
Comparing the Chinese Belt and Road Initiative to Western Development Finance

Ian Richardson

Abstract: The aim of this paper is to bring some nuance to the discourse surrounding the Chinese Belt and Road Initiative. The central question is, “Does China provide a better alternative to aid-based development finance?” To answer this question, one must be aware of the contemporary aid effectiveness debate, know the history of development finance, and understand the impacts of the Chinese Belt and Road Initiative. Foreign aid from the West mainly consists of grants and concessional loans for improving humanitarian conditions. The Belt and Road Initiative takes a business approach by lending to countries to improve infrastructure, mainly for increased trade. By summarizing the aid effectiveness debate and comparing the history of Western aid to the Belt and Road Initiative, I highlight the similarities and differences between Chinese and Western development finance.

ACRONYMS

<u>BRI</u> :	Belt and Road Initiative
<u>China Eximbank</u> :	Export-Import Bank of China
<u>CM Port</u> :	China Merchant Port Holdings
<u>IMF</u> :	International Monetary Fund
<u>LMICs</u> :	Low- and Middle-Income Countries
<u>MDGs</u> :	Millennium Development Goals
<u>ODA</u> :	Official Development Assistance
<u>OECD-DAC</u> :	Organization for Economic Co-operation and Development – Development Assistance Committee
<u>OF</u> :	Official Finance
<u>OOF</u> :	Other Official Flows
<u>OPEC</u> :	Organization of the Petroleum Exporting Countries
<u>SOE</u> :	State-Owned Enterprise
<u>UNICEF</u> :	United Nations Children’s Fund
<u>WWII</u> :	World War Two

INTRODUCTION

This paper summarizes the main schools of thought in the contemporary foreign aid debate, places foreign aid within its historical context, and characterizes China's Belt and Road Initiative (BRI). The goal of comparing Western development finance to the BRI is to determine which model is more effective. The literature review focuses on the scholarly debate on aid effectiveness. Sachs argues that the West has a moral obligation to provide aid to post-colonial states.²⁰⁵ Moyo argues that aid continues the imperialist dynamics, inhibiting economic sovereignty in recipient countries.²⁰⁶ Dollar and Burnside posit that the effectiveness of aid is contingent upon the strength of a recipient countries' economic, governmental, and legal institutions.²⁰⁷ I start the historicization of aid with the Bretton Woods Meeting of 1944 and the Marshall Plan of 1945, marking the start of modern aid-based development. Aid was used by the United States and Soviet Union during the Cold War to advance political and diplomatic goals, cementing it as a tool of foreign policy. The "planning approach" of the 1950s, influenced by the success of the Marshall Plan, emphasized industrialization and large infrastructure projects. The lack of human capital spurred the "need-based" approach of the late 1960's and early 1970s that focused on social services like healthcare and education. The "Washington Consensus" of the 1980s and 1990s emerged from a belief that market openness was the key to successful development, and that the private sector would build the necessary infrastructure. The early 2000s saw a reevaluation of aid, with multiple high-level forums on aid effectiveness and the Millennium Development Goals, calling for more recipient involvement and "ownership" of aid programs. I then characterize the Belt and Road Initiative, relying heavily on AidData's September 2021 study of 13,427 BRI projects. However, it is still unclear whether China will provide a better alternative to official development aid or if their investment will cripple nations with debt.

LITERATURE REVIEW: AID EFFECTIVENESS

The effectiveness of aid is a contentious topic, with three main schools of thought: proponents of aid such as Jeffery Sachs, critics of aid like Dambisa Moyo, and those in the middle of the road like Craig Burnside and David Dollar. Jeffery Sachs, author of *The End of Poverty: Economic Possibilities of Our Time*, argues that increased Official Development Assistance (ODA) is a major tool to alleviate poverty. Poor countries have a low per capita income, which leads to lower savings and lower investment. As seen in Figure 1, Sachs believes that foreign aid can fill the savings gap. Some ODA goes to impoverished

²⁰⁵ Jeffery Sachs, *The End of Poverty* (New York: Penguin Press, 2005).

²⁰⁶ Dambisa Moyo. *Dead Aid* (New York: Farrar, Straus, and Giroux, 2009).

²⁰⁷ Craig Burnside and David Dollar, "Aid, Policies, and Growth," *The American Economic Review*, 90, no. 4 (2000): pp 847-868.

households, mainly for humanitarian emergencies; some goes to private businesses like farmers; and most of it goes to the public budget to finance infrastructure, human capital, and public institutional capital. Continuous substantial ODA flows would create a virtuous cycle of economic growth, mitigating poverty (see figure 1).

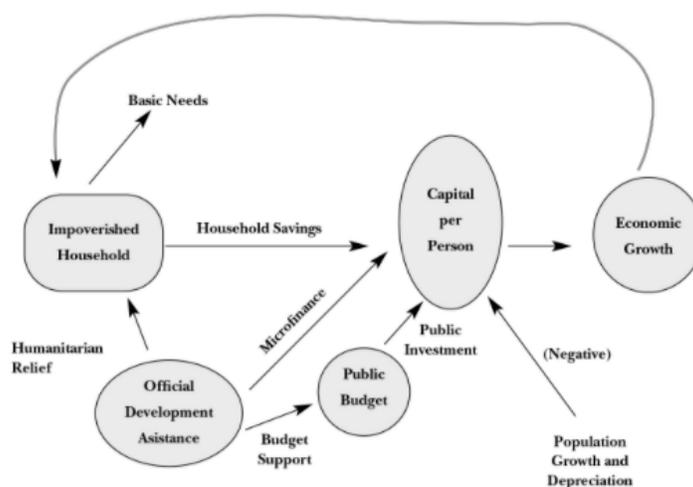


Figure 1. Jeffery Sachs, *The End of Poverty* (New York: Penguin Press, 2005), 249, fig. 3.

Dambisa Moyo, however, argues that these aid flows exacerbate impoverished conditions, subduing the domestic economy into aid dependency. She highlights that, despite the billions of dollars of aid that went to Africa, poverty has risen from 11% to 66% between 1970-1998.²⁰⁸ She calls for phasing out aid over the course of 5 years, ideally replacing it with business investment. Moyo takes issue with Sachs' argument that most of the ODA should go to public finance, as corruption in recipient countries often leads to the misappropriation of aid and prevents the aid from reaching those who need it most. The importance of the strength and accountability of recipient institutions is highlighted by Burnside and Dollar.²⁰⁹ They found that aid effectiveness depends on country income, institutional strength, and policy. Low-income countries with weak political, economic, and legal institutions were less likely to properly manage the funds, invest it, and grow capital. The Marshall Plan, the post WWII economic stimulus to Europe, benefitted Europe because they had existing political and economic institutions that just needed repair. Sachs, Moyo, Burnside and Dollar provide the framework for the contemporary aid debate. Is foreign aid effective? Is China's loan-based development a better alternative to aid-based development? Assessing the effectiveness of aid (which historically has been dominated by Western actors) is important for understanding the complex relationship between Western development finance and Chinese

²⁰⁸ Dambisa Moyo. *Dead Aid* (New York: Farrar, Straus, and Giroux, 2009), 47.

