

**G7'S GLOBAL INFRASTRUCTURE
AND INVESTMENT PLAN: AN
ALTERNATIVE TO CHINA'S
BELT AND ROAD INITIATIVE?**

YU Hong

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Executive Summary

1. The Belt and Road Initiative (BRI) is the hallmark of China's emergence. Through this platform, China is rapidly extending its economic influence in Asia and other parts of the world.
2. For the United States to seriously compete with China, infrastructure development will be an important area. In June 2022, the United States and other fellow G7 countries officially launched and rebranded the Build Back Better World (B3W) proposal as the Partnership for Global Infrastructure and Investment (PGII) to mobilise up to US\$ 600 billion over the next five years.
3. The PGII is the G7's latest effort to counter China's BRI. Unlike the BRI, where China's state-owned banks and firms have played a dominant role in infrastructure financing and construction overseas, the G7 countries have committed very little money, with most funds coming from private sources.
4. Details of the PGII remain vague. Some infrastructure investment projects under the PGII worth US\$3 billion in total investment are under implementation.
5. Recent years have seen the unfolding of a successive wave of competing regional and global initiatives, all of which aim to accelerate inter-regional connectivity through infrastructure investment and construction.
6. Many of these competing connectivity initiatives are still at the vision stage, without concrete achievements. None of these initiatives so far have been able to compete with China's BRI from the perspective of scale, geographical coverage and geostrategic influence.
7. The G7 countries have to convince the global community that it can provide a credible alternative to China's BRI to meet the urgent upgrading infrastructural need of many developing nations.

8. Developing countries have a huge demand for infrastructure projects. So far, no plan proposed by a single country or grouping could come close to closing their infrastructure investment gap.
9. A collaboration between the G7's PGII and China's BRI could promote "third-party market" cooperation in terms of infrastructure investment and development.
10. The Biden administration has promoted the PGII as a "democratic" alternative to the "autocratic" BRI. It criticises the BRI for its lack of transparency and low standards on environment and social issues. This positioning is likely to limit the scope for cooperation between the two.
11. To overcome its lack of implementation capacity and official funding, the PGII could utilise existing multilateral development banks as implementing agencies.

G7'S GLOBAL INFRASTRUCTURE AND INVESTMENT PLAN: AN ALTERNATIVE TO CHINA'S BELT AND ROAD INITIATIVE?

YU Hong*

The United States in Competition with China on Global Infrastructure Investment

- 1.1 On 25 March 2021, US President Biden held his first presidential press conference. He said that China would never be allowed to surpass the United States as the most powerful country in the world during his term of office. He also emphasised that the United States would increase investments in domestic infrastructure and key areas such as artificial intelligence, quantum computing and biotechnology to ensure that the United States stays ahead in the competition with China.
- 1.2 Since taking office, the Biden administration has characterised China as “the only competitor potentially capable of combining its economic, diplomatic, military, and technological power to mount a sustained challenge to a stable and open international system”.
- 1.3 The Biden administration has singled out China’s Belt and Road Initiative (BRI) as a massive global-oriented infrastructure development initiative which poses challenges to the interests of the United States, ranging from politics and economy to national security and overseas interests.
- 1.4 The BRI is the hallmark of China’s emergence. Through this platform, China is rapidly extending its economic influence in Asia and other parts of the world. The rise of China and its growing clout in the world has enhanced its leaders’ confidence and ambition in promoting and implementing the BRI internationally.¹

* Yu Hong is Senior Research Fellow at the East Asian Institute, National University of Singapore.

¹ Yu Hong, “Is the Belt and Road Initiative 2.0 in The Making?” *EAI Background Brief*, No. 1635, National University of Singapore, 3 March 2022.

Under the BRI framework, China's increasing influence has greatly unsettled the existing global landscape and geopolitics.

