THE BELT AND ROAD INITIATIVE:
EIGHT YEARS ON

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Executive Summary

1. The Belt and Road Initiative (BRI) is at the heart of the paradigm shift of China's foreign policy. To China, the BRI is an economic cooperation initiative that will foster economic growth and industrial development for recipient countries, create trade and investment opportunities and promote stability and peace for the world.

2. The BRI is important for the Chinese economy and for gaining global market access for Chinese firms and Chinese-made goods. It is even more significant for China's pursuit of its political and geo-strategic ambitions.

3. The BRI could transform China's economic and financial power into geo-strategic leverage and influence. It is hence an economic initiative that is clearly driven by strategic motivations. The BRI is a grand vision, with a clear roadmap, and backed by abundant financial firepower.

4. The 139 BRI countries, including China, accounted for 63% of the population in the world and 40% of the global GDP in 2020. Nevertheless, some regionally or globally influential countries have yet to endorse the BRI to date, including the United States, the United Kingdom, Canada, Mexico, Australia, India and Japan.

5. Connectivity based on infrastructure development is the key to China's BRI and to the participation of regional countries. Many low-income and developing recipient countries have urgent need of infrastructure development.

6. The BRI is still a China-centric solo or bilateral initiative. China has yet to project the BRI as a credible multilateral endeavour. In many participating countries the BRI has failed to attract the support of private and local capital.

7. To ensure the long-term financial sustainability of the BRI, China has been making readjustments to the BRI and its project implementation since the second BRI summit in 2019. The implementation of the BRI depends on the acceptance and participation of the countries involved, not simply rhetoric.

8. To some recipient countries, the terms of their infrastructure deals with China have benefitted China more, whilst they were left with the financial burdens and risks.

9. Kiel Institute for the World Economy's analysis of China's foreign lending reveals that most post-2014 Chinese contracts contain unusual confidentiality clauses that prohibit borrowers from revealing the terms or even the existence of the debt, giving Chinese lenders potential power to influence debtors' domestic and foreign policies through the cancellation, acceleration and stabilisation clauses.

10. To boost its transparency and credentials, China has signed third-party market agreements with many countries to advance third-party market cooperation on infrastructure financing and construction in Asia, Africa and Europe.

11. However, no vigorous internal review or public debate on BRI implementation within China has been conducted. It remains to be seen how far China is willing to go in readjusting its push for BRI implementation.

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Evolution of The Belt and Road

1.1 The Chinese government under President Xi Jinping has been promoting pro-active foreign policy, a clear departure from the low-profile foreign policy advocated by Deng Xiaoping, the then paramount Chinese leader. The Belt and Road Initiative (BRI) is at the heart of the paradigm shift of China's foreign policy.[1] Since its announcement by Xi in 2013, the BRI has been gradually taking shape and has become the centrepiece of China's drive to become a global power.

1.2 Compared to his predecessors, Xi has clear global ambitions and China now has the resources, tools and financial firepower to pursue them. In October 2017, the BRI was incorporated into the Chinese Communist Party's Constitution, demonstrating the Party-state's determination to push through long-term implementation of this grand initiative.

1.3 The success of the BRI will testify to China's rise as a full-fledged global power and boost the legitimacy of the Chinese Communist Party and the Chinese leader's rule at home.

1.4 China views the BRI as a globally oriented strategy that has no clear physical boundaries. Essentially, the BRI is all about outreach, connecting the world with China as the core hub.[2]

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[1] Yu Hong, (2017) "Motivation behind China's 'One Belt, One Road' Initiative and Establishment of the Asian Infrastructure Investment Bank", *Journal of Contemporary China*, 26:105, pp. 353-368.

[2] Yu Hong, (2019) "Reflections on the Belt and Road Initiative", *China: An International Journal*, 17:4, pp. 8-23.

