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Belt and Road Initiative: Case Studies from Sri Lanka, Nepal and Thailand

By Robert Smith[*]

The Belt and Road Initiative (BRI) has proved controversial amongst some members of the international development consultant community. Whilst the concerns are no doubt genuinely held, the questions that need to be answered are: What are the issues of concern? Are they unique to the BRI, or do they apply to all International Financial Institutions (IFIs)? Developing countries desperately need funds to achieve the 17 Sustainable Development Goals. They largely depend on International Financial Institutions (IFIs) such as the World Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, and Asian Infrastructure Investment Bank. In addition, grants and loans can be provided by individual donor countries. Despite the number of IFIs, funds are limited, especially for major projects such as ports and airports. Examples from Sri Lanka, Nepal, and Thailand are provided to discuss the issues surrounding BRI projects in these jurisdictions. The most benefits to the country will come with the maximum level of involvement of all levels of society in the project. Nonetheless, China has made some miss-steps along the way.

Keywords: *BRI, Belt and Road Initiative, International Financial Institutions, international development, infrastructure*

Introduction

The Belt and Road Initiative has proved controversial amongst some members of the international development consultant community. Whilst the concerns are no doubt genuinely held, the questions that need to be answered are: What are the issues of concern? Are they unique to the BRI, or do they apply to all International Financial Institutions (IFIs)? How might they be ameliorated? Should the concept of *caveat emptor* apply, or should the lender have a higher level of responsibility?

Developing countries desperately need funds to achieve the 17 Sustainable Development Goals. They largely depend on International Financial Institutions (IFIs) such as the World Bank Group, Asian Development Bank, European Bank for Reconstruction and Development, and Asian Infrastructure Investment Bank. In addition, grants and loans can be provided by individual donor countries. Despite the number of IFIs, funds are limited, especially for major projects such as ports and airports. The Belt and Road Initiative has a role in providing additional funds. For instance, in 2018, the Organisation for Economic Cooperation and Development (OECD) considered that as a ballpark figure, BRI investments would add over US$ 1 trillion of funding for foreign infrastructure for the ten years from 2017 (OECD 2018, p. 3). The borrower must never forget that the BRI

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loans are often at “commercial” rates and need to be repaid in most cases (see, for instance, the analysis in Bandiera and Tsiropoulos (2019)).

Because of the somewhat opaque definition of what constitutes a BRI project, this paper focuses on the more common types of BRI investments in the three sample countries, namely loans and grants. As will be seen later in this section, BRI is also a branding exercise and can cover Foreign Direct Investment (FDI). Provided both parties are in agreement, there would not appear to be an issue with a country, sovereignly, deciding with a neighbour to invest in infrastructure.

Examples from Nepal, Sri Lanka, and Thailand are provided to discuss the issues surrounding BRI projects in these jurisdictions. In Nepal, the Government provided a long list of projects to the Chinese Government, which asked the Nepali Government to reconsider. At the same time, the Nepali government was split over signing a contract for a grant from the Millennium Challenge Corporation. In the case of Sri Lanka, there has been some international comment about how it overcommitted itself in loans. Thailand agreed to be part of the BRI by participating in the high-speed rail project, eventually connecting Portugal with Singapore. Thailand decided to commit to using Chinese designs and technology, but unlike Lao PDR, they would build and operate the high-speed rail within Thailand (Damuri et al. 2019).

The paper will then identify issues of concern from the examples cited above. Many of the issues are common to all IFIs, including the BRI. The lending conditions of the IFIs are generally more favourable than those of the BRI, with least-developed countries obtaining loans at very low-interest rates (see, for instance, Asian Development Bank (2021)). To obtain the most beneficial outcome for its country, the Government must ensure that the terms of the loan can be met, including the potential exchange rate fluctuations. The borrower should ensure that its social and environmental requirements will be met. The most benefits to the country will come with the maximum level of involvement of all levels of society in the project.

Nonetheless, China has made some miss-steps along the way. China may not have been as prudent as it might have been in its lending policies, leading some countries to over-commit. At times China, like the United States with the Millennium Challenge Corporation, has tried to interfere in the politics of the potential recipient (e.g., Nepal).

The Belt and Road Initiative

Chinese President Xi Jinping proposed the initial concept for revitalising a series of ancient overland trading routes between Europe and Asia in 2013 (Jie and Wallace 2021). In 2014 this concept was extended to include a “maritime silk road” connecting China, Southeast Asia, Africa and Europe but avoiding the Strait of Malacca.

