

## THOUGHT PROVOKING IDEAS OF THE GLOBAL ESSAY COMPETITION 2021

### The Pursuit of a more Equitable, Multilateral & Collaborative Belt and Road Initiative

**Joan Nyangena is one of the top three contributors to this year's Global Essay Competition Award. She studied at York University and attended the 50th St. Gallen Symposium as a Leader of Tomorrow.**

#### Introduction

During my trip to Kenya last year, I rode on the Standard Gauge Railway (SGR) which connects Nairobi, the capital city of Kenya, to Mombasa, a coastal city with the largest port in East Africa. Having spent some years living in Mombasa, I had made this type of trip countless times except that back then, it was by road. Depending on traffic at the entry and exit points of both cities, it took an average of eight to ten hours. However, with the completion of the fairly new 472 km SGR line, the travel time has been slashed by half compressing the journey to a little more than four hours (Railway Technology, 2020).

Undoubtedly, this was a long overdue infrastructure upgrade. It was constructed by China Road and Bridge Corporation (CRBC), a Chinese firm, through a partnership with the Kenyan government under China's ambitious Belt and Road Initiative (BRI). Also known as the New Silk Road, this initiative is one of the most ambitious mega infrastructure projects that is shaping the 21st century. Having been launched in 2013, the BRI offers to bridge the global infrastructure gap, promote greater connectivity and revitalize trade. The projects under BRI

are mainly infrastructure developments in the transport, energy, mining, IT and communications sectors across Asia, Europe, Africa and Oceania regions. Reportedly, "as of October 2019, the plan touches 138 countries with a combined Gross Domestic Product of \$29 trillion and some 4.6 billion people" (Schrag, 2020).

While this grand project touts its economic development and diplomatic advantages, it has also received a lot of pushback. China's financing approach, construction delivery, implementation strategy and governance dynamic pose imbalanced risks to vulnerable emerging economies. This has left many critiques of the BRI wondering whether the BRI is truly the 'win-win' golden opportunity it was heralded to be or "yet another neo-colonial power exploiting partners through unequal exchange" (Blanchard, 2018). I will highlight these risks in further detail, exemplifying how they are tearing away at the fabric of trust that has been weaving together China and its BRI member countries.

### ***Financing Risk***

Critiques of the BRI which include both beneficiary and non-member countries have raised the flag on China's approach in extending unsustainable loans to developing countries to pursue infrastructure projects that are beyond their capacity to afford. One school of thought posits that China is pursuing a 'debt-trap diplomacy' policy to lure poor, emerging economies with the aim of seizing their assets for its own strategic and military advantage. Sri Lanka has been the poster child of this debt-trap diplomacy theory. Having been unable to service its debts to China, Sri Lanka was forced to hand over its newly constructed strategic Hambantota port back to China on a 99-year lease with an inclusive 15,000 acres of land around the port region (Wharton Business Daily, 2019).

### ***Construction Risk***

There have also been rising concerns over the affordability and quality of BRI infrastructure investments across many vulnerable countries. At a whopping cost of \$5.6m per kilometre, the SGR line's cost is close to three times the international standard and four times what its original estimate was (BBC Africa, 2017). Kenyans have thus been wondering why they had to pay so much, and the questions linger on whether the country got its value for money. This is not a surprising concern considering the close comparisons that can be made between Kenya's \$3.2bn diesel-powered railway SGR line and Ethiopia's \$3.4bn fully electrified cross border railway line that is more than 250km longer but costs about the same. Expectedly, these very apprehensions spill over the borders of Kenya to many other countries including Malaysia, Myanmar, Zambia and Pakistan (Wharton, 2019).

### ***Implementation Risk***

Beyond BRI's direct impact in member countries, its organizational structure and implementation approach on a larger scale remains suboptimal. On paper, BRI touts its

"spirit of inclusiveness, fairness and sharing" with the hope of attaining a greater sense of "participation, economic success and happiness" (Yafei, 2018). In reality however, this is far from the truth as Chinese projects have been purported to be less open to local and international participation. New York Times accounts that Sri Lanka was forced to accept China Harbour as Beijing's preferred company to build the port instead of allowing for an open bidding process (2018). This lack of transparency in the bidding and procurement processes has created a hinderance in the full participation of both local and international companies.

### ***Governance Risk***

Additionally, the lack of transparency in its loan terms and contracts alike also make it hard for organizations such as the International Monetary Fund (IMF) to assist in protecting sovereignty and promoting higher lending standards especially for vulnerable countries like Laos, whose high-speed rail line will cost equivalent to half of the country's GDP (Gerstel, 2020).

### ***A case for equitable multilateral collaboration***

The highlighted issues have exemplified the fundamental flaw of the BRI – Sino centric benefits. What was meant as an initiative for cooperation, inclusion and mutual benefit is threatening to become just a tool for facilitating China's burgeoning power across the globe or what others might call "colonialism with Chinese characteristics" (Kleven, 2019). As such, I have proposed three ideas below for rebuilding trust in the BRI founded on a spirit of partnership and collaboration. The focus of these propositions is to ensure that BRI's proclaimed "win-win" opportunity is not just China in essence winning 'twice' but an opportunity for joint benefits, mutual learning and shared economic growth.