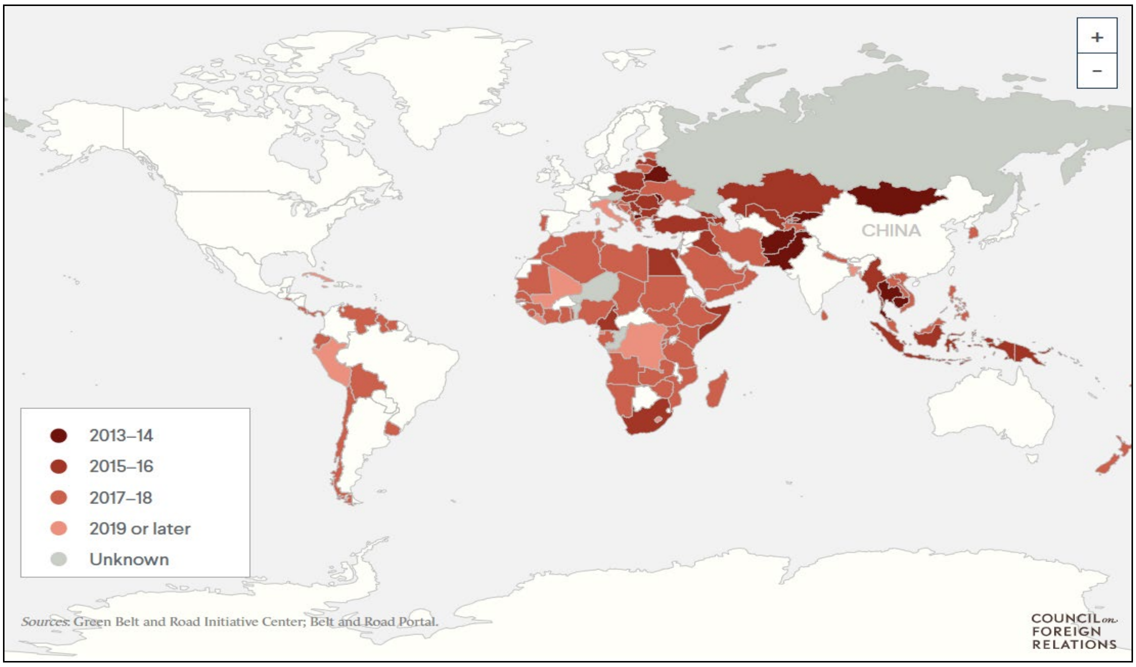
1.5 The BRI is open to all interested countries and constantly evolving to adjust to conditions of recipient countries. There has been a gradual shift away from the ancient Chinese Silk Road narrative based on historical and cultural significance. The BRI initiative is intended to connect China with Asia, Pacific Oceania, Africa, Europe and even Latin America. Given their comparative geographical proximity to China and their positions as important nodes along the historical Silk Road, Asia and Europe remain the two priorities in China's push for the BRI.

1.6 The BRI is perhaps the most ambitious infrastructure development initiative in the history of the world. No other initiatives could match the huge infrastructure promises of China's aspirational BRI or the relentless pursuit of its execution. For example, to compete with China's BRI, Japan once proposed a US$110 billion "high quality infrastructure" development initiative under then Prime Minister Shinzo Abe. However, Japan's initiative cannot match China's BRI in scale, influence and geographical coverage. According to a source at China's Ministry of Foreign Affairs, China had already signed more than 200 BRI cooperation agreements with a total of 138 foreign countries and 31 multilateral organisations by 2020.

1.7 The 139 BRI countries, including China (see Map 1), accounted for 63% of the population in the world and 40% of the global GDP in 2020. Nevertheless, numerous regionally or globally influential countries have yet to sign up for the BRI to date, including the United States, the United Kingdom, Canada, Mexico, Australia, India and Japan. Surprisingly, North Korea, China's neighbour and close ally, is not in the BRI mapping. Some countries that have signed up for the initiative have yet to host large-scale infrastructure projects under the BRI framework, for example, Vietnam.

1.8 The BRI has been evolving in the eight years of its existence. It has become the embodiment of China's globalisation aspirations, which are centred on infrastructure connectivity and expansion of regional trade and investment. The BRI was initially centred on infrastructure financing and construction, but its scope has expanded to include areas such as industrial cooperation and digitalisation, while more lately health has been identified as part of the BRI agenda. Since the global outbreak of the COVID-19 pandemic in 2020, China leveraged its Chinese-made vaccines to promote the "Health Silk Road" regionwide and worldwide.

MAP 1 THE BELT AND ROAD PARTICIPATING COUNTRIES



Source: David Sacks, "Countries in China's Belt and Road Initiative: Who's in and Who's Out", Council on Foreign Relations, 24 March 2021, available at https://www.cfr.org/blog/countries-chinas-belt-and-road-initiative-whos-and-whos-out (accessed 6 May 2021).

1.9 China has been rolling its vaccines out to BRI countries and granting preferential access to vaccines for employees working on Chinese-funded and built infrastructure projects since the start of its vaccine distribution initiative in late 2020. According to the China COVID-19 Vaccine Tracker, China has already delivered 214 million doses of its vaccines to a total of 91 countries around the world to date (primarily from the two major domestic vaccine manufacturers, Sinopharm and Sinovac).[3]

1.10 The Digital Silk Road (DSR), first announced by the Chinese authorities in March 2015,[4] has also become an important component of China's BRI over the past few

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3 Bridge Consulting, "China Covid-19 Vaccine Tracker", available at https://bridgebeijing.com/our-publications/our-publications-1/china-covid-19-vaccines-tracker/ (accessed 18 May 2021).

