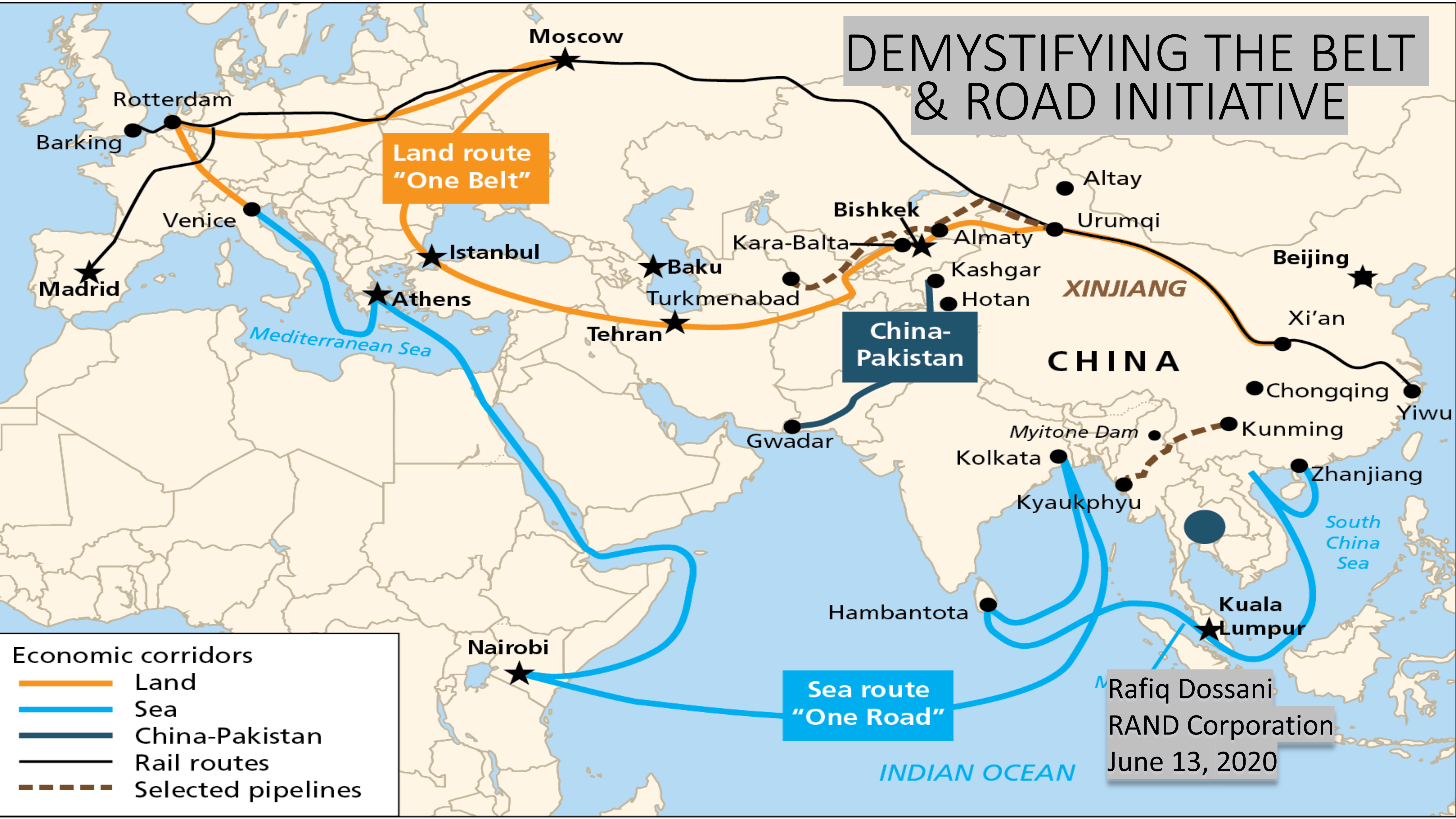
DEMYSTIFYING THE BELT & ROAD INITIATIVE



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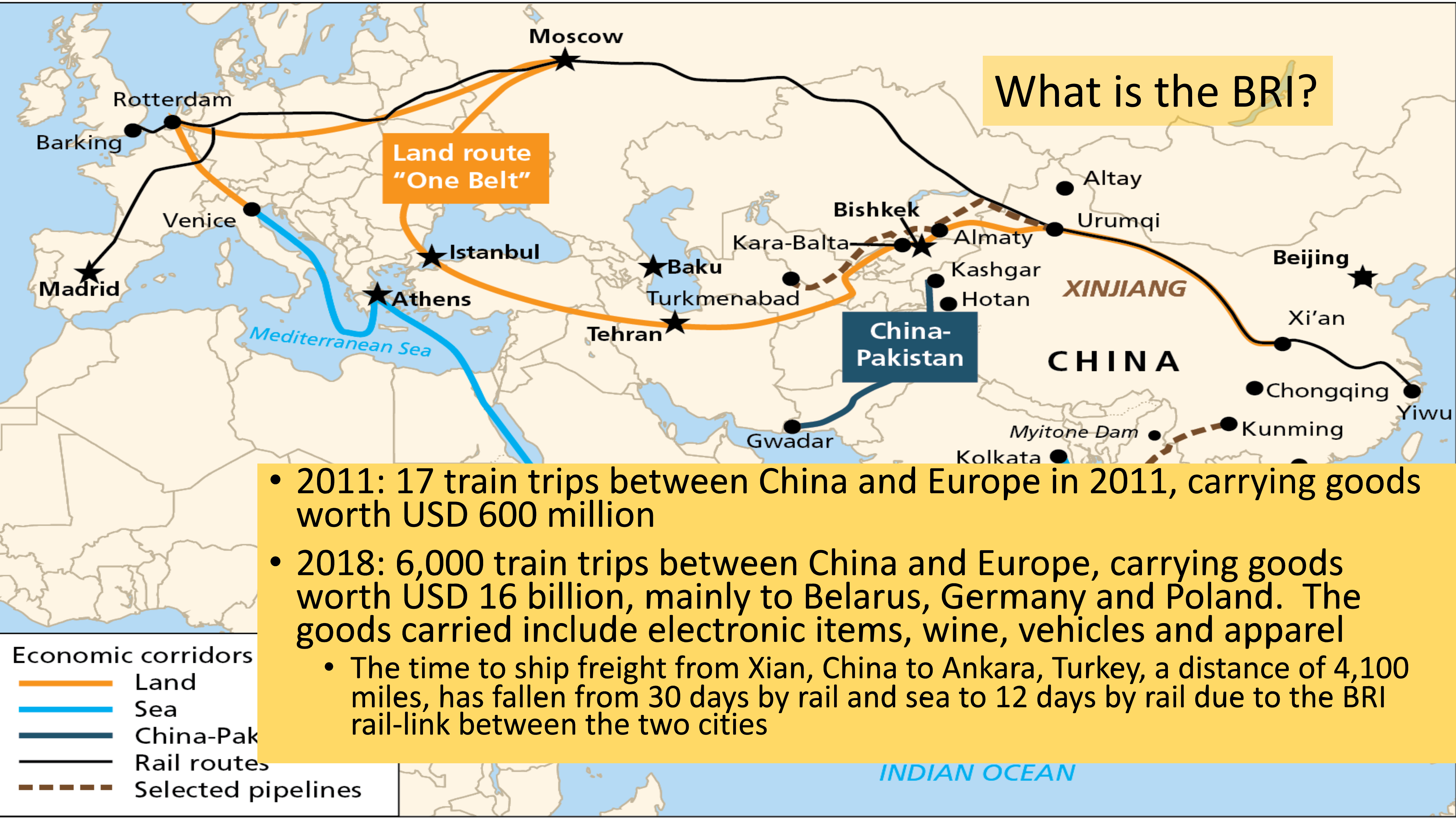
What is the BRI?



- 2011: 17 train trips between China and Europe in 2011, carrying goods worth USD 600 million
- 2018: 6,000 train trips between China and Europe, carrying goods worth USD 16 billion, mainly to Belarus, Germany and Poland. The goods carried include electronic items, wine, vehicles and apparel
  - The time to ship freight from Xian, China to Ankara, Turkey, a distance of 4,100 miles, has fallen from 30 days by rail and sea to 12 days by rail due to the BRI rail-link between the two cities