OECD (2018) assessed the speeches of Chinese leaders and identified six objectives of the BRI, namely:

a. Increase trade and investment in the BRI.
b. Promote the establishment of free trade zones along the Silk Road.
c. Enhance financial cooperation to fund infrastructure.
d. Gain access to natural resources.
e. Strengthen transport infrastructure in the BRI corridors.
f. Deepen cultural exchanges in the region (p. 10).

Their analysis also identified six Chinese motivations for the BRI: connectivity, openness, innovation, sustainable development, energy and food security, more balanced regional development, and improved efficiency (pp. 13-15).

Whilst many foreign policy analysts argue that the BRI is an attempt by China to achieve political leverage over its neighbours, an analysis by (Cai 2017) shows that China's motivations are more complex. He considers that among the aims of China are:

a. To spur growth in its underdeveloped hinterland and rust belt, it will have a "heavy domestic focus" (p. 1).
b. To address its chronic excess capacity, "[i]t is more about migrating surplus factories than dumping excess products" (p. 1).
c. "to export China's technological and engineering standards. Chinese policymakers see it as crucial to upgrading the country's industry" (p. 1).

A study by Chatham House assessed the BRI. It concluded that it is more about infrastructure and is an effort "to develop an expanded, interdependent market for China, grow China's economic and political power, and create the right conditions for China to build a high technology economy (Jie and Wallace 2021 n.p.). They consider that China has three primary motivations:

a. Rivalry with the United States, including the need to create more secure trade routes to bypass the Strait of Malacca with China dispensing funds to other nations purely based on economic interests.
b. Providing an alternative market for its state-owned companies beyond its borders.
c. To stimulate the economies of its central regions, which are lagging behind the more prosperous coastal areas.

Their analysis found that the BRI was "a fragmented collection of bilateral arrangements made on different terms". Fifteen ministries have some responsibility for BRI projects. In addition, there is the involvement of provinces and diplomats. They claim that the "vacuum of information from China feeds confusion and after mistrust.

> "The Chinese state is the underwriter for the initiative via its four state-owned banks lending to state-owned enterprises. Other governments have criticized the Belt and Road for the lack of private sector participation, but there is little enthusiasm for the

> initiative from even the Chinese private sector due to the lack of return on investment" (Jie and Wallace 2021, n.p.).

Zawacki (2021) notes that while the "idea that China's BRI projects trap recipient countries in debt has been challenged by researchers at a wide range of institutions, it is still a dominant narrative in Washington and elsewhere".

It appears that the BRI may have mutated to become the Global Development Initiative (Brînză 2022). This conclusion is based on her analysis of speeches by Chinese leaders posted, in English, on the Ministry of Foreign Affairs of China website. There seemed to be a softening of language with the greater use of words such as "cooperation" and "partnership" instead of "initiative". She suggested that, as the BRI has an "historical resonance through its Silk Road association", "China shouldn't give up on the BRI brand, but it should better articulate its goals and future actions in a way that won't be perceived as harmful by other countries and entities such as the United States, the European Union, Japan, or India" (n.p.).

The Green Finance & Development Center, FISF Fudan University Shanghai, has analysed available BRI data up to the first half of 2022 and has provided several key statistics based on "provisional data" (Nedopil 2022, p 3). The key findings were:

(a) BRI financing and investments are at lower levels than in 2021, with 42% through investments.
(b) Cumulative BRI engagement stands at US$932 billion, with US$561 billion in construction contracts and the remainder in non-financial investment.
(c) No coal projects received financing or investments in H1 of 2022.
(d) Oil and gas constituted around 80% of energy investments and 66% of Chinese construction contracts.
(e) Green energy engagement was around US$2 billion.
(f) The average deal size for construction projects dropped from US$558 million in 2021 to US$325 million in H1 2022. Average deal size for investment projects increased due to a single US$4.6 billion oil transaction.
(g) The major recipient of Chinese investment was Saudi Arabia.
(h) BRI engagement increased in H1 2022, particularly in the technology sector.
(i) Engagement with BRI countries continued to outperform non-BRI countries.
(j) State-owned enterprises dominated BRI engagement.
(k) In 2021 global foreign direct investment (FDI), excluding China, grew by 40% over 2020 levels compared to BRI investments which decreased by 25%.
(l) Uncertainty in H2 2022 is expected to result in Chinese BRI engagement at lower but stable levels.
(m) Five project types are more likely to be investment targets: "strategic assets (including ports), trade-enabling infrastructure (including pipelines, roads), ICT (e.g., data centres) resource-backed deals (e.g., mining, oil, gas), high visibility projects (e.g., railway)".