4 The National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of China, "Vision and Actions on Jointly Building Belt and Road", The White Paper, March

years. The DSR aims to help Chinese tech conglomerates accelerate global expansion by accessing new markets for their products and services,[5] as well as strengthen China's digital connectivity with BRI countries via the DSR platform.

1.11 In 2019, the scale of the digital economy in China reached RMB35.8 trillion, accounting for over 36% of the country's GDP.[6] China's technology giants, primarily Huawei and BYD, have emerged to become highly competitive players in the international digital communications market. China's leapfrog development in many tech sectors, ranging from big data, artificial intelligence, cloud computing to the industrial internet and 5G, has also enabled it to promote the DSR, regionally as well as globally.

1.12 Sixteen countries have reportedly signed DSR-specific MOUs with China.[7] Several BRI countries such as Malaysia, Cambodia, Zambia, Kenya, Thailand, Serbia, Laos and Pakistan have also hosted China-funded IT infrastructure projects under the DSR (e.g. the 5G Cellular Network, fiberoptic cables, data storage centre and the satellite navigation system of BeiDou). Nevertheless, comprehensive and reliable data on the specific digital projects and associated investment amounts is difficult to collect due to a lack of transparency and public disclosure of detailed information.

1.13 The United States' ban on the export of chips produced using American technology and software to China without government approval has been a blow to the global ambitions of Chinese tech giants such as Huawei. Although the United States' chip ban is unlikely to cause Huawei to collapse overnight, it would affect the company's production of smartphones and tablets, and slow down its global

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2015, available at http://2017.beltandroadforum.org/english/n100/2017/0410/c22-45.html#:~:text=The%20Belt%20and%20Road%20Initiative%20aims%20to%20promote%20the%20connectivity,connectivity%20networks%2C%20and%20realize%20diversified%2C (accessed 17 May 2021).

[5] Hong Shen, (2018) "Building A Digital Silk Road? Situating the Internet in China's Belt and Road Initiative", International Journal of Communication, 12, pp. 2683-2701.

[6] http://m.caict.ac.cn/yjcg/202007/P020200703318256637020.pdf (accessed 5 August 2021).

[7] These 16 countries consist of Egypt, Turkey, Bangladesh, Laos, South Korea, Kazakhstan, Czech Republic, Serbia, Poland, Hungary, Estonia, England, Cuba, Peru, Saudi Arabia and United Arab Emirates. For more information, please see Eurasia Asia, "The Digital Silk Road: Expanding China's Digital Footprint", 8 April 2020, available at https://www.eurasiagroup.net/files/upload/Digital-Silk-Road-Expanding-China-Digital-Footprint-1.pdf (accessed 17 May 2021).

expansion for several years at least. Chinese tech firms are reliant on the United States for the supply of chips and other key components for production. Huawei had reportedly built stockpiles of two years' worth of critical chips and other necessary components.[8]

1.14 The United States has leveraged its global dominance in cutting-edge semiconductor design and production to curb China's technological advancement since 2019. The US government claims that Huawei and several other Chinese tech firms are closely linked to China's military and security establishment, and are a threat to the national security of the United States.

1.15 China has been making efforts to develop a competitive semiconductor industry for a decade, with little progress so far. The Chinese government now prioritises domestic technological self-reliance, but acknowledges that the underdeveloped domestic semiconductor industry has become a "choke point" that is restricting China's high-tech industry development, holding it hostage amidst the China-US tensions and changing global geostrategic environment.

1.16 From the perspective of the changing global geo-strategic environment, the DSR is a reflection of the intensifying strategic and technological competition between the United States and China. The United States regards China's push for the DSR as posing a challenge to its national interests and global digital governance.[9]

1.17 As far as the BRI is concerned, the DSR forms an important part. No recent development initiative has stirred such intense debate among governments, academics, media and business communities around the world as this initiative. Eight years into the BRI's development, scepticism, criticism and distrust towards the BRI are gaining momentum worldwide. Global perceptions of the BRI are becoming increasingly negative. For instance, according to a survey report of Southeast Asian countries published by the ISEAS-Yusof Ishak Institute in

8 Lavender Au, "China is scrambling for semiconductor supremacy", Wired, 29 April 2021, available at https://www.wired.co.uk/article/china-microchip-autonomy-huawei (accessed 23 May 2021).

9 Clayton Cheney, "China's Digital Silk Road: Strategic technological competition and exporting political illiberalism", Working Paper 19:8, Pacific Forum, July 2019, pp. 1-23.

