

The Belt and Road Initiative

China in the World Economy, 2021

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 - Financial instability – lack of capital, high interest rates, potentially bankruptcy of banks and other financial institutions
 - China mostly regulates the financial account because of this!

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 - > **Currency swaps** – exchanging money with foreign central banks > giving them renminbi to purchase imports from China

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10. What is the purpose of the World Bank?

> Provide investment to poor countries that are unable to attract private investors

The World Bank and BRI

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- Liberal approach – let markets lead the economy, while the public sector provides basic welfare
- Large scale infrastructural investment plays a much smaller role

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- **Highly concessional** – presented as gifts from donors > economically fine, but can feel patronizing

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- „It is not greedy or imperialist, it respects everybody“

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- **Few requirements > less bureaucracy**

The Belt and Road Initiative

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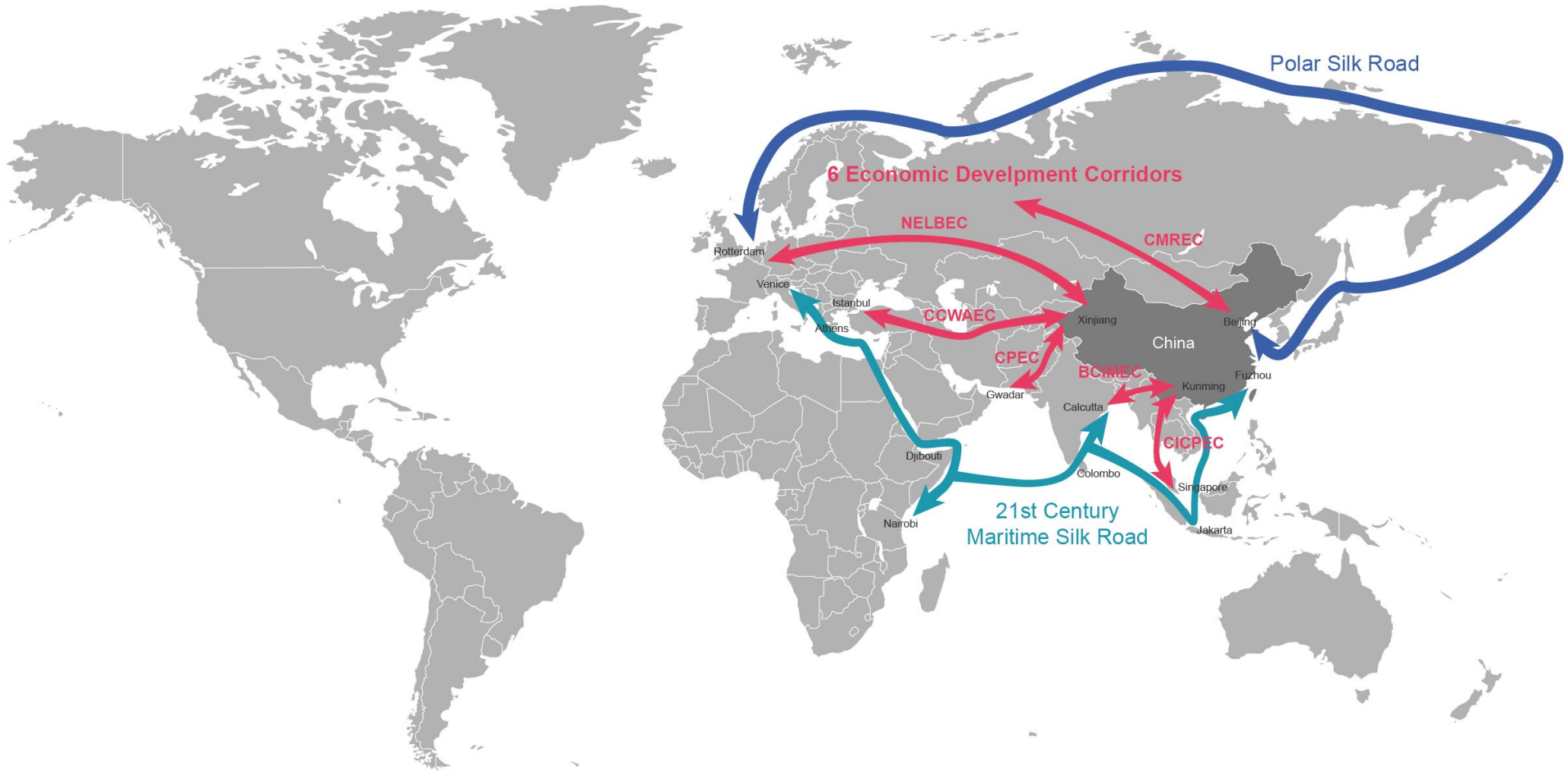
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- „Debt trap diplomacy“ – describes the results and assumes them to be the original goals

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- US and other Western countries – **exaggerated perception of the BRI as a diabolical master plan to take over the world**
- „Debt trap diplomacy“ – describes the results and assumes them to be the original goals
- The BRI has **predominantly domestic goals** presented as a grand global vision

BRI's evolution

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- „Digital Silk road“, „Health Silk road“, etc.

BRI's evolution

- Confusing and constantly changed names reflect how little defined the project is

Goals of the BRI

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- **1) Find new outlets for construction SOEs**



CHINA
COMMUNICATIONS CONSTRUCTION
COMPANY LIMITED

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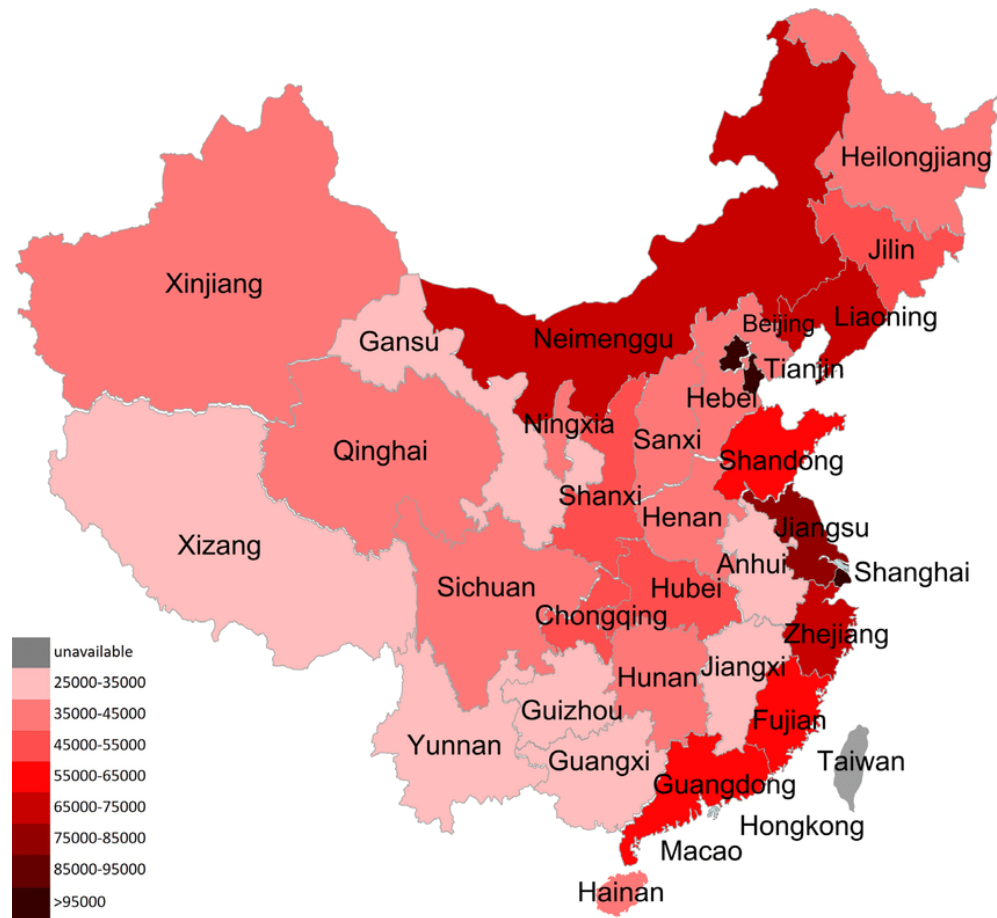
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- – things in which China is excellent + are built by SOEs

