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A tale of two harbours tells best and worst of China's 'Belt and Road'

Partners have found BRI to be a blessing or a curse, or both

Hambantota port in Sri Lanka cost £1.3bn to build, using Chinese finance © AFP

James Kynge
September 25, 2018

The story of two ports oceans apart captures the conflicting narratives of the Belt and Road Initiative, China's scheme to finance and build infrastructure in more than 80 countries.

The benign storyline comes from Piraeus, a Greek harbour so revitalised by Chinese investment it has leapt from the world's 93rd largest container port in 2010 to 38th last year.

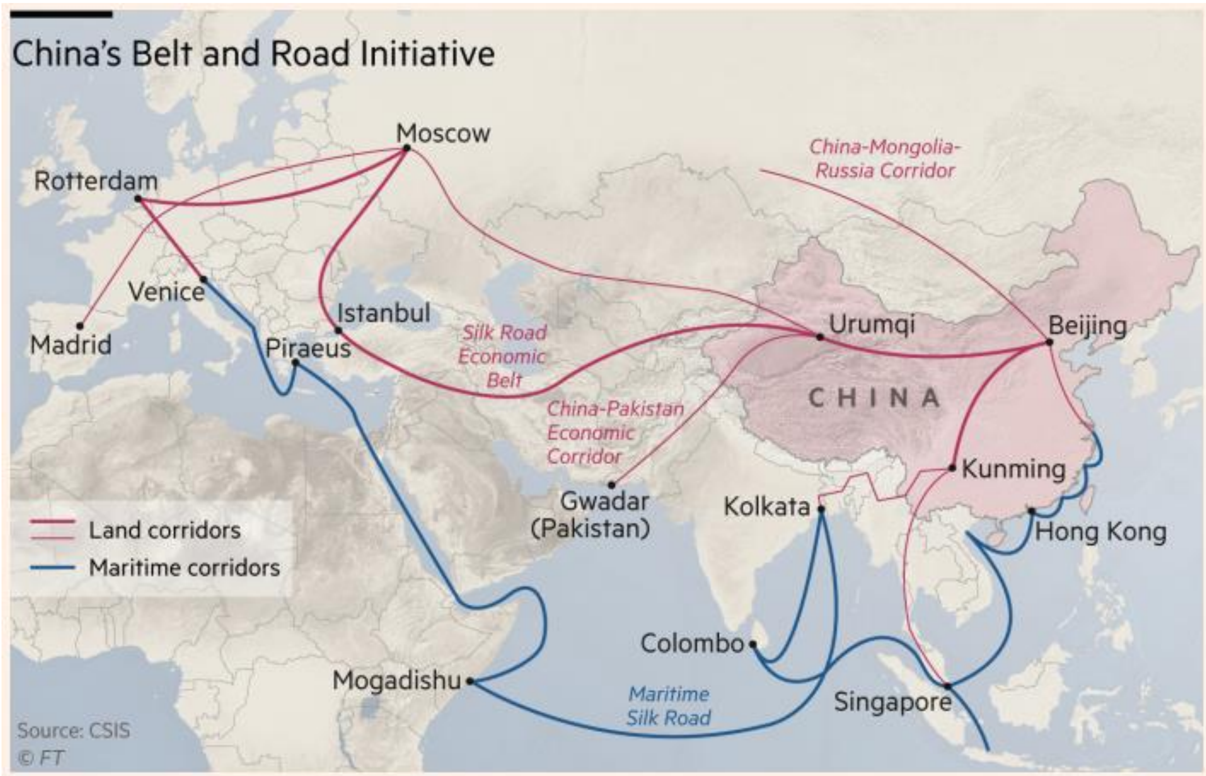
Not content with these results, Cosco Shipping, the Chinese company that bought Piraeus, now intends to make it the largest port in the Mediterranean in 18 months, overtaking Spain's Algeciras and Valencia. "Piraeus is the fastest growing port in the world. In this year, the management seeks to increase freight traffic by 35 per cent," says Zhang Anming, the Cosco executive assigned to run the container terminal.

But on the south coast of Sri Lanka, a darker narrative is evident. The port of Hambantota, which cost $1.3bn to build using finance from Chinese state-owned lenders, struggled for years under losses so heavy the Sri Lankan government eventually gave up bankrolling it.

In 2017, Colombo handed it over to Chinese control on a 99-year lease in spite of public protests. As the deal went through, Namal Rajapaksa, Hambantota's MP and son of former president Mahinda Rajapaksa, tweeted: "Government is playing geopolitics with national assets? #stopsellingSL."

Hambantota and Piraeus represent extremes of the grand design that Xi Jinping, China's leader, describes as "the project of the century".

