

Examining the China's Belt and Road Initiative with a Focus on Quality Infrastructure and Debt Sustainability

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(1) China and Japan's Infrastructure Export Strategies

Ever since China's GDP surpassed Japan's in 2010, its economic rise has been evident in increased export volumes and foreign exchange reserves which now exceed those of Japan, as well as in its growing contributions to the World Bank and UN agencies. The Belt and Road Initiative (BRI), which was announced in 2013 and became part of China's official policy in 2017, resulted in more infrastructure exports to developing countries situated beyond its geographic proximity. Although China's share of official development finance (ODF: Official Development Assistance plus Other Official Flows) in Southeast Asia has been on the decline since 2019, it remains a dominant player in loans and investments in Africa.

Meanwhile, even though Japan's infrastructure exports, primarily in transportation infrastructure, maintained a major presence in Asia until the late 2000s, it has lost its competitive edge in recent years, having been overwhelmed by China's low infrastructure investment prices, speedy construction, nimble decision making, an extensive project experience in a variety of climatic and construction conditions, and flexible negotiating skills. In response to this, since the 2010s, Japanese government has been promoting investments in "quality infrastructure" by leveraging its international credibility and risk assessment and technical capabilities. Quality infrastructure comprises a project's economic rationality, openness, and transparency, while an emphasis on the debt sustainability of the borrowing countries implies a desire to counter China's infrastructure investments.

(2) Cases of Infrastructure Competition between Japan and China

The author takes up several examples below based on on-site research into infrastructure assistance provided by Japan and China, mainly in Asia to compare the two countries' economic assistance.

First, both countries have offered large-scale support for the development of railway infrastructure in the Philippines, with Japan announcing loans totaling approximately 510 billion JPY and China pledging support of about 450 billion JPY. The Philippine government has weighed both countries' proposals, considering loan interest rates and diplomatic relations, among other factors. Until recently, Japan had better loan terms and was overwhelmingly dominant in the railway sector. Projects with

China have stalled, with the new Philippine (Marcos) government ordering a renegotiation of loan agreements with China that were concluded by the previous Duterte administration.

Next, regarding to Timor Leste, China has been working to build national infrastructure and strengthen diplomatic relations through grant aid for the construction of government-related facilities and has received orders for Tibar port development through public-private partnership (PPP). Meanwhile, Japan has provided assistance through a grant aid framework for a variety of projects including Dili port renovation and improvements as well as in the agriculture and education sectors. For repair work on the National Highway No. 1, the only Japanese government-backed yen-loan project in Timor Leste, a local construction project was awarded to Chinese companies through an international competitive bidding, upon which some expressed concern that China's increased presence at the site would undermine the diplomatic effects that Japan was hoping for. However, it is also believed that having Chinese companies tackle construction at sites with challenging geographical conditions is a net plus if this helps in overall development efforts.

China has been the leading source of investment in and aid to Cambodia since 2010. Although there are concerns that Chinese development projects may result in a forced eviction of residents and the United States has taken issue with the Chinese renovation of a naval base (Ream), China enjoys a strong presence in the Sihanoukville area with its construction of expressways and development of special economic zones, hotels, condominiums and resorts. Simultaneously, Japan has contributed to Cambodia's economic development over the years through a wide range of grant aid and government-backed yen loans since 1992. While China's recent construction of a new bridge next to a (Chroy Changvar) bridge in Phnom Penh that was Japan's first aid project in Cambodia can be seen as symbolizing a shift in roles between Japan and China, it can also be interpreted as an example of how aid from Japan and China have played complementary roles in supporting Cambodia's economic development.

Furthermore, since 2009, Sri Lanka has seen a rapid expansion of loans and aid from China under the pro-China Rajapakse administration, which, combined with the country's economic collapse, has led to huge debts owed to China. The sea lanes of the South China Sea and Indian Ocean are of a great geographic importance to China, and the continuing support that China provides to ports in this area (String of Pearls) is seen as having both economic and military significance. Japan, too, is aware of the geopolitical significance of this region and has put forward its Free and Open Indo-Pacific (FOIP) initiative. Objectively, this is an initiative targeted at China, with the Japanese government having undertaken several projects aimed at strengthening the economic connectivity with Southeast and Southwest Asia, including reinforcing security ties.

Finally, China has recently focused on providing a large scale of financial support to the Egyptian government for the construction of a new capital city, including for the development of a light rail transit (LRT, elevated railway), while Japan has provided government-backed yen loans for the construction of the Grand Egyptian Museum (GEM) in western Cairo and a subway connecting the museum to the rest of the city. The support provided by the two countries looks, in the end, very much like a competition between them on the east and west sides of Cairo.

Since announcing the BRI, China has sought to increase development assistance. Nonetheless, since around 2017, it has been forced to suspend or reconsider a growing number of projects, with the amount of development assistance falling off. This is due to a regime change in developing countries and criticism from their residents and the international community. For example, the construction of the Myitsone Dam in Myanmar was halted after a transfer of power to civilian rule in 2011 because of local opposition to the project and concerns over environmental damage. Despite China upholding the principle of non-interference in countries' internal affairs, political upheavals and democratization have led to setbacks and a rethinking of aid projects in Sri Lanka, Malaysia, Sierra Leone, Pakistan and so on.

(3) Creating International Rules and Frameworks

What will China's support to developing countries look like in terms of "quality infrastructure" and "debt sustainability," moving forward?

First, regarding quality infrastructure, recent positive signs include the Chinese government and state-owned enterprises being more careful in reviewing projects, considering environmental issues, resident relocation, and financial planning based on economic rationality. In addition, changes are emerging in the form of China's increasingly cooperative international stance of respecting international standards on the environment and social impact guidelines. In the future, the international community must strive to bring China into line with international rules while emphasizing the importance of "quality infrastructure" and encouraging it to take a more positive stance on business openness and sustainability.

Regarding the issue of debt sustainability, although the international community has supported heavily indebted poor countries (HIPC) by writing off their debts and providing them with grant aid, in several cases, countries receiving loans from China have faced difficulties paying these back, even though China has referred to these loans as a "win-win relationship." Considering all of this, international pressure is required to make China align itself with international frameworks and work cooperatively to reduce and restructure the debts owed to it, rather than take advantage of bilateral negotiations to prioritize its own interests.

China can be thought of to be currently learning the ins and outs of international cooperation. To induce China to align itself with a framework of international cooperation, going beyond international pressure and criticism from the perspectives of "quality infrastructure" and "debt sustainability" is necessary. China must raise its awareness of international contributions based on multilateralism and make more advanced decisions on policy shifts at a practical level. Recognizing these signs of a kind of "liberalization" in China's international behavior and guiding China toward a framework of international cooperation can be argued to be both a critical issue for the international community and strategy of economic diplomacy that will serve Japan's national interests.

(This is an English translation of an outline of the lecture delivered by INADA Juichi, Professor, Senshu University, at the 199th Policy Plenary Meeting of CEAC on July 4, 2024.)