What direction is China’s OBOR Initiative Moving in and How is it Progressing?

Discussions, meetings and banquets at the 2019 Belt and Road Forum in Beijing have finally come to an end. More than 150 delegates attended this event. What can we discern about this project at this stage? Have any new sceptics, opponents or proponents of China’s global initiative, which celebrated its 5-year anniversary last year, emerged?

If we were to start with criticism, which has yet again been levelled at OBOR (One Belt, One Road), then the annual report “China Security 2019”, prepared by think tanks and issued by Japan’s National Institute for Defense Studies on 30 January 2019, first draws our attention. It once again focused on the current and future project costs and problems, and the negative effect of the initiative on the world order. All in all, the report discussed the same tired old issues, and the same grievances were used as examples, i.e. threats of “debt traps” and the growing distrust towards OBOR in the nations of South East Asia, South Asia and other regions. The document mentions Malaysia, Pakistan and Sri Lanka, but it would be reasonable to continue this list with Laos, the Maldives, Myanmar, Mongolia, Djibouti and others. These nations, according to the 2018 report issued by the Center For Global Development (in Washington DC), are in the high risk of debt (owed to China) zone.

Following the US lead, Japan officially issued stern criticism of OBOR. But starting in 2014, and especially since 2018, ties (less in the sphere of politics but more so in economic, investment and credit sectors) between Tokyo and Beijing have been improving, while the PRC has been experiencing more and more pressure from changes stemming from the “trade war” with the United States. In such a climate, on the one hand, the Japanese government has continued to compete with China and criticize the OBOR initiative, it has also endorsed India’s 2017 vision, i.e. the
Asia-Africa Growth Corridor. The proposed initiative was viewed as a serious challenge to Beijing’s String of Pearls and 21st Century Maritime Silk Road (MSR) strategies. Japan has also been actively promoting initiatives within the framework of the “Quality Infrastructure” program that is also an alternative to OBOR. And in November 2018, Japan, the United States and Australia signed the Trilateral Partnership agreement on infrastructure investment in Asia.

On the other hand, on account of a thaw in Japan’s relationship with the former Celestial Empire, Shinzō Abe has found cooperation with China, as part of his Abenomics program, beneficial. But first, he had given the green light for such collaboration to the private sector and state-supported banks. Japanese corporations facilitated this thaw in relations with Beijing by striving to be a part of profitable projects, including the ones within the framework of OBOR. In addition, Tokyo and Beijing launched a scheme to jointly finance infrastructure projects in third countries. By doing so, Japan hopes to raise quality standards of Chinese projects. Some examples of both cooperation and rivalry between the two nations include a joint initiative to build a high-speed rail connecting Thailand’s three major airports, and the Japanese project to extend the Jakarta-Bandung railway (constructed by China) to Surabaya in Indonesia. It is hard to discern what direction this cooperation is heading in, however, in May 2019, China’s projects in Sri Lanka encountered a serious obstacle.

The government in Sri Lanka was one of the first to be “tempted” by the OBOR initiative at the end of 2013. China built the Hambantota Port in the south of the island and financed 81% of its $1.4 billion cost. The port was meant to become a sizable transfer hub between Singapore and Dubai, but the demand for it was grossly over-estimated. Annually, 60,000 ships sail across the Indian Ocean past the Hambantota Port, which lacks the necessary container handling capacity and essential equipment. Sri Lanka was unable to re-pay the enormous loan used to build it and, in exchange for reducing the size of the debt, it was forced to hand over the port to China on a 99-year lease. In addition, the PRC helped finance (with $200 million) the construction of a huge airport in Mattala, with a capacity to handle 1 million passengers a year. But, in reality, it has barely been used (the airport is one of the emptiest in the world) and many of the terminals are currently used to store rice. In the end, both of these projects became examples of flagrant failings of the OBOR strategy.

A difficult situation of a similar nature arose in the Maldives, a heaven for wealthy tourists. The President of the archipelago at the time, Abdulla Yameen, borrowed money (often with high interest rates) from China for projects that were not always financially sound, such as the construction of the 2-km China-Maldives Friendship Bridge linking two large islands; of a new railway to the main airport; a hospital, which cost three times more to build than the initiative proposed by India earlier, and of many others. In the end, the Maldives accrued a mountain of debt (equivalent to 20% of the nation’s GDP) as a result of various OBOR projects. After the pro-China President, Abdulla Yameen, lost in his re-election in November 2018, Ibrahim Ameer, the Minister of Finance, asked India for a $200 million loan, and urged everyone to support the nation’s “India-first” policy and put an end to China’s “arm-twisting” maneuvers.