- 1.5 China's BRI is perceived as a charm offensive to the world and largely welcomed by developing and middle-income countries across Asia, Pacific Island states, Africa and Latin America.
- 1.6 In Biden's view, for the United States to seriously compete with China, infrastructure development will be an important area. President Biden intends to "make the PGII [Partnership for Global Infrastructure and Investment] to be one of the hallmarks of the Biden administration foreign policy over the remainder of his tenure".²
- 1.7 President Biden has proposed that the United States bring together democratic nations to have an initiative similar to the BRI to help developing nations upgrade their infrastructure. In June 2021, at the G7 summit held in the United Kingdom, Biden unveiled the Build Back Better World (known as the B3W) initiative, focusing on addressing climate change, digital infrastructure, gender equality and healthcare system issues. The B3W was perceived as a G7 alternative to China's BRI.
- 1.8 Nevertheless, the Biden administration offered few details about what exactly B3W entails. A year after the B3W initiative was announced, the Biden administration made a commitment of only up to US\$6 million to the cause of global infrastructure renewal.³
- 1.9 The scale of the B3W initiative is a far cry from the billions in infrastructure investment promised by Biden's original announcement and from the billions of dollars provided by Chinese companies and banks under the BRI umbrella. Barely

² Jenny Leonard and Jennifer Jacobs, "Biden Plans to Launch a G7 Global Infrastructure Push to Counter China", Bloomberg, 16 June 2022, available at <https://www.bloomberg.com/news/articles/2022-06-16/biden-to-launch-g7-global-infrastructure-push-to-counter-china> (accessed 27 June 2022).

³ Charles Kenny and Scott Morris, "America Shouldn't Copy China's Belt and Road Initiative", *Foreign Affairs*, 22 June 2022.

one year thereafter, little regional and international attention has been paid to the B3W. The initiative has literally been languishing.

- 1.10 In June 2022, the United States and other fellow G7 countries officially launched and rebranded the B3W as the PGII, an initiative that aims to mobilise up to US\$600 billion over the next five years, including US\$200 billion, US\$317.5 billion and US\$65 billion mobilised from the United States, European Union (EU) and Japan individually.
- 1.11 China and the United States are now competing fiercely for influence over developing countries across the world. In June 2022, China's President Xi Jinping held a special high-level dialogue on global development with representative developing countries across all continents.⁴ Infrastructure financing and construction are key component of the global development dialogue proposed by Beijing.⁵
- 1.12 The PGII could potentially offer an alternative to Beijing's Belt and Road Initiative in terms of external loans to finance infrastructure development of developing countries. Several countries in the region and beyond are pushing back against the BRI on the grounds that the BRI-affiliated infrastructure projects with investments from China are costly and impractical, with issues of corruption in internal transactions.
- 1.13 The China-US competition in infrastructure development will be the litmus test for the superiority and effectiveness of China's country-led or the United States' enterprise-led model for infrastructure upgrading in developing nations. As the BRI is a state-driven initiative and implemented by state-owned firms, it can deliver

⁴ The leaders from China, Algeria, Argentina, Egypt, Indonesia, Iran, Kazakhstan, Russia, Senegal, South Africa, Uzbekistan, Brazil, Cambodia, Ethiopia, Fiji, India, Malaysia and Thailand attended the High-Level Dialogue on Global Development in June 2022. For details, please see the Ministry of Foreign Affairs of China, "President Xi Jinping Chairs and Delivers Important Remarks at the High-level Dialogue on Global Development", 25 June 2022, available at https://www.fmprc.gov.cn/eng/zxxx_662805/202206/t20220625_10709866.html (accessed 27 June 2022).

⁵ Danson Cheong, "Power Play: China's Belt and Road Initiative is Shifting Gears", *The Straits Times*, 4 July 2022, p. A15.

results in a speedy manner. China is winning in this competition for global infrastructure finance and development.

The PGII

- 2.1 The PGII is an alternative to the BRI — one that is private enterprise-led, rather than country-led, bringing together democratic nations to help developing nations in their quest to upgrade their infrastructure. Unlike the BRI where China’s state-owned banks and firms have played a dominant role in infrastructure financing and construction overseas, the United States and other Western countries have committed very little in terms of money, with most funds coming from private companies.
- 2.2 PGII is financed by combining G7 countries’ government grants and funding, mobilising funding primarily from multilateral development banks (MDBs) and leveraging sovereign wealth fund and complementary private capital from pension funds, private equity funds and insurance funds, among others. By doing so, the G7 countries seek to multiply the positive impacts of the PGII on global infrastructure development and economies, and to enhance the influence of the PGII. Nevertheless, details of the working mechanisms for financing and implementing PGII projects, such as how the MDB source will be tapped, have yet to be disclosed.
- 2.3 Existing MDBs have provided loans and technical services to developing countries for infrastructure development over the years. MDB loans help tackle environmental sustainability and social safeguard issues, and promote transparency and better governance in developing countries. For example, Asian Development Bank’s (ADB) loans had increased from US\$14 billion in 2014 to over US\$20 billion in 2020.⁶ Seventy per cent of ADB loans went towards infrastructure development. In 2021, the World Bank approved around US\$17 billion