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- After 2013 – the BRI concept was taken up by party leaders in western provinces

Goals of the BRI

- These two goals are paramount and probably far more important than all the others

Goals of the BRI

- **3) Find new outlets for investment**

Goals of the BRI

- 3) **Find new outlets for investment**
- Previously – export earnings reinvested into US bonds
- Now – necessity to **diversify** foreign assets

Goals of the BRI

- **4) Find new outlets for subpar products**

Goals of the BRI

- 4) **Find new outlets for subpar products**
- Developing countries can buy products that would be hard to sell in the West
- Lifeline for **trailing edge industries** in the hinterland

Goals of the BRI

- **5) Internationalize the renminbi**
- – through loans (AIIB) + China's domestic state-owned banks



**ASIAN INFRASTRUCTURE
INVESTMENT BANK**



中国进出口银行

THE EXPORT-IMPORT BANK OF CHINA



国家开发银行
CHINA DEVELOPMENT BANK

Goals of the BRI

- **6) Tie Xinjiang and Tibet and other far-flung provinces closer to the rest of the country**

Goals of the BRI

- **7) Geopolitical expansion**

Goals of the BRI

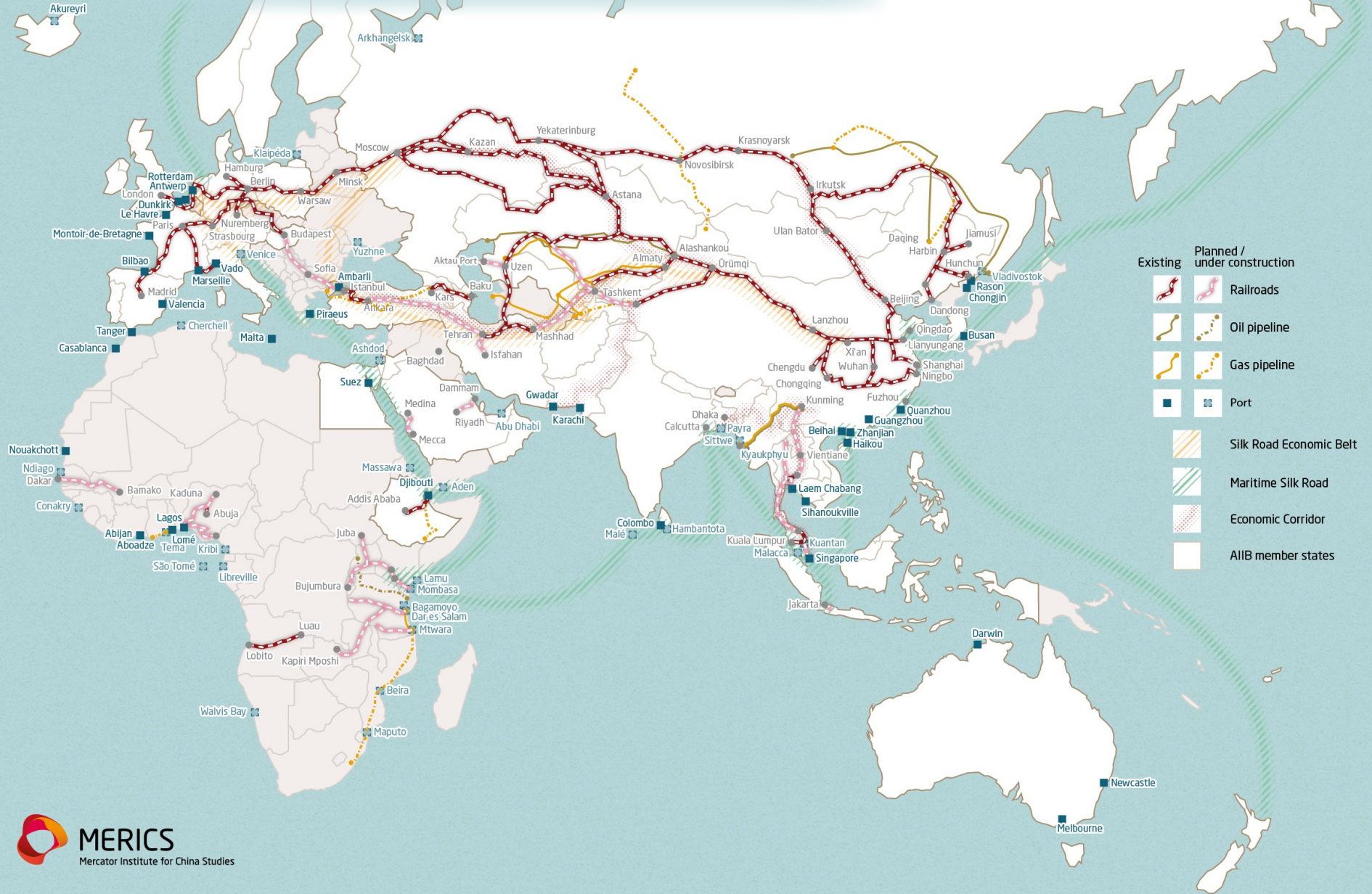
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- **Secure naval trade routes**

The Belt and Road Initiative creates a global infrastructure network

China uses, acquires and builds railroads, ports and pipelines



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- Isolate India
- **Lure away US allies**

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- Conquest of the western regions helped to make the Silk road safe – but that was not the intention!

Historical Silk road

- Overland trade was **tolerable** – only a small trickle of extremely valuable **luxury products for the elite**

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- „Chinese treasure voyages“ – brief attempt to show off and create new tributary relations

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- This makes the program even more vague

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- Forums – don't have any formal decision-making power

