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THE BELT AND ROAD INITIATIVE: A PROJECT MADE OF PAPER OR CEMENT?

Edoardo Agamennone

Now that the dust of the fireworks organised by the Chinese propaganda machine in May to celebrate the Belt and Road Forum has settled and the attention on this phenomenon has somewhat ebbed away, questions are finally being raised by many industry experts on the feasibility of this unprecedented plan. The idea of building a post-modern version of the ancient Silk Road would be daring enough in and of itself to raise doubts on its technical, commercial and financial feasibility. The scale of Beijing's vision, however, makes unbiased and objective experts – inside and outside the business world – wonder about how even a fraction of this titanic infra-structure plan could turn into reality.

From the original idea of an updated version of the ancient Silk Road outlined by China's president Xi Jinping back in 2013, the concept has grown seemingly out of hand, together with its very name, which has evolved over time into: «Silk Road Economic Belt», «21st-century Maritime Silk Road», «One Belt and Road Initiative», «Belt and Road Initiative», etc. The concept of Belt and Road Initiative (BRI) now covers Europe, Asia, the Middle-East, Africa and parts of Oceania: as of today, over 60% of the world's population, 35% of the world's trade and about one third of the world's GDP would be covered by this initiative. Global consultancy McKinsey, like many consulting firms which see in the BRI a great opportunity to get free publicity and generate business, has joined the enthusiastic consensus by comparing the Belt One Road Initiative to a "12x enlarged version" of the Marshall Plan.

The differences between these two infrastructure plans, however, could not be greater: the Marshall Plan was a post-war reconstruction initiative with limited scope, defined geographical reach, clear rules, a capped budget and a governmental

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A long and winding (Belt and) Road? (Pictured: the road to Tianmen Mountain, Zhangjiajie)

authority created *ad hoc* to supervise it. The BRI, instead, is a label used, oftentimes randomly, to indicate a series of mixed policies and initiatives with unclear goals, boundaries, reach, budget and funding sources. Focusing on this last aspect, what is extremely intriguing is how little is known about the real financial needs of the BRI and how such needs will be met. On the first point, while most of the press estimates the total cost to be around USD 1 trillion, more technical and accurate estimates set the price tag significantly higher, with the more conservative estimates ranging between USD 4 and 8 trillion, and others even much higher. This budget would only cover the costs for the physical infrastructure and would leave out all other forms of investment relating to or deriving from the BRI. By ways of comparison, the total cost of the Marshall Plan was, in today dollars, around USD 135 billion, all inclusive.

Regarding the question of how such a gigantic bill will be paid, mainstream media often point at the much publicised Chinese lending institutions: the Asia Infrastructure Investment Bank (AIIB), the less known New Development Bank, the Silk Road Fund, as well as China Development Bank and Export-Import Bank of China. Basic research on the firepower of these financial institutions reveals, however, that even in a remote scenario in which they were to commit 100% of their resources to the BRI (something they would strongly resist for obvious reasons) these institutions would fall dramatically short of providing the hundreds of billions of investments required annually to make the BRI dream come true. Once this objection is raised, the counterargument used by BRI "fans" is that Chinese authorities and institutions will mobilise private funds to cover the shortfall, via public private partnerships (PPP) or similar schemes. The problem is that in order to have private investors willing to commit their funds, projects must be technically, financially and commercially viable. For a significant number of the projects of the BRI however, this is not the case. Commercial banks, even in China, have shown very low interest in funding these projects, given the low chances of them turning profitable. Similar concerns have been raised on the financial capacity of host countries, with a clear example represented by a 450 km railway project in Laos, costing USD 6 billion in investment, about half of the country's GDP. Even according to the notoriously optimistic official feasibility plan, the project will be loss-making for at least the first 11 years. Other reported examples include heavily indebted countries such as Pakistan or Indonesia. Another major risk to be faced by the BRI project, indissolubly inter-linked with the financial uncertainty dimension, is the political instability of many recipient countries.

The investment and financing dynamics of the BRI are very similar to those that have been taking place domestically in China for decades: investments guided by political considerations (the main ones being economic growth in one case, and development of political influence in the other), open almost exclusively to SOEs and politically connected firms, heavily subsidised via State-owned banks and with business and feasibility plans not in line with commercial best practice and market standards. While there are many similarities, there is one significant difference between the domestic infrastructure boom of the 1990s/2000s and the BRI: scale. A degree of capital misallocation of an extent comparable to the one that took place over the past decades in China would be unimaginable on the scale the BRI. So where does this take us?

A widespread impression among professionals in the infrastructure and financial industries is that little of what has been announced will ever materialize. This does not mean that nothing will happen: construction sites will open, China will develop infrastructure projects, Chinese firms will invest in ports, railroads and airports, links between China and the rest of Asia, Europe and Africa will be strengthened. Business will continue as usual. Things however are unlikely to reach the magnitude envisaged by the Chinese authorities and discussed in the seemingly unstoppable number of seminars, conferences and congresses organised on the BRI. Organisers and participants in such social gatherings will certainly benefit from the initiative, but the contrast between words and facts is likely to increase. This hypothesis is already backed by hard evidence: four years after its conception, a very small part of the scheduled/announced projects has turned into reality. The BRI may eventually emerge as one of China's many announced but missed revolutions (the abolition of capital controls, Shanghai becoming a global financial capital by 2020, SOEs firms leaving more room to private firms, etc.). Of course the opposite may also be true, and all paradigms of the infrastructure financing industry may have to be entirely rewritten. As the old Chinese proverbs say, what is to be feared is not the long road to success but the shortage of ambition (*bupa luchang, zhipa zhiduan,* 不怕路长只怕志短).

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Edoardo Agamennone is Research Fellow at T.wai, and Senior Legal Advisor at EDF, based in Paris.