(n) In H2 2022, investing in smaller projects that are quicker to implement will provide better opportunities, whilst some projects may be mothball.
(o) With their "growing experience and requirements of Chinese regulators in applying international environmental standards", Chinese contractors "can increasingly benefit from international and multilateral financing" (Nedopil 2022, p. 3).

Three statistics stand out. Chinese investment in the BRI has stabilised and is falling (point k above). This could be due to the economic impact of COVID-19 but also more conservative funding policies due to the uncertain economic times. Even more significantly, from a Chinese perspective, is the fact that it is providing income for its SOEs. They can now compete more competitively in the global market, which was one of the important aims of the BRI, as identified by the analysis cited earlier in this section. Nevertheless, the Chinese private sector does not seem to benefit from the BRI.

Methodology

This research focuses on three different Asian countries. They were chosen because of the author's knowledge of the current situation in relation to their economic development, having undertaken international development activities in all three. It used the documentary research concept where reputable contemporary resources are analysed to understand better the BRI's impact in each of the jurisdictions – both benefits and disbenefits.

Sri Lanka has become the cause célèbre of the BRI sceptics. This gives rise to three basic questions:

(a) Why has Sri Lanka become a cause célèbre?
(b) Is the BRI responsible?
(c) Is the international response reasonable?

Nepal and Thailand illustrate the limited approaches available to a least-developed country compared to those available to a middle-income country. Both appear prudent in their approaches compared to Sri Lanka, which made one poor decision after another to enter a spiralling debt trap.

As the BRI has proved controversial amongst some members of the international development consultant community and the concerns are no doubt genuinely held, the questions that need to be answered are:

(a) What are the issues of concern regarding the BRI?
(b) Are they unique to the BRI, or do they apply to all International Financial Institutions (IFIs)?
(c) How might they be ameliorated?
(d) Should the concept of caveat emptor apply, or should the lender have a higher level of responsibility?

The paper analyses the available contemporary reputable sources to provide details of the history of the BRI in the three sample jurisdictions. It then seeks answers to the two sets of research questions.

Analysis

Each of the three case study countries will be considered individually. Sri Lanka will be considered first as it is often considered a case study of the adverse impact of Chinese funding on a national economy. The second case is that of Nepal, whilst at the same time was in negotiation with China about funding from the BRI. The final case study is that of Thailand, which has a much stronger economy and, at least as far as the fast rail project, has opted to reject BRI funding and rail operations but to adopt the Chinese specifications. Finally, the analysis investigates some missteps China has made in implementing its BRI program.

Sri Lanka

<u>Background</u>

Sri Lanka has become the cause célèbre for the BRI sceptics. This raises two questions:

a. Why has Sri Lanka become a cause célèbre?
b. Is the international response reasonable?

Sri Lanka occupies "an enviable strategic geographical position" (Kohona 2018). It sits in the middle of the Indian Ocean at the southern tip of India, opposite the Indian state of Tamil Nadu. This location is "the meeting point of the monsoon winds and swirling ocean currents" (Kohona 2018).

The close relationship between Sri Lanka and China is not surprising, as it has existed for around 2,000 years. Sri Lanka and China entered into diplomatic relations around the first century BCE (Weerasinghe 1995, p. 98). Buddhism was one of the driving forces responsible for developing cultural relations between China and Sri Lanka (p. 19). China came to know Sri Lanka from the time of Buddha up to the seventh century CE. There was a two-way flow of monks between India/Sri Lanka, and China along the Silk Road. Visits from China, including those of pilgrim monks Hsuan-Tsang (596-664 CE), I-Tsing (635-712 CE), wrote about Sri Lanka but did not visit (p. 19). Fa-Hsien travelled to Sri Lanka in 411 CE and stayed for two years (p. 23). Similarly, Buddhist monks and nuns travelled from Sri Lanka to China (p. 27).