### ***A hybridization approach to financing through syndicated loans***

The good news is that China is now recognizing its need to reform BRI's lending terms in order to address both international and domestic concerns over its purported 'debt-trap diplomacy' approach. Despite BRI's financing risk, I would argue that China has managed to put many emerging economies on the map showing the great potential they offer when strategic efforts are made to close in on the infrastructure gap. With the BRI as part of China's constitution now, what the world can count on is China's commitment to realize this colossal initiative. Such a commitment comes with great opportunity as it offers developing countries the much-needed negotiating power that can be leveraged for more favourable and equitable loan terms.

Pursuing a more hybridized approach to financing would aid in reducing the dependency on China's high interest loans. Through the utilization of syndicated loans, China would be forced to cooperate with other lending institutions. How this will work is that China will be required to collaborate with a group of other international lenders to provide credit to BRI countries. This will be a viable solution in establishing debt sustainability as not only would it aid in regulating the debt-to-GDP ratios emerging economies take on through more thorough due diligence procedures, but also in providing more competitive interest rates. Additionally, such cooperation would counteract any supposed predatory lending practices allowing for more regulation and conformity to already established international lending best practices.

Countries such as Malaysia and Pakistan are leading the way in negotiating for more hybridization in financing the China Pakistan Economic Corridor series of Projects. The centre for Strategic & International Studies reports that "Beijing has agreed to open

investments in BRI projects in Pakistan to foreign companies (Gerstel, 2020)." While the details of who, when and how this will be implemented remain undisclosed, it can be anticipated that this will be the beginning of many such reforms across BRI's member countries. This approach will indeed be a much-needed financing reform practice that will help to counteract the predicted increased debt vulnerability in, according to World Bank's report, at least 28% of BRI's investment recipients in the medium term (2019).

### ***Innovative infrastructure delivery models***

In light of the continuously evolving infrastructure delivery models, BRI could benefit from a more innovative approach in its infrastructure delivery. Public Private Partnership (P3) is an alternative model that has proven to be more cost effective and proficient in providing better value for money compared to more conventional delivery models (Perera, 2018). This partnership model fosters trust through its risk sharing approach and focus on interest alignment, fundamental elements that seem to be lacking in the inscrutable BRI models.

As was the case in the SGR project, Kenya obtained the financing for the SGR construction solely from the Exim Bank of China. The proceeds were paid to CRBC who was awarded the contract exclusively as part of the loan condition (Business Daily, 2016). With the lender country also being directly involved in the project delivery, without competition, this presents a conflict of interest that disincentivizes optimal performance and allocates risks disproportionately to the public sector of the host country.

In contrast, the P3 model will help to provide a more innovative solution that will allow for (1) a competitive bidding process, (2) fair and balanced risk allocation approach and (3) interest alignment that incentivizes performance. The P3 model will use a competitive bidding process in selecting the

best Special Purpose Vehicle (SPV) that will design, build, finance, operate and/or maintain the public infrastructure (PPP Council, 2016). The use of SPVs will allow for the collaboration of a team of private sector companies to form consortiums that will bid for the contract to deliver the infrastructure project. This will open the door for China to partner with private firms across multiple nationalities including European companies that have been looking to get involved in the Belt and Road projects (Forbes, 2020). Additionally, fair and effective risk allocation in P3s would be achieved through a Risk Allocation Matrix that assigns risks to parties that are best suited to bear them. For example, land expropriation risk would best be borne by the public sector as the host country would be best suited to facilitate negotiation and compensation with the local property owners. On the other hand, construction risk would best be managed by the private sector through fixed price contracts. In that case, when the private sector consortium is required to bear the construction risk, they can build the assumption of this risk into the cost charged for undertaking the project. Therefore, any cost overruns beyond the fixed price amount would be exclusively borne by the private sector. The payment mechanism would be based on a performance-based model with progress completion payments made when construction milestones and project output specifications are achieved. This balanced and optimal risk allocation process will help to align interests and provide the right incentives for the private sector to ensure projects are delivered on time, on budget and in alignment with the project output specifications as agreed upon in the contracts.

#### ***Multiple stakeholders buy-in***

President Xi deemed BRI as an attempt to “reform global governance by closing loopholes and exchanging Western dominance for a collaboration between the eastern and western world” (Yafei, 2018).

Instead, it seems to have become the rise of ‘Sinocentrism’. Therefore, in order to promote a more integrated model of economic governance, there is a need for joint participation with multilateral institutions such as International Monetary Fund and World Bank, alongside other regional multilateral institutions including the European Bank for Reconstruction and Development, Asian Development Bank and the Asian Infrastructure Investment Bank. Such an integration would help to promote transparency while providing an accountability framework that addresses the rising concerns of unsustainable debts, predatory lending as well as unfair, and in some countries illegal, procurement processes.