How the BRI works – legal aspects

- **Followed by deals made between host states and Chinese banks and SOE**

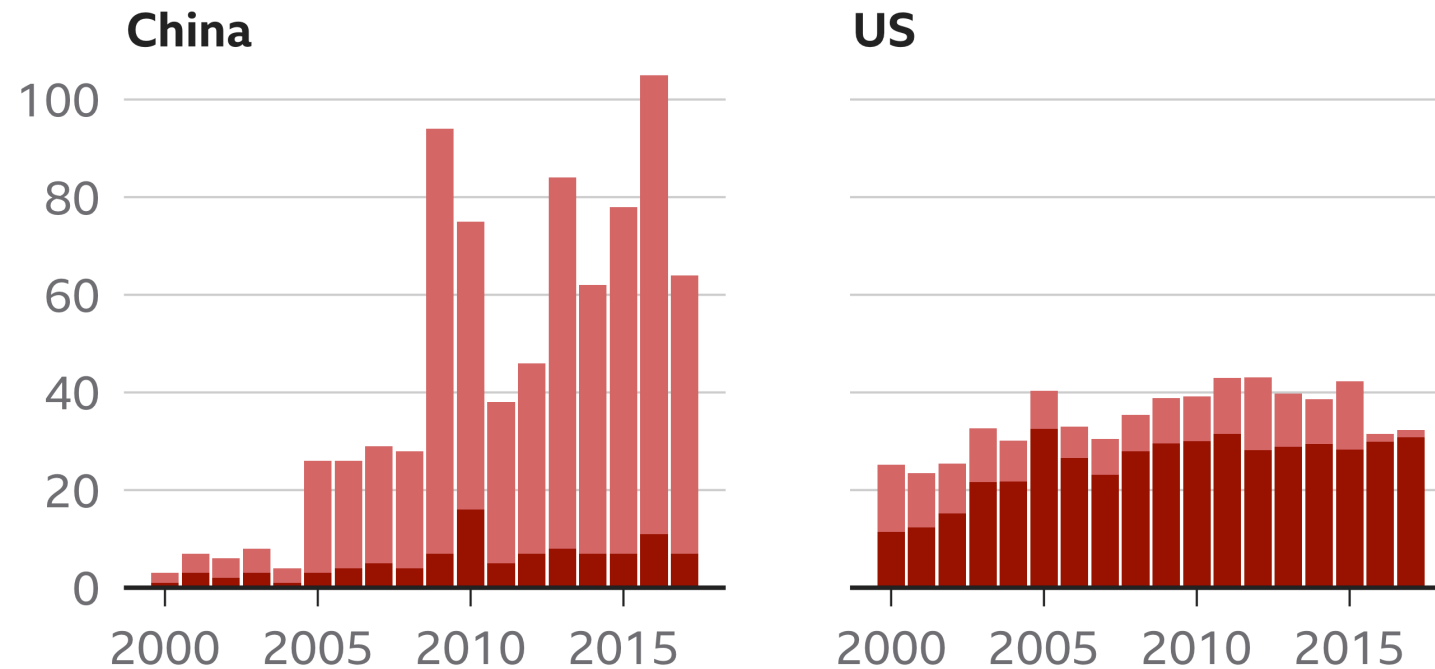
How the BRI works – legal aspects

- Banks – Import-Export Bank, AIIB, New Development Bank – intended for foreign investment
- SOEs – construction companies

How China's international loans have grown

Investment by China v US (US\$bn)

Official development assistance Other official flows



Source: AidData



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- Problematic clauses – collaterals, debt-for-equity swaps, arbitration

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- China – state and business are interconnected
- Preference for government-to-government deals and reliance on SOEs, which do not have to act in a commercially profitable way

How the BRI works – legal aspects

- China's preferred way of conduct – **state to state on a flexible bilateral basis**
- > no legal commitments for China, possibility to change the deal later on, supremacy of the state over the market

How the BRI works – legal aspects

- **Only small oversight by the Chinese government itself!**

How the BRI works – legal aspects

- **Only small oversight by the Chinese government itself!**
- “Office of the Leading Group on Promoting the Implementation of Belt and Road Initiatives” which is under the [National Development and Reform Commission](#) (NDRC)
- Only created after the fact, struggles to control all the projects

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- > framing of decentralized activities of China's vast SOEs and banks as parts of great plan of the General Secretary

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- A problem and a source of problems mainly in Southeast Asia – Malaysia, Cambodia

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- Terms – mainly the interest rate
- > **more beneficial than commercial loans**
- > **less beneficial than concessional loans from Western donors and development banks**

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- Not necessarily driven by Beijing!
- Predatory (state) capitalism? „East India Company vibe“?

How the BRI works – economic aspects

- **State guarantees** – if the recipient of the loan is a **private entity**, the **host state** must nevertheless give the Chinese banks a guarantee that the loan is going to be repaid

How the BRI works – economic aspects

- **State guarantees** – the host state must give the Chinese banks and SOEs guarantees
- For example – if a Chinese banks lends money to a power station or local construction company, the government must guarantee the loan will be repaid

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- The recipient must bound itself to accept this

How the BRI works – economic aspects

- The Chinese are insuring themselves against risk
- Risks are objectively high in Third World countries
- Because of **political instability**, unpredictable inflation, poor institutions, natural disasters etc.

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- Maybe kind of sort of like IMF and World Bank loans?
- But those conditions are about institutional reform, for China, they are direct steps to repay to loan

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- China participated in a 2020 debt moratorium

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- - can mushroom because of the renegotiated prices and guarantees
- Covid > **dropping exports > inability of many developing countries to repay BRI loans**
- China participated in a 2020 debt moratorium
- But it only delays payment, **it does not restructure the debt itself**

How the BRI works – economic aspects

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- Hesitation whether to lend to countries with BRI debts

How the BRI works – economic aspects

- China is also not a member of the Development Assistance Committee, which sets standards for transparency in development lending

How the BRI works – economic aspects

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- > China is gaining a long-term economic foothold

How the BRI works – economic aspects

- Why would somebody accept a deal like this?

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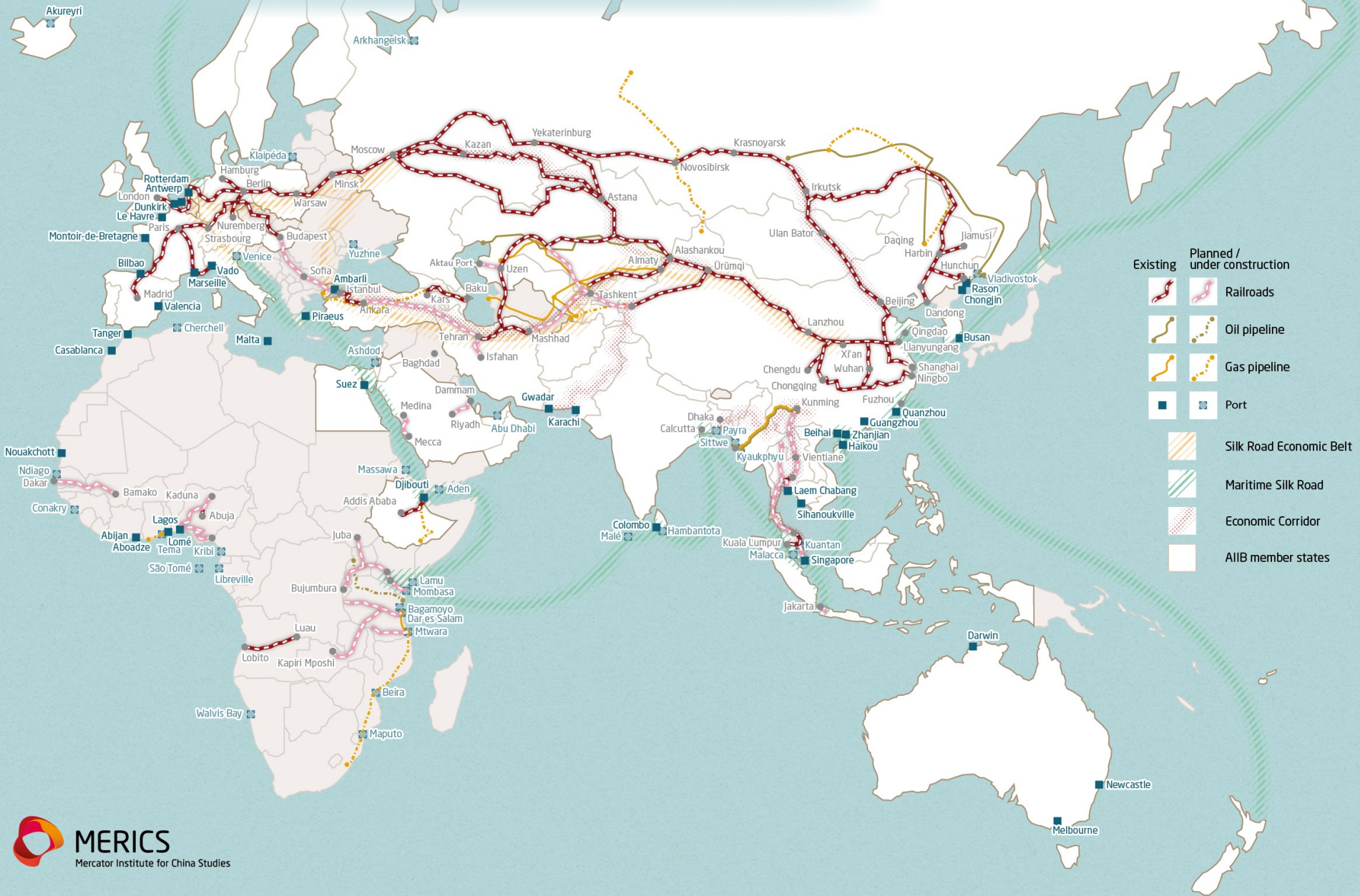
How the BRI works – economic aspects