January 2020,[10] ASEAN members' attitudes towards China have become increasingly complex and cautious. Most Southeast Asian elites surveyed believe that "China is a revisionist power and intends to turn Southeast Asia into its sphere of influence", with 63.6% of the respondents having little or no confidence in China's BRI.

1.18 In another opinion survey conducted by Pew Research Centre in October 2020,[11] perceptions of China have become increasingly negative across the participating advanced countries, including the United States, Japan, Australia, South Korea, the United Kingdom, Germany, France, Italy, Sweden, the Netherlands, Spain and Canada.

1.19 Salient differences have emerged between foreign media coverage and Chinese official narrative on the BRI. In China's view, the BRI is an economic cooperation initiative that will foster economic growth and industrial development for recipient countries, create trade and investment opportunities and promote stability and peace in the world. China insists that the BRI has no geostrategic motivations or geopolitical ambitions and is eager to demonstrate the "win-win" philosophy as the upholding pillar for BRI implementation.

1.20 However, promoting the notion that China is a great growing power without geostrategic motivations is a hard sell for Beijing, and few outside China will believe it.

1.21 The BRI could transform China's economic and financial power into geo-strategic leverage and influence. It is hence not merely an economic initiative, but one that is clearly driven by strategic motivations. The BRI is a grand vision, with a clear roadmap, and backed by abundant financial firepower.

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[10] ISEAS-Yusof Ishak Institute, "The State of Southeast Asia: 2020", January 2020, available at https://www.iseas.edu.sg/images/pdf/TheStateofSEASurveyReport_2020.pdf (accessed 10 May 2021).

[11] Pew Research Centre, "Unfavouable Views of China Reaches Historical Highs in Many Countries", 6 October 2020, available at https://www.pewresearch.org/global/2020/10/06/unfavorable-views-of-china-reach-historic-highs-in-many-countries/ (accessed 22 May 2021).

1.22 Having risen to become the world's second largest economy and one of the largest trading nations, China naturally seeks to play a larger role in global governance and the setting of global rules and norms. The BRI serves as a powerful tool for China to advance its geostrategic interests abroad through opening up landlocked western China, exporting its excessive industrial capacity, securing supplies of energy and other mineral resources, gaining influence and exerting soft power.

1.23 The shifting global geo-strategic environment and COVID-19 pandemic have pushed China to rely more on the domestic market and resources for generating economic growth by leveraging the new development paradigm of "dual (domestic and international) circulation" strategy. While its emphasis is on the domestic market, the other side of this dual circulation strategy is to open up more to the outside world. As part of the global supply chain, the international market is crucial to many export-oriented manufacturing industries located in China's eastern coastal provinces where millions of Chinese workers working in these industries rely on foreign markets and imports of intermediate goods and materials from abroad.

1.24 The BRI will be located at the heart of international circulation under China's new development paradigm. With its push for BRI implementation, China will continue to expand its global trading and economic and investment ties to enhance its economic resilience and gain wider market access for the Chinese firms.

1.25 A task force report published by the Council on Foreign Relations[12] pointed out that the BRI poses a significant challenge to US interests in the economic, political, security, climate change and global health arenas. This report has acknowledged the long-term systematic and comprehensive challenges posed by the BRI to US economic, political and security interests at home or abroad.

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[12] Council on Foreign Relations, "China's Belt and Road: Implications for the United States", Independent Task Force Report No. 79, pp. 1-176.

China's Global Investment and Construction Activities under the BRI

2.1 Connectivity based on infrastructure development is key to China's BRI and the vital selling point in encouraging the participation of regional countries, many of which are developing countries that lack both technological know-how and capacity to raise significant amount of capital to fund the required infrastructure projects.

2.2 China is hence using the BRI for flexing its financial muscle to expand its influence overseas. State-owned enterprises (SOEs) have been involved in most of China's global investment abroad under the BRI framework over the years. Among China's centrally administrated SOEs, 81 had been involved in constructing 3,400 BRI-related projects worldwide by January 2020.[13]

2.3 With travel restrictions in place, travelling overseas to attend official meetings and work on projects under the BRI framework by Chinese officials, businesspersons, engineers and workers would be hindered. So will the long quarantine period. For example, the Chinese-built high-speed railway project in Indonesia has been affected as Chinese engineers and workers could not return to work after the Chinese New Year holidays,[14] disrupting the implementation of the BRI and halting some BRI infrastructure projects, at least temporarily.[15]

2.4 Many BRI infrastructure projects abroad depend to a large extent on Chinese firms for raw materials and construction equipment supply.[16] The impacts of the

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13 Source: The State-Owned Assets Supervision and Administration Commission of the State Council of China.

