Chinese BRI more a poisoned chalice than a panacea [Part 1]

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Countries across the world, especially developing countries are in an acute need of infrastructure finance. The ADB estimates that Central, South and South-east Asian regions alone require $800 billion annually. On the other hand, China although a middle-income nation, is flushed with funds (foreign exchange reserves of $3.8 trillion in 2013). It is also saddled with an infrastructure and industrial over-capacity. And then there is Xi Jinping, a princeling and strongman, who has been ruling China since 2012. He anointed himself President for Life in 2018.

Ambitious and assertive, Xi quickly set about positioning his nation as the pre-eminent political, economic and military power in Asia and beyond. But there was a small hitch. The Chinese economy had begun to lose steam. Its growth engines had to be revved up again. Such were the salient considerations that coalesced into the Belt and Road Initiative (BRI), which Xi unveiled in 2013.

The scale of BRI is staggering. Although details are opaque, China is likely to expend $1 trillion over 15 years to help strengthen infrastructure and connectivity in Asia, Africa and Europe, with 'no-strings-attached' loans, bearing interest rates of around 4 percent. (Japanese loans are up to 40 times cheaper). China has already infused some $200 billion, as per the U.S. Council on Foreign Relations. The largest chunk has gone to Asia including toward the $65 billion CPEC (China Pakistan Economic Corridor). BRI projects are mostly designed, priced and executed by Chinese state-owned enterprises, with Chinese labor and material. There is little competition, scrutiny or transparency.

There have been numerous reports of over-pricing and corruption. According to Bloomberg, most BRI projects are in?junk-rated countries, often with poor reputations for financial transparency. The Washington-based Center for a New American Security observes that "in countries that already have a high level of kleptocracy, BRI projects have involved payoffs to politicians and bureaucrats."

The Malaysian case is particularly instructive. Prim Minister Mahathir who returned to power in May 2018, sought cancellation of BRI projects worth $ 22 billion approved by his predecessor Najib Razak, terming BRI as "a new version of colonialism," adding. "Some countries see only the project and not the payment part of it. That's how they lose large chunks of their country. We don't want that."
Najib is being tried for corruption, power abuse and money laundering.

Taken aback and confronted with similar demands from other beneficiaries, in an unprecedented move, China slashed the asking price for the Malaysian projects by 30 percent. That merely validated the assessment that BRI was essentially a political instrument, meant to enhance Beijing's geostrategic objectives and leverage.

Furthermore, several nations that ended up taking excessive loans got ensnared in a debt trap. For instance, Sri Lanka owed $13 billion to China in 2018, even though government revenues were just $14 billion.?In 2017 Colombo was forced to hand over its sensitive Hambantota Port on a 99-year lease to China, because Sri Lanka was unable to service the $1 billion Chinese loan.

In 2015 China took over Gwadar port at the mouth of the Arabian Sea, in southern Pakistan under the CPEC framework. Control of strategic ports in the Indo Pacific region, is a key objective of BRI. “Their efforts to build ports around the world … have a state national security element to each and every one of them … BRI is no different,” cautioned Secretary of State Mike Pompeo.

Not just Malaysia, countries like Myanmar, Bangladesh, Maldives and even Pakistan have sought cancelation of projects or easier financial terms. According to the Center for Global Development, of the eight BRI countries that are vulnerable to debt crises, five border China, and two more — Djibouti and the Maldives — are choke points on the maritime trade routes.

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