²⁰⁹ Craig Burnside and David Dollar. "Aid, Policies, and Growth," *The American Economic Review* 90, no. 4, (2000), 847-868.

development finance. This essay aims to contextualize the aid debate by summarizing the history of foreign assistance, then comparing it to China's Belt and Road Initiative.

DEFINITION

There are two main categories of Official Finance (OF): Official Development Assistance (ODA) and Other Official Flows (OOF). The Organization of Economic Co-Operation and Development (OECD) defines ODA as “flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective.”²¹⁰ At least 25% of the assistance must be grant money, and any loans must be concessional in nature. Concessional loans have low interest rates, lenient deadlines for repayment, and are less risky for the borrower. Other Official Flows are anything that fall outside of this definition, with less than 25% grant and/or without the goal of development. Within the ODA definition, there are three main categories of aid: humanitarian, charity based, and systemic.²¹¹ Humanitarian aid is used in response to unforeseen crises like natural disasters or human security issues like epidemics. UNICEF's work in Yemen to combat child malnutrition is an example of humanitarian aid.²¹² Charity-based aid is money raised by charitable organizations, like the Bill and Melinda Gates Foundation, donated to governments or people on the ground. Systemic aid is the transfer of funds from one institution to another. Foreign aid scholars largely stay in the domain of systemic aid because it is long-term and there are clear policies that governments and multilateral institutions can adopt to improve the effectiveness of aid. Additionally, emergency aid is necessary for emergency situations, but is not a sustainable long-term solution. For the purposes of this paper, I will only discuss the impacts of systemic aid, through bilateral and multilateral channels. Western Donors have shifted away from OOF and almost entirely towards ODA within the past 20 years. Conversely, China's BRI maintains a 31 to 1 ratio of loans to grants, meaning that it mainly uses OOF.²¹³

HISTORY OF DEVELOPMENT FINANCE

This section highlights a few key events and shifts in development thinking from World War II until the present. Until recently, OECD- Development Assistance Committee countries (United States and Western Europe), the International Monetary Fund (IMF) and the World Bank have been the prevailing entities in development finance. I group multilateral institutions such as the IMF and World Bank into the category of “Western actors” because they have historically behaved in line with the neoliberal, capitalist

²¹⁰ OECD, Glossary of Statistical Definitions, 2003. <https://stats.oecd.org/glossary/detail.asp?ID=6043>

²¹¹ Dambisa Moyo. *Dead Aid* (New York: Farrar, Straus, and Giroux, 2009), 7.

²¹² UNICEF. How to Help Yemen's Children. Retrieved October 13, 2021.

<https://www.unicefusa.org/mission/emergencies/child-refugees/crisis-in-yemen>

²¹³ Ammar Malik, et al. Banking on the Belt and Road. (Williamsburg: AidData at William and Mary, 2021), 1.

ideals of the West. Therefore, the history of development finance mainly focuses on these actors. The Bretton Woods meeting of 1944 defined the framework for modern aid-based development.²¹⁴ The Marshall Plan's success shaped the approach to foreign aid in the 1950s, categorized as the 'planning approach' era. Aid flows during the Cold War aimed to create "markets for the United States by reducing poverty and increasing production in developing countries," and also focused on "diminishing the threat of communism by helping countries prosper under capitalism."²¹⁵ The 1960s saw a rise in a neoclassical approach to foreign aid, favoring human capital and need-based development. The oil crisis of the 1970s crippled developing economies, forcing mass debt forgiveness. In return for this debt forgiveness, countries had to restructure their economies to fit the neoliberal ideals of their creditors, which would come to be known as the Washington Consensus.²¹⁶ The early 2000s established new principles and good practices of aid, with the United Nations' Millennium Development Goals and the 2005 Paris Declaration.

World War II and the Cold War

In preparation for post-war reconstruction, the Bretton Woods meeting of 1944 established two major multilateral institutions: The World Bank (originally the International Bank for Reconstruction and Development) and the IMF. Multilateralism is the collaboration between multiple states to achieve a shared goal, contrasted to bilateralism which only includes two actors. Multilateral aid is favored because risks are shared among the donors and more voices are involved in decision-making. Bilateral deals are typically much quicker but more susceptible to power imbalances between the two actors. While the World Bank and IMF were not particularly influential at their inception, they are two of today's most significant regulatory bodies for the global economic system and are major actors in foreign development. According to a Brookings U.S. Multilateral Aid Review, in 2014 "41 percent of the Official Development Assistance (ODA) given by the donors of the OECD's Development Assistance Committee (DAC) went through multilateral channels."²¹⁷ The structure of the IMF and World Bank are similar, both with a Board of Governors and an Executive Board. The Board of Governors has one representative from each of the 189 member countries. The Executive Board has only 25 members and is much more representative of major donor interests like the United States. The function of the IMF is to oversee the global monetary system, while the World Bank offers assistance to low- and middle-income countries. The Bretton Woods

²¹⁴ Dambisa Moyo, 10.

²¹⁵ USAID. "USAID History," *USAID*, updated July 12, 2021, <https://www.usaid.gov/who-we-are/usaid-history>.

²¹⁶ Sebastian Edwards. "Foreign Aid: A Historical Perspective," *Kyklos* 68, No.3 (2015): 278. <https://www.nber.org/papers/w20685>.

²¹⁷ Anthony Pipa, Brina Seidel, and Caroline Conroy. *U.S. Multilateral Aid Review*. Brookings, December 2018. <https://www.brookings.edu/wp-content/uploads/2018/12/US-Multilateral-Aid-Review.pdf>.

institutions represent nearly every country but have been criticized for consistently acting in the interest of large Western countries.

The first major iteration of foreign aid was The United States' Marshall Plan, including both grants and long-term loans to repair damaged cities, industry, and infrastructure. Over the course of four years, it sent an estimated \$13.2 billion USD, equivalent to \$135 billion in today's money, to support Western Europe's reconstruction after the Second World War.²¹⁸ The funds did not go through channels such as the IMF or the World Bank but rather were managed between the U.S. and Europe. The Organization for European Economic Co-Operation was created to administer the Marshall Plan funds. This would later become the Organization for Economic Co-Operation and Development (OECD) when the United States and Canada joined in 1961, creating today's main organization of donor countries. In 1952, after the four years of the Marshall Plan, recipient countries surpassed pre-war economic growth rate.²¹⁹ It is contested whether the Marshall Plan can be entirely credited for Western Europe's successful reconstruction, but it is widely accepted that the aid was beneficial. The timely and efficient reconstruction of Western Europe made a strong case for economic aid, shaping the approach to its distribution in other areas of the world.