In Pakistan military personnel, exasperated with predatory lending practices used in one of the nation’s regions, attacked the Chinese consulate in Karachi in November 2018 and killed 7 people there.

However, Asia is in dire need of infrastructure development projects. The Asian Development Bank (ADB) estimates that an astronomical amount of $26 trillion will be required in the next decade for the construction of roads and high-speed railways in Asia. In his assessment of OBOR’s progress, Andrew Small, a senior transatlantic fellow with the German Marshall Fund’s Asia Program, concluded that, in the first 5 years of its existence, the initiative focused only on speed and scale of implementation, which is not viable for the future. Even some high-ranking Chinese officials have started talking (quietly and anonymously) about the low quality of several construction projects and harsh loan conditions during their implementation, and the damage caused by these to the nation’s global standing and reputation.

Everything suggests that there will be more bitter comments expressing criticism and skepticism towards some projects proposed by the PRC. This pushed Beijing to take an unusual step at the 2nd 2019 OBOR Forum. On its opening day, in his speech President Xi Jinping admitted (perhaps not entirely sincerely) that some mistakes had been made, and that in the future, more transparent means of implementing projects, with less tolerance for any form of corruption, had to be sought. Undoubtedly, this part of his speech was his response to global wide-spread criticism of OBOR’s approaches.

After the first (we could say) far from discerning attempts to quickly receive loans and investments for developing infrastructure projects, and negative experiences associated with their implementation at times, governments of not
particularly wealthy Asian nations have become more cautious when making their choice of whether to opt for Beijing’s offerings or not, and have started to search for more viable alternatives. Hence, the Chinese authorities were forced to become more willing to review various terms and conditions or quality standards, and to focus more on reducing costs. Moreover, they encounter rivals, who employ more transparent approaches, more often nowadays.

As a result, the situation that Beijing finds itself in Sri Lanka has worsened, as its rivals, India and Japan, and the local authorities are planning to sign, in June 2019, a Memorandum of Understanding (MoU) on building a new terminal at the Colombo Port, which should bring more ships and commercial benefits to the nation. India and Japan will offer fairly reasonable (in contrast to China) terms and conditions for “quick and easy” and long-term loans. Sri Lanka will retain a 51% stake in the project, while its partners will jointly hold a 49% one. Many observers were quick to call the trilateral partnership, which is an alternative to China’s initiatives, a hard-felt blow to the PRC. India, Japan and a number of other countries are trying to actively gain ground along the 21st Century MSR by employing different investment methods, higher quality standards, transparency and fair terms and conditions. This is an example of an approach, which involves outperforming rivals rather than simply criticizing them.

The United States has used a similar approach while acting within its interests. In November of last year, Washington announced that it intended to create a new development finance agency to offer loans etc., with a budget of $60 billion. The agency has already pledged to finance a $1.7 billion plan to create an electricity grid in Papua New Guinea (this will become the first loan made using the new lending scheme). Still, it is impossible not to admit that the US initiative cannot really compare to OBOR with its $1.3 trillion budget by 2027.

There is yet another negative aspect to OBOR, among the far from positive consequences and risks associated with this initiative, in the political sphere, which, for now, has not received much attention globally. China, which has become subject to more frequent and harsher criticism, has begun to gather intelligence about election processes and their outcomes in various parts of Asia and Africa. The aim is to research how local candidates for high-level positions use topics, such as public’s wariness towards debt and other OBOR-associated risks, and China’s overall policy, in their election campaigns, and to gauge the extent of anti-Chinese or pro-Chinese mood in these nations, as these factors may determine whether some OBOR projects succeed or fail. Indonesia, Kenya, Zambia and Thailand have been mentioned in this context, as there may be heated debates and battles over critical issues during elections in these nations because of their overly close ties with China.

It is impossible for Beijing to avoid criticism about OBOR (any project of such a scale will lead to problems and outlays), still, as of April 2019, 126 nations and 29 international organizations from Asia, Africa, Europe, Oceania and Latin American were part of the initiative. This means that progress is being made, and that there is development, despite all the obstacles.

Naturally some questions arise though. Has the Chinese government taken into account its past mistakes and failures as it moves forward? Are there any new supporters and detractors of the initiative? What interests is Italy pursuing with its decision to become the first Western European nation to participate in OBOR? What are the US and EU responses to this? Will other European nations follow the suit? Will South Korea or some African nations decide to become a part of OBOR?

Surely, the answers to these questions will follow.

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