The ports' divergent fates frame the BRI experiences of many countries, dividing opinion between those that see the scheme as furnishing much-needed infrastructure and others who view it more as a geostrategic ploy by China to gain influence by plunging developing countries into debt.



China insists that its intentions are above reproach. In an interview with the Financial Times, Le Yucheng, Chinese vice-minister for foreign affairs says: "In today's world we see a trend of rising protectionism, unilateralism, bullying and anti-globalisation . . .[In contrast, the BRI is an] effort to build a more fair and equitable international order and to reform the global economic governance structure."

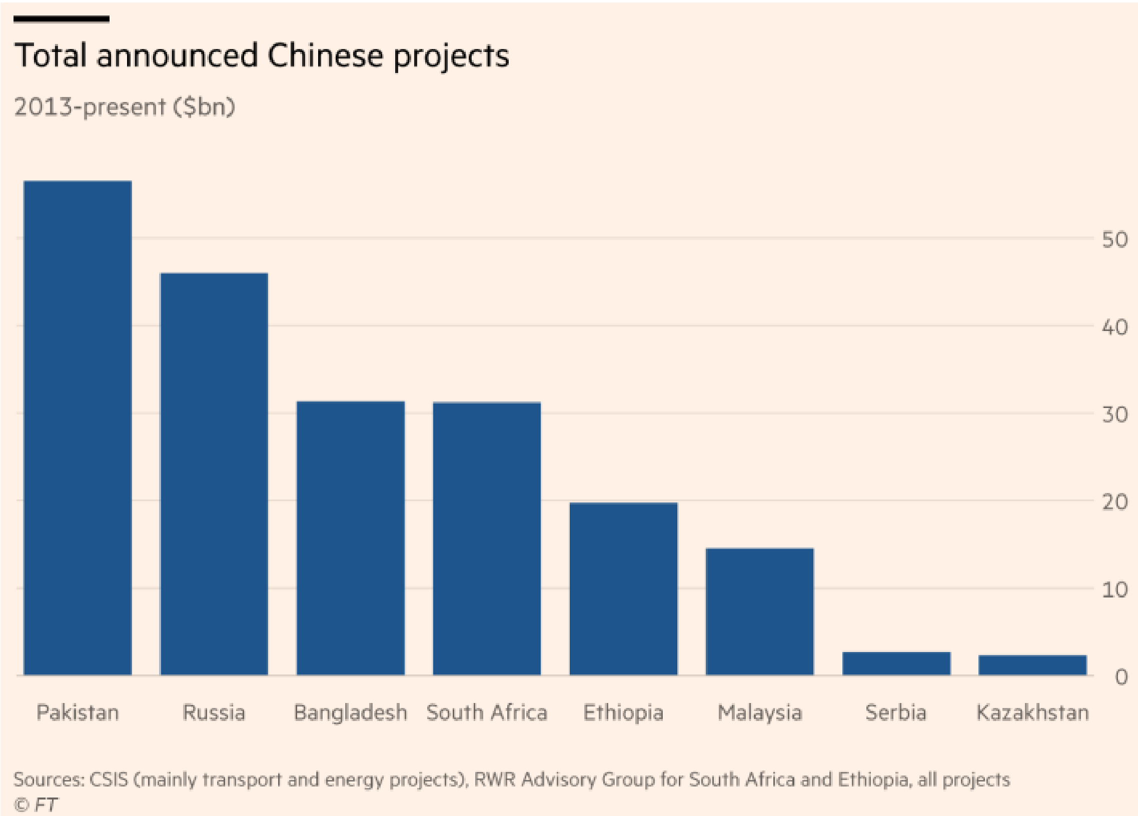
The scale of the BRI five years after its launch means the stakes could hardly be higher for China's international reputation, the trajectory of the developing world and Beijing's relations with western powers, most of which have remained aloof so far from the BRI because of strategic concerns.

Defining the size of the BRI, however, is no easy task. The number of BRI countries, as listed on China's official Belt and Road Portal, keeps rising — from about 65 two years ago to 84 in mid-September — and the criteria for inclusion remain vague.

India, for instance, is included on the list, although New Delhi has kept its distance from the scheme.