- Developing countries:
 - – **desperate need for capital**
 - - **often high levels of corruption**
- > disregard for the environment etc.

Geography of the BRI

The Belt and Road Initiative creates a global infrastructure network

China uses, acquires and builds railroads, ports and pipelines



Geography of the BRI

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- Faster, but is that useful?

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- > either China will subsidize the return of empty wagons, or containers will accumulate in Europe

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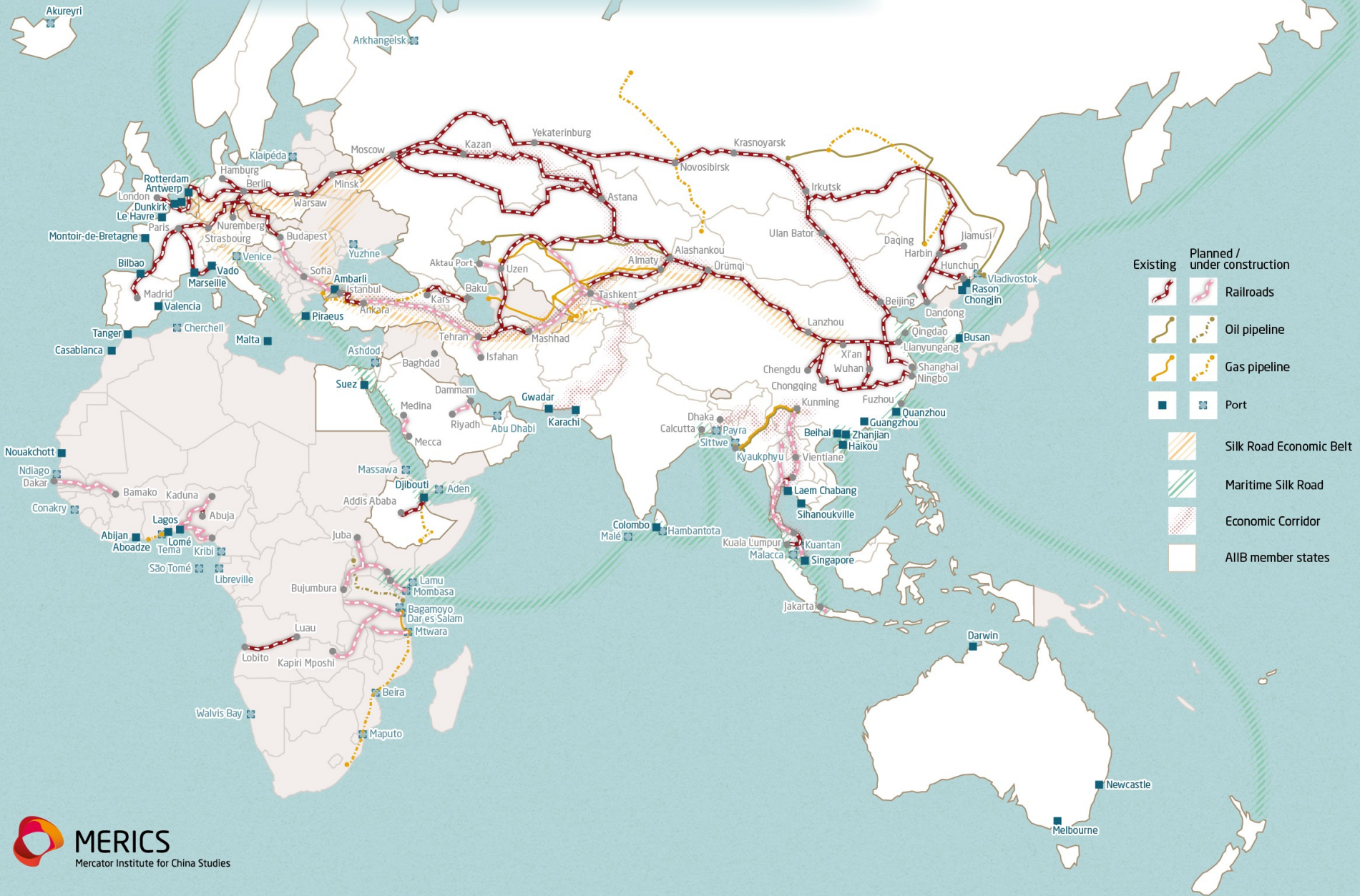
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- This becomes a problem when a **developing country needs the project to be profitable to pay back the loan...**

Geography of the BRI

- Southeast Asia and Indian Ocean
- – **desire to avoid chokepoints**, isolate India, secure naval route to Europe

