⁶ plans. This is a key factor in China's reform agenda and one which has been encouraged and called for by the international community for years. International criticism is received in Beijing with frustration over the perceived paradox between the international community's calls for China to open up and their alarm at China's efforts to do so.

3 This has come under criticism from the international community. It has been reported that China's construction companies have sold more contracts in BRI countries than the total amount of outbound Chinese investment in those same countries.

4 The Asian Development Bank puts this figure at \$800 billion per year

5 Usually expressed as 'win-win'

6 Opening up is defined in China's 13th Five Year Plan as creating an internationalised business environment, and improving institutions and mechanisms to enhance compatibility with international trade and investment rules

PERVASIVE FOREIGN AFFAIRS TOOL OR BENIGN ECONOMIC INITIATIVE?

Projects in Pakistan, Sri Lanka, and Malaysia, amongst others, have demonstrated that BRI projects are not immune to difficulties. A number of BRI projects have been paused or cancelled due to impracticality or financial infeasibility. Partner countries looking to renegotiate terms are on the rise. As BRI projects hit bumps in the road, a variety of actors have begun to question China's intentions and the authenticity of BRI-related messaging.

Fears expressed by the international community are centred on the BRI becoming an overseas extension of China's domestic debt problems and on the BRI as a means for China to impose unequal treaties on smaller economies. Some projects are struggling to justify their cost, others have left partner countries unable to meet their loan repayment schedules. These structural debt issues are leaving the economies of some BRI partner countries in particularly precarious positions.

The proportion of critical infrastructure funding in BRI partner countries that is sourced to Chinese public entities, including SOEs, has generated concerns that these countries may be subject to a diminished sovereignty. Further, concerns that partner countries may find themselves in a debt trap are exacerbated by the suggestion that China may have intentions to leverage these debts in order to extract unrelated strategic concessions.

Since the inception of the BRI, the Chinese leadership has resolutely denied claims, both in public and in private, that the BRI is an effort to achieve hegemony and has categorically maintained that it is a benevolent vehicle for international co-operation. Experts assert that Chinese policy makers see China's response to debt as pragmatic, and they baulk at the suggestion that the loans are underpinned by sinister motives.

The government is far from oblivious to these issues, in fact, there is a strong belief that BRI loans which do not have positive financial prospects in the mid to long term will only serve to exacerbate domestic balance issues. The State-owned Assets Supervision and Administration Commission (SASAC)⁷ is under instruction to reduce their debt-to-asset ratios in the next year and, as broader policy focus shifts to quality over quantity, debt sustainability is an increasing priority. In order to align with broader trends in China's economic development, investment in BRI projects will also need to reflect the emphasis on quality.

The BRI is undoubtedly designed to reap rewards for China, but not exclusively so. While Chinese SOEs have played roles in a large number of BRI projects, multinational companies⁸ have also begun to realise benefits from BRI involvement. Beijing recognises the need for diverse BRI project funding sources. A number of policies which encourage the activities of private enterprises has been launched, overlapping neatly with the BRI's financing needs. China continues to stress that the BRI is a global initiative rather than a Chinese one. Any interested party is welcomed as a BRI participant.

A chapter of the 13th Five Year Plan is dedicated to the BRI. It includes frequent use of terms such as 'mutual development', 'common development' and 'mutually beneficial cooperation', a clear indication that, from the outset, China comprehended and purposefully incorporated the international impacts of the initiative into their thinking. Integration, communication, connectivity, and cohesion are among ten examples, used more than 20 times, of language used to express this sentiment in the short chapter.

7 A body which is directly managed by the State Council

8 These multinational companies include General Electric and Siemens amongst others

Advisors to the initiative suggest that the BRI is founded on a desire for a more mutually connected international system rather than for competing systems. The BRI is the masthead for an approach to interdependence with Chinese characteristics. Connectivity and the pursuit of mutual goals is woven into the fabric of China's interpretation of globalisation whereby increased integration is a means for mutual rewards.

Despite China's 'win-win' intentions, the BRI is not intended as an aid programme. Therefore, as with any commercial arrangement there is a possible downside. Another crucial factor in the outcomes of the BRI strategy is that China is learning and having to adapt on the hoof. At the same time as China pursues this bold global initiative, it is also pursuing major domestic structural reforms, and finding its footing in the evolving global order. The BRI is not being carried out in a vacuum, it affects and is affected by the broader strategic circumstances as well as the narrow and focused details. Consequence is not the same thing as intent, and China is continually engaging in efforts to make policy adjustments where possible as the BRI progresses.