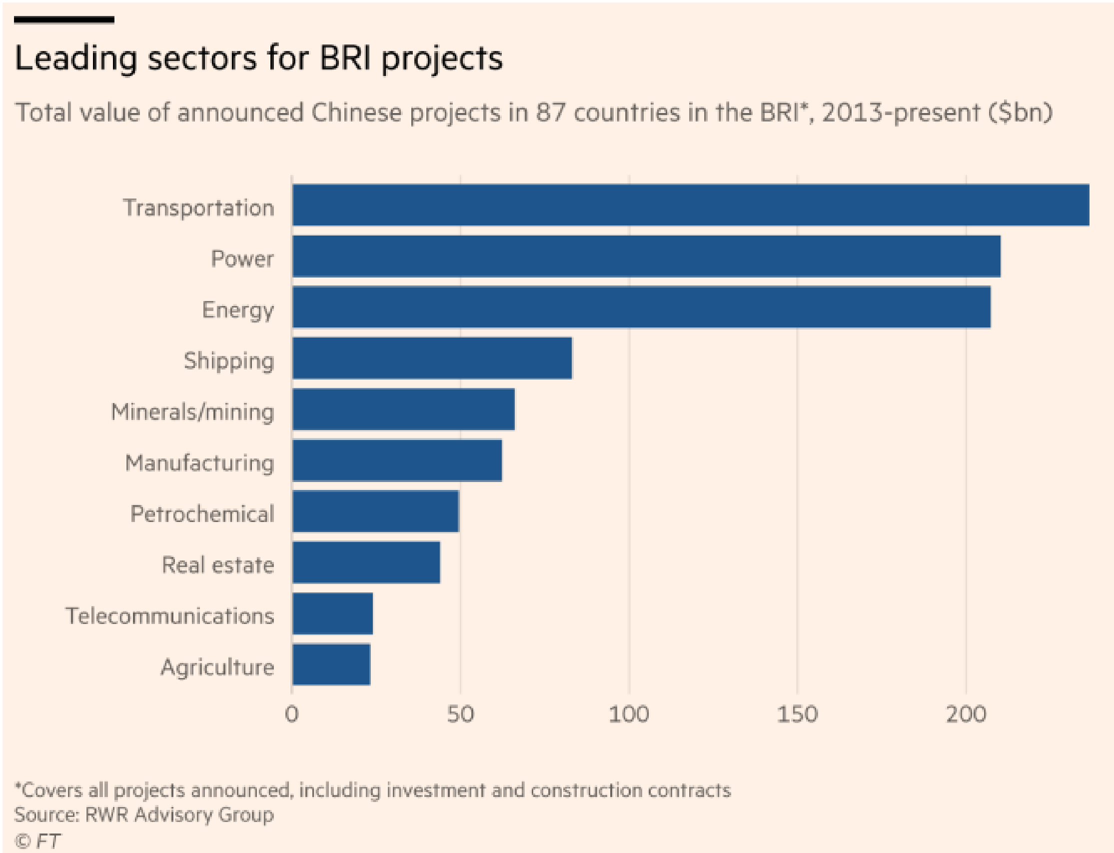
In addition, the initiative's two big financing banks, the China Development Bank and the Export-Import Bank of China, provide little or no information on their BRI loans. The big state-owned Chinese companies that build the roads, railways, ports, power stations and other types of basic infrastructure also often decline to share data.

Thus, the story of the BRI is increasingly being told by non-Chinese sources. In a broad measure of the initiative's dimensions, RWR Advisory Group, a Washington-based consultancy, has identified 2,220 deals worth about $1.12tn in 87 participating countries since 2013. The consultancy's number for participants is higher than Beijing's because it has identified three countries that have recently signed BRI agreements not yet on the official list. Its methodology captures announcements of both investments by Chinese companies and construction contracts awarded as a result of BRI financing.



China's official data for 2017 shows the value of new construction contracts — mostly for infrastructure — in BRI countries rose 14.5 per cent to $144.4bn, accounting for about 54 per cent of all overseas contracts won by Chinese companies during the year.

China's companies now have ownership stakes in nearly two-thirds of the world's top 50 container ports, its banks have financed the construction of more power plants than those from any other country and its telecoms companies are building a "digital silk road" that combines a network of satellites with a terrestrial web of fibre optic cables.



The BRI's Sino-centric design leaps out immediately from Beijing's official maps. The land routes fan out through six designated "corridors" across Eurasia and into south and south-east Asia. But, like the BRI's maritime routes, all connections lead back to China.

Administratively, too, the scheme is demonstrably Sino-centric. It is run by a Communist party Leading Group for Advancing the Development of One Belt, One Road, in which all ranking positions are held by Chinese officials.

Unlike the United Nations, the World Trade Organization, the World Bank and several other institutions created after the second world war, the BRI is not a multilateral forum.

"In this year, [Piraeus port] seeks to increase freight traffic by 35 per cent." Zhang Anming

Participating countries do not have a say in policy formulation and they do deals individually with China. In legal matters, too, two Chinese courts — one in the central city of Xi'an and one in the southern city of Shenzhen — are set to handle disputes across the BRI.