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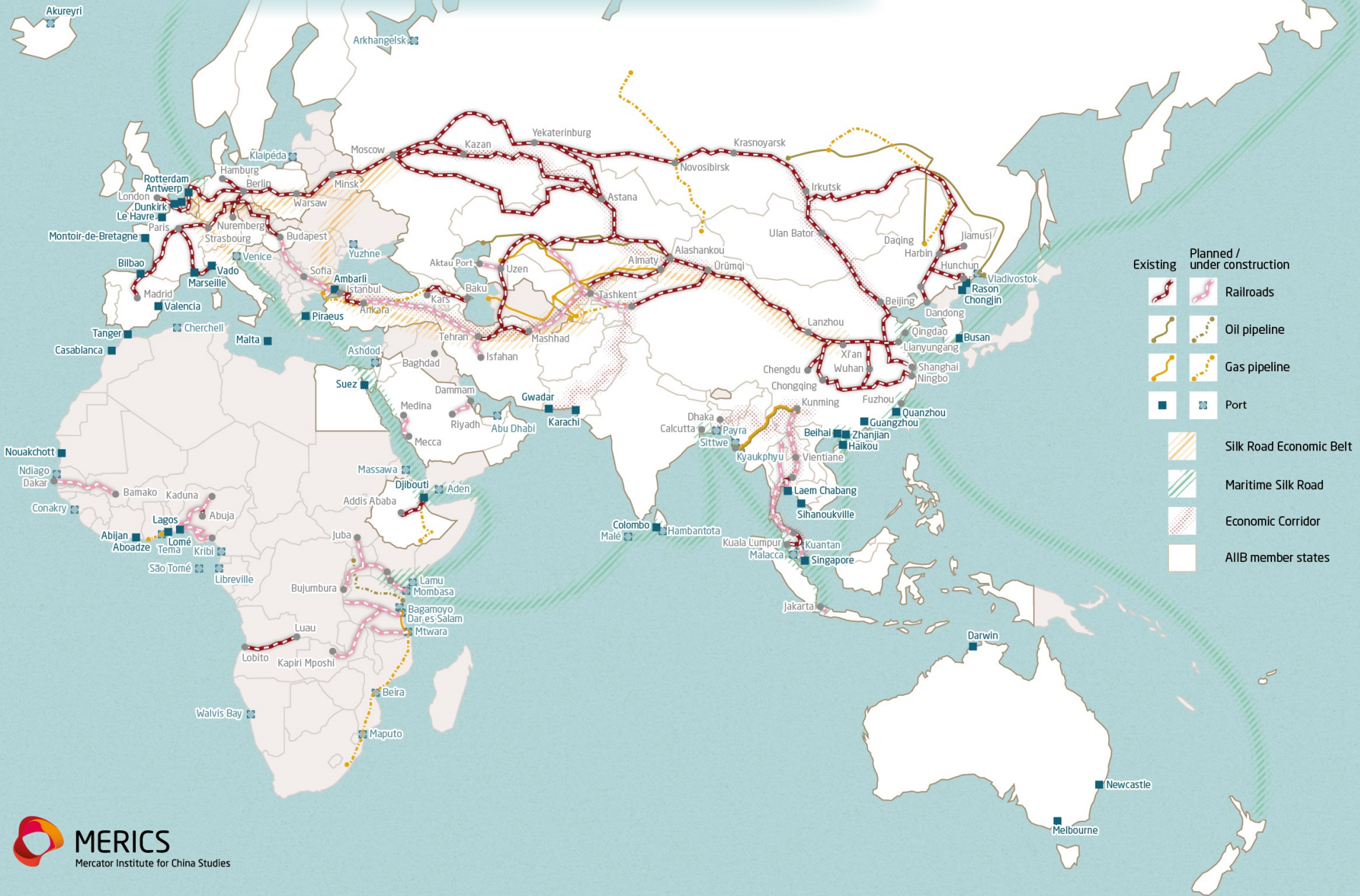
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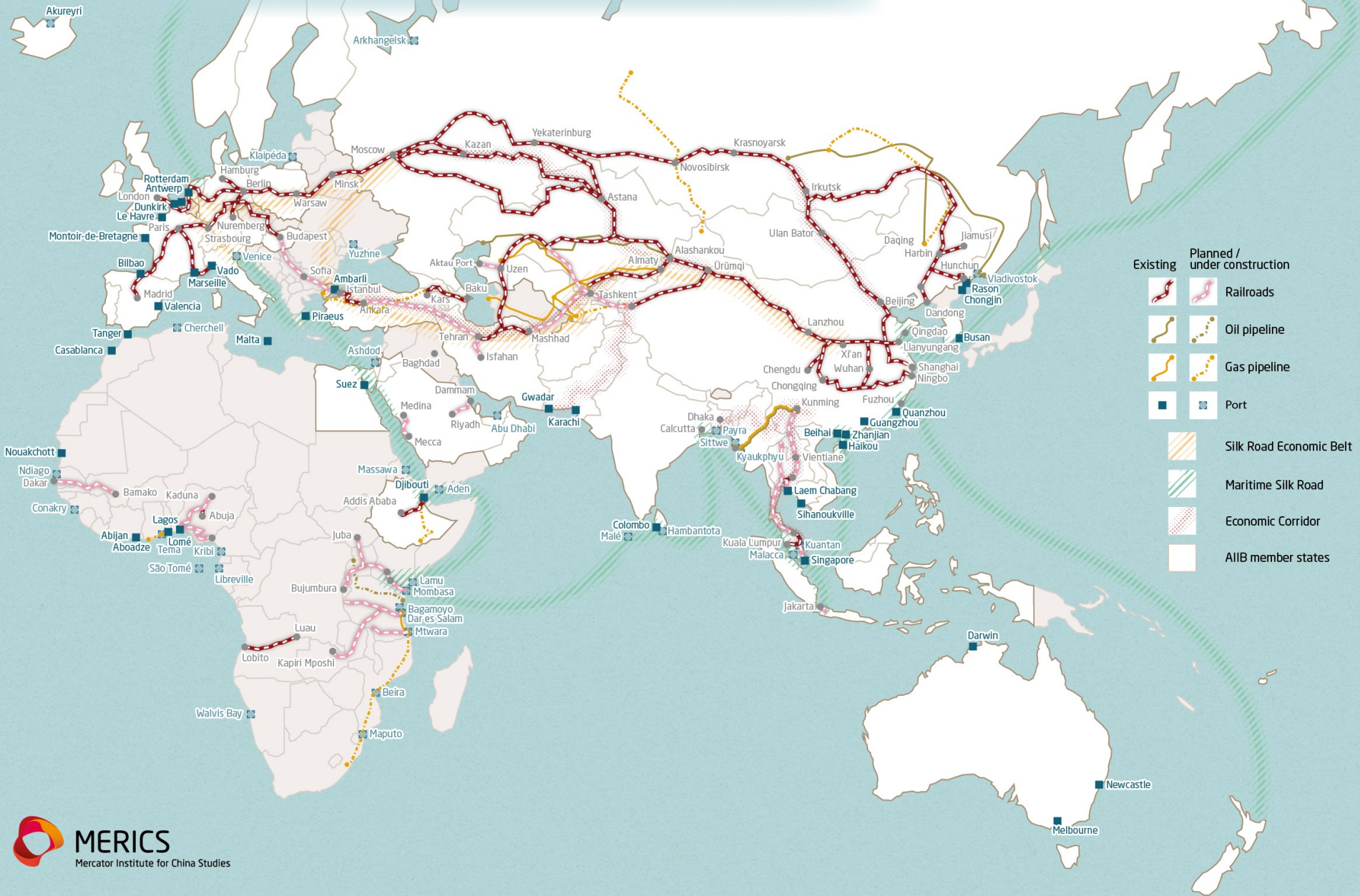