⁶ Source: ADB, <https://www.adb.org/what-we-do/knowledge#:~:text=ADB%20is%20scaling%20up%20its,this%20amount%20going%20toward%20infrastructure> (accessed 27 August 2022).

loan to developing countries for infrastructure, ranging from transport, energy, water to information and communication technologies sectors.⁷

- 2.4 PGII's partnership with MDBs is crucial to its execution as they are needed to accelerate the building and maintenance of infrastructure projects in developing countries by reducing the reliance on public funds and grants (e.g. taxpayers' money). To provide a credible alternative to China's BRI, the G7 can use existing MDBs as the implementing agencies of the PGII.
- 2.5 In March 2022, US Secretary of the Treasury Janet Yellen, an important member of the PGII project, held a meeting to discuss global infrastructure investment with the presidents of many major MDBs, including the World Bank, African Development Bank, ADB, European Bank for Reconstruction and Development, and the Inter-American Development Bank.⁸ The Biden administration intends to implement the PGII by building its relationship with the MDBs in its future implementation.
- 2.6 As part of a whole-of-government approach, Biden appointed Ambassador Amos Hochstein as Special Presidential Coordinator for the PGII implementation and coordination works. The PGII is an ambitious and massive initiative proposed by the United States and other fellow G7 countries to deliver game-changing projects to close the infrastructure gap in developing countries.
- 2.7 Details of the US-led G7 countries' PGII remain vague. Some infrastructure investment projects under the PGII, which are worth US\$3 billion in total

⁷ The World Bank, "Annual Report 2021", available at <https://www.worldbank.org/en/about/annual-report#anchor-annual> (accessed 27 August 2022).

⁸ US Department of the Treasury, "Statement by Secretary Yellen on President Biden's Announcement of the Partnership for Global Infrastructure and Investment", 26 June 2022, available at <https://home.treasury.gov/news/press-releases/jy0835> (accessed 27 June 2022).

investment, are under implementation, including those in the following countries and sectors:⁹

- US\$2 billion investment for a solar power project in Angola;
- US\$600 million US investment to build a subsea high-speed telecommunications cable to connect Singapore to France via Egypt and the Horn of Africa;
- US\$50 million from the United States to the World Bank's Childcare Incentive Fund;
- US\$14 million investment in developing a multi-vaccine manufacturing facility in Senegal from the United States, in partnership with the World Bank and G7 partners;
- US\$14 million investment from the United States for deployment to a small modular reactor plant in Romania; and
- US\$16 million of investment from the United States for renovating or constructing over 100 hospitals and clinics across Côte d'Ivoire.

2.8 The PGII is the G7's latest effort to counter China's BRI. In his remarks on the launch of the PGII, President Biden said: "What we're doing is fundamentally different because it's grounded on our shared values of all those representing the countries and organizations behind me. It's built using the global best practices: transparency, partnership, protections for labor and the environment. We're offering better options for countries and for people around the world to invest in critical infrastructure that improves the lives ...".¹⁰

2.9 Shortly before the G7 countries' announcement of the PGII, US National Security Adviser Jake Sullivan clearly stated that the US-led initiative will provide "an alternative to what the Chinese are offering".

⁹ White House, "Fact Sheet: President Biden and G7 Leaders Formally Launch the Partnership for Global Infrastructure and Investment", 26 June 2022, available at <https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/26/fact-sheet-president-biden-and-g7-leaders-formally-launch-the-partnership-for-global-infrastructure-and-investment/> (accessed 27 June 2022).

¹⁰ The White House, "Remarks by President Biden at Launch of the Partnership for Global Infrastructure and Investment", 26 June 2022, available at <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/06/26/remarks-by-president-biden-at-launch-of-the-partnership-for-global-infrastructure-and-investment/> (accessed 27 June 2022).

- 2.10 The demand for infrastructure projects in developing countries is huge. As estimated by the ADB, Asia-Pacific countries will require over US\$22.5 trillion for climate-adjusted infrastructure development up to 2030. No plan proposed by a single country or grouping could come close to meeting the demand for infrastructure investment of developing nations. To accelerate infrastructure development in developing countries, collaboration between G7's PGII and China's BRI could promote "third-party market" cooperation in terms of infrastructure investment and development.
- 2.11 The Biden administration has promoted the PGII as a "democratic" alternative to the "autocratic" BRI. The Biden administration criticises BRI for its lack of transparency, and low standards on environment and social issues. This positioning is likely to limit the scope for cooperation between the two.