The World's Largest Development Finance Initiative

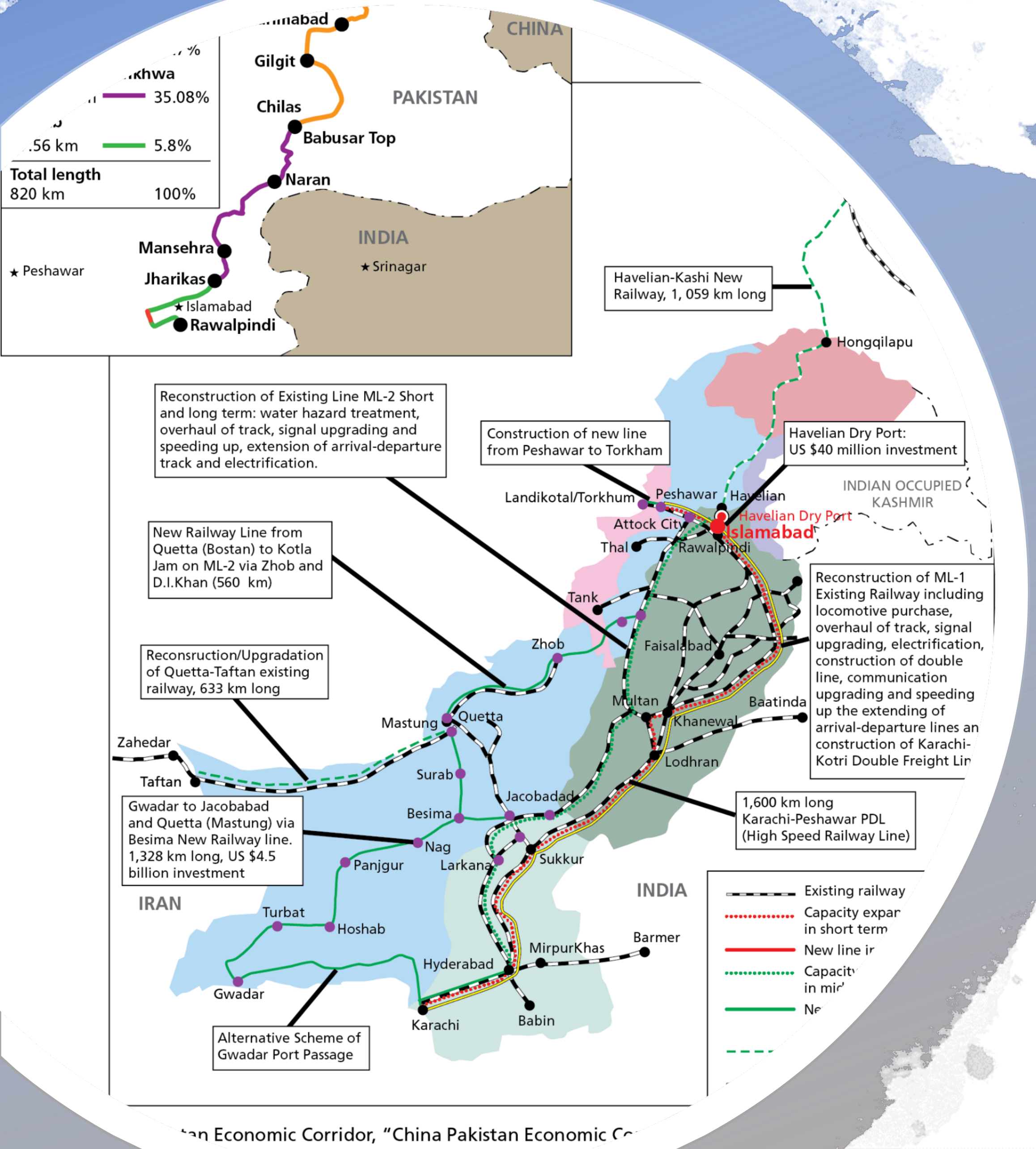
Region	Africa	Central Asia	Middle East	Asia Pacific	Europe	North America	Latin America
Project #	23	62	62	274	22	6	2

What is the BRI?

- China has invested more than USD 80 billion in over 70 participating countries since the launch of BRI in 2013
- China not only finances, it also builds. Over 70% of project implementation is by state-owned Chinese firms.
- This makes BRI different from typical foreign aid initiatives, in which the capital is provided by the donor government, while the implementation is by private firms.

What is different about the BRI?

1. A focus on achieving global connectivity, with China at the hub.
2. Meets need for infrastructure at national-level scales
3. A portfolio approach built around physical infrastructure but combining other, related non-infrastructural initiatives in order to achieve comprehensive area development
4. A key role of state-owned banks and enterprises in financing and implementing the BRI