14 "Pneumonia epidemic: personnel and supplies blocked, 'Belt and Road' delays", BBC, 18 February 2020, available at https://www.bbc.com/zhongwen/simp/business-51548364 (accessed 20 February 2020).

15 Yu Hong, "COVID-19 in Southeast Asia: Impact on China's push for the Belt and Road Initiative", *EAI Background Brief*, No. 1514, 12 March 2020.

16 According to China's State-Owned Assets Supervision and Administration Commission, 81 centrally administrated state-owned enterprises were constructing 3,400 BRI-related projects worldwide (accurate as of January 2020). Please refer to "Zhongguo bashiyijia yangqi zai yidaiyilu yanxian chengdan chao 3,400 ge xiangmu" (China's 81 central state-owned enterprises are undertaking the construction of 3,400 projects in the BRI countries), 16 January 2020, available at http://t.m.china.com.cn/convert/c_m3JRzAyK.html (accessed 20 February 2020).

temporary disruption to the supply chain of infrastructure projects have begun to surface and may prove costly if there is a further delay in the supply chain.

2.5 The China-led Asian Infrastructure Investment Bank (AIIB) has been providing additional financing for the BRI infrastructure projects. Although the AIIB is the newest multilateral development bank, it has already become the largest multilateral institution in Asia by membership. The AIIB's membership greatly exceeds that of the much older Asian Development Bank (ADB) founded in 1966 which has traditionally been the dominant player in development financing in Asia since its inception.

2.6 As stated by Xi Jinping in 2014, the AIIB's primary task is to finance infrastructure development in Asia, which strongly echoes the stated mission of the BRI.[17] In reality, except for India, many projects currently financed by the AIIB are located in countries along the Silk Road routes, including Indonesia and Kazakhstan.

2.7 Although certain infrastructure projects in a few countries have been temporarily suspended or terminated, many more projects across different continents, funded and constructed by Chinese companies, have been completed, under construction or waiting for construction to begin.

2.8 China's global investment is largely in developed countries, whilst its infrastructure construction abroad is overwhelmingly in low-income and developing countries, except for a few European countries such as Greece, Hungary and Italy. The BRI is a platform for Chinese firms to expand foreign market access and boost Chinese exports.

2.9 China has invested heavily in the construction of transportation and other infrastructure projects within developing Asian countries over the last 10 years, ranging from roads, seaports, industrial parks, to railway construction in Indonesia, Thailand, Laos, Myanmar and Cambodia. Chinese firms have expanded their

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[17] Yu Hong, (2017) *Belt and Road Initiative, the Rise of China and International Cooperation* (in Chinese), Beijing: World Affairs Press.

footprint in international container ports in countries along the Belt and Road and gaining wider access to sea trade routes.

2.10 The Greek port of Piraeus is the biggest joint venture between China and Greece, as well as the most commercially successful of China's BRI projects in Europe. A Chinese company was given comprehensive rights to operate the port facility in 2016. Within just a few years, Piraeus saw its container throughput multiply several times to become one of the busiest Mediterranean ports. The Piraeus project has increased Greece's national tax revenue and created more jobs locally. In 2018, it handled 4.9 million containers, and more than seven times the volume since 2008.[18] In addition, according to a report published by the Institute of Development Studies, the United Kingdom, Chinese investment in the Port of Piraeus has contributed positively to the Greek economy by generating 3,000 direct local jobs and up to 10,000 indirect jobs in Greece.[19]

2.11 In the wake of such results come the favour and support of Greece's government, industrial and business community, workers and media. Within this country and, indeed, the international community at large, initial doubts about the Piraeus project have perpetually ceased. Thanks to Chinese enterprises winning Greek support for the BRI with their operational skills and performance in developing the port, Greece has become China's most trustworthy partner in Europe.

2.12 Another flagship project under the BRI is the China-Pakistan Economic Corridor (CPEC). The CPEC is based on transport and energy infrastructure projects involving highways, ports, pipelines, railroads and bridges, extending from the Gwadar port, through the hinterland of Pakistan and the Karakoram Highway to Kashgar, Xinjiang. The CPEC provides the shortest route from China's vast western region to global maritime trade and sea lanes via the Gwadar port. Through improving physical infrastructure connectivity, the CPEC aims to boost

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18 Coatas Paris, "China's Cosco pours more money into Greek port", *The Wall Street Journal*, 12 November 2019, available at https://www.wsj.com/articles/chinas-cosco-pours-more-money-into-greek-port-11573581625 (accessed 23 May 2021).