The Sri Lankan population comprises 74.9 per cent Buddhist Sinhalese and 11.2 per cent Hindu Sri Lankan Tamil (Kohona 2018). In 1983 a civil war broke out between the Sinhalese-dominated Sri Lankan government and the Liberation Tigers of Tamil Eelam (LTTE) insurgent group (Kohona 2018). The civil war did not end until 2009.

Some blame the BRI as the cause of the near destruction of the Sri Lankan economy. The Hambantota Port Project is given as a prime example to justify this position. As will be seen, the Hambantota Port was neither a BRI project nor a Chinese debt trap. Several other factors were the major contributors to the economic disaster that followed: a mismanaged attempt to move from chemical fertilisers to organic fertilisers resulting in significant reductions in crop yields; Parliament disregarding legal and economic advice and committing to the Colombo Port City; the actions of the Rajapaksa oligarchy as they ruled the economy to achieve their own ends.

Hambantota Port

Hambantota is the home base of the Rajapaksa family, whose forebears represented their native Hambantota on state and regional councils from before independence (Jacinto 2022). They came into prominence when Mahinda Rajapaksa became Prime Minister in 2004. "At the height of their power, the Rajapaksas appeared invincible as they signed mega infrastructure contracts and amassed fortunes while cracking down on minorities and journalists – and successfully evaded accountability in a state where they held all the reins" (Jacinto 2022). One of their early mega-projects was the Hambantota Port Project.

The history of the project has been documented by Brautigam and Rithmire (2021). The Canadian International Development Agency commissioned SNC-Lavalin to carry out a feasibility study which in 2003 found the building of the port was feasible. In 2006 the Danish consulting firm Ramboll came up with a similar conclusion but argued that the initial phase should be for transporting non-containerised cargo. The Colombo port, one of the world's busiest, was already reaching capacity and was constrained by being in the middle of the city. The Sri Lankan Government approached the United States and India for funding which was rejected. China Harbor Group learned about the project and lobbied hard for it. The China Eximbank agreed to funding, and China Harbor Group won the contract. Sri Lanka was offered a 15-year USD 397 million commercial loan with a four-year grace period. When offered the loan with a fixed or variable interest rate, they chose the fixed rate of 6.3 per cent.

Instead of waiting to generate income from Stage 1 as recommended by Ramboll, the Government borrowed a further USD 757 million from the China Eximbank at an interest rate of 2%.

As they say: the rest is history and is discussed further below.

The Fertiliser Debacle

April 2021 saw the President prohibit the use of chemical fertiliser with the two-fold aim of promoting organic farming and reducing the outflow of US dollars to import fertiliser (De Silva 2022). Protests erupted, and the farmers demanded continued importation of chemical fertilisers or provision of organic fertiliser. The Government approached China and imported Chinese fertiliser, which was found to contain an organism that could cause crop failure. The shipment was rejected, but Chinese pressure resulted in Sri Lanka paying compensation, Sri Lanka altering the quality standards and being required to have the samples tested in a laboratory of the company's choosing.

Port City

In May 2021, the *Colombo Port City Economic Commission Bill* was approved by the Sri Lanka Parliament (Selvachandran 2021). Approval occurred despite the Sri Lanka Supreme Court observing that several clauses of the Bill were unconstitutional (Abeyagoonasekera 2021). As approval occurred during the COVID-19 pandemic:

> [t]he environment was conducive towards suppressing the democratic mechanism of public protest, discussion, and to bulldoze the Bill through. There are ample mechanisms in the Sri Lankan government's political toolkit to turn down the Bill. It was simply not used against China. In other cases, such as India's East Container Terminal project or for the US MCC grant, there were public protests and expert committees of inquiry. China's strength in handling the local agency [. . .] is clear through this (Abeyagoonasekera 2021).

The Far-reaching Role of the Rajapaksa Family

The stories concerning the Rajapaksa family are legion. For the case of brevity, the focus will be on the swearing-in of the cabinet on 12 August 2020, as reported by Jacinto (2022):

> At the inauguration of the new cabinet, the President [*Gotabaya Rajapaksa*] took on the defence portfolio, contravening a constitutional amendment barring the country's head of state from holding a cabinet post. His powerful brother, *Mahinda Rajapaksa*, became Sri Lanka's new prime minister and was also named head of three ministries: finance, urban development and Buddhist affairs. The President then swore in his eldest brother, *Chamal Rajapaksa*, as minister for irrigation, internal security, home affairs and disaster management. Chamal's son *Sashindra* was made junior minister for high-tech agriculture. The prime minister's son *Namal* became minister of youth and sports. Barely a year later, *Basil Rajapaksa* was named finance minister, taking over the important portfolio from his brother, the prime minister.[1]

This meant that by 2021 the President, Prime Minister, and four family members held the reins of power. The family's senior members held eight ministries, and the two nephews took on more minor roles. Such a concentration of power could easily lead to a blinkered approach to economic crises, and subsequently, so it did.