National-level Scale & Comprehensive Development

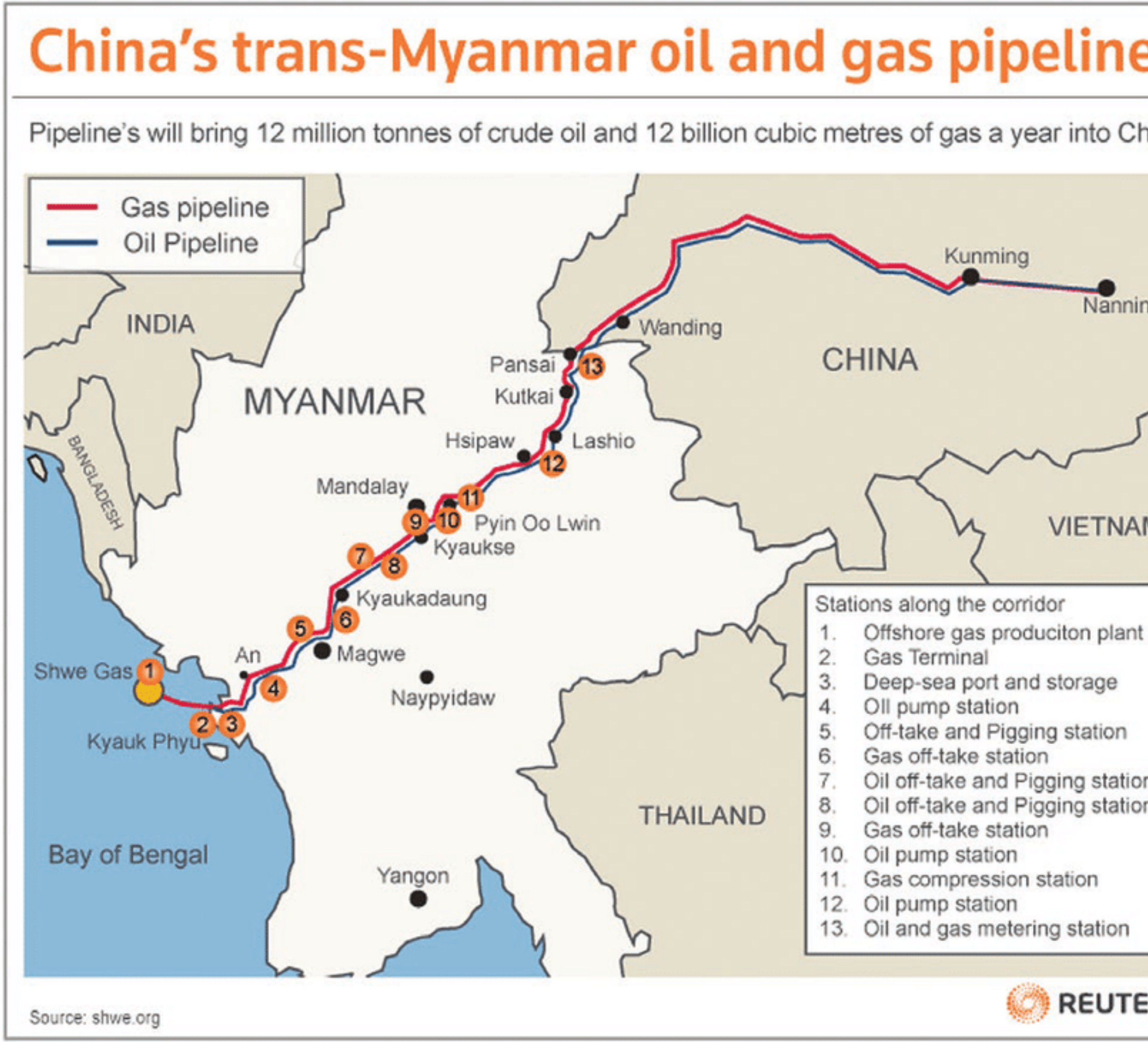
1.Fiber Optics Network Runs Alongside the Rail Network being built under the BRI

2. $33.79 billion (2017-2023) is being invested to raise national electricity capacity from 28 Gw to 45 Gw, a 60% increase

3. By contrast, the largest infrastructure aid project to Pakistan to date is $382 m, to develop a bus rapid transit system in Karachi, funded through the World Bank.

National-level Scale & Comprehensive Development

Myanmar Project (2014-2025) Includes a Port at Kyaukphyu ($3 bn), Oil and Gas Pipelines ($2 bn) and a Rail Link from Kyaukphyu to Kunming ($3 bn)