#### **The future of BRI**

As the ripple effects of COVID-19 are being felt across the globe, China will have to rise to the challenge of an increasingly hostile anti-china international environment in order to drive the BRI forward in a sustainable manner. Hong, a senior research fellow at East Asia Institute rightly suggests that “the key to solving its (China) woes is in building trust” (2020). It is thus likely that BRI member countries will demand to have a more collaborative model for BRI and China will be more inclined to concur. Adopting a syndicated approach to financing will offer a more viable solution to the growing challenge of capital constraint. Coupled with more innovative P3 models, there will be better prospects for member countries to achieve greater value for money. Therefore, it can be expected that the by-products of the proposed multilateral collaborative approaches will be increased transparency and accountability. Against this backdrop, we can only hope for a more trustworthy, equitable and climate conscious Belt and Road Initiative not just on paper, but more crucially, in reality.

## References

- BBC Africa. (2017). *Will Kenya get value for money from its new railway?*. Retrieved from: <https://www.bbc.com/news/world-africa-40171095>
- Blanchard, J. (2018). *Revisiting the Resurrected Debate About Chinese Neocolonialism*. Retrieved from: <https://thediplomat.com/2018/02/revisiting-the-resurrected-debate-about-chinese-neocolonialism/>
- Bloomberg. (2019). *China, Malaysia to Resume East Coast Rail for \$11 Billion*. Retrieved from: <https://www.bloomberg.com/news/articles/2019-04-12/china-agrees-to-resume-malaysian-east-coast-rail-for-11-billion>
- Business Daily. (2016). *Why Chinese Bank Imposed SGR line operator on Kenya*. Retrieved from: <https://www.businessdailyafrica.com/news/Why-Chinese-bank-imposed-SGR-line-operator-on-Kenya/539546-3207622-e5etwbz/index.html>
- Forbes. (2020). *How China is Losing Support For Its Belt and Road Initiative*. Retrieved from: <https://www.forbes.com/sites/wadeshepard/2020/02/28/how-beijing-is-losing-support-for-its-belt-and-road-initiative/?sh=6fd3b4312199>
- Gerstel, D. 2020. *It's a (Debt) Trap! Managing China-IMF Cooperation Across the Belt and Road*. Retrieved from: <https://www.csis.org/nfp/its-debt-trap-managing-china-imf-cooperation-across-belt-and-road>
- Hong, Y. (2020). *Even as the US obstructs its way, how can China build trust for the BRI?*  
<https://www.thinkchina.sg/even-us-obstructs-its-way-how-can-china-build-trust-bri>
- Kleven, A. (2019). *Belt and Road: Colonialism with Chinese Characteristics*. Retrieved from: <https://www.lowyinstitute.org/the-interpreter/belt-and-road-colonialism-chinese-characteristics>
- New York Times. (2018). *How China got Sri Lanka to Cough Up a Port*. Retrieved from: <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>
- Perera, O. (2018). *Public Private Partnerships – Can They Deliver Better Value for Money?*. Retrieved from: <https://infrastructure.iisd.org/insights/public-private-partnerships-can-they-deliver-better-value-money>
- PPP Council. (2016). *What are Public-Private Partnerships (P3s)?*. Retrieved from: [https://www.pppcouncil.ca/web/Knowledge\\_Centre/What\\_are\\_P3s\\_/web/P3\\_Knowledge\\_Centre/What\\_are\\_P3s.aspx](https://www.pppcouncil.ca/web/Knowledge_Centre/What_are_P3s_/web/P3_Knowledge_Centre/What_are_P3s.aspx)
- Railway Technology. (2020). *Mombasa-Nairobi Standard Gauge Railway Project*. Retrieved from: <https://www.railway-technology.com/projects/mombasa-nairobi-standard-gauge-railway-project/>
- Schrag, J. (2020). *How will the Belt and Road Initiative Advance China's Interests?*. Retrieved from: <https://chinapower.csis.org/china-belt-and-road-initiative/>
- Wharton Business Daily. (2019). *China's Belt and Road Initiative: Why the Price Is Too High*. Retrieved from: <https://knowledge.wharton.upenn.edu/article/chinas-belt-and-road-initiative-why-the-price-is-too-high/>

World Bank. (2019). *A Framework to Assess Debt Sustainability and Fiscal Risks under the Belt and Road Initiative*. Retrieved from: <http://documents1.worldbank.org/curated/en/723671560782662349/pdf/A-Framework-to-Assess-Debt-Sustainability-and-Fiscal-Risks-under-the-Belt-and-Road-Initiative.pdf> World Bank 2019

Yafei, H. (2018). *The BRI - A new model of international co-operation*. Retrieved from: <https://www.centralbanking.com/central-banks/economics/3458316/the-bri-a-new-model-of-international-co-operation>