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Why Democracies Are Turning Against Belt and Road

Corruption, Debt, and Backlash

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China's Belt and Road Initiative (BRI), an enormous international investment project touted by Chinese President Xi Jinping [1], was supposed to establish Chinese soft power. Since late 2013, Beijing has poured nearly $700 billion worth of Chinese money into more than sixty countries (according to research by RWR Advisory), much of it in the form of large-scale infrastructure projects and loans to governments that would otherwise struggle to pay for them. The idea was to draw these countries closer to Beijing while boosting Chinese soft power abroad.

Today, however, China faces a backlash to BRI [2] at home and abroad. Many Chinese complain of the initiative's wasteful spending. Internationally, some of the backlash is geopolitical, as countries grow wary of Beijing's growing influence. But much of it is simply political. Unlike Western lenders, China does not require its partners to meet stringent conditions related to corruption, human rights, or financial sustainability. This no-strings approach to investment has fueled corruption while allowing governments to burden their countries with unpayable debts. And citizens of many BRI countries have reacted with anger toward China—an anger that is now making itself felt in elections. Far from expanding Chinese soft power, the BRI appears to be achieving the opposite.

THE BACKLASH TO BRI

Malaysia's election in May 2018 crystallized the sorts of concerns about Chinese power that have been building within BRI client countries. Mahathir Mohamad defeated the incumbent Prime Minister,Najib Razak by openly campaigning [3] against Chinese influence. He criticized Razak for approving expensive BRI infrastructure projects that required considerable borrowing from China, which Razak used to create an illusion of development while he and his associates plundered state coffers. Since taking office in May, Mohamad has cancelled two of the largest Chinese projects in Malaysia—a $20 billion railroad and a $2.3 billion natural gas pipeline—citing his country's inability to pay.

The backlash has not been limited to Malaysia. Pakistan has received an estimated $62 billion in Chinese lending order to finance projects, including highway and rail infrastructure and a port in Gwadar [4], and has been bailed out by Chinese banks on multiple occasions. Pakistan's growing inability to service its international debt, which has ballooned thanks to Chinese lending, has prompted some anti-BRI sentiment in the country—although this avoided becoming a major campaign issue during Pakistani elections in July. The new government of the populist Prime Minister Imran Khan has not followed Malaysia in breaking economic ties with China, but it is evaluating all options for repaying its debt, including potentially suspending or delaying repayment. Thanks to its BRI debt, Pakistan is now planning to enter negotiations with the International Monetary Fund (IMF) for a bailout, despite Khan's initial opposition to doing so.

The Maldives, too, has recently brought heavier scrutiny to BRI projects. In September, voters ousted the country's strongman president, Abdulla Yameen, in favor of the democratic reformer Ibrahim Solih. Solih's election has brought a reevaluation of Yameen's heavy borrowing from China [5], which many worried had abetted official corruption and would leave the country effectively under the control of Beijing. Solih has vowed to revisit some of the Maldives' BRI projects, and although he is unlikely to back out of major Chinese deals totaling $1.3 billion—including a mile-long bridge to the airport in the capital, Male—he is clearly reassessing his country's ties with Beijing.

Even where governments are not being thrown out of office, they have become warier of BRI lending. In August, Kenya began cracking down [6]on corruption related to the Chinese-built railroad connecting Nairobi and Mombasa, arresting local officials who had used the project to line their pockets. Other countries, such as Uganda and Zambia [7], are starting to worry as well. In June, the Zambian think tank scholar Trevor Simumba warned [8] that Zambia's borrowing from China was rapidly becoming unsustainable and expressed concern about the "severe lack of transparency over many key terms" in the loans. These countries are beginning to worry not just about the costs of BRI projects, such as Uganda's recent highway expansion [9]—in which governments borrow Chinese money to pay Chinese companies to build infrastructure at above-market prices—but about the sustainability of their country's debt loads and the supposed beneficence of Chinese investment.

WHAT WENT WRONG?

How did China's big soft power investment end up alienating the very countries it was supposed to help?

One reason is that countries have become wiser to the financial terms associated with BRI. In the early stages of the initiative, many countries perceived Chinese capital as free—or least low-cost—money. In reality, China often lent above market rates from concessional lenders, such as the World Bank, that had slowed lending because of their concerns about rising debt levels. In Pakistan, official interest rates (as set by the central bank) are upward of five percent on debt while some BRI projects are guaranteed returns [10] of at least 30 percent.