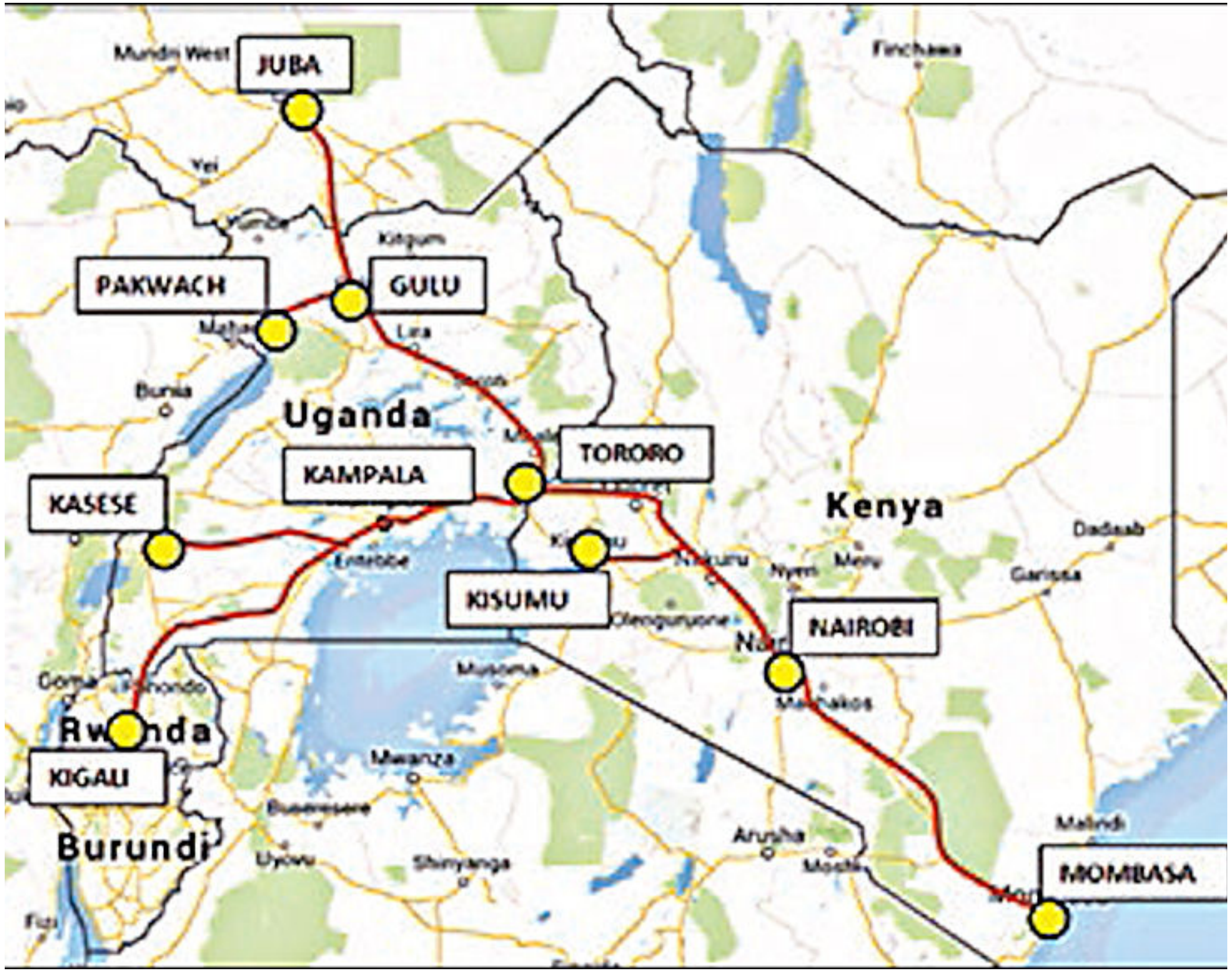
Mombasa-Nairobi Standard Gauge Railway (2014-17)

The 485 km Nairobi-Mombasa Standard Gauge Railway, built in three years at a cost of $3.2 billion.