This aspect, says Jonathan Hillman, director of the Reconnecting Asia Project at the Center for Strategic and International Studies in Washington, reveals Beijing's broader intent to revise the international rules-based order. Beijing's desire to control all aspects of BRI has left it open to criticism as the controversies multiply.

Malaysia, a big recipient of BRI investments, cancelled about $3bn worth of pipeline projects this month. Kuala Lumpur had already suspended another $20bn in BRI schemes and is investigating links in some of them to the scandal-plagued 1Malaysia Development Berhad investment fund.

Pakistan is in the throes of a balance of payment crisis in part brought on by the scale of its borrowing under the $62bn China-Pakistan Economic Corridor plan.

Sri Lanka, which has a debt-to-GDP ratio of 77 per cent, partly because of borrowing for BRI infrastructure projects, is turning to China for an extra $1.25bn in funds to finance its liabilities.

The risk of debt distress is rising in 23 countries with BRI funding, according to a study by the Centre for Global Development. Eight of these countries — Pakistan, Djibouti, Maldives, Laos, Mongolia, Montenegro, Tajikistan and Kyrgyzstan — already have unsustainable levels of sovereign debt.

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Interview: 'We say, if you want to get rich, build roads first'

Vice-minister Le Yucheng rejects criticism, says China is providing much-needed infrastructure Le Yucheng says that China takes a flexible approach when BRI host nations struggle to repay debt © Niu Bo/ImagineChina

Jamil Anderlini
September 25, 2018

Five years after Chinese President Xi Jinping launched the Belt and Road Initiative on a visit to Kazakhstan, the plan to rebuild the ancient silk road connecting China and Europe has become his signature foreign policy.

But for something so monumental, so important to the Chinese leadership and so potentially controversial abroad, it is often hard to find solid and specific information on the project.

Critics have described the plan as neocolonialism, as a strategic ploy to enhance China's military power outside its borders or as a plot to ensnare countries in debt traps that eventually force them to hand over territory and strategic assets.

In a rare high-level interview on the topic, Le Yucheng, Chinese vice-minister for foreign affairs, has spoken at length to the Financial Times about China's vision for the BRI.

Unsurprisingly, Mr Le, a Eurasian specialist and former Chinese ambassador to Kazakhstan and India, rejects all these criticisms out of hand.

"Some media reports say China has created traps for certain countries," he says. "We find it unacceptable because we have made a lot of contributions to those countries."

He points out that the primary focus of the BRI is to build much-needed infrastructure in places where such investment has long been neglected.

"We Chinese often say that if you want to get rich, build roads first. Africa has for many years received certain assistance from western countries but why couldn't it achieve faster development? One important reason is the underdevelopment of infrastructure," he says.

The experience of Sri Lanka, which handed over operation of the Chinese-built Hambantota port to a Chinese-controlled company late last year, is often cited as an example of a country that has fallen into a debt trap. But Mr Le draws attention to the fact that only about 10 per cent of Sri Lanka's external debt of just over $50bn is owed to China and about 60 per cent of the loans from China were at lower than market interest rates.

"We also advise host countries [of BRI projects] to act within their means and not to overstretch," he says. "Some countries may face difficulties in repaying the debt . . .[but] we will not press down hard on them. When they encounter difficulties, normally we will . . . take flexible measures."

Mr Le rejects the suggestion there is a military element to BRI. "We have no intention of using the security of BRI to set up overseas military bases," he said. "We pursue an independent foreign policy of peace and a defence policy that is defensive in nature and I want to point out that China's military presence overseas is much smaller than other major countries."

We have no intention of using the . . . BRI to set up overseas military bases He explicitly contrasts the intentions of the BRI with those of the post-second world war Marshall Plan, which he described as having "clear geopolitical and ideological objectives". In contrast, "the BRI is an initiative for international economic co-operation and connectivity co-operation", he says.

So far, more than 130 countries have signed agreements or memoranda of understanding with China on the BRI, even though China's initial plan involved only a few dozen countries that straddle the trade routes between China and Europe. "Many countries see the BRI as an opportunity and a platform for closer co-operation with China," Mr Le says. "The BRI has been warmly welcomed to an extent that has far exceeded our expectations."

Some countries have begun to establish alternatives to compete with the BRI. While it remains in the conceptual stages, the US, Japan and India have outlined a vision of “Indo-Pacific” co-operation that seems at least partly targeted at countering the BRI proposals.

“We are open to all initiatives that will help regional development and co-operation but what we are against is attempts to use the Indo-Pacific strategy as a tool to counter the BRI or even to contain China,” Mr Le says. “We hope to see all parties working in concert instead of undercutting each other’s efforts.”

For a country that ranks about 70th in terms of per capita gross domestic product, the scale of China’s BRI ambition is breathtaking. It has also led to muttering within China that Beijing is squandering the nation’s wealth on helping other countries.