IS THE FUTURE OF THE BRI HANGING IN THE BALANCE?

Expert opinion refutes claims that the future of the BRI is at risk however international criticism is impossible to ignore. Some BRI advisors continue to recommend that all BRI messaging should focus on the positives, doubling down on expressions such as ‘win-win’ and ‘mutually beneficial’ and the positioning of the BRI as a means to building ‘a community of shared future for mankind’ and as a vehicle for mutual successes. Still, internal consensus is fractured. There is a growing view amongst senior policy experts and academics that China is faced with a prioritisation challenge. They suggest that in order to realise some success, China must concentrate its efforts rather than pursue the full breadth of the initiative.

Behind closed doors there is academic debate taking place over which elements of the BRI should be elevated to priority status, and which should be de-emphasised or even discarded completely. Some in China’s political circles are increasingly leaning towards strategic interests as a deciding factor, placing weight on the maritime routes. That is not to say the maritime routes are free from challenges, rather, a prioritisation of maritime projects would exacerbate tensions in Sino-ASEAN relations over the South China Sea, US-China relations and more.

While steadfast commitment to the initiative remains, an internal re-assessment is underway. China is now actively looking to preserve the reputation of the BRI by ensuring the feasibility of projects – those in progress, in the planning stages and any that arise in future. Beijing is not likely to deem the reversal or cancellation of risky projects as a failing, nor will it deem a slowing pace of investment and project initiation as an indication of the BRI stagnating. However, the leadership is keen for the BRI to present a more positive picture and to be supported with a constructive narrative.

One such positive development is a drive to encourage more BRI engagement from developed countries and international institutions on financing, debt management frameworks and more. These efforts could see the BRI converted from a Chinese to a multilateral initiative. The Asian Infrastructure Investment Bank (AIIB), a development bank initiated by China but which has been opened up to shared multilateral control and

which reinvented its image in the process, is frequently referenced as a model for this proposed transformation. The drive to co-finance projects with international institutions supports this agenda and might just help to alleviate global concerns that the BRI is a means for empire-building.

Though the BRI isn’t exactly undergoing a boom, neither can it be said to be a bust. China will continue to strive to make the BRI a success, though its definition of success may shift and morph over time.



APPENDIX – BRI PARTNER COUNTRIES

• Afghanistan	• Grenada	• Portugal
• Albania	• Guinea	• Qatar
• Algeria	• Guyana	• Republic of Korea
• Angola	• Hungary	• Romania
• Antigua and Barbuda	• India	• Russia
• Armenia	• Indonesia	• Rwanda
• Austria	• Iran	• Samoa
• Azerbaijan	• Iraq	• Saudi Arabia
• Bahrain	• Israel	• Senegal
• Bangladesh	• Jordan	• Serbia
• Barbados	• Kazakhstan	• Seychelles
• Belarus	• Kenya	• Sierra Leone
• Bhutan	• Kuwait	• Singapore
• Bolivia	• Kyrgyzstan	• Slovakia
• Bosnia and Herzegovina	• Laos	• Slovenia
• Brunei	• Latvia	• Somalia
• Bulgaria	• Lebanon	• South Africa
• Burundi	• Libya	• South Sudan
• Cambodia	• Lithuania	• Sri Lanka
• Cameroon	• Macedonia	• Sudan
• Cape Verde	• Madagascar	• Suriname
• Chad	• Malaysia	• Syria
• Chile	• Maldives	• Tajikistan
• Congo	• Malta	• Tanzania
• Cook Islands	• Mauritania	• Thailand
• Costa Rica	• Moldova	• Timor-Leste
• Cote d'Ivoire	• Mongolia	• Togo
• Croatia	• Montenegro	• Tonga
• Czech Republic	• Morocco	• Trinidad and Tobago
• Djibouti	• Mozambique	• Tunisia
• Dominica	• Myanmar	• Turkey
• Dominican Republic	• Namibia	• Turkmenistan
• Ecuador	• Nepal	• Uganda
• Egypt	• New Zealand	• Ukraine
• El Salvador	• Nigeria	• United Arab Emirates
• Estonia	• Niue	• Uruguay
• Ethiopia	• Oman	• Uzbekistan
• Fiji	• Pakistan	• Vanuatu
• Gabon	• Palestine	• Venezuela
• Gambia	• Panama	• Viet Nam
• Georgia	• Papua New Guinea	• Yemen
• Ghana	• Philippines	• Zambia
• Greece	• Poland	• Zimbabwe