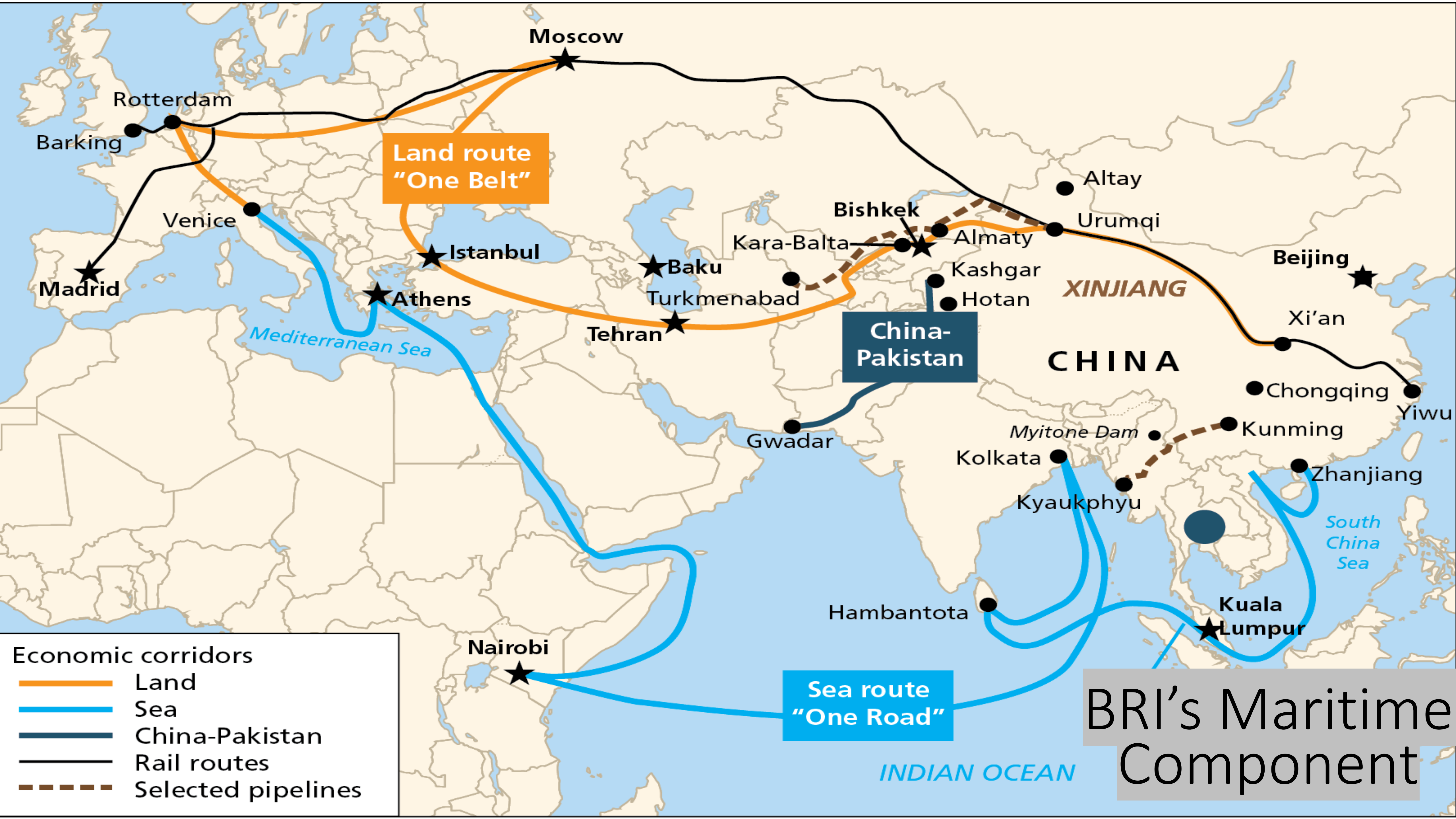
The builder is the state-owned China Communications Construction Company Limited (CCCC).

It is Kenya’s most expensive infrastructure project since independence in 1963 and the first railway built in Kenya in the past 100 years.

The line is being extended to Uganda (Kampala), Rwanda (Kigali) and South Sudan (Juba)



BRI’s Maritime Component



Colombo International Financial City (2018-41)

Developed by a Chinese state-owned enterprise, China Communications Construction Company Limited (CCCC). CCCC employs over 120,000 employees worldwide in 145 countries.

CCCC will invest $15 bn in CIFC, which spans 270 acres of existing and reclaimed land

The common infrastructure for the city is expected to be complete by 2021

When complete, the city will have a gross floor area of 5.7 million square meters