19 Institute of Development Studies, "The Belt and Road Initiative and the SDGs: Towards equitable, sustainable development", *IDS Bulletin*, 50:4, December 2019, pp. 109-124.

trade and stimulate economic growth in Pakistan, Xinjiang and across western China.

2.13 More than 70% of Chinese investment in the CPEC has been channelled to energy-related projects. According to the official source from the Pakistan government, nine energy projects with a total installed capacity of 5,320 MW have been operationalised so far, including the Port Qasim Coal Power Plant and Sahiwal Coal Power Plant. Eight energy projects with a total installed capacity of 4,470 MW are under construction, and another five projects with a capacity of 3,244 MW are in the pipeline. The completed energy and infrastructure projects combined under the CPEC have created up to 76,000 local jobs in Pakistan over the past seven years.[20] The Chinese-constructed energy projects will also allow Pakistan to diversify its energy mix and reduce its dependence on imports of oil and gas.

2.14 Chinese firms are engaged in the construction of BRI railway projects in both upstream and downstream industries, ranging from engineering, smelting, manufacturing, power generation, electrics, to signal and communication systems. Both the Sino-Laos Railway and Jakarta-Bandung High-speed Rail in Indonesia, the two flagship projects under the BRI, depend on the supply of raw materials and equipment from China. For example, the 2,600-ton-weighted hydraulic-powered shield machines used for tunnel construction in Indonesia's high-speed railway project were manufactured by China Power Construction and Jiangsu Zhongjiao Tianhe Machinery Equipment Manufacturing Company, while 2,000 box girders weighing 120 tons are being built by Sinohydro.

2.15 Chinese banks and firms, engineers and workers have from the beginning been heavily involved in project financing, technical standard setting, project design, construction, and material and equipment supply, as well as local training for workers of the ongoing railway construction projects in Indonesia and Laos.

20 Narendra Aggarwal, "CPEC a Game Changer for Economy", *The Business Times*, 23 March 2021, available at https://www.businesstimes.com.sg/hub/pakistan-national-day/cpec-a-game-changer-for-economy (21 May 2021).

2.16 Laos and Indonesia have little experience in building large railway projects on their soil, and these countries have very few skilled rail engineers and construction workers. Their domestic manufacturing industries are unable to supply most of the raw materials and equipment for project construction. Many of the Chinese-funded projects abroad therefore lack participation by local companies and workers from recipient countries.

2.17 Chinese companies have been changing their business practices to show their readiness to share benefits with the local community in BRI countries. According to an article published by the Lowy Institute, BRI infrastructure projects funded or built by Chinese firms are now providing jobs, tax revenue and technical expertise to recipient countries due to pressure from the local community and governments in these countries.[21]

Issues and Problems

3.1 The great enthusiasm aroused by the promise of increased infrastructure connectivity and trade promotion under the BRI has now started to subside. Several countries are pushing back against this initiative as they are increasingly wary of the potential risk of being overwhelmed by China's influence with their BRI participation.

3.2 While low-income and developing recipient countries may have urgent need for infrastructure development to stimulate domestic economic growth, they are concurrently concerned, inexplicitly or explicitly, about the rising debt burdens associated with BRI projects, and the suspicion of China's hidden geostrategic ambition behind its push for BRI implementation.

3.3 Hence much needs to be done if China's BRI is to succeed. While the opacity of China's overseas-investing procedures remains an issue, some Chinese-financed infrastructure projects have been associated with environmental pollution, corruption, human rights abuse, poor management and land displacement. For

[21] Dirk Van Der Kley, "Do Belt and Road Projects provide Local Benefits?", The Lowy Institute, 11 May 2021, available at https://www.lowyinstitute.org/the-interpreter/bri-increasingly-focused-benefits-locals (12 May 2021).

example, in the absence of proper environmental impact assessment, many energy projects under the BRI to date have been in the highly polluting coal sector. Chinese banks and firms have financed and built many coal-fired powerplants in developing countries along the Silk Road, such as Pakistan, Bangladesh, Cambodia, Myanmar and Serbia, which have become major contributors to rising carbon emissions. According to the estimation by the Council on Foreign Relations, 40% of BRI-lending for the energy sector went to coal-fired power plants in 2018.[22]

3.4 Some BRI projects have also been criticised as "white elephants" that are of little use to the local communities in recipient countries. For example, in Sri Lanka, the Mattala Rajapaksa International Airport, which became operational in 2013, has not been able to generate sufficient revenue due to low demand and low flight numbers. It was identified as the world's emptiest international airport by Forbes Magazine.[23]

3.5 As the BRI is not a charitable programme, project financing is based on interest-bearing loans. Excessive borrowing could pose a threat to financial sustainability and lead to a debt trap. Low-income countries that have encountered debt burdens issue associated with China's BRI investment include Laos, Pakistan, Mongolia, Tajikistan, Kyrgyzstan and Djibouti.