The utilization of foreign aid as foreign policy by the US and USSR was instrumental during the Cold War. After the fall of Nazi Germany, tensions between the United States and the Soviet Union rose, splitting the world into three camps: the capitalist "First-World," the communist "Second World," and the non-aligned "Third-World." Both the U.S. and U.S.S.R. used aid to forge diplomatic and economic ties with the Third World. In addition to Cold War influences, former colonialists such as France and Britain used aid to maintain economic sway, namely in newly independent resource-rich countries. The Truman Doctrine pledged support to any country threatened by communism, using aid to gain the allegiance of low- and middle-income countries (LMICs).²²⁰ Prior to the Cold War, aid's main goal was to reconstruct damaged infrastructure but was now used as leverage in the Third World, often funding proxy wars in Africa, Latin America, and parts of Asia. The United States propped up dictators in the name of anti-communism, and former colonial masters wanted to maintain the benefits of colonialism.²²¹ The USSR

²¹⁸ Benn Steil and Benjamin Della Rocca. "It Takes More Than Money to Make a Marshall Plan," *Council on Foreign Relations*, April 9, 2018. <https://www.cfr.org/blog/it-takes-more-money-make-marshall-plan>.

²¹⁹ History.com Editors. "Marshall Plan," *HISTORY*, updated June 5, 2020. <https://www.history.com/topics/world-war-ii/marshall-plan-1>.

²²⁰ Gregoire Leclerc. "A Brief History of International Development," in *Making World Development Work* (Albuquerque: University of New Mexico Press, 2007), 42.

²²¹ Elizabeth Schmidt, "Introduction," in *Foreign Intervention in Africa* (New York: Cambridge University Press, 2013), 1.

was also involved in the neo-imperial project, namely in Central Asia and Eastern Europe. The Cold War shaped development thinking because it cemented foreign aid as a strategic tool of foreign policy of the major world powers.

Shifts in Development Thinking, 1950s-2000s

The following section summarizes the general shifts in development thinking from the 1950s until the early 2000s. Figure 2 associates the period with its dominant approach to foreign aid.

Time Period	Aid Ideology
1950s	Planning Approach
1960s- early 1970s	Basic-needs approach
1970s-1980s	Neoliberal structural readjustment
1990s	Washington Consensus
Early 2000s	Emphasis on recipient needs

Figure 2. Shifts in Development Thinking, 1950s-2000s.

Major aid donors saw industrialization as the quickest way to stimulate capital accumulation, so a similar approach as the Marshall Plan was taken by the West in developing economies. The Harrod-Domar economic model emerged as the dominant development model during the 1950s. It emphasized the accumulation of capital through saving and investment as the main source of economic growth.²²² This economic model manifested as the “planning approach” of the 1950s and included protectionist policies, industrialization, and state-owned enterprises (SOE) such as industrial firms, banks, and trading companies. Tariffs were placed on imports to encourage domestic production of goods. Industries, like steel, were seen as deserving of protectionist insulation because their expansion would benefit other industries. The construction of industrial infrastructure like roads, bridges, and ports were seen as the main factors for economic growth. However, there was, as Sebastian Edwards argues, “increasing evidence that developing countries lacked the ‘absorption capacity’ required to implement many of the aid projects.”²²³ The emphasis shifted away from building power plants and dams towards training professionals and improving skills in the late 1960s and early 1970s. This era saw the rise of the “basic

²²² Evsey Domar. “Capital Expansion, Rate of Growth, and Employment,” *Econometrica* 14, No. 2 (1946): 137-147. <https://doi.org/10.2307/1905364>.

²²³ Sebastian Edwards. “Foreign Aid: A Historical Perspective,” *Kyklos* 68, No.3 (2015): 299. <https://www.nber.org/papers/w20685>.

needs approach,” focusing on human capital by investing in healthcare and education. Robert McNamara, then the president of the World Bank, strongly influenced the shift away from infrastructure aid and toward aid for social programs. The proportion of aid spent on social programs rose from under 10% in the 1960s to over 50% in the late 1970s.²²⁴ The planning approach of the 1950s dramatically shifted towards a basic needs approach in the late 1960s and early 1970s when a need for improved human capital was observed.

During the 1970s, OPEC raised the price on oil as a retaliation to the U.S. for supporting Israel in the Yom-Kippur War, shocking the global economy, especially the developing world.²²⁵ In 1970, Ghana’s inflation rate was 3 percent. By 1975 it was 30 percent, and it spiked to 116 percent in 1977, rendering commodities like food and oil unaffordable.²²⁶ The collective debt of developing countries rose to \$110 billion in 1973 (~\$777 billion today).²²⁷ Many countries could not afford to pay their debt after the devastating oil crises in the 1970s, so the IMF and World Bank forgave mass amounts of debt with their structural adjustment programs introduced in 1979. These loans would be forgiven, but the indebted countries had to restructure their economy to better match the neoliberal free-market ideals of the West.

In 1989, the term “The Washington Consensus” was coined by scholar John Williamson, to describe the privatization, liberalization, and deregulation promoted through the IMF’s structural readjustment program.²²⁸ Foreign aid during the 1980s and 1990s was strongly characterized by this consensus. The publication of the World Bank’s 1981 *Accelerated Development in Sub-Saharan Africa*, (more commonly known as the “Berg Report”) criticized the planning approach of the past, pointed out that the state-owned enterprises were corrupt, and called for an increase in private sector participation.²²⁹ The structural adjustment programs intensified conditionalities that encouraged recipient countries to liberalize their economies, eliminate quantitative import restrictions, and lower import tariffs.²³⁰ Countries were encouraged to decrease public spending and support private interests, assuming that private companies would build the infrastructure necessary for industrial growth.

²²⁴ Dambisa Moyo. *Dead Aid* (New York: Farrar, Straus, and Giroux, 2009), 16.

²²⁵ Gregoire Leclerc. “A Brief History of International Development,” in *Making World Development Work* (Albuquerque: University of New Mexico Press, 2007), 46.

²²⁶ Dambisa Moyo. *Dead Aid* (New York: Farrar, Straus, and Giroux, 2009), 16.

²²⁷ Gregoire Leclerc. “A Brief History of International Development,” in *Making World Development Work* (Albuquerque: University of New Mexico Press, 2007), 46.

²²⁸ John Williamson. “What Washington Means by Policy Reform,” in *Latin American Readjustment*. (Washington: Institute for International Economics, 1989), 7-40.

²²⁹ World Bank. *Accelerated Development in Sub-Saharan Africa*. (Washington: The World Bank, 1981).

