China suggests shift in BRI approach amid debt concerns

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‘We will focus on quality in the joint pursuit of the BRI’

Background

China has hinted at a shift in how it will pursue its signature Belt and Road Initiative (BRI) amid growing concerns about debt repayments from many partner countries because of the coronavirus (COVID-19) pandemic.

Imp Points

- “We will focus on quality in the joint pursuit of the BRI”, said the annual government work report delivered by China’s Premier Li Keqiang at the start of the National People’s Congress (NPC), or Parliament.
- Since 2019, the BRI has had a dedicated sub-section in the NPC report, which is China’s most important policy document.
- The BRI was written into the Communist Party of China’s Constitution in 2017, underlining its special status.
- The report in 2019 did not mention “quality”, merely saying China “will promote the joint pursuit of the BRI”. It also mentioned then China would seek to advance infrastructure connectivity, which was omitted this year.
- The NPC report is usually carefully assessed to garner changes in emphasis in Chinese policymaking.
- The report this year said China would focus on “achieving shared growth through consultation and collaboration” and would “work with BRI partners for mutually beneficial outcomes”.
- In recent weeks, China has faced calls from countries in Asia and Africa to delay or waive debt repayments. Song Wei, deputy director at the Ministry of Commerce’s Chinese Academy of International Trade and Economic Cooperation, acknowledged last month that China was weighing how to respond to such calls.
- “What China could do to help is bring projects funded by loans back to life and realise sustainable profits, instead of measures as simple as offering write-offs,” he said in an article in the Communist Party-run Global Times. “As always, China is open to talk with debtors on the basis of equality and mutual benefit.”

Financial assistance

- China’s financial assistance included grants, interest-free loans and preferential loans.
- “Interest-free loans which are offered by the Chinese government are applicable for debt relief,”
- “The preferential loans are not applicable for debt relief and are more complex with regards to any difficult debt problems.
- Simply waiving debtors’ obligations as some countries or organizations have called for is not going to be effective as a solution.
- If any debtors encounter difficulties to pay on time, there may be tailored plans including rescheduling or China increasing funding to help related projects resume operation and
He suggested repayments could be solved “by multiple financial or other approaches, such as China adding grants to help bring projects back to life, conducting debt-to-equity swaps, or hiring Chinese firms to assist operation.”

According to AidData, a research lab at the College of William & Mary, China’s grants and loans totalled $354.4 billion between 2000 and 2014, of which 23% was grants while the rest were commercial loans at market or close-to-market rates.

The world’s debt to China grew 10 times between 2000 and 2017, with developing countries owing $380 billion to China, the Kiel Institute for the World Economy in Germany said in a report last year.

OBOR

Six years ago, Chinese President Xi Jinping launched a mammoth infrastructure project straddling many countries and continents. Of the projects, the most ambitious is the $60+ billion China-Pakistan Economic Corridor, aimed at linking China’s Xinjiang province with the Arabian Sea.

What is it?

The Belt and Road Initiative (BRI), also known as the One Belt One Road Initiative, is the most emblematic of China’s economic and industrial might, as of its ambitions for global, political and strategic influence. The appellation has come to signify the many Beijing-backed infrastructure projects that predate Mr. Xi’s ascent.

When Mr. Xi announced the BRI’s formal launch in Kazakhstan in 2013, there were few signs that the policy would command the heft and reach it has acquired since. BRI partnerships encompass infrastructure investments in the construction, transport, aviation, telecommunications and energy sectors stretching across many countries in Asia and Africa.

A number of Latin American and Caribbean states recently signed a memorandum of understanding to join the BRI. The so-called 16+1 (China) grouping of central and eastern European countries includes 11 states from the European Union (EU).

Rome endorsed the BRI last week, the first among the Group of 7 most industrialised nations to do so. The move has caused consternation in Brussels and Washington, which are grappling with the many fissures that have surfaced in the trans-Atlantic alliance.

Typically, the terms around BRI bilateral tie-ups are fluid and amorphous in nature, premised on negotiation and accommodation rather than being underpinned by rigidly written-down rules and procedures.

The upside to this style of doing things is the flow of investment on seemingly soft terms to places hard up for basic infrastructure.

The politically neutral stance of Beijing-backed deals starkly contrasts with much western hypocrisy and high-mindedness about respect for the rule of law and human rights. The downside is the risk of falling into a prolonged debt trap and the uncertainty over contractual obligations between the parties.

