It is in Beijing’s interests to exercise greater care over how its money is spent on projects under the Belt and Road Initiative.

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For The Straits Times

The new Silk Road is back on track. After a near-null in 2016, but with Belt and Road Forum Beijing underlined China’s determination to push forward with its vast but divisive global infrastructure scheme.

President Xi Jinping shrugged off accusations that his signature Belt and Road Initiative (BRI) left partner nations heavily in Beijing’s debt, both financially and politically. Instead, having handed a moored $1.8 trillion (US$1.3 trillion) worth of deals, he seemed in ambitious spirits. “All interested countries are welcome to join,” he told the dozens of world leaders gathered at the forum, suggesting the BRI’s clients would be shared “by the world”.

Those benefits could be considerable. The many projects China funds can reduce trade costs and boost growth in developing nations, according to World Bank research. But China last week also gave a nod to the BRI’s sceptics, promising that in future its projects would be “high-quality” and compliant-free, neither of which has reliably been the case since the BRI’s foundation in 2013.

So having made these promises, the hard work now begins. And as it works to expand still further, the BRI’s challenge is more than one of management.

Critics say China wants to “trick” poorer countries by tempting them with big projects,only to make them ill after offering to help with management. In truth, there are few examples of this happening, particularly in much-discussed ports in Sri Lanka.

More often, China is up against debt that borrowers cannot repay. A report this week by analysts at Rhodium showed that Chinese concessional loans worth US$860 billion to write down debts of infrastructure loans over the last decade.

This may be no thing. Having agreed risky projects, China may decide it is more important to keep friends in developing economies than to get its money back. But it is still a signal that the BRI’s projects have often been negotiated quickly and haphazardly, with a focus on geopolitical gain, not fiscal sustainability. But more simply, China is giving too many loans to countries with questionable finances.

Some of this criticism was indeed well ahead, as in Pakistan, the largest recipient of BRI loans, but the rush can be off too, creating anxiety over China’s intentions.

In South-east Asia, Myanmar is a case in point. Here, China is proposing a host of expensive projects, including deep-sea ports and high-speed rail lines. State Counsellor Aung San Suu Kyi announced last week’s forum and has been supportive of the BRI. But it is not sure that public and political opinion in Myanmar more generally remains deeply suspicious about the strings that come along with China’s projects.

A better way forward would be for the BRI to spend more slowly, bring more partners and become more transparent about its funding.

China has made signs in this direction. Last week, it published a “debt sustainability framework,” and suggested it would welcome more international partners, potentially including institutions like the Asian Development Bank.

Turning the BRI into a web of many bilateral deals into a truly open and multilateral institution will require deep changes in an existing model.

But China also now has a new financial incentive to make this happen. The world has grown used to the BRI’s all-consuming limitless amounts of money as China expanded across Eurasia and then into Africa. But those go-go years may soon end.

Spending on BRI investments and contracts is already slipping, falling to around US$60 billion last year, from nearly US$100 billion two years earlier, according to Moody’s.

More important is China’s deteriorating current account. During the BRI’s early years, it consistently ran large surpluses, leaving piles of dollars to spend abroad. But last year, it actually ran a deficit, and may do again this year. For the first time in generations, China may need to borrow funds from international investors, including for the BRI.

This is a deal investor. China could slip down over US$13 trillion on the BRI in the next decade. But the money from new investments on which its finances must be based, only carefully – the fact that it will face greater emphasis on the need to make projects sustainable.

For the BRI’s critics, especially those in the West, last week’s forum offers a different challenge. As the BRI’s troubles mounted last year, some doubters suggested China had built it, having caused a lot of damage abroad but not worth all the bother. But for a scheme that has become so central to Mr Xi’s vision, this prediction was always fanciful.

Now the West must grapple anew what to respond to the BRI, which thus far has done little if at all. The US, more stringent in its criticism, but with influence thinly spread, has divided, as some countries happily sign up with the BRI while other look back. Neither has a policy that makes sense.

A better approach would be to flag the opportunity to push for greater governance and poor standards in Chinese projects, while also pushing Beijing to live up to public promises to make the BRI more multilateral and transparent. As China grows greater intergovernment funding, there is an opportunity to gradually ensure the BRI becomes a more formal part of the so-called global “rule-based order,” as has been the case with the Asian Infrastructure Investment Bank.

BRI aspirations such as Japan, India and the US shrank to respond to these new, multilateral plans more effectively.

To continue smoke and mirrors diplomacy, it helps a much higher of new projects, allowing them to offer developing nations a way to repay the billions to the BRI while the power of competition to force China to raise its game.

Yet whatever the West tries too, it needs to recognise that a strategy of simply opposing the BRI is not likely to work. The new Silk Road is here to stay.