²³⁰ Sebastian Edwards. “Foreign Aid: A Historical Perspective,” *Kyklos* 68, No.3 (2015): 309.
<https://www.nber.org/papers/w20685>.

The success of the East Asian Tigers' (Taiwan, Singapore, Hong Kong, and South Korea) export-led growth was used as examples of the benefit of the free-market and international trade, despite significant government planning and US sponsorship of these countries. Nevertheless, the East Asian Tigers were used as justification for Washington Consensus policies of avoiding the overvaluation of currency and sometimes even intentionally encouraging undervaluation. In Latin America and Africa, this resulted in "significant real exchange rate overvaluation, losses in international competitiveness and eventually in very severe currency crises."²³¹ The 1980s and 1990s saw enforced neoliberal values such as market-openness and a strong private sector through the structural adjustment programs of the IMF and World Bank. The failure of these policies led to the heightened concerns about aid effectiveness during the 2000s.

The early 2000s saw a reevaluation of foreign aid with the United Nations' Millennium Development Goals (MDGs), and the Paris Declaration of 2005, sparking increased interest in the effectiveness of aid. Between 2000 and 2010, the number of journal articles on aid effectiveness produced rose by 32 each year on average.²³² The MDGs included eight targets; halving poverty by 2015, achieving universal primary education, promoting gender equality, reducing child mortality, improving maternal health, combatting diseases like AIDS and malaria, ensuring environmental sustainability, and developing a global partnership for development.²³³ The 2005 Paris Declaration on Aid Effectiveness established good principles and practices for foreign aid. Aid tied to conditionalities were accepted to be harmful, and an emphasis was placed on 'country ownership' of aid deals. "Ownership" includes the degree to which the recipient country supported the idea of a program, and the extent of action government officials would take to implement the program.

Conclusion of the Brief History

WWII and the Cold War have strongly impacted the approach to foreign aid. United States' post-WWII reconstruction plan, the Marshall Plan, was widely successful in Europe and shaped the approach for years to come. The Cold War shifted aid from supporting reconstruction after WWII to a tool to advance political and economic agendas. More than US \$300 billion of aid has gone to Africa since 1970, yet there is little to show for it. Rwanda's President Paul Kagame explains that "in the context of post-Second World War geopolitical and strategic rivalries and economic interests, much of this aid was spent on creating and sustaining client regimes of one type or another, with minimal regard to developmental

²³¹ Edwards, *Foreign Aid: A Historical Perspective*, 293.

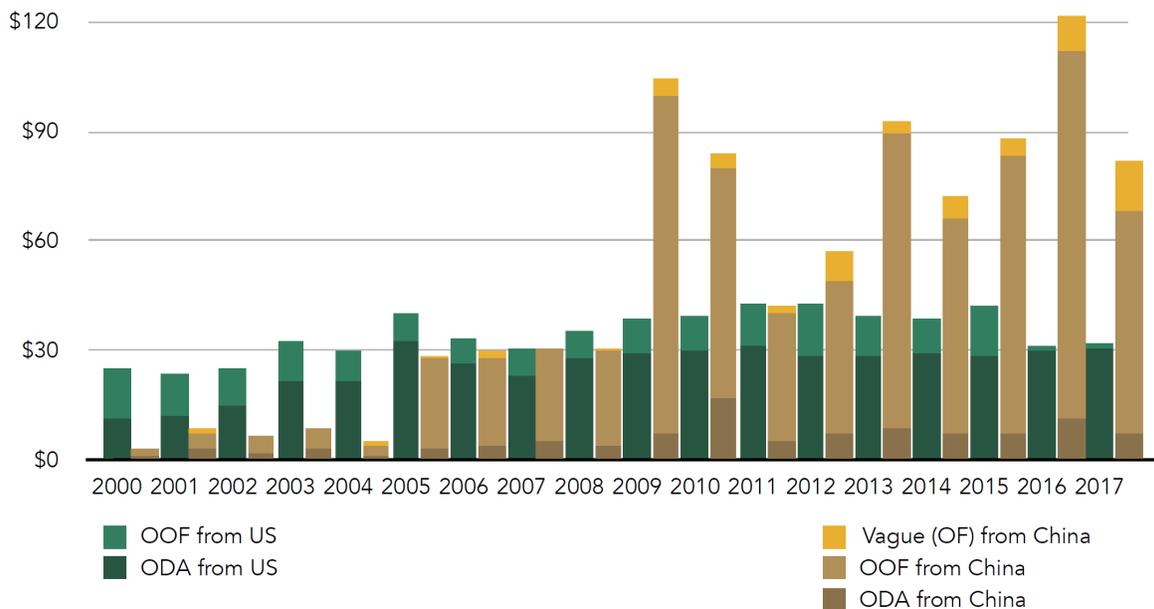
²³² Ziyoda Asatullaeva et al. "Systematic Literature Review" *Journal of International Development* 33, no. 4 (2021): 717-751. <https://doi.org/10.1002/jid.3543>.

²³³ United Nations. Millennium Development Goals. Accessed 28, October 2021. <https://www.un.org/millenniumgoals/>.

outcomes on our continent.”²³⁴ The “planning” approach of the 1950s, the “needs based” approach of the 1960s and 70s, the “Washington Consensus” approach of structural readjustment in the 1980s and 90s all have at least one thing in common; each approach is a top-down, Western projection on what recipient countries need. There needs to be more conversation including the (elected) officials of recipient countries and more accountability and tracking of where the aid has gone.

DEVELOPMENT FINANCE NEWCOMER: CHINA

The West was the dominant actor in foreign development until the early 2000s. Since the introduction of Beijing’s “Going Out Strategy” in 1999, China has become increasingly involved in international development. The start of the Belt and Road Initiative (BRI) in 2013 intensified China’s economic engagement, even outspending the US on a 3.6 to 1 ratio in 2016.²³⁵ The BRI is China’s global infrastructure development strategy which spans across Southeast Asia, Eurasia, and Africa. Figure 3, from AidData’s recent report, *Banking on the Belt and Road*, compares the Official Development Aid (ODA) and Other Official Flows (OOF) from the United States and China since 2000.



China and United States’ Official Development Flows from 2000-2017.

²³⁴ Paul Kagame, interview by Alex Perry, *Time Magazine*, Time USA, 27 September 2007. <http://content.time.com/time/subscriber/article/0,33009,1666064,00.html>.

²³⁵ Ammar Malik, et al. *Banking on the Belt and Road*, (Williamsburg: AidData at William and Mary, 2021), 11.

Figure 3. Ammar Malik et al., *Banking on the Belt and Road* (Williamsburg: Aid Data, 2021), 13, fig. 3.