Infrastructure Investment Push A Response to Escalating China-US Strategic Competition

- 3.1 The PGII is a rebrand of the B3W, a bid for a head-to-head matchup with China. As evidenced by the announcements of the B3W and PGII, the US-led G7 is seemingly playing a catch-up game with China on global infrastructure development.
- 3.2 A US influential think tank report published in March 2021 by the Council on Foreign Relations titled, "China's Belt and Road — Implications for the United States", recommends that the United States formulate a new strategy that can effectively counter the BRI by promoting high-quality and environmentally sustainable infrastructure development, and ensuring that companies from different countries can fairly participate in infrastructure financing and construction.¹¹
- 3.3 The BRI was officially inaugurated by President Xi Jinping in 2013 and has since become the centrepiece of China's drive to become a global power. China has financed and built thousands of infrastructure projects abroad, ranging from

¹¹ Jennifer Hillman and David Sacks, "China's Belt and Road: Implications for the United States", Council on Foreign Relations, Independent Task Force Report No. 79, March 2021, available at <https://www.cfr.org/report/chinas-belt-and-road-implications-for-the-united-states/findings> (accessed 20 June 2022).

railways, seaports, airports, power plants and bridges to industrial parks and telecommunication networks around the world. China's total infrastructure investment in BRI countries was estimated at between US\$156.2 billion and US\$332.6 billion from 2013 to 2021.

- 3.4 The BRI seeks to connect China with the world through infrastructure, trade, investments and people-to-people exchanges. Through the BRI, China hopes to recreate the once glorious Eurasian continent trade along the ancient Silk Road, extending it geographically and expanding it to cover even more developments.
- 3.5 To compete, the G7 countries would need to convince the global community that it can provide a credible and superior alternative to China's BRI in terms of upgrading the infrastructure of many developing nations. Notably, US investments in many developing nations have declined, making it difficult for the United States to meet their needs in recent years.
- 3.6 On the other hand, China has the best container port, the fastest rail, the largest airport and the most complete telecommunications infrastructure in the world. It has become the global leader in infrastructure, with solid capabilities in facility construction and operations management.¹² In contrast, many transportation facilities in the United States, such as roads, bridges and airports, are in disrepair.
- 3.7 In the stiff competition with China, the United States is playing to its own weaknesses rather than its strengths. For example, in the field of technological capacity and infrastructure construction, 14 Chinese construction firms are listed among the top 20 largest infrastructure contractors in the world, with none from the United States (Table 1).
- 3.8 Connectivity based on infrastructure development is key to China's BRI and the main selling point in encouraging the participation of regional countries. Many developing countries involved lack both technological know-how and the capacity

¹² Yu Hong, "Can Biden's New Infrastructure Plan rival China's BRI?" ThinkChina, 13 April 2021, available at <https://www.thinkchina.sg/can-bidens-new-infrastructure-plan-rival-chinas-bri> (accessed 23 June 2022).

to raise the significant amount of capital to fund the required infrastructure projects.

TABLE 1 THE TOP 20 GLOBAL CONTRACTORS FOR INFRASTRUCTURE CONSTRUCTION IN 2021

Rank 2021	Company	Country
1	China State Construction Engineering Corp. Ltd.	Beijing, China
2	China Railway Group Ltd.	Beijing, China
3	China Railway Construction Corp. Ltd.	Beijing, China
4	China Communications Construction Group Ltd.	Beijing, China
5	Power Construction Corp. of China	Beijing, China
6	China Metallurgical Group Corp.	Beijing, China
7	VINCI	Rueil-Malmaison, France
8	Shanghai Construction Group Co. Ltd.	Shanghai, China
9	Greenland Infrastructure Construction Group Co. Ltd.	Shanghai, China
10	ACS Actividades de Construcción y Servicios SA	Madrid, Spain
11	Bouygues	Paris, France
12	HOCHTIEF AG	Essen, Germany
13	China Energy Engineering Corp. Ltd.	Beijing, China
14	Beijing Urban Construction Group Co. Ltd.	Beijing, China
15	Jiangsu Zhongnan Construction Industry Group Co. Ltd.	Haimen, China
16	STRABAG SE	Vienna, Austria
17	China National Chemical Engineering Group Corp. Ltd.	Beijing, China
18	Eiffage	Velizy-Villacoublay, France
19	Shanxi Construction Investment Group Co. Ltd.	Taiyuan, China
20	Beijing Construction Engineering Group Co. Ltd.	Beijing, China

Note: Companies are ranked according to construction revenue generated outside of each company's home country in 2020 US\$ millions.