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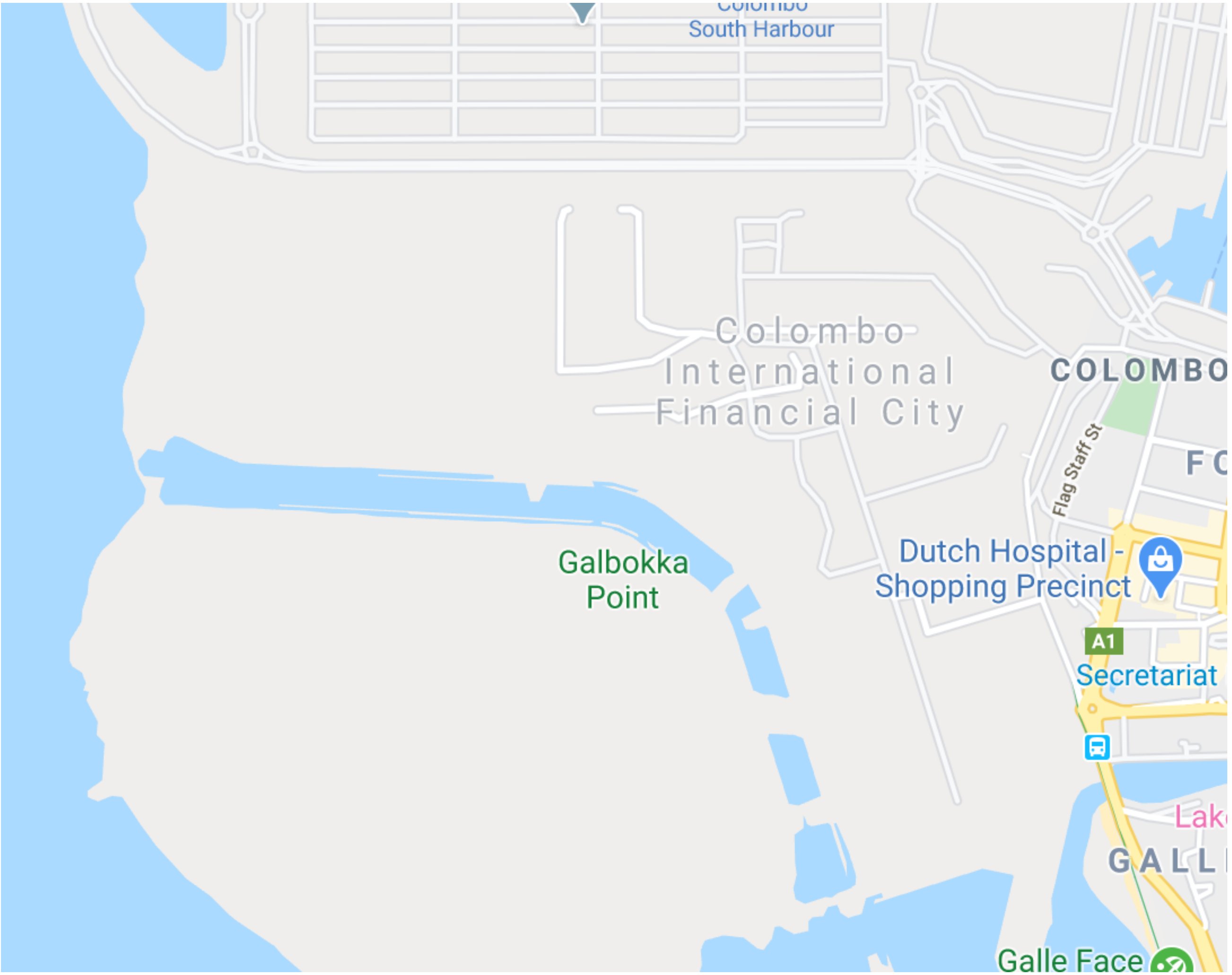


Public Policy Issues of the BRI - I

Issue of Concern	Characteristics
Partner country’s economic dependence on China	(1) Privileged access by China to the partner country’s resources and markets: (2) Privileged role of China in shaping the economic affairs of the partner country.
Regional and global benefits to China:	(1) Renminbi internationalization; (2) Growth of regional infrastructure network, with China at the hub
Inadequate attention to Sustainable Development Goals (SDGs)	Neglect of environment and human capital development

Public Policy Issues of the BRI - II

Issue of Concern	Characteristics
Uneconomic Projects	**BRI projects with low operating returns, high-cost finance, and/or implementation of poor quality**
'Debt-trap' lending	**Lending at uneconomic rates and at an amount greater than can be paid back**
Low compliance, regarding corruption, governance & implementation standards	**Role of state-owned implementing firms**

What is the Evidence?

Using Chinese labor: over 80% of employees in BRI projects are local laborers (Sautman and Han, 2015)

Resource exploitation: Chinese firms seen as stable, long-term managers of precious natural resources (Lee, 2017)

Debt-trap lending: Loans by Chinese banks to finance BRI projects are typically at rates of 2% or lower, thus below GDP growth rate of most borrowers

Uneconomic projects: Sri Lanka's Hambantota Port is often cited as an example. In fact, the Port defaulted on its loans and was leased to a Chinese and local firm consortium in a competitive bidding process.

Where More Evidence is Needed

While China has indicated its commitment to ethical business practices, there is some evidence that this has not always been the case.

Environmental commitments have not yet been adequately measured.

Gains for China

All BRI contracts are in Renminbi

Chinese firms obtain over 70% of contracts

The BRI network is emerging with China at its hub

Soft power – infrastructure is long-lasting!

Gains for Host Countries

Timely, high-quality infrastructure at an affordable cost

Transformative scale

Area development

Public goods, especially in the area of SDGs, such as skills development

India & the BRI

India has not joined the BRI despite a Chinese invitation to do so

India participates actively in other Chinese developmental initiatives. India is the largest borrower of the China-sponsored Asian Infrastructure Investment Bank

India’s stated reason is that CPEC, the Pakistan arm of the BRI, has projects in areas of Kashmir, claimed by India.