This chart displays the timeline of China's increased involvement in international development starting in the year 2000, one year after the adoption of China's "Going Out" strategy. Until 2005, China's overseas investment remained minimal. A notable spike follows the 2008 financial crisis, when China was favorably positioned to have major economic influence. After China introduced the Belt and Road Initiative in 2013, the investment output spiked again, and solidified China's consistent high involvement in foreign investment.

The chart also highlights the shift of the United States official development finance toward almost entirely ODA. In 2000, the United States used more OOF than ODA, in contrast to almost all ODA in 2017. The shift towards ODA is consistent with the reevaluation of foreign aid effectiveness in the early 2000s. OECD-DAC countries began to emphasize ODA because many borrowing countries were unable to repay interest at market-rate, let alone the principal loan.

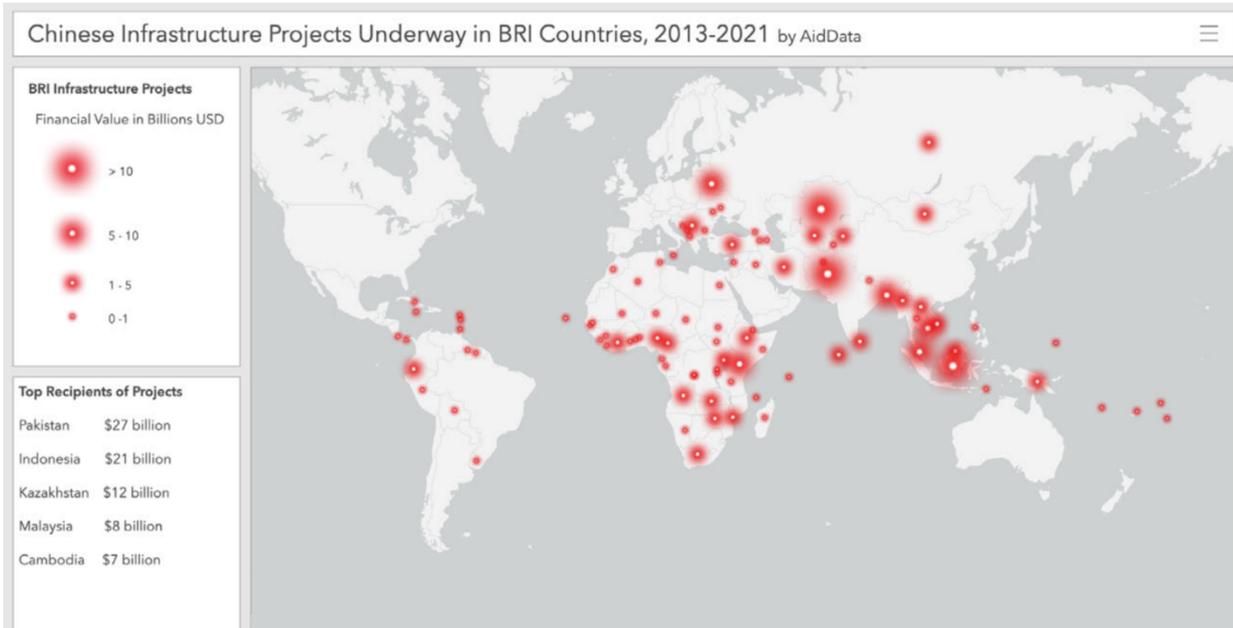
The reasons for China's dramatic uptick in foreign spending is threefold: its state-owned enterprises were experiencing industrial overproduction of steel, iron, cement, glass, aluminum, and timber; annual trade surpluses led to an oversupply of foreign money like dollars and euros; and it needed natural resources such as cobalt, iron ore, and oil from abroad. The goal of the Belt and Road initiative is to strengthen trade between China and other countries. The construction of roads, bridges, and ports helps China use its oversupply of domestic resources and have the infrastructure necessary to export its goods more seamlessly. Beijing saw the overproduction of certain domestic goods as a threat to China's long-term growth, even leading to potential social unrest and instability. To ameliorate the oversupply of its iron, cement, glass, aluminum, and timber, it offshored manufacturing plants and increased international demand by making BRI recipients buy these materials from China. Beijing saw an oversupply of foreign currencies as a problem because it could potentially lead to inflation or revaluation of the renminbi if excess foreign currencies would enter China's domestic market. Overseas investing was Beijing's strategy of offloading these excess resources into a productive outlet.

BELT AND ROAD

The Belt and Road Initiative (BRI) is China's economic development plan that stretches through Asia, Europe, and Africa. In 2013, Chinese president Xi Jinping announced the "One Belt, One Road,"²³⁶ which eventually changed to the Belt and Road Initiative. The One Belt, One Road described the "Belt"

²³⁶ Ministry of Foreign Affairs. "President Xi Jinping Delivers Important Speech," September 7, 2013, https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml.

of road, pipeline, port, and rail projects spanning from China to Central Asia and Europe and the “Maritime Silk Road” linking China to South and Southeast Asia, the Middle East, and Africa. AidData’s map below displays which countries have been recipients of Belt and Road loans, and which countries have received the highest amount of loans.



Chinese Infrastructure Projects Underway in BRI Countries, 2013-2017

Figure 4. Ammar Malik et al., Banking on the Belt and Road (Williamsburg: Aid Data, 2021), 62, fig. 23.

The Belt and Road Initiative diverges from the Western approach by dealing less with governmental institutions, and more with the private sector or state-owned enterprises. This aspect of the Belt and Road may be helpful in situations where corrupt governments have little incentive to benefit the public with ODA. Private businesses have a higher incentive to make investments in industrial infrastructure, strengthening the economy and generating revenue. According to AidData’s 2021 report, China has funded 13,427 projects in the past two decades, amounting to \$843 billion across 165 countries.²³⁷

The BRI is not a centralized initiative of the Chinese government; rather, the aspirations of Beijing’s policymakers are “refracted through an array of different actors and institutions” like the China Eximbank, China Development Bank, the Chinese government, Chinese commercial banks, and

²³⁷ Ammar Malik, et al. Banking on the Belt and Road. (Williamsburg: AidData at William and Mary, 2021), 1.

syndicated loans involving Chinese Banks.²³⁸ In the BRI discourse, Chinese Banks are conflated with the Chinese government, often because they include “China” in their names, creating an image of a monolithic, decisive China. Despite being state-owned enterprises (SOEs) Chinese Banks maintain significant autonomy. While the Chinese Government declares initiatives like the Belt and Road, it is up to the banks to invest where they think will be profitable.

