

Belt and Road: the next phase

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China is looking to shift the funding strategy for its Belt and Road initiative away from government loans and towards more diversified sources of financing.

President Xi Jinping unveiled in 2013 the original – and rather uncatchy – Silk Road Economic Belt and 21st Century Maritime Silk Road plan. The \$4 trillion initiative was later rebranded to One Belt, One Road – and since then, to simply Belt and Road.

Belt and Road now covers 65 countries across three continents and is part of the president's ambition to spread China's influence and stimulate economic growth through construction of "connectivity" infrastructure, mostly ports and railways.

"The keyword is connectivity," Yan Bing, deputy general manager of Bank of China's corporate banking department said at *IJGlobal's* 4th annual Asia Pacific Energy & Infrastructure Finance Forum in Singapore on 21 March (2018).

Bank of China is estimating global infrastructure funding requirements at \$57 trillion through to 2030 and Asia is expected to account for around half of the total funding needs.

"Infrastructure is the most important factor to stimulate economic growth," Bing said, noting that a "to be rich, road first" infrastructure building policy had helped fuel China's own growth over the past couple of decades.

To meet the funding needs, and sustain economic growth across the region, "we need participation and financing from the private sector and global capital, in addition to multilateral and development banks," Bing said.

She also pointed to the possibility of tapping China's green bond market – now the world's largest – as well as local currency financing.

A change in direction

The Belt and Road initiative has captured the imagination of the infrastructure industry – particularly in Asia – for its sheer awe-inspiring scale.

But the move away from the traditional government to government loans and towards more diverse sources of funding may also represent Beijing's recognition that it needs to shift strategy, participants at the conference told *IJGlobal*.

"China has a public relations problem," one DFI banker said. Some 'Belt and Road' projects, such as the cross Laos railway, have been perceived as serving Beijing's own strategic purposes rather than helping development in the country concerned.

The criticism is not entirely fair because China's arch regional rival Japan often engages in a similar strategy of offering

bilateral loans in return for contracts for Japanese companies. And some of these projects have questionable value to the host country, the banker pointed out.

But the “Japanese just seem to be better at selling it, usually as a friendly economic development aid gesture,” he said. The reason, according to him, is in part because Japan has no grand strategy that could inspire suspicion.

Another point of contention has been closed procurement. In the fairly typical Laos railway case, the Laotian government awarded – without holding a tender – the contract to China Railway and also agreed to take a \$480 million 20-year soft loan from China, at an interest rate of 3%, to help pay for the single track rail line.

Not all according to plan

Over the past few months, some governments have started to push back.

Pakistan’s government [in November 2017](#) cancelled the \$14 billion Diamer-Bhasha dam on the grounds that Beijing’s terms were “not doable and against our interests”. Pakistan is a key cornerstone of Belt Road – China has been planning to pour \$62 billion into Pakistan’s infrastructure through the China-Pakistan Economic Corridor framework.

The same month, the Nepali government also [backed out](#) of its agreement with Chinese state-owned Gezhouba Water and Power for the 1,200MW Budhi Gandaki dam, citing irregularities on the awarding process.

Still, President Xi’s legacy is riding on large-scale flagship projects, and the pace of Beijing-backed infrastructure building and spending is expected to pick up in 2018 and beyond.

The principal question remaining to be answered at this point, conference participants told *IJGlobal*, is whether Beijing will open 'Belt and Road' investments to foreign capital and investors, and if it does, what form it will take.

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