“We do face the daunting challenge of inadequate and unbalanced development [inside China] but I don’t think it is too early to pursue external co-operation at this point,” Mr Le says. “In today’s world we see a trend of rising protectionism, unilateralism, bullying and anti-globalisation. [In contrast, the BRI is an] effort to build a more fair and equitable international order and to reform the global economic governance structure.”

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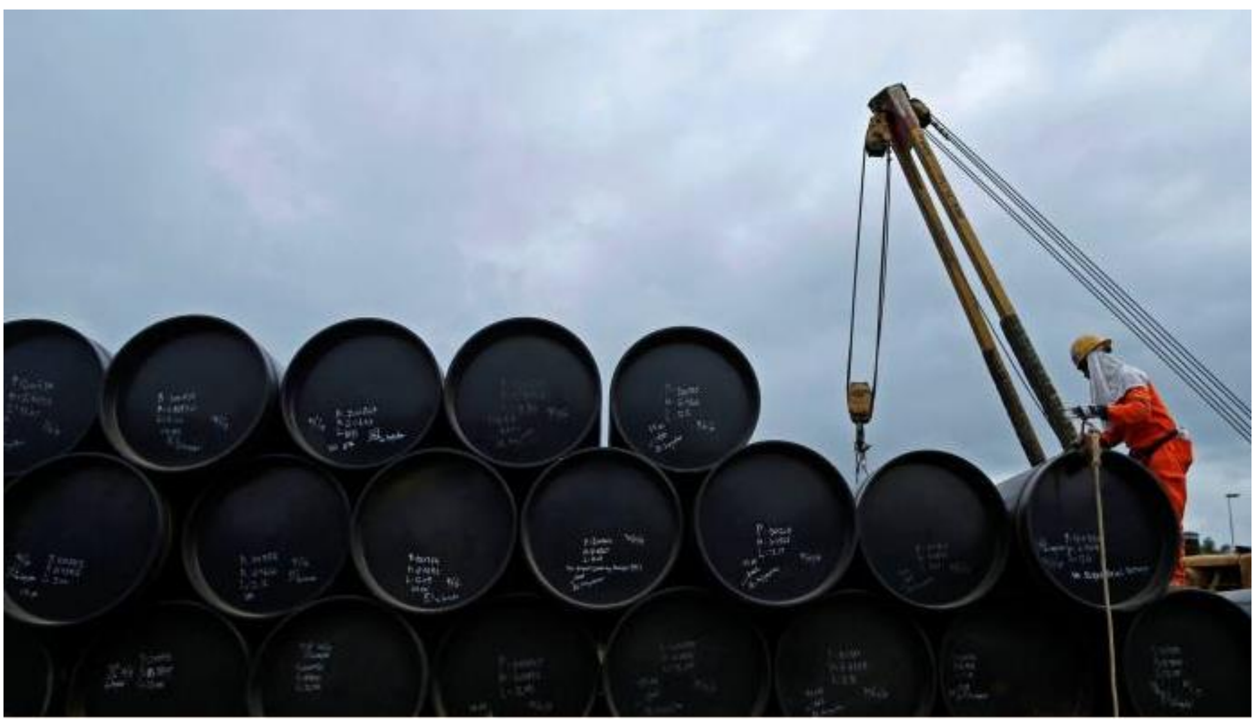
Malaysian rethink on projects risks contagion in the region

Mahathir’s election prompts other partners to wonder how they might renegotiate terms



Reuters

Stefania Palma in Singapore
September 25, 2018

When Mahathir Mohamad swept to power in a surprise election victory over his former protégé, Najib Razak, leaders of countries along China's Belt and Road sat up and took notice.

Mr Najib had been an advocate of the Belt and Road Initiative, and had promised to fast-track more than $30bn of Chinese port, rail and other infrastructure projects in the country. Mr Mahathir meanwhile had spent much of the time on the campaign trail speaking out against the poor potential returns and growing debt burden for countries that agreed to Chinese infrastructure investment.

Since his return to power, Mr Mahathir has suspended $23bn in China-backed infrastructure projects, including the East Coast Rail Link — the $20bn flagship BRI project in Malaysia. Three pipeline projects have also been cancelled.

Excessive costs, "lopsided" contracts and opaque bidding procedures are the main reasons cited by Kuala Lumpur to reassess the Chinese-backed projects.

Now Beijing faces the risk that Malaysia's defiance might embolden other BRI-linked countries to follow suit. "Other countries are watching to see how a newly elected government is able to potentially renegotiate deals," says Jonathan Hillman, director of the Reconnecting Asia Project at the Center for Strategic and International Studies.