BRI countries have also become concerned about how China behaves as an investment partner. In 2017, Sri Lanka turned granted the Chinese a 99-year lease on one of its ports in order to avoid defaulting on its BRI loans. Since then, countries have worried about the possible ramifications of failing to repay Beijing. They have also become frustrated with the lack of due diligence on the part of local governments and with China's heavy-handed insistence on single-bid contracts, which force countries to partner with Chinese firms, and sovereign guarantees, which shift risk onto partner countries rather than Chinese firms.

One of BRI's primary weaknesses was its early selling point: China's famed no-strings approach to partner governments. Developing countries had long griped about the difficulty of getting projects approved and funded by major Western lenders—including the IMF, the

World Bank, and bilateral development agencies like USAID—due to safeguards such as financial sustainability requirements, environmental assessment reports, and anticorruption controls. BRI offered a way around these requirements. But the requirements existed for a reason: Western donor agencies had attached them over time, based on experience, in order to lower the risk of failure.

By contrast, China's refusal to require reasonable safeguards for its BRI projects has nourished authoritarianism, corruption, debt, and the pursuit of economically unsustainable or nonviable projects. As strong evidence has emerged of corruption in major investment projects, citizens in BRI countries have come to see China as both benefitting from and facilitating this corruption. In countries where there is at least some democratic oversight of government, such as Kenya, Malaysia, Pakistan, and Zambia, voters are holding leaders responsible. Governments that remain in power are more carefully scrutinizing projects, fees, and total debt levels. In other words, with Chinese lenders unwilling to demand accountability, voters are doing it for them.

LEARNING TO LOVE DEMOCRACY

International backlash is not the only problem for BRI. Within China itself, there has been increased grumbling about the largesse lavished upon BRI countries. With Beijing touting the billions of dollars it is spending abroad, many Chinese are asking why that money is not being used to address domestic issues, such health care, housing, and education. Data indicate that Chinese banks investing abroad are generally borrowing U.S. dollars internationally rather than drawing from official foreign exchange reserves, but Chinese critics can be forgiven for not understanding the finer points of global capital markets when their government publicizes China's large overseas spending and investment.

Intellectuals, such as the Tsinghua University law professor Xu Xangrun, have also raised concerns [11] about the perception that Beijing is promoting foreign aid ambition at the expense of domestic spending. Others, such as the political scientist Zheng Yongnian, have warned [12] that the rhetoric around BRI is likely to make other countries fear that China is seeking hegemony. Still other Chinese analysts have criticized the lack of local standards covering everything from financial sustainability to environmental impact. Given the controlled media, it is possible that some of this public criticism of Xi's signature foreign policy initiative may be a shadow critique of Xi himself. Ironically, the program intended to promote Chinese soft power is prompting an unprecedented level of domestic and international concern.

Although Chinese leaders have given some thought to how they might improve the perceptions of BRI in partner countries, there is little evidence that they grasp the financial and political realities driving the backlash. Lending in U.S. dollars forces the recipient countries to run dollar surpluses in order to repay Chinese loans, but many countries lack the capacity to run such surpluses. Many of the investments are long-term infrastructure projects, which can take years to complete and require Chinese banks to roll over debt, but Beijing has demonstrated that it expects to be repaid on time or will take punitive measures, as it did in Sri Lanka. Finally, many BRI countries operate under government systems that allow citizens to voice their displeasure, whether through the press or the ballot box. Unused to democratic oversight and criticism, China is struggling to sell its soft power initiative in places where it cannot simply hide embarrassing or inconvenient details.

Since the beginning of BRI, Beijing has preferred to view criticism as nothing more than Western refusal to accept China's rise. Today, however, the concerns are coming not from the West but from Africa and Asia, where governments are desperate to head off soaring debt problems and the wrath of their people. If Beijing seeks to export the Chinese model or burnish its reputation in the world, it will have to learn to work with democracies, whether it likes them or not.

Links

[1] https://www.foreignaffairs.com/articles/china/2018-04-17/chinas-new-revolution
[2] https://www.foreignaffairs.com/articles/china/2018-02-16/backlash-belt-and-road
[3] https://www.bloomberg.com/view/articles/2018-05-07/malaysia-is-fed-up-with-chinese-cash
[4] https://www.foreignaffairs.com/articles/china/2017-10-24/chinas-62-billion-bet-pakistan
[5] https://edition.cnn.com/2018/09/24/asia/maldives-election-solih-india-china-intl/index.html
[6] https://www.reuters.com/article/us-kenya-corruption-railway/kenya-arrests-two-top-officials-for-suspected-corruption-over-new-3-billion-railway-idUSKBN1KW07L
[7] https://www.lusakatimes.com/2018/09/04/zambia-should-avoid-contracting-new-loans-at-china-africa-summit-ctpd/
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[12] https://thediplomat.com/2018/09/china-debates-the-belt-and-road/