With the rise of populist forces in many countries in recent years, the world’s open trading system has come under a protectionist strain. Perhaps, there are signs in the BRI of the beginnings of a different kind of globalisation.
Why did China push for it?

- The BRI is, above all, a response to slowing domestic economic growth earlier this decade, accentuated by a slump in Chinese exports to developed countries following the 2007-08 economic meltdown.
- As infrastructure spending at home became less sustainable, Beijing shifted the emphasis in a big way to boosting the global competitiveness of domestic businesses.
- During the BRI’s fifth anniversary in September, Mr. Xi described this flagship programme as an economic cooperation initiative rather than a geopolitical or military alliance.
- But the more common narrative is that the large infrastructure investments in the least developed and developing countries have enabled Beijing to leverage its influence around the world, potentially altering the established rules of the global order.

How many major BRI projects are in the works?

- It is hard to put a precise number on them because projects are negotiated informally between investor and recipient countries. But they are clearly in the thousands, unprecedented in the history of development cooperation, in terms of the volume of investment and potential benefits. Let us begin with the Greek harbour of Piraeus.
- Backed by Chinese investment, the port has climbed from the world’s 93rd container port in 2010 to 38th in 2017.
- This stupendous success has apparently raised expectations even higher. A most strategic BRI venture is the East Coast Rail Link (ECRL), which would connect Malaysia’s less developed east coast to southern Thailand and the capital Kuala Lumpur. The newly elected government of Prime Minister Mahathir Mohamad suspended the project last year, owing to reservations about the cost of financing by the China Communication Construction Company. Following Beijing’s willingness to address Kuala Lumpur’s concerns, the ECRL has been brought back on track with revisions to its pricing and size.
- There are other large Malaysian gas and oil pipeline projects that were suspended owing to the alleged misappropriation of funds during the previous government. They might eventually be revived, just as the rail project.
- By far the most ambitious BRI project is the $60+ billion China-Pakistan Economic Corridor.
- Once the Gwadar city port in coastal Balochistan is built, its strategic location, near the Strait of Hormuz, will connect the Arabian Sea and the Gulf of Oman, the arterial route to world oil transport. The force of Balochi opposition to the China-Pakistan Economic Corridor, as to most other projects, essentially comes down to a demand to reallocate its promised benefits rather than an outright roll-back. India has opted to stay out of the BRI owing to concerns of national sovereignty and integrity, choosing instead to stick with the Shanghai Cooperation Organisation.
- New Delhi’s reservations are entirely understandable, given that the China-Pakistan Economic Corridor, a core BRI endeavour, passes through the Pakistan-occupied Kashmir.

Where does the BRI go from here?

- Many BRI projects are said to have overshot their original estimated cost.
- The burgeoning debt burden recipient countries have thus accumulated has led to questions over the long-term viability and benefits of such ventures. While these may be
legitimate concerns, it is equally true that it is still early days in the evolution of the BRI.

- Another concern for the BRI is its current dependence on the U.S. dollar to fund the bulk of its projects. But unlike some years ago, its stocks of the greenback are in limited supply. Conversely, the renminbi is yet to emerge as a full-fledged global currency. That may leave China with the option of adopting a co-financing strategy. Such cooperation with multilateral banking institutions would be a welcome balancing act.

- Western critics have attacked the initiative as new colonialism, or Marshall Plan for the 21st century. China has generally played down such comparisons, drawing parallels with the U.S. endeavour to rebuild Europe as a counter to the Soviet Union after World War II.

- Beijing has embarked upon a ‘Made in China 2025’ industrial policy, an audacious bid for global dominance in artificial intelligence, aerospace, and 5G telecommunication, among others. Washington’s current trade dispute with China aims fundamentally to challenge this growing dominance. It has even portrayed Chinese competition in terms of an ultimate threat to U.S. national security, invoking provisions rarely used in international trade disputes.

- The outcome of negotiations between the world’s two largest economies to break the deadlock would echo across the Belt and Road process. Italy’s endorsement of the BRI is a potential game changer.

- Other major economies may follow Rome’s lead, in much the same way as the initial resistance to China’s Asian Infrastructure Investment Bank eventually evaporated. That opens room to indulge in some idle speculation about how closely or little the new Silk Road would one day resemble the current order of things.

- The answer would depend upon who among its innumerable participants can wield the maximum influence and ultimately emerge winners or losers. One day, the BRI might remain Chinese in all but name. That may be the next phase of globalisation in the making.