In his first visit to China since re-election, Mr Mahathir warned against the risk of a "new colonialism" and called for fair trade, although, in a joint statement from the summit, Kuala Lumpur confirmed it would continue to be part of BRI.

$23bn: Value of China-linked projects suspended by Kuala Lumpur

Peter Mumford, Asia director at Eurasia Group, a political risk consultancy, says the biggest headache for Beijing in Malaysia is not financial but rather the risk of contagion. "They need to give Mahathir something that he can sell to the Malaysian public . . . but in a way that doesn't encourage other countries to unilaterally threaten to cancel [BRI projects]," he said.

The BRI has already come under attack in countries such as Sri Lanka, where the Hambantota port has been leased out to China for 99 years after Colombo struggled to repay its debts, or Pakistan, where critics say China will be the main benefactor of the $62bn China Pakistan Economic Corridor.

But cancelling BRI projects altogether would probably involve penalty fees at a time when Malaysia is looking to slash excessive public spending and manage a debt load that ballooned to more than $250bn under Mr Najib's government, according to the finance ministry.

Kuala Lumpur is already facing S$15m ($10.9m) in suspension fees for requesting a halt to the high-speed rail link to Singapore, which is still out for tender. It will also incur penalties for cancelling the China-backed pipelines.

$62bn: Estimated cost of China Pakistan Economic Corridor

Kirk Lovric, partner at law firm Hunton Andrews Kurth, says if a BRI project is cancelled, a "termination and compensation regime" would be likely to apply, subject to "enforcement by international arbitration".

If Malaysia opted for nationalising BRI schemes, it would need to return loans to Chinese lenders and pay back Chinese investors' equity and equity returns, he added.

The East Coast Rail Link, which would connect Malaysia to Thailand, is the most significant BRI initiative in the country. Lim Guan Eng, Malaysia's finance minister, said in July that a "drastic" cost reduction would be required before the country moves forward with the project, the cost of which is estimated to be $20bn. While the ECRL will be "trimmed down significantly, it is likely to survive in some shape or form", Mr Mumford said.

The railway is being built by China Communications Construction Company and is 85 per cent funded by loans from Export-Import Bank of China, both state-owned entities. Construction had started on the China-backed oil and gas pipelines, but there has been minimal construction, despite Malaysia having paid for the schemes almost in full.

The two China-linked Malaysian ports of Malacca and Kuantan might have a brighter future. The contractors are Chinese state-owned enterprises. But, unlike the pipelines and the ECRL, the ports' Malaysian partners are private companies and the costs do not weigh so heavily on public finances.

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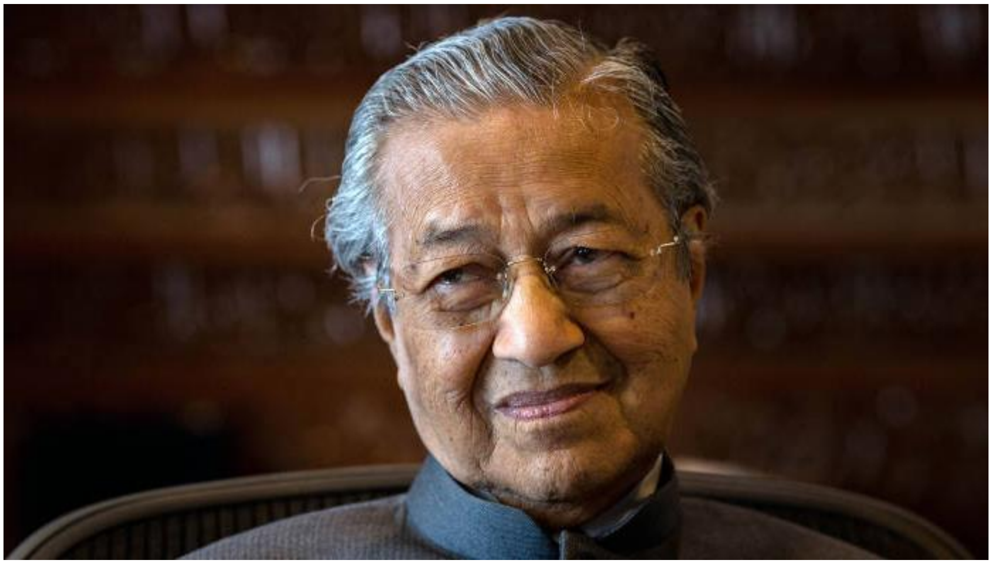
Beijing insists BRI is no Marshall plan

China is keen to defend its initiative from criticism overseas and dissent domestically



Malaysian Prime Minister Mahathir Mohamad accused China of 'new colonialism' while on a visit to Beijing © Bloomberg

Tom Mitchell
September 25, 2018

Chinese officials are often hard-pressed to explain exactly what the Belt and Road Initiative is, but they are sure of one thing that it is not. It is not, they insist, a Chinese Marshall plan for the 21st century.