The Collapse of the Government

By mid-2021, Sri Lanka was facing a major economic crisis (Selvachandran 2021). By January 2022, the crisis had reached the stage where the Government had to pay off debt or fund milk, medicines and fuel (Thowfeek 2022). Ten-hour power cuts occurred in late March due to a lack of fuel, and stand-by generators owned by individual businesses were also useless for the same reason (Reuters

[1]Italics added.

2022a). Civil unrest erupted, declaring a state of emergency on 1 April (Jayasinghe 2022). On 12 April, the Central Bank governor announced that Sri Lanka was temporarily suspending foreign debt payments (Reuters 2022b). On 9 May, as the major protests continued, Prime Minister Mahinda Rajapaksa resigned, leaving his brother Gotabaya to remain president and find a new prime minister (Dias 2022, Fraser 2022). The President offered to surrender some powers to the Parliament as the crisis grew (Francis 2022a, Hodge 2022, Perera 2022). The new prime minister, Ranil Wickremesinghe, a long-term opponent of the President, took office as prime minister for the sixth time (Francis 2022b). The President was forced to flee Sri Lanka and resigned on reaching Singapore on 14 July, with the Prime Minister serving as acting president (Masih and Farisz 2022). On 20 July, Parliament elected Wickremesinghe as the new president (Fraser et al. 2022). At the of writing in October 2022, the situation was calm, but the economic hardship of the population continued as the Government negotiates an economic bail-out.

<u>Whose Fault is it, Anyway?</u>

Sri Lanka was the cause célèbre of the BRI sceptics several years before the current economic crisis.

Singh (2022) has identified three arguments used by Chinese authorities and columnists to lay the blame:

a. *It is Sri Lanka's fault* due to a weak economic foundation, lack of self-sustaining capacity, and long-term excessive borrowing with inappropriate debt structures.

   > Neither China nor Chinese loans are the main causes behind Sri Lanka's economic challenges. After all, China has not forced Sri Lanka to borrow money. According to the Chinese, all loan requests have been made by Sri Lanka—an independent, sovereign nation that denominates its lending, investment, and project decision, according to its own needs—so it cannot blame China for its economic woes. The debt problem of a debtor country cannot be the responsibility of the creditor country (Singh 2022).

b. *It is the United States' fault* because of Sri Lanka's dependence on the United States dollar; as much as 60 per cent of Sri Lanka's debt must be repaid in United States dollars. This is exacerbated by the increasing exchange rate as "the US is exporting inflation and tightening monetary policy" (Singh 2022).
c. *It is India's fault* because they were the mastermind behind the "dubious debt trap theory". Chinese commentators argue that India is upset about Chinese influence as India considers that Sri Lanka is within its sphere of influence. They also argue that India is anxious about Sri Lanka's increasing closeness to China and India's inability to match China's ability to provide investment, loans, and aid to Sri Lanka (Singh 2022).

Despite the "blame game", Singh (2022) argues that Sri Lanka's ongoing economic crisis is a major cause of embarrassment to China. China is also worried that the crisis may "strengthen negative impressions on Chinese investments in other countries and impact their judgement about participating in the Belt and Road Initiative (BRI) now and in the future" (Singh 2022).

In an opinion piece in the China Daily, Xiaoqiang (2022) argues that the Sri Lankan debt trap is a "creation of the west" and is facing a foreign exchange shortage, not a debt crisis. He points out that Sri Lanka only owes China $3.38 billion in loans. In dollar terms, this is around ten per cent of the country's debt in US dollars. In fact, China is only Sri Lanka's fourth-largest creditor after the Asian Development Bank and Japan. This view is supported by Wignaraja and Attanayake (2022). They noted that external debt owed to China amounted to about 10% in April 2021, with 47% owed to international capital markets, 22% to multilateral development banks and 10% to Japan.

