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China Balances Uncertain Gains with Potentially Big Payoffs in Belt and Road Initiative (BRI)

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As China accrues ever greater geopolitical weight, its Belt and Road Initiative (BRI) is a major step forward in enhancing its international power and prestige. International commentators have focused on the potential gains that the initiative offers to China. However, as BRI involves large investments in developing and politically unstable countries, there are great risks of investment losses arising from the initiative. As a result, an increasing number of Chinese companies and experts have expressed grave concerns over BRI's impact on their country's economy. It is puzzling that a traditionally pragmatic state such as China would pursue this initiative despite the risks, raising questions about the rationale behind BRI. However, regardless of the economic and political risks involved, connection to trade routes and natural resources represent important pragmatic reasons to pursue BRI.

Out of the 68 countries that have joined and signed the BRI, the majority are developing economies with small markets and high foreign debt. As major investors in the initiative, Chinese state-owned companies are set to provide approximately \$122 billion in loans to the BRI, without any guarantee that the small economies will be able to manage the loan scheme and repay their debts.

The potential loss of mass investment is concerning for Chinese investors. As highlighted in a recent report of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), large foreign loans to countries with underdeveloped financial markets may deteriorate their trade balance. Risks that a macroeconomic instability will deprive these small economies of the ability to repay such loans generates sharp apprehensions within China's broader investment community. As the vice president of a unit within China Communications Construction Company, a BRI investor, recently stated: "We have paid great price and suffered big losses... There are more than 200 countries and regions in the world, and not every place is worth investment."

Two risks are paramount in generating such concerns. First, Chinese enterprises can suffer investment loss due to debtor inability to repay loans, as has unfolded in the cases of Sri Lanka and Myanmar. Consequently, Beijing realized that ignoring complexities in host countries can lead to backlash from local populations, or in governments revoking Chinese projects or imposing a cap on permitted investments. There is no reason to expect that the BRI should be any different unless China adapts to evolving local and national dynamics.

A second concern relates to the political unrest in some of the countries BRI is projected to traverse, which affects their ability to repay loans. Some of these countries — such as Syria, Afghanistan, Yemen, and Pakistan — are notoriously politically unstable. According to the Centre for China and Globalization, one quarter of 120 cases of unsuccessful investments have been due to political unrest. Political turmoil alongside the inability of host countries to repay their loans will seriously impact the effectiveness of the BRI.

Tereza Kobelkova, Former Visiting Fellow at the East-West Center in Washington, explains that "An increasing number of Chinese companies and experts have expressed grave concerns over BRI's impact on their country's economy."

The East-West Center promotes better relations and understanding among the people and nations of the United States, Asia, and the Pacific through cooperative study, research, and dialogue. Established by the US Congress in 1960, the Center serves as a resource for information and analysis on critical issues of common concern, bringing people together to exchange views, build expertise, and develop policy options.

This raises the question as to why a traditionally pragmatic country, such as China, would not rather focus its investment initiatives more directly on strong economies where the chances of returning profits are considerably safer? In this context, many foreign policy analysts argue that BRI is politically motivated but merely disguised as an economic initiative. Closer analysis reveals this may not be the case either.

The political dimension of BRI relates to China gaining greater leverage over its developing investment partners. The inability of small economies to repay their loans will increase Chinese control over them. China has already discovered that exerting such leverage and pressing debtors to consent to Chinese deals enables Beijing to exercise greater influence over particular projects or facilities (such as ports, industrial zones, and control over strategic landmarks). However, China has also learned that such an outcome can lead to backlash within recipient states and populaces. This was the case in Myanmar, which, after many years of dealing with the Chinese under a highly autocratic government controlled by its military subsequently opened up to the world and engaged with the US as a means to counterbalance Chinese influence. Similar backlash can also be seen in Sri Lanka, when public demonstrations against that country's deals with China briefly delayed the Colombo Port City project and resulted in the Sri Lankan government re-establishing ties with India at some cost to China.

Mounting pressure over the debtor country therefore does not necessarily provide space for political leverage. On the contrary, in the cases mentioned above, growing debt and Chinese pressure triggered counter actions to balance the growing Chinese influence. Acknowledging these alarming signs, it is surprising that a strategic, traditionally pragmatic China continues to expand the BRI. One cannot but question the BRI decision. What is the 'pragmatic' intention behind BRI, given that the uncertain gains from this strategy leave even Chinese experts puzzled? Is Beijing about to repeat the same 'political' mistakes it made in Myanmar and Sri Lanka or is there another strong rationale driving BRI?

In the short term, Chinese enterprises with foreign-based BRI projects are in the front line to bear the costs. Civil unrest, political change, and debt crises in host countries are all factors which may contribute to the loss of investments and cause severe damage to the functionality of Chinese companies, with a potential impact on the overall Chinese economy. In the long term, however, there are strategic reasons for China to continue the BRI regardless of the uncertainties surrounding its short-term economic and political benefits. For example, China will still end up with an advanced transport infrastructure established across Asia. Prospects are strong that this will facilitate trade and the import of natural resources, giving China the option to diversify its resources via new alternative routes of access. For a country of more than a billion people and mounting pressure on natural resources, any such outcome is worth incurring calculated risks.

Over time, a strategy incorporating reasonable risk from China's perspective could prove to be pragmatic. In a world where scrambling for resources is a key reality, China is ensuring that it retains access to trade routes and increases its access to natural resources. Despite the many issues surrounding the advertised economic and political dynamics of BRI, this strategy 'for the common good of the country' promises fully developed transportation infrastructure across the Eurasian continent. If successful, the outcome would be diversification and establishment of alternative resource and trade routes connecting China with the rest of the world. This — coupled with an aversion to losing face — is a strong enough rationale for Beijing to pursue the BRI energetically and with a long-term view of its benefits.

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