The China-funded Lotus Tower in Colombo is among the real estate projects around the Sri Lankan capital linked to China's Belt and Road Initiative. Whatever the West tries to do, it needs to recognise that a strategy of simply opposing the BRI is not likely to work and that the New Silk Road is here to stay, the writer says. PHOTO: AGENCE FRANCE-PRESSE

# *How China can ensure smooth progress for its new Silk Road*

**It is in Beijing's interests to exercise greater care over how its money is spent on projects under the Belt and Road Initiative**

**James Crabtree**

For The Straits Times

The new Silk Road is back on track. After a torrid year in 2018, last week's Belt and Road Forum in Beijing underlined China's determination to push forward with its vast but divisive global infrastructure scheme.

President Xi Jinping shrugged off accusations that his signature Belt and Road Initiative (BRI) left partner nations heavily in Beijing's debt, both financially and politically. Instead, having unveiled a mooted US$64 billion (S$90 billion) worth of deals, he seemed in ambitious spirits. "All interested countries are welcome to join us," he told the dozens of world leaders gathered at the forum, suggesting that the BRI's benefits would be "shared by the world".

Those benefits could be considerable. The many projects China funds can reduce trade costs and boost growth in developing nations, according to World Bank research. But China last week also gave a nod to BRI's sceptics, promising that in future its projects would be "high-quality" and corruption-free, neither of which has reliably been the case since the BRI's foundation in 2013.

So having made these promises, the hard work now begins. And as it seeks to expand still further, the BRI's challenge is mostly one of management.

Critics say China wants to "trap" poorer countries by tempting them to build ports, railways and roads they can ill afford, often in the hope of seizing them back as Chinese outposts. In truth, there are few examples of this happening, beyond one much-discussed port in Sri Lanka.

More often, China ends up forgiving debts that borrowers cannot repay. A report this week by analysts at Rhodium showed that China gave concessions worth US$50 billion to write down dozens of infrastructure loans over the last decade.

This may be no bad thing. Having agreed to risky projects, China may decide it is more important to keep friends in developing economies than to get its money back.

But it still is a signal that the BRI's projects have often been negotiated quickly and haphazardly, with a focus on geopolitical gain, not fiscal sustainability. Put more simply, China has given too many loans too quickly to countries with questionable finances.

Sometimes this approach does indeed win allies, as in Pakistan, the largest recipient of BRI funds. But the rush can backfire too, creating anxiety over China's intentions.

In South-east Asia, Myanmar is a case in point. Here, China is proposing a host of expensive projects, including a deep-sea port and high-speed rail line. State Counsellor Aung San Suu Kyi attended last week's forum and has been supportive of the BRI. But it is no secret that public and political opinion in Myanmar more generally remains deeply suspicious about the strings that come along with China's plans.

A better way forward would be for the BRI to expand more slowly, bring in more partners and become more transparent about its lending.

China has made signals in this direction. Last week, it published a "debt sustainability framework", and suggested it would welcome more international partners, potentially including institutions like the Asian Development Bank.

Turning the BRI from a web of murky, bilateral deals into a newly open and multilateral institution will require deep changes to its existing model.

But China also now has a new financial incentive to make this happen. The world has grown used to the BRI doling out limitless amounts of money as China expanded across Eurasia and then into Africa. But these go-go years may soon end.

Spending on BRI investments and contracts is already slipping, falling to around US$50 billion last year from nearly US$150 billion two years earlier, according to Moody's.

More important is China's deteriorating current account. During the BRI's early years, it consistently ran huge surpluses, leaving piles of dollars to spend abroad. But last year, it briefly ran a deficit, and may do so again this year. For the first time in a generation, China may need to borrow to fund international investments, including for the BRI.

This is not a deal-breaker. China could still spend over US$1 trillion on the BRI in the next decade. But it is entering a new era in which its finances must be looked after carefully – a fact that places still greater emphasis on the need to make projects sustainable.

For the BRI's critics, especially those in the West, last week's forum offers a different challenge.

As the BRI's troubles mounted last year, some doubters speculated that China might quietly drop it, having concluded that adventures in foreign infrastructure were not worth all the bother. But for a scheme that has become so central to Mr Xi's regime, this prediction was always fanciful.

Now the West must grapple anew with how to respond to the BRI, which thus far it has done incoherently. The US is ever more strident in its criticism, but with little to show for it. Europe is divided, as some countries happily sign up to the BRI while others hold back. Neither has a policy that makes sense.

A better approach would be to flag specific areas of weak governance and poor standards in Chinese projects, while also pushing Beijing to live up to public promises to make the BRI more multilateral and transparent. As China seeks greater international funding, there is an opportunity to gradually pressure the BRI to become a more formal part of the so-called global "rules-based order", as has been the case with the Asian Infrastructure Investment Bank.

BRI-sceptic nations such as Japan, India and the US also need to coordinate their infrastructure plans more effectively.

To combat cheque book diplomacy, it helps to have a cheque book of your own, allowing them to offer developing nations a better-run alternative to the BRI while using the power of competition to force China to raise its own game.

Yet whatever the West tries to do, it needs to recognise that a strategy of simply opposing the BRI is not likely to work. The New Silk Road is here to stay.

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