Source: ENR's 2021 Top 20 Global Contractors.¹³

3.9 The BRI has attracted increasing attention from the international community. According to official data from China, 142 nations in five continents had signed various BRI cooperation agreements with China by the end of 2021. Since the launch of the BRI in 2013, China has spent billions in overseas investments and construction contracts for BRI projects in more than 100 countries.

3.10 Since its reforms and opening up to the world, China has successfully transformed its economic prowess and expanded its regional and global influence. The United States and the wider world cannot ignore the potential impacts of the rise of China, in particular its BRI implementation.

¹³ "ENR's 2021 Top 250 Global Contractors", Engineering News-Record, available at <https://www.enr.com/toplists/2021-Top-250-Global-Contractors-Preview> (accessed 30 June 2022).

- 3.11 Amidst the shifts in global geo-strategic environment, characterised by intensifying power rivalry and worsening relations with several major trading partners, the BRI has apparently become even more important for China. The Chinese leadership and government are seemingly determined to push ahead with the BRI.
- 3.12 While the BRI is Xi Jinping's pet project and the centrepiece of China's foreign policy initiative since 2013, it is not China's only outreach strategy. To advance its national economic interests and geo-strategic ambition, China has also become a key player in many regional cooperation institutions, such as BRICS (a grouping comprising five emerging economies: Brazil, Russia, India, China and South Africa), SCO (Shanghai Cooperation Organization) and RCEP (Regional Comprehensive Economic Partnership agreement). China's endeavour to play a more influential role in both regional and global affairs is multi-pronged and extends beyond the BRI.

Unfolding of Competing Regional and Global Connectivity Initiatives

- 4.1 Recent years have seen the unfolding of a successive wave of competing regional and global initiatives, all of which aim to accelerate inter-regional connectivity through infrastructure investment and construction (see Table 2). Examples include ASEAN Master Plan for Connectivity, the BRI, Japan's Partnership for Quality Infrastructure, ASEAN-Korea Infrastructure Fund, Russia's Eurasian Economic Union (EAEU), the European Union's "Connecting Europe and Asia, and the PGII" as the newest initiative of this kind.
- 4.2 Many of these competing connectivity initiatives are still at the vision stage, without concrete achievements. None of these initiatives so far have been able to compete with China's BRI from the perspective of scale, geographical coverage and geostrategic influence.
- 4.3 The BRI is perhaps the most prominent infrastructure development initiative in the history of the world. Other countries cannot match the huge infrastructure promises of China's aspirational BRI or the relentless pursuit of its execution.

TABLE 2 LIST OF COMPETING REGIONAL/GLOBAL CONNECTIVITY INITIATIVES

Year of Announcement	Dominant Country/Organisation	Connectivity Initiative	Investment Committed/Spent	Investment Sector
2009	Australia	Australia-ASEAN Development Cooperation Programme Phase II	US\$39 million	Technical service for infrastructure development and regional integration
2010	ASEAN	ASEAN Master Plan for Connectivity	N/A	Infrastructure development and technical service
2013	China	Belt and Road Initiative	US\$156.2 billion-US\$332.6 billion*	Infrastructure development and technical service
2015	Japan	Partnership for Quality Infrastructure	US\$110 billion	Infrastructure development and technical service
2015	Russia and Kazakhstan	Eurasian Economic Union	N/A	Regional Economic Integration and Infrastructure development
2016	India and Japan	Asia- Africa Growth Corridor (AAGC)	N/A	Infrastructure development
2017	Republic of Korea	ASEAN-Korea Infrastructure Fund	US\$200 billion	Infrastructure development and technical service
2019	United States, Japan and Australia	Blue Dot Network	US\$60 billion	Infrastructure investment and technical service
2021	European Union	Global Gateway	€300 billion	Infrastructure development and technical service
2021	United States with other G7 countries	Build Back Better Initiative	US\$6 million	Climate change; digital infrastructure; gender equality; and health systems
2022	United States with other G7 countries	Partnership for Global Infrastructure and Investment (PGII)	US\$600 billion	Climate change and energy security; digital infrastructure; gender equality; and health systems

Note: *According to China’s Ministry of Commerce, US\$156.2 billion were invested in BRI countries between 2013 and 2021, whilst, as estimated by American Enterprise Institute’s China Global Investment Tracker, Chinese firms had invested US\$332.6 billion in Belt and Road countries from 2013 to 2021.