Jones and Hameiri (2020) investigated the role of recipient countries in shaping the BRI and concluded that the argument that it was shaped by Chinese debt-trap diplomacy was a myth (p. 2). One of the case studies was explicitly related to the Hambantota Port project, which is consistently used as an example of the pitfalls of dealing with China. They identified several misconceptions:

a. The project was proposed by the then Mahinda Rajapaksa government "in cooperation with a profit-seeking Chinese SOE [State Owned Enterprise]" (p. 13).
b. It was a commercial venture which created "vast surplus capacity" and "was one of several 'white elephant' projects promoted by Mahinda Rajapaksa as part of a corrupt and unsustainable developmental programme" (p. 13).
c. Debt arise from excessive borrowing "on Western-dominated capital markets and from structural problems within the Sri Lankan economy" (p. 13).
d. There was no debt for equity swap associated with the port lease but hard bargaining for a commercial lease. The terms of the lease resulted in the payment of $1.1 billion that Sri Lanka used to liquidate other debts and boost their foreign reserves (p. 13).
e. The port will be used by Sri Lanka's southern naval command and not the Chinese navy, which cannot use the port (p. 13).

The last point is disputed. Ramachandran (2018) noted that analysts opine that this could change as Sri Lanka's debt level increases and, with it more dependent on China. This concern gained traction when Chinese submarines docked in Colombo harbour twice in 2014.

More broadly, De Silva (2022) argues that:

> Sri Lanka's weak economic position, coupled with the Rajapaksa family's past connections with Chinese President Xi Jinping, undermines Sri Lanka's ability to exercise independent agency and autonomy. The fertiliser debacle [as discussed above] also demonstrates the likelihood that small states — particularly ones facing economic hardships relating to debt repayment — will be forced to swallow China's 'bitter pill' regardless of whether it is in the national interest of the country.

Unsurprisingly, China did not provide funding to Sri Lanka in H1 2022 (Nedopil 2022, p. 3). Conclusion: It is reasonable to conclude that China, and the BRI, in particular, are not to blame for Sri Lanka's debt crisis.

Nepal

Nepal, a least developed country, is an interesting case study in that the Government has been negotiating with China concerning BRI projects and the United States concerning the Millennium Challenge Corporation (MCC). Since 2015 Nepal has been on devolving into a three-tier Federal system whilst the various political parties were part of a relatively dysfunctional political system (see, for instance: Ghimire 2022, Joshi 2021, Mulmi 2021, Sangroula 2021, Smith and Smith 2022, Wagle 2021).

<u>BRI Agreement with Nepal</u>

Nepal signed up for the BRI in May 2017 (Lamichhane 2022a). Nepal then prepared a list of 35 projects to prepare under the initiative. After assessing this long list of projects, China requested Nepal to reduce it to nine. The nine projects are:

a. Kerung-Kathmandu Railway – railway linking Kathmandu and Tibet (further details are provided in the next section).
b. Ratomate-Kerung 400 KV Transmission Line will be a joint project of the State Grid Corporation of China and the Nepal Electricity Authority. A cooperation agreement was signed between the parties in June 2018, but as of February 2022, there had been no meeting of the Joint Technical Group, and neither the Environmental Impact Assessment nor the Detailed Project Report had been completed (Fiscal Nepal 2022).
c. Koshi-Gandaki-Karnali Economic Corridor.
d. Madan Bhandari Technical University – Nepal sought a grant during President Xi's October visit to Nepal. Apparently, China considered the proposed site unsuitable (Ghimire 2019). Nepal disagreed and is self-funding the institution. It also changed the original focus from a technical university to a general one, despite its proposed name being Madan Bhandari University of Science and Technology.
e. Kimathanka-Hile Road.
f. Tamor Hydropower Project – a 762-megawatt reservoir hydropower project (further details are provided below).
g. Phukot Hydropower Project.
h. Galchhi-Rasuwagadhi Road Upgrade.
i. Dipayal-China Border Road.

Nepal is adamant that BRI projects should be grant-based and not loan based as its internal resources are not sufficiently large to debt-finance such large projects (Lamichhane 2022a). That the Government of Nepal acknowledges, this limitation shows a degree of sophistication on the part of its treasury and monetary authorities. It also leaves it open to the Chinese authorities to propose alternative funding modalities which would be acceptable to both parties. Such modalities could entail a mix of grants, loans and FDI. Another factor to consider is that China may consider some of the proposed projects not to be financially viable, regardless of the mode of delivery.