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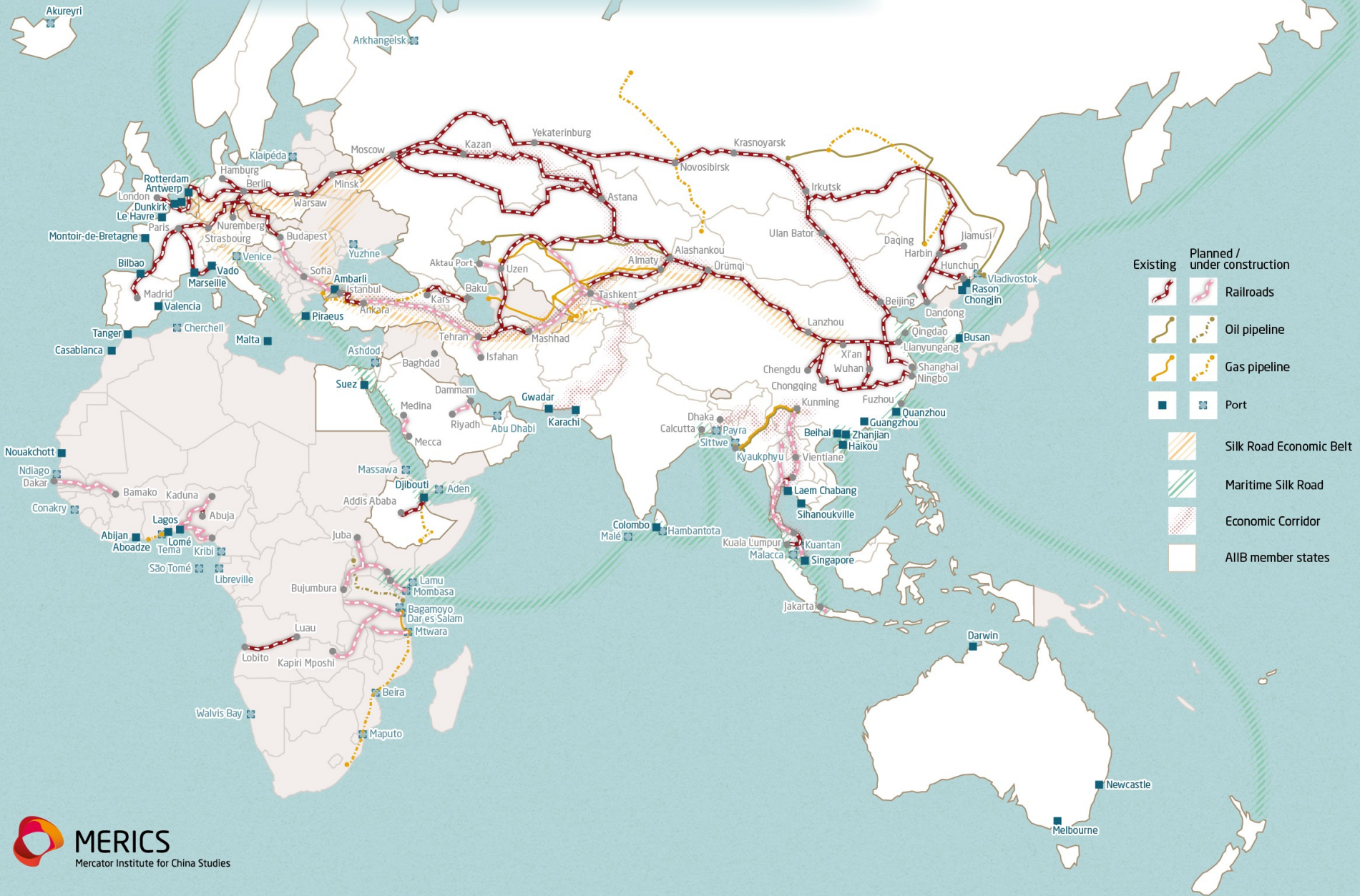


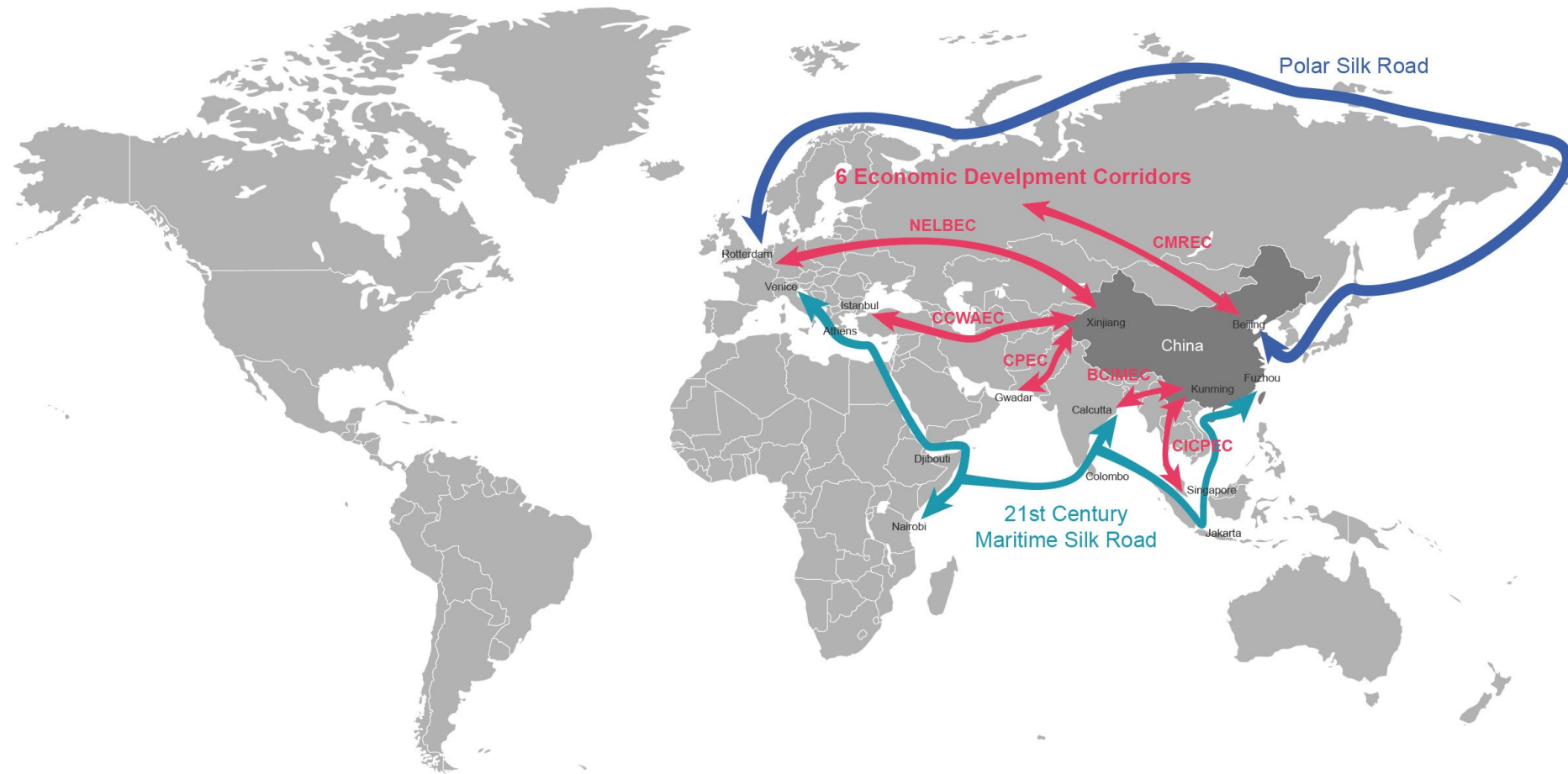
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- **Connects the Belt and the Road** – the western regions and the Indian ocean sea lanes