China’s response is that the projects are for development, which should not be objected to.

Is India worried about something else?

America & the BRI

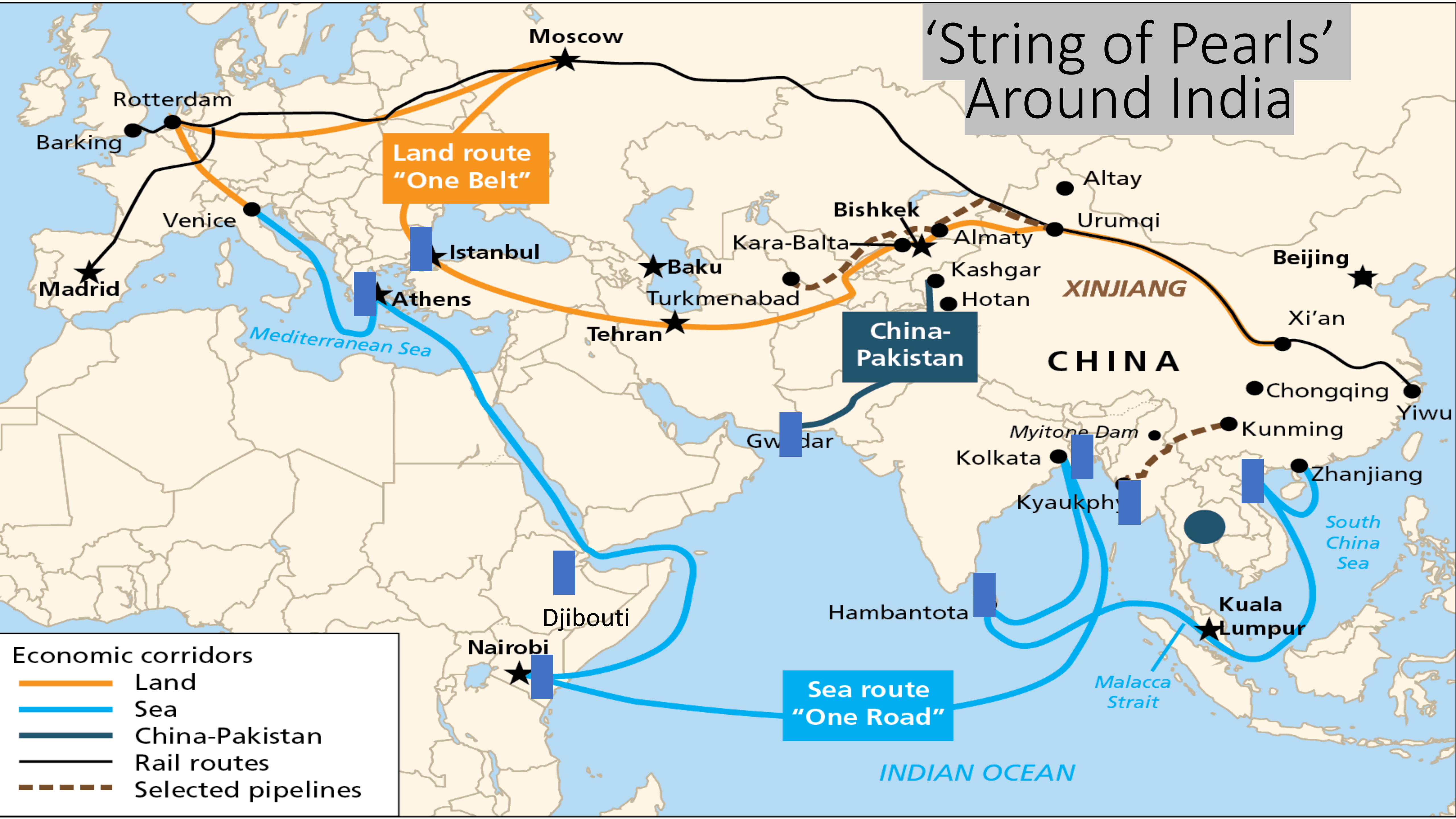
America has not joined the BRI despite a Chinese invitation to do so. It participated in the Beijing BRI Forum in May 2017

America has hardened its stance on China considerably since then. The Free and Open Indo-Pacific strategy is a maritime concept supported by America. It extends from the eastern half of the Indian Ocean to the Pacific Ocean, encompassing countries that believe in fair trade and democratic principles.

A key area of focus for the US is the South China Sea. One-third of global trade passes through the South China Sea.

The bigger worry for the US, not currently in focus, ought to be that US leverage over Central Asia and parts of Europe will be reduced with the land component of the BRI.

'String of Pearls' Around India



Thank You!