Belt and Road Diplomacy*

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With China having successfully convened the second Belt and Road Forum in Beijing late April, discussions on the significance, impact and sustainability of this ill-defined, even if tangible, effort at economic diplomacy have revived. That effort is the Belt and Road initiative (BRI) formally launched by President Xi Jinping in 2013. Global responses to the initiative have varied from dismissal on grounds that it is more hype than a matter of substance, to fear that it reflects Rising China's bid for economic territory and, finally, to moves to be in on the game, and benefit in ways varying from profits to accelerated development.

The ill-defined nature of the BRI partly stems from the fact that there is no official listing of all projects that fall in its ambit, making it difficult to separate out what are projects that are merely part of China's longer-term push to establish a presence abroad, and those that are elements of the specific design of this initiative. Moreover, projects can be financed in multiple ways: Chinese investment overseas, concessional aid or grants from the Chinese government, lending abroad on commercial terms by the Chinese government, the China Development Bank or other Chinese financial institutions, and finally, financing by other lenders or investors, such as multilateral financial institutions, host country governments, and non-Chinese public or private sector players. According to one source quoted by the Financial Times, Chinese institutional finance for BRI projects is routed through the Export Import Bank of China in 171 cases, by the China Development Bank in 78 cases, by Industrial and Commercial Bank of China in 45, by Bank of China in 24 and by a few others in 40. None of these institutions lend to or invest only in BRI projects. Even China-controlled Asian Infrastructure Investment Fund (AIIB) and New Development Bank (NDB) lend considerable sums to India, for example, which is not a BRI-member country. This makes assessment of the size of the BRI in financial terms difficult, since it requires making a project by project assessment and then arriving at an aggregate.

This combination of the absence of a clear list of projects and the use of a broad set of financing sources makes any estimate of the current and future size of the BRI a guestimate. Take any one indicator of possible BRI presence, such as a filtered set of Chinese overseas investments in BRI member countries tracked by the American Enterprise Institute (AEI), and the impression could be that the initiative is still small. Thus, in a little short of five years since its launch, the AEI estimates that 76 BRI member countries accounted for less than 25 per cent of total outward Chinese investments, or a little more than $150 billion. That is not insubstantial, but by no means scary. But then AEI notes, if Chinese overseas construction contracts, or contracts for Chinese construction and engineering firms are considered, the BRI investment figure over the same period rises to $250 billion. And though that is the impression often created, Chinese firms alone are not likely to be the beneficiaries of construction contracts for projects that are identifiably BRI-related. So, investments in projects under BRI could have exceeded $250 billion in that five-year period.

Speculation is rife, therefore, not just on how far BRI has gone, but on how much further it will go, defining China's global presence and influence in the future. Xi

Jinping has said that China alone will invest $1 trillion in BRI-related ventures. So, allowing for funding from multiple sources, the BRI roll-out over the next decade can be phenomenal. This has caught the world's attention. The real success of the second Belt and Road forum was evidence that China is now acquiring new partners for the BRI, who are willing to serve either as host countries for projects or as collaborators making investments or offering credit. This also seems to be the objective of China's pitch, and it has made all the right noises and done the right things.

To start with, China had to clear the air regarding accusations that it is combining in the BRI a search for economic territory with unscrupulous profiteering. It had to assuage fears that an instance like the Hambantota Port, which it acquired from the Sri Lankan government (with a $1.12 billion investment for a 85 per cent equity share) on a 99-year lease because Sri Lanka was hard put to service the debt that financed the project, was not the norm. The acquisition, along with large tracts of land in the neighbourhood of the port, it was argued, marked the successful completion of China's play to take control of a strategic port that would serve military rather than economic goals. The counter-argument that China was only helping out to prevent default on a loan that financed a project which was not properly appraised by the Sri Lankan government was seen as a ruse. However, there is evidence that instances like Hambantota are more exceptions than the rule. The Economist quotes Deborah Brautigam of Johns Hopkins University that out of more than 3,000 projects financed by China that she and other researchers have tracked, Hambantota was the only one that has been used as evidence of Chinese financing getting countries into a debt trap that serves China's strategic interests. China is now making an effort to convey the message that the Hambantota experience was an exception rather than the rule to a growing number of partners.

Moreover, China now argues, it would start making its own assessment, following best practices, of the viability and sustainability of a project before providing support. In particular, it would try and ensure that projects and governments are not trapped in debt because they join the BRI, by 'objectively' assessing their debt problems and debt servicing capabilities. In reality, China has gone out of its way to help out countries that face debt servicing problems because of their participation in the BRI. A study by the Centre for Global Development finds that in instances where debt-stressed countries are on the verge of default, China has been willing to restructure the debt in ways that reduced the debt burden.

There are other cases like the East Coat Rail Link project in Malaysia, that was negotiated when Najib Razak was the Prime Minister, in which the allegations are that the costs of the project were inflated and that China was complicit in the corruption that explained why the then Malaysian pushed ahead with an investment that was not viable. On those grounds, a new government under Mahathir put the project on hold. Here too China has displayed exceptional diplomacy, reducing by nearly a third the price for building the railway, while cutting the length of a close to 700-kilometere line by just 40 kilometres. These moves are a prelude to give new shape to the BRI.

The second BRI Forum reflected the directions in which China wants to take the BRI in its reformed avatar. It wants more partners, is willing to share a degree of control and is now willing to be professional and somewhat more transparent in evaluation, choice and implementation of projects. The evidence is that this new charm offensive is working. The number of participants in the forum has risen from less than 30 to close to 40 between the first and the second versions. Countries in Europe, led by Italy, are considering joining or have already joined the BRI with the hope of benefiting in what are bad times for them, angering President Trump. And in what was a coup, a Brexit-confused UK decided to jump on as well, sending Chancellor of the exchequer Philip Hammond to the forum, clearly with the aim of mending economic relations between the two countries. An earlier Hammond visit, scheduled for February, had to be called off after defence secretary Gavin Williamson muddied the waters by announcing that Britain would send a new aircraft carrier to the Pacific—a move Beijing saw as the use of "gunboat diplomacy". This time Hammond's visit was preceded by a leak of news that the UK had given security clearance to involve China's Huawei Technologies in its 5G roll-out. That decision, controversial among many OECD members who claim Huawei is a Chinese government intelligence front, was seen as a concession, in return for which the UK wanted a role for UK firms, especially from the city, in the lucrative financing deals that will accompany the promised acceleration of the BRI.

The real issue is whether with this "opening up" of the BRI, China will lose control and, therefore, influence, transforming an initiative that was seen as sinister into a benign development financing agenda. There are, however, as yet no signs of such a turn. China is still in "ideological" control, despite the concessions it is making. Some of those concessions would protect its own exposure. Moreover, China's interests seem to define the structure of the nebulous BRI. The initiative which is now seen as consisting of "Six Corridors, Six Roads", clearly has China as its central hub, creating as it unfolds a widening sphere of Chinese influence, with Chinese design, but multilateral participation and financing that make every Chinese dollar travel that much farther.

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