3.6 In the perception of many recipient countries, the terms of their infrastructure deals favour China, whilst they have to bear the financial burdens and risks. According to an investigation report published by the Kiel Institute for the World Economy in March 2021, Chinese lenders have taken a distinct approach to foreign lending by imposing harsh terms on borrowers. As revealed by the selected contracts between China's state-owned banks and foreign government borrowers by the Kiel Institute for the World Economy, most of the post-2014 Chinese contracts contain unusual confidentiality clauses that prohibit borrowers from revealing the terms or even the

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22 Council on Foreign Relations, "China's Belt and Road: Implications for the United States", Independent Task Force Report No. 79, pp. 1-176.

23 "For Sale: The World's Emptiest International Airport", Forbes, 18 July 2016, available at https://www.forbes.com/sites/wadeshepard/2016/07/18/for-sale-the-worlds-emptiest-international-airport-mattala-international-hambantota-sri-lanka/?sh=7ef418641e3b (accessed 22 May 2021).

existence of the debt, giving Chinese lenders potential power to influence debtors' domestic and foreign policies through the cancellation, acceleration and stabilisation clauses. Chinese lending practices hence limit borrowers' debt management options.[24]

3.7 During the annual meeting of the Boao Forum for Asia in April 2021, Hu Xiaolian head of the Export-Import Bank of China, which is one of the largest Chinese creditors for foreign lending, said that China would consider delaying debt repayments for borrower countries which are struggling to repay their debt due to the severe impacts of the COVID-19 pandemic on their domestic economy. However, China could not offer debt reduction or debt relief for these countries as it would harm Chinese commercial interests and the loan safety of Chinese lenders.[25]

3.8 Chinese firms have often leveraged outbound investments and lending to obtain preferential treatment in the bilateral trade and commercial relations with these countries. The BRI is presented by China as a complete package where acceptance by recipient countries of Chinese infrastructure investment under this initiative also entails acceptance of all things Chinese such as technology, manufactured products, engineers, standards of construction technology, standards of infrastructure operation and management.

3.9 Almost all of China's outbound investment projects have been mistakenly labelled as BRI projects, intentionally or unintentionally. This has caused much confusion, misunderstanding and even resentment overseas. It is difficult to differentiate the nature and characteristics of these projects and their commercial viability. In the view of Chinese firms, by labelling their projects overseas as BRI projects they could increase their chance of receiving government support, preferential bank loans or other exclusive policy treatments. Chinese firms have even gone to the

[24] Anna Gelpern, et al., "How China Lends: A Rare Look into 100 Debt Contracts with Foreign Governments", Kiel Institute for the World Economy, March 2021, pp. 1-85, available at https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/Christoph_Trebesch/KWP_2132.pdf (accessed 24 May 2021).

[25] The Export-Import Bank of China, "Jinchukou yinhang dangweishuji dongshizhang huxiaolian chuxi Bo'ao yazhouluntan xiangguan huodong", 20 April 2021, available at http://www.eximbank.gov.cn/xwtp/202104/t20210420_30421.html (accessed 24 May 2021).

length of falsely claiming that their investment projects abroad are BRI projects backed by the Chinese government.

3.10 The BRI still is perceived largely as a China-centric sole or bilateral initiative. China has not been able to project the BRI as a credible multilateral endeavour. In many participating countries the BRI has failed to attract private capital or to win over the necessary support from the local stakeholders.

3.11 China cannot afford to continue pushing forward with the BRI on its own in the future. Chinese outbound investment wave has been slowing down since 2017, mainly due to the tightening of capital control at home, rise of trade and economic protectionism, and increasingly complex global investment environment driven by changing geo-politics.

3.12 While the Chinese authorities declared that the impacts of COVID-19 pandemic on BRI have been minor and the initiative is still progressing well, the data reflects quite the contrary. China's outbound investment has started to decline since 2017, and China's investment and infrastructure construction abroad declined in 2020. While there is a huge gap between the data presented by the American Enterprise Institute's global investment tracker and Chinese official data, figures on China's global investment from both China's Ministry of Commerce and China Global Investment Tracker confirm this decreasing trend (Table 1).

TABLE 1 TWO VIEWS OF CHINESE OUTBOUND INVESTMENT (US$ Billion)

Year	China Global Investment Tracker	China's Ministry of Commerce
2013	78.6	107.8
2014	101.0	123.1
2015	119.5	145.7
2016	163.7	196.2
2017	171.0	158.3
2018	123.1	143.0
2019	89.2	136.9
2020	30.5	132.8

Source: American Enterprise Institute and Heritage Foundation[26]

[26] Derek Scissors, "China's Coming Global Investment Recovery: How Far Will It Go?" American Enterprise Institute, January 2021, available at https://www.aei.org/research-products/report/chinas-coming-global-investment-recovery-how-far-will-it-go/ (accessed 6 May 2021).

