University of Nottingham
Asia Research Institute

Policy brief
June 2019

# The United Kingdom's Belt and Road Initiative strategy after Brexit

Dr Benjamin Barton

As China's President Xi Jinping's signature foreign policy programme, the Belt and Road Initiative (BRI) has become one of the world's most active infrastructure development drivers. The BRI is helping to meet the increasing demand for infrastructure development in emerging markets across the world. This policy is unlikely to change due to the importance that the Chinese government attributes to the BRI, with it now being formally enshrined into the Chinese Communist Party (CCP) constitution.

For the UK, the BRI stakes are high; it matters both domestically and internationally. It is impacting the wellbeing of countries that are of strategic importance to the UK. It also contributes to the emerging geopolitical rivalry on infrastructure financing. The government should explore bilateral and multilateral venues to seek to cooperate with China on the BRI by developing a UK BRI strategy post-Brexit.

## Recommendations

**The UK should use all possible instruments to ensure that BRI projects follow international norms on debt sustainability.**

The UK should:
- leverage the country's expertise and know-how on banking and international development finance to mitigate the negative financial risk of the BRI
- help to build capacity among relevant Chinese stakeholders on transparency and debt management
- lean on the UK's membership of multilateral development banks to ensure that BRI projects contribute towards debt sustainability
- encourage the Chinese government to either become a full member of the Paris Club or to help create a 'Paris Club 2.0' (Hurley et al. 2018: 22)

**In parallel to its own efforts, the government should work alongside international initiatives to raise awareness of alternative infrastructure financing models.**

The UK should:
- cooperate with American, Japanese, Indian, Australia, Canadian and EU initiatives to create healthy competition for the BRI
- raise awareness and build capacity among officials and civil society actors in recipient states on the possible risks associated with the BRI

**In the event of BRI investments in the UK, the government should ensure that it does not succumb to greater Chinese political influence.**

The UK should:
- in its new post-Brexit reality, avoid letting Beijing translate these investments into political capital, as has happened in Greece and Hungary

> "We intend to position London as the premier global centre for funding and facilitating BRI projects. [...] We want our financial services sector to use its emerging market expertise to ensure projects along the Belt and Road are bankable, legal and sustainable."
>
> **Baroness Fairhead,** 2018


## Context

Other countries and actors around the world have come up with their own responses to the BRI. The US, Japan, India and the EU (among others) have devised individual and/or combined policy responses.

This demonstrates the urgency for the UK to do the same. The government should look to complement these existing responses and raise awareness in recipient states of the possible risks associated with BRI projects. Here, the focus should be on building capacity among local officials and civil society groups in these recipient states.

Domestically, the BRI's importance is likely to increase as well. Post-Brexit, the UK is likely to enjoy greater bilateral commercial dealings with China. In addition, the BRI can help address the UK's own infrastructure regeneration financing needs. It is here that the government needs to adopt a firm political stance when dealing with China on the BRI.

## The BRI context

- According to reports, the BRI has amassed more than $200 billion worth of investments – with much more to come
- More than 65 countries worldwide have signed up to be part of the BRI
- The Asian Development Bank estimates that $26 trillion is needed to sustain growth, reduce poverty and fight climate change in Asia alone (cited in Hurley et al 2018: 2)
- Eight countries are at risk of debt unsustainability caused by BRI financing, according to a 2018 Center for Global Studies report (Hurley et al. 2018: 1) – leading to criticism that the BRI is creating 'debt traps' (Tillerson in van der Meer 2019)
- The US, Japan, Australia, Canada, the EU and India have devised individual and/or combined policy responses to the BRI

## Results and conclusions

The takeaway messages from this policy brief are the following:

BRI projects are welcome as they help meet global infrastructure demands, even if they serve Chinese economic interests.

To beset an infrastructure shortfall, the global economy requires a $94 trillion investment from now until 2040 (Bhattacharya et al 2019: 17). To remedy this problem, China is ready to invest close to 1% of this sum through the BRI. This in itself is a huge step, which needs to be further encouraged in parallel to the initiatives of other actors worldwide. However it is important to note that the BRI is an initiative designed to support Chinese economic interests. It serves to boost the economy at a time when the country has experienced something of a slowdown. Chinese companies, entrepreneurs and labourers will always be the primary beneficiaries. The government should not ignore this factor when devising its BRI strategy.

The current trend of BRI investments is likely to continue despite concerns around the financial viability of BRI projects.

A prolonged economic slowdown is not in Beijing's interest. Much of the CCP's authoritarian legitimacy derives from its ability to meet economic targets. The BRI helps create economic opportunities abroad to reduce the pressure on saturated markets at home. It is also linked to President Xi's personal legacy. As a case in point, the BRI has been written into the CCP's constitution. The BRI's success (or lack of) will reflect upon Xi's leadership. That is why Beijing is unlikely to change its BRI strategy. BRI projects may encounter financial difficulties and/or may never be terminated. For this reason alone, the government needs a long-term outlook on how it intends to tackle the BRI.

The BRI's application has been far from perfect – in some cases it has driven some countries closer towards debt unsustainability and political vulnerability, as the examples of Djibouti, the Maldives and Pakistan have shown.

The BRI's success is being undermined by problems of an administrative, financial, logistical and social order. The variation in the problems faced have depended on the project's location. For example, Djibouti is a country at risk of debt distress due to BRI projects, according to the IMF. In just two years (up until 2018), its public external debt increased from 50-85% of GDP (cited in Hurley et al 2018: 16). It is worth noting however that many of these BRI projects are of crucial economic importance as much to the recipient country as they are to the region. The railway link connecting the port of Djibouti to Addis Ababa in Ethiopia serves as an economic boom to the entire region.

The 'debt-trap' rhetoric has proven unhelpful as it has only further antagonised the Chinese government and applied pressure on recipient states.

It is highly unlikely that the BRI is going anywhere anytime soon. Castigating the Chinese government for the BRI's faults will only do so much. Such criticism has also put recipient countries in an awkward situation as well.

BRI investments are providing economic lifelines, for example in Cambodia, which is one of the world's poorest countries. The Sihanoukville Special Economic Zone has generated income by reportedly employing over 20,000 Cambodian workers (Kha 2019). It has also promoted the social and economic inclusion of low-skilled and female workers from Sihanoukville and other surrounding provinces.

There is a need for a more constructive approach. The government should seek ways of working with Beijing as well as recipient countries to find remedies to the BRI's shortcomings by using all available policy instruments to help improve the BRI.

## Further reading

- Bhattacharya, A, Dollar, D, Doshi, R, Hass, R, Kharas, H, Solis, M and Stromseth, J, 2019, *China's Belt and Road: The New Geopolitics of Global Infrastructure Development (A Brookings Interview)*, Washington, D.C: brookings.edu/wp-content/uploads/2019/04/FP_20190419_bri_interview.pdf, 19 May 2019
- Hurley, J, Morris, S and Portelance, G, 2018, *Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective*, Washington, DC: Center for Global Development: cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf, 19 May 2019
- Kha, S, 2019, The Belt and Road in Cambodia: Successes and Challenges, *The Diplomat*: thediplomat.com/2019/04/the-belt-and-road-in-cambodia-successes-and-challenges, 19 May 2019

**Dr Benjamin Barton** is Assistant Professor at the University of Nottingham Asia Research Institute. Benjamin can be contacted at **benjamin.barton@nottingham.edu.my**