For the Chinese Communist party, the US-led effort to rebuild western Europe was as much a political project as an economic one, aimed at containing the Soviet Union and its eastern allies. Such associations with President Xi Jinping's signature foreign policy project are not welcome in Beijing. "[The BRI] is neither a Marshall plan nor a geostrategic concept," Wang Yi, China's foreign minister, said last month, adding it was better described as an attempt to "build a community with a shared future for mankind together with other countries around the globe".

Mr Xi also recently characterised it as "an economic co-operation initiative, not a geopolitical or military alliance".

One of the reasons Chinese officials struggle to explain the BRI in plain language is the catch-all nature of the concept first outlined by Mr Xi in September 2013. Suddenly projects that had been under way for years were transformed into BRI-related initiatives.

"We had been working on projects across Asia and Africa for years before Xi's announcement," says one senior Chinese state bank executive. "Then they became BRI-related investments. It was great for us."

Many thus-labelled projects have clear strategic advantages for China, making it difficult for foreign countries to take at face value assertions that geopolitical considerations do not play an important role in the initiative.

For example, both the $62bn China-Pakistan Economic Corridor and a natural gas pipeline from the Burmese coast to Yunnan province bypass the Singapore Strait, which could be blockaded by the US navy in the event of a conflict with China. Despite Beijing's protestations that BRI has no geopolitical motives, the project has been at the centre of an increasing number of political controversies, foreign and domestic.

In January 2015, Chinese officials and state-owned enterprises were caught off-guard by a change of government in Sri Lanka, where large Chinese state-owned enterprises had signed agreements to build a controversial port and airport with President Mahinda Rajapaksa. After Mr Rajapaksa's unexpected election defeat, Beijing found itself confronted by a new government unhappy about the Chinese financing underpinning the projects. "These types of incidents are not very pleasant," a senior Chinese Communist party official told the FT shortly after Sri Lanka's political upheaval. "We do have room for self-improvement."

On the fifth anniversary of the BRI, however, as Mr Xi embarks on his second term as president with a firmer grip on power than any of his reform-era predecessors, such introspection is no longer heard from Chinese officials. Speaking just a week after Malaysian Prime Minister Mahathir Mohamad embarrassed his hosts by accusing them of "new colonialism" while on a state visit to Beijing, Chinese vice-ministers were lined up to assure the international community that the BRI was proceeding without a hitch. Malaysia later cancelled three China-backed pipeline projects that were among $23bn in schemes linked to Beijing that it had previously suspended.

As in Sri Lanka, where China secured a 99-year lease on Hambantota port after Colombo struggled to meet loan repayments on its construction, Mr Mahathir's concerns focused on Chinese debt financing tied to more than $20bn of BRI projects. "We do not want a situation where there is a new version of colonialism because poor countries are unable to compete with rich countries," the prime minister said at the press conference held during his visit to Beijing.

"People's livelihoods and economic development [in host countries] have been boosted [by BRI]," Ning Jizhe, vice-minister of the National Development and Reform Commission, said at a press conference to mark the BRI's fifth anniversary. "No so-called 'debt traps' have been created." More recently, the BRI has become a target of domestic criticism. This month, Chinese internet users denounced a $60bn African aid package unveiled by Mr Xi.

In a long critique of Mr Xi's rule posted online in July, Tsinghua University professor Xu Zhangrun called for an end to "empty grand gestures and wasteful international largesse". Censors acted quickly to remove Prof Xu's wide-ranging essay from social media platforms and websites. His implicit criticism of the BRI had appeared only towards the end of the essay and it was not until early August that it became clear that criticism of the BRI was enough to warrant official reprisals. On August 4, Sun Wenguang, a retired professor in eastern Shandong province, was detained by police, who barged into his flat in the middle of a live interview with the Voice of America about China's overseas investment policies.