Chinese creditors mitigate risk with collateralization, risk-pooling, and lending at market-rate interest rates. The Belt and Road initiative lends to higher risk borrowers (corrupt governments or businesses in unstable countries) and needs to minimize net losses. Between 2000 and 2017, 69% of Chinese loans went to countries that scored below the median repayment risk based off Moody’s and Standard & Poor’s measure of average sovereign credit ratings.²³⁹ China lends to countries that have a history of being unable to repay loans, potentially filling an infrastructure investment gap where it is most needed. Among its strategies for mitigating risk is collateralization, with 44% of official loans tied to collateral.²⁴⁰ China will commonly require a borrower to set aside cash to be collected as collateral if the loan is unable to be repaid. Another strategy is to let countries repay their loans in natural resources, or profits from natural resources can be collected as collateral as well. In contrast to Western ODA, which is mostly grant-based and offers concessional loans, Chinese loans are lent at market rate, typically approaching 6% interest. Higher interest rates incentivize BRI countries to prioritize repaying Chinese loans over the concessional loans from lenders like the IMF or the United States. Another way Chinese banks mitigate risk is through loan syndicates, or loans that are funded by multiple banks. Chinese banks, like China Eximbank and the China Development Bank, often partner with one another to pool funds. This way, they can fund large scale projects, while individually risking less. China lends to borrowers who are at a high-risk of being unable to repay their loans, which necessitates risk mitigation strategies like collateralization, risk pooling, and market-rate interest rates.

CONCERN ABOUT THE BELT AND ROAD

The implementation of the Belt and Road initiative has sparked concerns about its ethical, social, and economic impacts. Out of the 13,427 projects studied in AidData’s report, 35% of BRI projects involved corruption scandals, labor violations, environmental hazards, and public protests.²⁴¹ The BRI prioritizes profit and growth, contrasted to OECD-DAC, which uses ODA to ameliorate humanitarian

²³⁸ Ian Taylor, “The Institutional Framework of Sino-African Relations”, in *China-Africa and an Economic Transformation* (Oxford: Oxford University Press, 2019), 99.

²³⁹ Ammar Malik, et al. *Banking on the Belt and Road*. (Williamsburg: AidData at William and Mary, 2021), 20.

²⁴⁰ Malik, 85.

²⁴¹ Malik, 1.

issues. Critics like Dambisa Moyo rail against ODA, claiming that it subdues developing economies and is not a long-term solution to poverty. China's approach to development differs from traditional ODA because it follows a business model of investment, treating LMICs as business partners rather than problems to be solved. However, China's entrepreneurial approach to development has raised concerns that it is doing just what the IMF has been doing for decades: deliberately indebting poor countries to manipulate their development.

Debt-trap diplomacy is the notion that China intentionally lends to vulnerable nations to gain political, economic, and diplomatic leverage. The concept of the "String of Pearls" takes debt-trap diplomacy one step further and posits that China plans to gain access to strategic ports from the South China Sea to the Horn of Africa to expand its military prowess. The idea of debt-trap diplomacy was first coined by a researcher at an Indian think tank after observing China's takeover of Sri Lanka's Hambantota port. Unable to repay their debts, Sri Lanka opted to lease this port to China for 99 years.²⁴² China does not have military access to this port, but the story is nevertheless alarming. Upon further examination, the story of China in Sri Lanka is a bit more complex than the idea that China 'seized an asset.'

In 2004, a Chinese firm got involved in the reconstruction of Hambantota port after a devastating tsunami. China Eximbank lent US \$307 million to the newly elected government of Rajapaksa following the end of the Sri Lankan civil war in 2005.²⁴³ The reconstruction was completed ahead of schedule, and the port opened in 2010. However, the port did not attract enough ships and lost USD 300 million. In 2012, only 34 ships arrived.²⁴⁴ In 2015, Rajapaksa was voted out of office and was replaced by a new government that saw Hambantota port as Rajapaksa's pet project. Faced with US \$46.4 billion in debt (10% of which was owed to China), the new Sri Lankan government privatized a majority stake in Hambantota port to make sovereign debt repayments. For an upfront payment of US \$1.12 billion, China Merchant Port Holdings gained the majority stake of 70%. *The New York Times* portrayed the exchange as a debt equity swap, but this was not the case because the debt remained.²⁴⁵

²⁴² Maria Abi-Habib. "How China Got Sri Lanka to Cough Up a Port." *New York Times*, 25 June 2018. <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html?searchResultPosition=1>.

²⁴³ Deborah Brautigam. "A Critical look at Chinese 'Debt-Trap Diplomacy'." *Area Development and Policy* 5, no. 16, (2019), 9, DOI: 10.1080/23792949.2019.1689828.

²⁴⁴ Brautigam, 9.

²⁴⁵ Maria Abi-Habib. "How China Got Sri Lanka to Cough Up a Port." *New York Times*, 25 June 2018. <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html?searchResultPosition=1>.

Out of the 116 overseas port projects China has been involved in, the Sri Lankan case is the only one that can come close to supporting the narrative of debt-trap diplomacy.²⁴⁶ In a database of over 1,000 Chinese loans in Africa, the Johns Hopkins School of Advanced International Studies “has not seen any example where [they] would say the Chinese deliberately entangled another country in debt, and then used that debt to extract unfair or strategic advantages of some kind in Africa.”²⁴⁷ Debt-trap diplomacy is a common, but misguided, concern about Chinese loans, often because they involve borrowers who have historically not been able to repay their debt.

IMPACTS OF THE BELT AND ROAD- ETHIOPIA: A CASE STUDY

Case studies of Ethiopia’s Addis-Ababa light railway system and the Addis-Djibouti railway provide insight to the short-term impacts of the Belt and Road Initiative. In December 2011, the Ethiopian Railways Corporation began construction of a light railway system in the capital of Addis-Ababa with a loan from China Eximbank. The 34.4-km railway costed USD \$475 million and was completed in three years by the China Railway Group Limited. This was the first tram in Sub-Saharan Africa, and aimed to lessen traffic in the capital, but failed to do so.²⁴⁸ Out of seven million inhabitants, only 110,000 take the tram daily. Due to the lack of sufficient power supply, the light rail runs “infrequently or with single cars,” leading to overcrowding.²⁴⁹ According to 2019 field research by Istvan Tarrósy and Zoltán Vörös, “nearly half the trains are not available for service; and the timetable is still accidental. But deep underneath something has changed [since their last visit in 2018]: people have grown used to it.”²⁵⁰ Despite the inconsistency of the train, and the chances of an available seat, people still put the tram to good use. Even though the tram did not have thorough planning, Ethiopia is optimistic about the potential for improvement of the railway. Tarrósy and Vörös observe the “rail has started to attract investment close to the lines. Apartments, malls, and businesses are being built, changing the landscape, and revitalizing entire districts and helping small businesses.”²⁵¹ However, public transportation seldom generates profit, and it is unlikely that the money made from the light railway will be able to sustain itself let alone repay the debts. Subsidies for public transit are common even in the West. The prospects for

²⁴⁶ Brautigam, 7

²⁴⁷ Deborah Brautigam and Jyhjong Hwang. “New Data on Chinese Loans in Africa.” China Africa Research Initiative

²⁴⁸ István Tarrósy, “China’s Belt and Road Initiative in Africa,” *African Studies Quarterly* 19, no. 3-4 (2020): 16.