Source: Compiled by the author.

4.4 The BRI is currently the world’s largest geoeconomic initiative, involving 142 countries. Other Western-oriented infrastructure initiatives, namely the EU’s

Global Gateway, the United States' Blue Dot Network, Japan's Quality Infrastructure Investment, or the G7's B3W have yet to produce enough geoeconomic momentum globally to seriously rival the BRI.

- 4.5 Not only is vast capital required for infrastructure upgrading in developing nations, the risks are high. Private enterprises do not have the required capital or the ability to undertake the associated risks. China is likely to continue to implement and expand the BRI if the United States is unable to put forward a more effective alternative.
- 4.6 Through the BRI implementation, China hopes to establish a new model for global infrastructure financing and development. Its state-led model is China's unique advantage in the BRI, a model not found in the United States and the West. China's leaders deem private enterprises to be ill-disciplined, tend to expand indiscriminately and incapable of fulfilling China's strategic objectives.
- 4.7 Meanwhile, China's state-led BRI infrastructure development model is implemented through its state-owned enterprises and banks. China is globally competitive in industries such as infrastructure construction, equipment manufacturing, metallurgical building material and communications equipment. Many developing nations urgently require investments, production capacity and technologies in these industries to hasten the pace of industrialisation and infrastructure upgrading.
- 4.8 The BRI could transform China's economic and financial power into geo-strategic leverage and influence. Infrastructure connectivity is becoming an important national strategy for China in its attempts to accelerate regional infrastructure development, and to gain control over markets and industrial supply chains.
- 4.9 The key challenge to the BRI will not be the nascent US-led G7 PGII initiative. Instead, China's self-imposed Zero-COVID strategy (or the Dynamic Clearing policy) and the ongoing Ukraine war may be the major challenges that impede Beijing's push for BRI implementation worldwide.

- 4.10 In the face of surging COVID-19 cases and highly infectious virus variants, the Chinese central and local authorities have imposed draconian Zero-COVID policies to curb the virus's spread that have necessitated frequent city-lockdowns and sealing off of the country physically from the world for more than two years. These strict lockdown and control measures have made it extremely difficult for Chinese officials, business executives and engineers to travel abroad to conduct in-person promotion and management of BRI projects, as well as led to the disruption in supplies of critical raw materials and equipment for infrastructure construction projects.
- 4.11 The coronavirus pandemic has also pushed up construction and labour costs of BRI infrastructure projects due to supply chain disruption, soaring energy prices and manpower shortages. For example, a budget overrun of the Chinese-funded Jakarta-Bandung high-speed rail project has been reported. The estimated construction cost for the 142 kilometre-long high-speed railway has increased by 20% to US\$7.9 billion.
- 4.12 Russia's war in Ukraine could also potentially cause collateral damage to the BRI, as China's land-based connectivity with the European Union via the China-Europe express may be jeopardised. The China-Europe Express is crucial for overland-based connectivity between China, Eurasian countries and the European Union. China has done its utmost to support, promote and make it profitable since 2016. The value of goods transported by the freight trains was US\$74.9 billion in 2021, with two-way trips reaching 14,000.
- 4.13 Almost half of the routes and lines (78 lines reaching 180 cities in 23 European countries by 2021) pass through Russia. Due to the massive sanctions imposed on Russia, European firms may choose not to ship goods via Russia. It is difficult for the freight rail service to operate along the Eurasian continent when there is a major war going on in Europe.
- 4.14 More significantly, the strategic competition between China and the United States has prompted China to view Russia as one of its indispensable allies; preserving this strategic partnership has thus become crucial. From the long-term perspective,

China's refusal to condemn Russia's aggression in the Ukraine war and its alignment with Russia have deepened the strategic distrust between China and the West, making Beijing's BRI push in the Western countries more challenging.