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Problems

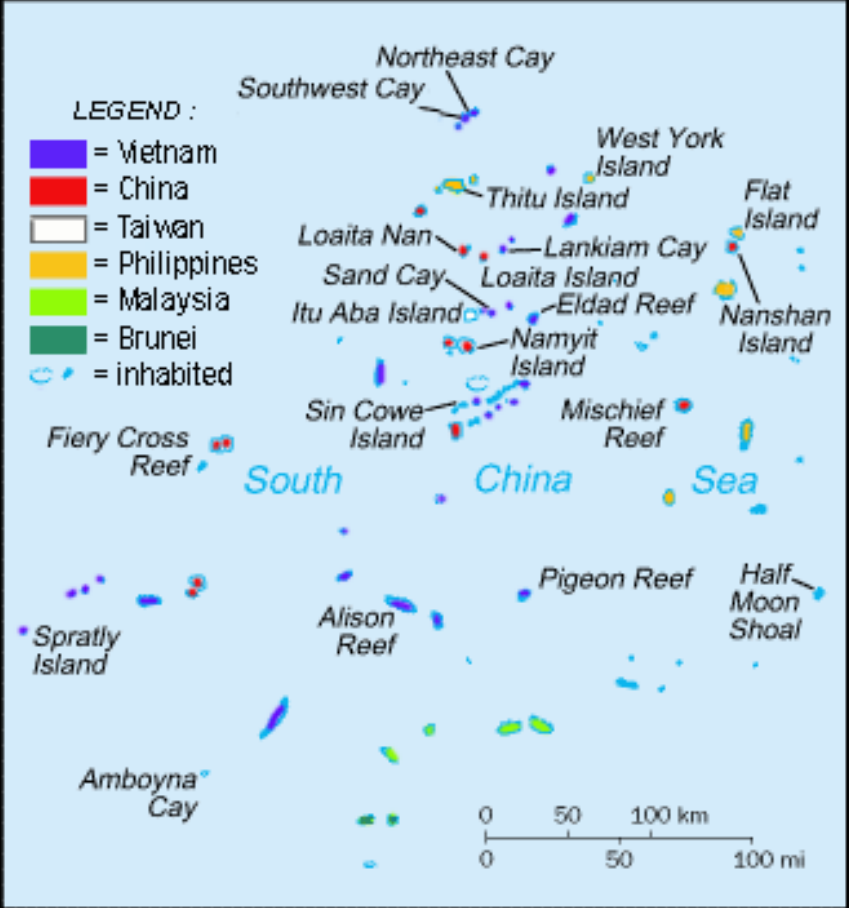
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Problems

- Most countries which began as enthusiastic supporters of the BRI are **becoming more lukewarm, or outright sceptic**
- **A large percentage of projects have been canceled, or scaled down, or delayed, etc.**

Problems

- Economic problems become mixed with geopolitical anxieties and xenophobia





Problems

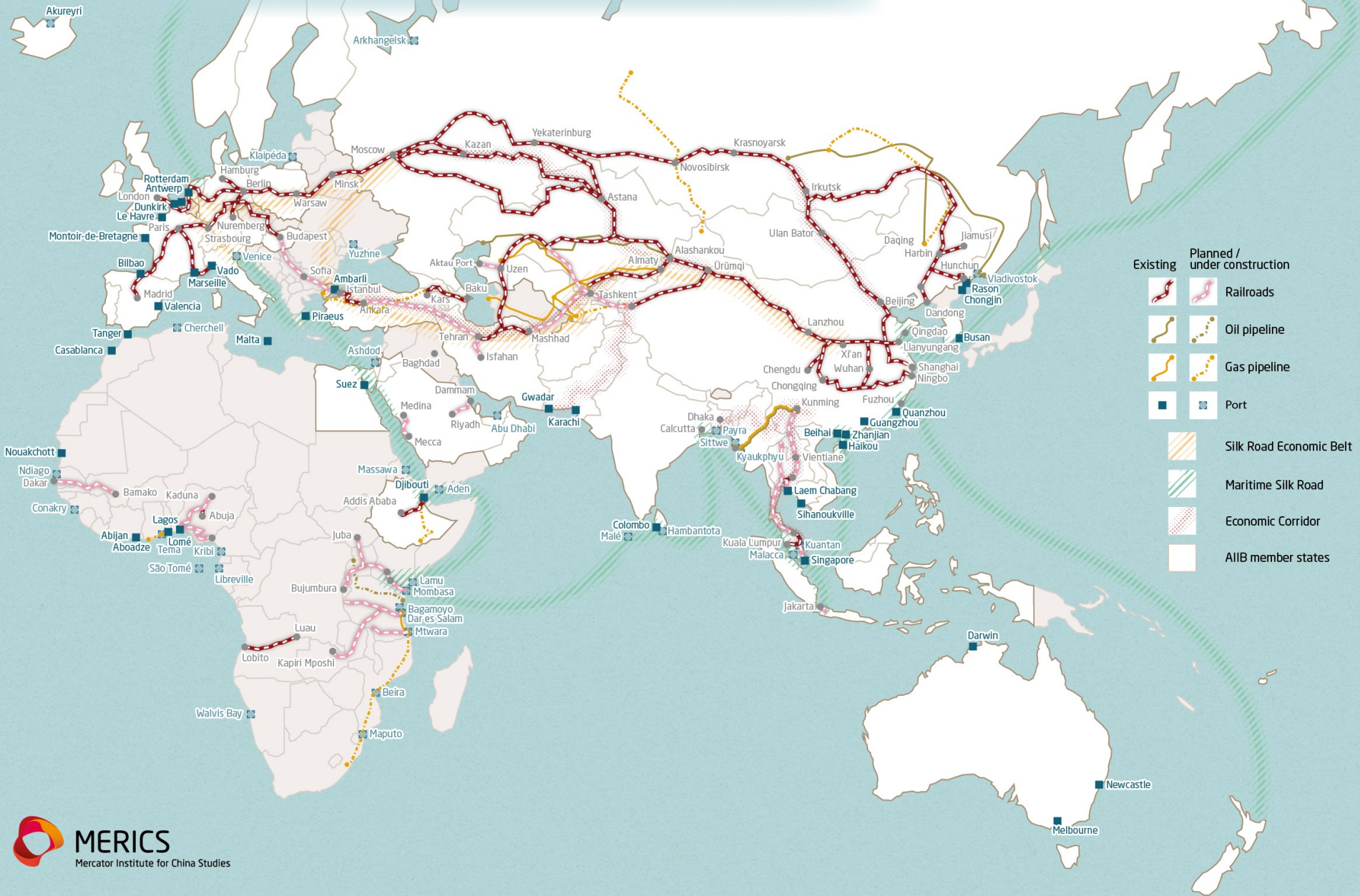
- Economic problems become mixed with geopolitical anxieties and xenophobia
- Almost every country in Southeast Asia has a history of anti-Chinese racism and even violent pogroms aimed at local Chinese minorities

Problems

- Malaysia, Maldives – opposition to BRI as an election topic
- Cambodia, Myanmar – fear of Chinese encroachment, xenophobia between Han Chinese and locals
- Kazakhstan – protests over debt + Uighurs
- Pakistan – decreasing ambitions
- Balkan nations – belated realization that BRI will make it hard for them to enter the EU

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Problems

- **Peak of investment – 2016!**

Problems

- Perhaps the result of a naive approach?