²⁴⁹ Tarrósy, 16.

²⁵⁰ Istvan Tarrósy and Zoltán Vörös, “Revisiting Chinese Transportation Projects in Ethiopia,” *The Diplomat*, Diplomat Media Inc, January 26, 2019, <https://thediplomat.com/2019/01/revisiting-chinese-transportation-projects-in-ethiopia/>.

²⁵¹ István Tarrósy, “China’s Belt and Road Initiative in Africa,” *African Studies Quarterly* 19, no. 3-4 (2020): 16.

income generation will come from the jobs created by the construction period, and the operational phase.²⁵²

Ethiopia is a landlocked country, and access to the Djibouti port is essential for its economy. In 2018, Ethiopia relied on the port for 95 percent of its imports and exports.²⁵³ Before the construction of the 760-km commercial Addis-Djibouti railway, the trek from Ethiopia's capital to the Djibouti port took three days. Now it can be done in under a day. The US\$4.5 billion project was completed in 2016 and was funded by the Ethiopian Government and loans from the China Eximbank. While revisiting the Furi Lebu railway station, Tarrósy and Vörös note that “last year [2018], the station's location resembled the ‘middle of nowhere,’ this time it seemed to be the center of a new neighborhood, attracting an amazing number of construction projects.”²⁵⁴ In 2019, China extended the debt repayment deadline from 10 years to 30 years, which is a troubling sign that Ethiopia is having difficulty repaying the loans.

While Ethiopia may not be representative of the larger BRI trends, these case studies provide insight to the impacts of the BRI in these instances. Both the Addis-Ababa light railway and Addis-Djibouti railway have presented great challenges in meeting expectations. Despite the mismanagement and poor planning, both these railways have spurred growth and development of residencies and businesses. However, the concern of how Ethiopia will afford to repay its US\$ 13.7 billion debt to China remains.

CONCLUSION

The impacts of the Belt and Road Initiative are not yet entirely clear for two reasons: the payoff from infrastructure investments take years to fully take fruition, and there has yet to be a trend on how Chinese lenders deal with countries that cannot repay their debt. The BRI is only 9 years old, compared to the IMF and World Bank with 78 years of history to analyze. However, it has been around long enough to assess the immediate impacts of projects. It is yet to be seen if China's investment is a net benefit to its recipient countries and intensive case studies must be done to fully assess the impacts of the BRI. Will China's investing fill the infrastructure gap left by Western ODA? Or will the debt cripple countries and further plummet them into poverty? Can Western humanitarian aid, and Chinese infrastructure investment complement one another? Or will neo-Cold War tensions prevent the billions of aid and investment

²⁵² Dipti Ranjan Mohapatra, “An Economic Analysis of Djibouti-Ethiopia Railway Project,” *European Academic Research* 3.10, (2016): 11389.

²⁵³ Istvan Tarrósy and Zoltán Vörös, “Revisiting Chinese Transportation Projects in Ethiopia,” *The Diplomat*, Diplomat Media Inc, January 26, 2019, <https://thediplomat.com/2019/01/revisiting-chinese-transportation-projects-in-ethiopia/>.

²⁵⁴ Tarrósy and Vörös, <https://thediplomat.com/2019/01/revisiting-chinese-transportation-projects-in-ethiopia/>.

dollars from having a meaningful impact? The goal of comparing these two forms of development finance was to highlight the “tragic irony that China is being blamed by the West for allegedly doing exactly what the IMF has been doing for decades: providing unsustainable loans to countries in need to further plunge them into debt, weaken state capacity and open up national economies to international investors (primarily from Western countries).”²⁵⁵ While caution should be taken not to inflate narratives of ‘debt-trap diplomacy,’ “there are valid reasons for heightened concern about Chinese engagement.”²⁵⁶ I am cautiously optimistic about the beneficial potential of the Belt and Road Initiative, however, it is too soon to say if China offers a better alternative to Western development finance. There has yet to be a trend on how China deals with countries that cannot repay their debt, and the impacts of infrastructure investments take years to become clear. In order to determine which model is the better alternative, there needs to be intensive case studies of BRI projects to understand their impacts.

²⁵⁵ Vito Laterza and Patience Mususa, “Is China Really to Blame for Zambia’s Debt Problems?” Aljazeera, Al Jazeera Media Network, October 11, 2018, <https://www.aljazeera.com/opinions/2018/10/11/is-china-really-to-blame-for-zambias-debt-problems/>.

²⁵⁶ Deborah Brautigam, “Misdiagnosing the Chinese Infrastructure Push,” American Interest, April 4, 2019, <https://www.the-american-interest.com/2019/04/04/misdiagnosing-the-chinese-infrastructure-push/>.

Bibliography

- Al-Habib, Maria. "How China Got Sri Lanka to Cough Up a Port." *New York Times*. 25 June 2018.
<https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html?searchResultPosition=1>.
- Asatullaeva, Ziyoda, Aghdam, Reza Fathollah Zadeh, Ahmad, Nisar, and Tashpulatova, Laylo. "The Impact of Foreign Aid on Economic Development: A Systematic Literature Review and Content Analysis of the Top 50 Most Influential Papers." *Journal of International Development* 33, no. 4 (2021): 717-751. <https://doi.org/10.1002/jid.3543>.
- Brautigam, Deborah. "Misdiagnosing the Chinese Infrastructure Push" *American Interest*. April 4, 2019.
<https://www.the-american-interest.com/2019/04/04/misdiagnosing-the-chinese-infrastructure-push/>.
- Brautigam, Deborah. "A Critical Look at Chinese 'Debt-Trap Diplomacy': The Rise of a Meme." *Area Development and Policy* 5, no. 1 (2020): 1-14. DOI: 10.1080/23792949.2019.1689828.
- Burnside, Craig, and Dollar, David. "Aid, Policies, and Growth." *The American Economic Review*, 90, no. 4 (2000): pp 847-868.
- Byamungu, Christian-Geraud. "Update on the China-DR Congo Mining Contracts Dispute" *China in Africa Podcast*, 21 September 2021, <https://chinaafricaproject.com/podcasts/update-on-the-china-dr-congo-mining-contracts-dispute/>.
- Center for Global Development, "Do We Still Care About Aid Effectiveness?" YouTube video, 1:10:51, October 18, 2019. https://www.youtube.com/watch?v=nYcr_D6a5Qw
- Collier, Paul. *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*. Oxford University Press, 2007. <https://ebookcentral.proquest.com>
- Domar, Evsey. "Capital Expansion, Rate of Growth, and Employment." *Econometrica* 14, no. 2 (1946): 137-47. <https://doi.org/10.2307/1905364>.
- Dupuy, Kendra, Ron, James, Prakash, Aseem. "Hands Off My Regime! Governments' Restrictions on Foreign Aid to Non-Governmental Organizations in Poor and Middle-Income Countries", *World Development*, Volume 84, (2016): 299-311, <https://doi.org/10.1016/j.worlddev.2016.02.001>.
- Easterly, William. *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, New York, Penguin Press, 2006.
- Easterly, William. *The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor*. Philadelphia: Basic Books, 2014.
- Edwards, Sebastian. "Economic Development and the Effectiveness of Foreign Aid: A Historical Perspective." *Kyklos*, 68, no. 3. (August 2015): 277-316. <https://www.nber.org/papers/w20685>.