- 4.15 China's BRI is bedevilled by other problems. First, in the perception of various recipient countries, the terms of their infrastructure deals favour China, leaving these countries to bear the financial burdens and risks. Moreover, BRI implementation has been weak in terms of compliance with internationally recognised standards such as transparency and open bidding, and social, labour and environmental protection.
- 4.16 Second, many BRI projects have failed to attract private capital or solicit the necessary support from local stakeholders. Third, some BRI infrastructure projects have been scaled back or suspended amidst concerns over rising debts. Excessive borrowing could pose a threat to financial sustainability and lead to a dependency trap. According to a paper published by the National Bureau of Economic Research, low-income countries that have encountered huge debt burdens associated with China's BRI investment include Laos, Pakistan, Mongolia, Kyrgyzstan and Djibouti.¹⁴
- 4.17 The BRI is still, by and large, a China-centric solo or bilateral initiative. China has thus far been unable to project the BRI as a credible multilateral endeavour. President Biden hopes to take advantage of the dissatisfaction of these nations along the BRI routes and engage them with US allies to form an alliance against the BRI.
- 4.18 Nevertheless, the fear of China's debt trap diplomacy is overly exaggerated, as overseas asset seizures by China have rarely occurred. External development financing is required for cash-strapped countries with underdeveloped infrastructure. It is perfectly normal for developing countries to seek to accelerate infrastructure construction using financing tools, given their huge investment

¹⁴ Sebastian Horn, Carmen M Reinhart and Christoph Trebesch, "China's Overseas Lending", Working Paper 26050, National Bureau of Economic Research, July 2019, available at https://www.nber.org/system/files/working_papers/w26050/revisions/w26050.rev0.pdf (accessed 22 June 2022).

needs and domestic financial restraints. The salient question is how to balance infrastructure development needs and domestic financial sustainability.

- 4.19 Infrastructure projects, with their long development cycles and high risks, are linked to national sovereignty, economy and strategic security. Hence, countries are becoming wary of China seeking to extend its influence through the BRI, China's strategic considerations regarding the initiative and the BRI loans being a debt trap.
- 4.20 The BRI's implementation has slowed down as a result of the global coronavirus pandemic and the shift in global geo-strategic environment. The COVID-19 pandemic has disrupted activities in many developing economies and their finances. Developing countries could encounter difficulty in debt repayment for the Chinese-funded BRI infrastructure projects; some projects under construction or at the planning stage may have to be scaled back or suspended. The pandemic could have severe long-term financial impacts on infrastructure projects for many Belt and Road countries.
- 4.21 Sri Lanka, a crucial maritime component of China's BRI, is a case in point. It is facing its worst economic, political and social crisis in decades. It is struggling with repaying external loans and the interest associated with borrowing for infrastructure construction, partially deriving from BRI projects financed by Chinese firms and banks. If more foreign governments follow the example of Sri Lanka and demand debt restructuring or ask for debt forgiveness, this could present a dilemma for China on making concessions to keep projects alive or accept their termination.
- 4.22 China will face increasing challenges if it continues to promote and implement the BRI in its original form. It has to modify its model in response to the new geopolitics in the post-COVID-19 era. To succeed, it would do well to focus more on the economic benefits of overseas investment projects, the voices of the local communities and environmental sustainability. A balance will be required to secure win-win outcomes.

- 4.23 During the second BRI summit, President Xi pledged to deliver a multilateral BRI that would generate benefits for all participating countries, not China alone. The joint communique of the Second BRI Summit in Beijing in 2019 has clearly stated that “high-quality infrastructure should be viable, affordable, accessible, inclusive and broadly beneficial over its entire life-cycle, contributing to sustainable development of participating countries and the industrialisation of developing countries”.
- 4.24 China has made adjustments to the BRI and its project implementation since 2019. As shown in a Lowy Institute report, Chinese-aided and Chinese-built overseas projects have become more localised due to the pressure from foreign governments and the local community, in terms of local job creation, and local tax revenue contribution, citing country cases of Tajikistan, Nigeria and Peru.¹⁵
- 4.25 For the sustainability of the BRI, China must focus more on sustainable financing for developing nations along the BRI routes and lower the long-term financial impacts of loans for infrastructure projects. China seeks to cooperate with participating countries and multilateral financial institutions to jointly enhance debt management capacity of the borrowing countries. It is therefore adopting “third-party market cooperation” as a flexible approach in its pursuit of cooperation with other countries under the BRI umbrella.
- 4.26 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 debate on BRI implementation among the public, intellectuals and business elites within Chinese society. It remains to be seen how far China is willing to go in adjusting its push for BRI implementation.

¹⁵ 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> (accessed 23 June 2022).

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