3.13 Many SOEs curbed their investment and business operation abroad amidst the pandemic. Under the state's instruction, Chinese state-owned commercial and development banks will redirect their priorities towards financing domestic project construction and providing badly needed loans to the many struggling enterprises.

3.14 Faced with the risk of coronavirus spread, China's borders have been de-facto shut down. This means that China's engagement with the international community to promote BRI has temporarily stalled. The travel restrictions imposed by many countries and flight suspensions by airlines make it difficult for Chinese officials, businesspersons, engineers and workers to travel to these countries for official meetings and work on projects under the BRI framework. For example, the Chinese-built high-speed railway project in Laos (project commenced in December 2016) and Indonesia (project commenced in December 2017) has been affected as Chinese engineers and workers could not return to work after the Chinese New Year holidays.

The BRI at a Crossroads: Readjustment and Prospects

4.1 Amidst the shifts in global geo-strategic environment characterised by intensifying power rivalry and worsening relations with major trading partners, the BRI has become even more important for China. With the BRI, China could establish an economic and trade circle with interested countries/multilateral institutions by gradually forging a loose alliance of interest in Asia and beyond with both geo-economic and geostrategic elements. Essentially, the BRI is reinforcing the strength of the regional supply chain with China as the hub, which could lead over time to a China-centric regional economic order.

4.2 Nevertheless, the backlash against the BRI in a number of countries should serve as a timely warning to China about the urgency of conducting a review on the implementation of the BRI initiative and its outreach approach.

4.3 To ensure the long-term financial sustainability of the BRI, China has been making readjustments to the BRI and its project implementation since the second BRI summit in 2019. During the second BRI summit, Xi Jinping pledged to deliver a multilateral BRI that would generate benefits for all participating countries, not China alone.

4.4 Given the diversity of BRI countries and their individual domestic conditions, China acknowledges that it is difficult to push for the BRI by replicating China's own development model centred on domestic infrastructure development.

4.5 The effective implementation of the BRI largely depends on the response of the countries involved, large and small, not mere rhetoric and goodwill. To avoid perceptions of unilateralism on the part of other member countries, China would do well to allow the full participation of other players in order to forge a sense of ownership of the BRI. The sustainability of the BRI will require incentivising local investment in participating countries and among the local business community in particular.

4.6 China has indicated its readiness to work out debt refinancing measures such as deferred payment for low-income and developing countries. The financial restructuring of the ECRL is an example of China's flexibility on BRI implementation.

4.7 China and Malaysia concluded financial restructuring for the construction of the East Coast Rail Link (ECRL) shortly before the second Belt and Road Summit in 2019. According to the supplementary bilateral agreement, China agreed to lower the cost of ECRL construction by roughly 30% to lighten the burden on Malaysia's financial position.

4.8 However, the BRI project refinancing and debt forgiveness could pose a threat to China's domestic financial stability in the context of a domestic economic slowdown and capital flight. The issue of domestic financial stability will restrict China's capacity to continue with its practice of overseas project refinancing.

4.9 The financing restructuring of the ECRL could be a prelude to more countries demanding project contract re-negotiation under the BRI. If more and more foreign governments follow the example of Malaysia and demand for a renegotiation of the BRI project contracts or ask for debt forgiveness, this could present a dilemma for China on whether to make concessions to keep projects alive or face the termination of the construction project. China may eventually fall victim to its own indiscreet lending.

4.10 The domestic economic slowdown and intensifying China-US contest could force China to scale back on capital investment offshore and keep more capital onshore to boost investment at home. For China, to ease its financial burden and boost transparency of BRI projects, multilateralisation of the BRI is the way forward. To pursue this endeavour, China has already signed third-party market cooperation agreements with countries, such as Japan, France, Italy and Singapore, to advance cooperation on infrastructure financing and construction in Asia, Africa and Europe.

4.11 China's Ministry of Finance has also signed MOUs with various multilateral development banks, including the Asian Development Bank, World Bank, International Monetary Fund, AIIB and the European Bank for Reconstruction and Development, to forge partnerships to advance the BRI.

4.12 However, making a break from the past unilateralism of the BRI is easier said than done. There is a lack of vigorous internal review or public debate among public intellectuals and business elites on BRI implementation in Chinese society. It remains to be seen how far China is willing to go in readjusting its push for BRI implementation.