- Ferraro, Vincent. "Dependency Theory: An Introduction," in *The Development Economics Reader*, ed. Giorgio Secondi, London: Routledge. (2008): 58-64.
- Fraser, Alastair and Whitfield, Lindsay. Understanding Contemporary Aid Relationships in *The Politics of Aid Africa Strategies for Dealing with Donors*, 74-107. Oxford University Press, 2008.
<https://ebookcentral.proquest.com/lib/templeuniv-ebooks/detail.action?docID=415950>.
- History.com Editors. "Marshall Plan". *HISTORY*, updated June 5, 2020.
<https://www.history.com/topics/world-war-ii/marshall-plan-1>.
- Kagame, Paul. *Time Magazine*. By Alex Perry. Time USA, 27 September 2007.
<http://content.time.com/time/subscriber/article/0,33009,1666064,00.html>.
- Kenny, Charles. "What Is Effective Aid? How Would Donors Allocate It?" *World Bank*, 2006.
<http://hdl.handle.net/10986/9296>.
- Kharas, Homi. "Measuring Aid Effectiveness Effectively: A Quality of Official Development Assistance Index". *Brookings*, July 27, 2011. <https://www.brookings.edu/opinions/measuring-aid-effectiveness-effectively-a-quality-of-official-development-assistance-index/>.
- Lai, Karen, Lin, Shaun, and Sidaway, James. "Financing the Belt and Road Initiative (BRI): Research Agendas Beyond the "Debt-Trap" Discourse", *Eurasian Geography and Economics*, 61:2 (2020) 109-124, 2020. DOI: 10.1080/15387216.2020.1726787
- Laterza, Vito, and Mususa, Patience. "Is China Really to Blame for Zambia's Debt Problems?" Aljazeera. Al Jazeera Media Network. October 11, 2018. <https://www.aljazeera.com/opinions/2018/10/11/is-china-really-to-blame-for-zambias-debt-problems/>.
- Leclerc, Gregoire. "A Brief History of International Development." In *Making World Development Work: Scientific Alternatives to Neoclassical Economic Theory*, 39-74. Albuquerque: University of New Mexico Press, 2007.
- Malik, Ammar, Bradley, Parks, Russell, Brooke, Jiahui Lin, Joyce, Walsh, Katherine, Solomon, Krya, Zhang, Sheng, Elston, Thai-Binh, and Goodman, Seth. *Banking on the Belt and Road: Insights from a New Global Dataset of 13,427 Chinese Development Projects*. Williamsburg: AidData at William & Mary, 2021.
- Ministry of Foreign Affairs of the People's Republic of China. "President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries." September 7, 2013.
https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml.
- Mohapatra, Dipti Ranjan. "An Economic Analysis of Djibouti-Ethiopia Railway Project." *European Academic Research* 3.10, (2016): 11376-400.

- Moyo, Dambisa. *Dead Aid*. New York: Farrar, Straus, and Giroux, 2009. DOI: 10.1177/0306396810377010.
- Organization for Economic Co-operation and Development (OECD), *Glossary of Statistical Definitions*, 2003. <https://stats.oecd.org/glossary/detail.asp?ID=6043>.
- Pipa, Anthony, Seidel, Brina, and Conroy, Caroline. *A U.S. Multilateral Aid Review*. Brookings, December 2018. <https://www.brookings.edu/wp-content/uploads/2018/12/US-Multilateral-Aid-Review.pdf>.
- Sachs, Jeffrey. *The End of Poverty: Economic Possibilities for Our Time*. New York: Penguin Press, 2005.
- Sachs, Jeffrey. "Aid Ironies." *Huffington Post*. May 24, 2009. http://www.huffingtonpost.com/jeffreysachs/aid-ironies_b_207181.html.
- Schmidt, Elizabeth. "The Congo Crisis." In *Foreign Intervention in Africa: From the Cold War to the War on Terror*, 57-78. New York: Cambridge University Press, 2013.
- Steil, Benn, and Della Rocca, Benjamin. "It Takes More Than Money to Make a Marshall Plan". Council on Foreign Relations. April 9, 2018. <https://www.cfr.org/blog/it-takes-more-money-make-marshall-plan>.
- Sun, Yun. *China's aid to Africa: Monster or messiah?* Brookings, 2016. <https://www.brookings.edu/opinions/chinas-aid-to-africa-monster-or-messiah/>.
- Taylor, Ian. "The Institutional Framework of Sino-African Relations." In *China-Africa and an Economic Transformation*, 98-125. Oxford: Oxford University Press, 2019.
- Tarrósy, István. "China's Belt and Road Initiative in Africa, Debt Risk and New Dependency: The Case of Ethiopia." *African Studies Quarterly* 19, no. 3-4 (2020): 8-28.
- Tarrósy, István, and Vörös, Zoltán. "Revisiting Chinese Transportation Projects in Ethiopia." *The Diplomat*. Diplomat Media Inc. January 26, 2019. <https://thediplomat.com/2019/01/revisiting-chinese-transportation-projects-in-ethiopia/>.
- Tesfaye, Mikyas. "Litany of complaints about risks to the public of Addis Ababa's light rail come from all corners, engineers included." *The Ethiopia Observatory*. September 23, 2015. <https://ethiopiaobservatory.com/2015/09/23/litany-of-complaints-about-risks-to-the-public-of-addis-abebas-light-rail-come-from-all-corners-engeers-included/>
- United Nations. "Millennium Development Goals." Retrieved October 28, 2021. <https://www.un.org/millenniumgoals/>
- United Nations Children's Fund (UNICEF). "How to Help Yemen's Children." Retrieved October 13, 2021. <https://www.unicefusa.org/mission/emergencies/child-refugees/crisis-in-yemen>

United States Agency for International Development (USAID). “USAID History,” *USAID*, updated July 12, 2021, <https://www.usaid.gov/who-we-are/usaaid-history>.

Williamson, John. “What Washington Means by Policy Reform.” In *Latin American Readjustment: How Much Happened*, 7-40. Washington: Institute for International Economics, 1989.

World Bank. *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*. Washington: World Bank, 1981.