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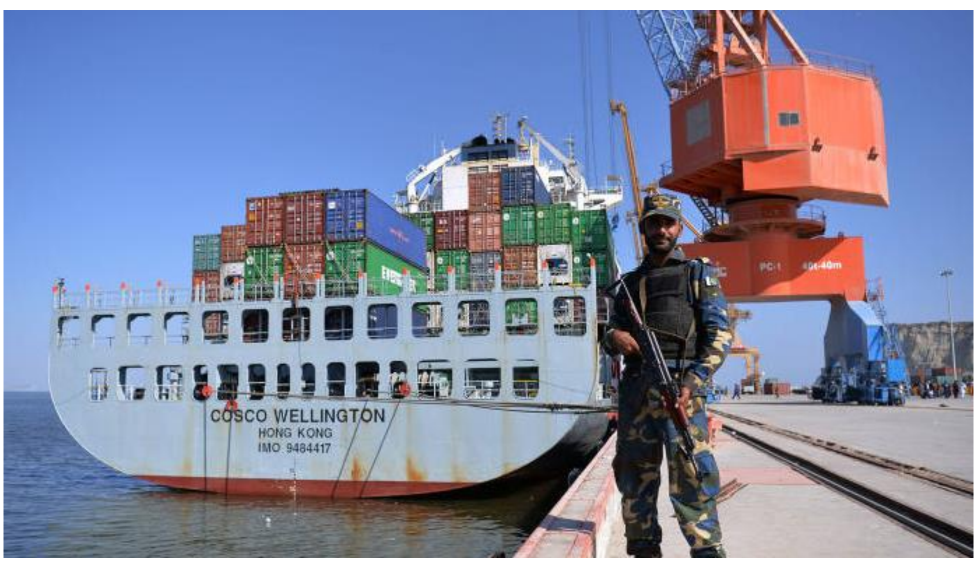
India on edge over influx of Chinese cash to neighbours

Bangladesh, Sri Lanka and Pakistan give conflicting signals on China's motives



Gwadar port: unlikely to be cheaper © AFP

Kiran Stacey
September 25, 2018

Of all the Chinese investments under the Belt and Road Initiative, those in south Asia threaten to cause the most geopolitical tension, as India becomes encircled by countries receiving billions of dollars from its richest regional rival.

Beijing is spending more than $100bn in south Asia. The two biggest recipients are Pakistan and Bangladesh, but regional analysts say China is aiming to achieve different things in these countries, and these differences illustrate a broader dichotomy in the BRI project.

In Pakistan, China has pledged to spend $62bn upgrading its southern neighbour's infrastructure, ostensibly to secure a trading route to the Gwadar port on Pakistan's south coast. But some believe that with its infrastructure schemes unlikely to provide a return, and Gwadar port unlikely to be cheaper than other routes to sea, China is really using the money to help a useful ally that has fallen on difficult times.

In Bangladesh, however, analysts say China is making strategic investments in a thriving economy — ones that will further China's domestic policy goals, and are also likely to provide steady returns. "There is a very clear financial interest for China to invest in Bangladesh," says Amit Bhandari, a fellow at the Mumbai-based think-tank Gateway House. "Their economy is growing at 6 per cent and has been doing so for several years, and foreign direct investment is flowing in from a variety of sources." In contrast, he "can't see China making money back from the billions it is spending in Pakistan — that looks more like it is propping up a failing ally".

The China-Pakistan Economic Corridor is one of the biggest and most important schemes under the BRI umbrella. Chinese money is being used to build 21 power plants, a port and international airport at Gwadar, motorways and railway lines.

But there are concerns about the terms on which much of the money is being lent. Pakistan is fast running out of foreign reserves, in part because of CPEC repayments, and it has already reportedly fallen behind on some payments for the power plants.

Now the new government of Imran Khan is looking again at the terms of the CPEC projects. Abdul Razak Dawood, his commerce minister, told the FT this month he would conduct a review of all the projects under the scheme. Even if Islamabad decides it is happy with the deal it has, it may be forced to reshape the project if the International Monetary Fund demands it does so as part of a potential bailout worth up to $12bn.

Bangladesh, meanwhile, is not so reliant on its Chinese funding. While Beijing has promised to spend $31bn on infrastructure projects there — such as the $3.7bn bridge across the Padma River — it accounted for 10 per cent of Bangladesh's foreign investment last year, as opposed to 60 per cent in Pakistan. China is also making more strategic investments in Bangladesh's economy. The Shanghai and Shenzhen stock exchanges have jointly bought a 25 per cent stake in the Dhaka Stock Exchange for $119m — in the process outbidding India's National Stock Exchange.

In New Delhi, which considers Bangladesh part of its sphere of influence, the government is watching the Chinese investments pile up with some concern. Indian ministers are particularly worried by what they have seen in Sri Lanka, where China has now taken control of the Hambantota Port after Colombo was unable to repay the money it borrowed from Chinese state-backed lenders to build it.

But in Bangladesh at least, experts are convinced that China is more interested in the returns it can make than any wider geopolitical goals. “China has huge financial reserves with which they can play,” says Mirza Azizul Islam, an economics professor at Brac University in Dhaka. “Yes, they want to use that to secure political influence abroad, but they also want to make a return. In any case, there is no way Bangladesh could ever decouple itself from India.”