Problems

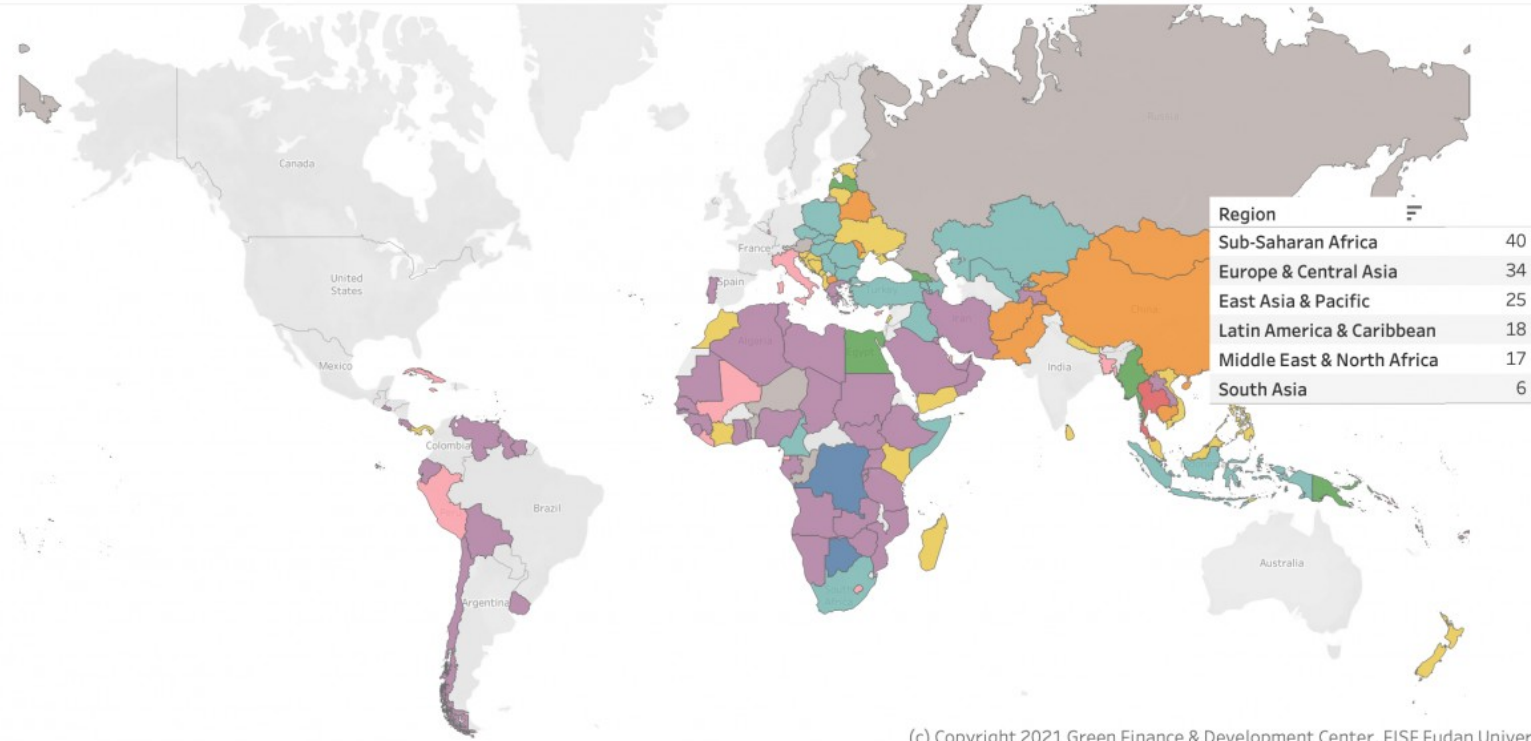
- Perhaps the result of a naive approach?
- Will China pivot towards a softer strategy like the West did...?

BRI in European Union member states

Countries of the Belt and Road Initiative

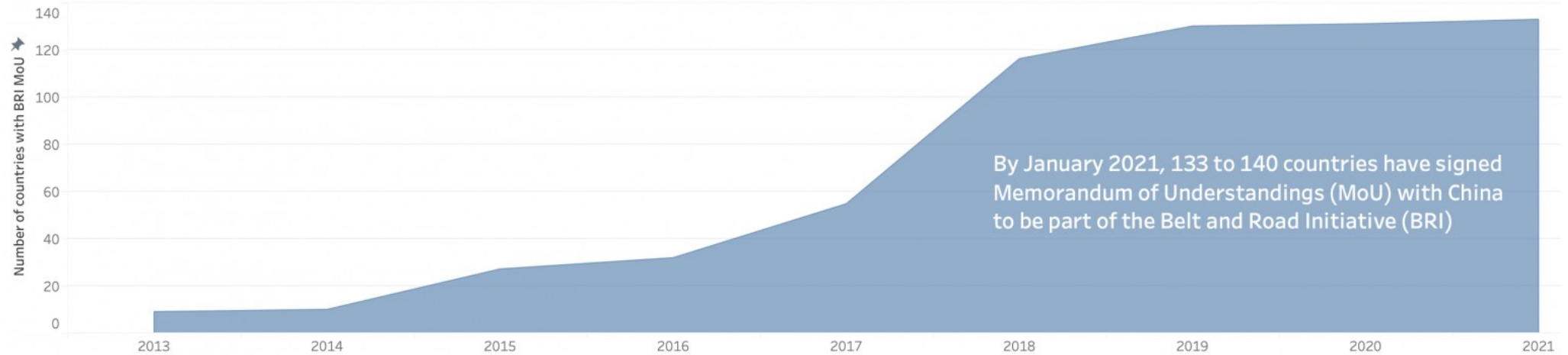
Year of MoU signature

- Unclear
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020
- 2021



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BRI in European Union member states

- Mainly Hungary, Greece, Italy, Poland

BRI in European Union member states

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- **Main problem: EU law**
- Regulates competition and rules for public procurement
- > **need for transparent tenders**
- > it is not possible to do a backroom deal with a Chinese bank
- Competition law – state guarantees would be seen as giving Chinese SOEs and banks and **unfair advantage** over competition > it cannot be done

BRI in European Union member states

- Also – EU states are relatively rich + have access to EU funds

BRI in European Union member states

- Also – EU states are relatively rich + have access to EU funds
- > **they have their own funding and don't need China's money**
- > they are higher on Maslow's pyramid and care about things like the environment or potential political interference

BRI in European Union member states

- Also – **better institutions and less corruption**

BRI in European Union member states

- China underestimated all of this
- > their offers are often unacceptable
- > overall, the Belt and Road project is a failure in Europe, without the EU even having to have some strategy against it

BRI in European Union member states

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- 1) **Based on a public tender**

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- When Chinese companies do successfully win construction contracts, its under European rules:
 - **1) Based on a public tender**
 - **2) Financed by European resources**
 - > do debts, no collateral, no ownership of the infrastructure for the Chinese
 - **3) No guarantees and obligatory renegotiation of prices**
 - > China's companies must behave like any other company without any special regime

- > it's not that hard to say „No“, if you have the will to do so

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- But many cases of modern imperialism are far more **decentralized, spontaneous, gradual, organic**
- = led by many small actors rather than one master plan
- = caused by huge gaps in economic and technological and military capability rather than a political decision

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- **1) Individual and corporate ambition and greed**

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- China – currently at point 2
- Historically did not expand militarily – will this assumption hold?

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- Official policy – **small entrepots and economic privileges**



The main idea

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- Both good and bad outcomes sometimes come from decentralized processes

The main idea

- Overall, the Belt and Road Initiative **is a best understood as an umbrella term for all of China's foreign ventures**
- Likely driven by China's own economic needs
- Beijing's strategic oversight and malicious intentions are probably overrated by Western observers
- Which does not mean the BRI cannot be harmful!

- Next time – summary + context and links for topics we discussed earlier + extra information and details we did not have time for before