Kerung-Kathmandu Railway

The 170 km railway would link Kerung in southern Tibet with Kathmandu (Bhushal 2021). China prepared a pre-feasibility study, but it has not been released. The route encounters extremes, including topography, weather, hydrology and tectonics. These will make construction a challenge that will be further complicated because it cuts through the mountains near a fault zone. Although only around 1/3rd of the line lies within Nepal, it would consume almost half of the construction costs. It is estimated that 98% of the railway on the Nepal side would consist of tunnels and bridges. Nepal is seeking a grant, but China is reticent.

Nepal estimated that a detailed study for the railway would cost an estimated USD 313 million (Bhushal 2021). To further complicate matters, the proposed route will bypass major population centres meaning that the local population will receive little benefit from the railway. It will also traverse two national parks: one with endangered and vulnerable species, such as the red panda and the snow leopard; the other home to more than 300 bird species.

Even if these obstacles are addressed, there is a concern that the railway will significantly benefit China as it will have rail access to India and little benefit to Nepal trade (Bhushal 2021).

Tamor Hydropower Project

In October 2019, the Government awarded a contract to the Hydroelectricity Investment and Development Company Ltd (HIDCL) of Nepal and the state-owned Power China Corporation to construct the 762-megawatt Tamor reservoir hydropower project (Himalayan News Service 2019). It was to be built on a government-to-government basis under a public-private-partnership (PPP) model, with HIDCL investing 46% of the project cost and Power China 54%. The concession period is 30 years.

It is claimed that the Tamor Reservoir Project if installed at the design capacity of 765 MW, will affect and possibly submerge the under-construction Kabeli' A' and Lower HewaKhola Hydropower Project (21.5 MW), which has been generating electricity since April 2017 (New Business Age 2021). The "[h]igher water level in the Tamor river to meet the electricity generation output will increase the flow of water of its tributaries Kabeli and HewaKhola".

> It has not been decided how the two projects will be compensated to develop the Tamor Reservoir Project. Thus, on the one hand, ambiguity exists as to who will build such a large hydel project and how. And on the other, more complexity has been added by allowing other projects to be built in the area where a larger project could be built (New Business Age 2021).

MCC Controversy

In September 2017, four months after signing up to the BRI, Nepal signed an agreement on a USD 500 million grant from the United States Millennium Challenge Corporation (Lamichhane 2022a). It has two components: a 400 kV high-voltage transmission line that will allow the export of excess power to India and the upgrading parts of the road network. It was Nepal's largest grant agreement. Nepal was qualified to receive it as it met 16 of the 20 policy indicators set by the MCC. Parliament approved it on 27 February 2022 (Millennium Challenge Corporation 2022)

The internal machinations concerning the MCC have been reported in-depth in by the local news media (see for instance: Baral 2022, Bhattarai 2020, Giri 2022, Kafle 2022, Kumar 2021, Lamichhane 2022b, myRepublica 2022a, 2022b, 2022c, Sigdel 2020, Wagle 2022b). In essence, the question boils down to accepting one of two hypotheses: is it part of the United States Indo-Pacific Strategy to contain China? or is it a grant requested by Nepal to assist in developing its electricity and road infrastructure? In China's view, as trumpeted by Jianxue (2022) in the Chinese Communist Party's mouthpiece: the Global Times, is that:

> [t]he US' push for Nepal in terms of Millennium Challenge Corporation (MCC) and its once again baseless slander over China demonstrate that the MCC is nothing more than a pact with the geopolitical purpose of targeting China. [. . .] MCC from the very beginning was a geopolitical tool under the disguise of infrastructure construction. Nepal is a country with independent sovereignty. It has the right to decide its own foreign policy. Nepal is China's neighbour and the tradition of friendly exchanges between the two countries has lasted for thousands of years. The China-Nepal relationship is a model of mutual equality. Therefore, it's unlikely for the US to pry Nepal away from China and such an attempt has, of course, caused dissatisfaction from the Nepali side. It is believed that Nepal will make very careful consideration on whether to ratify the MCC deal.

At the time (Wagle 2022a) noted that:

> Lately, China was perceived to have cultivated more intense "brotherly" relations with the major communist parties of Nepal, clearly, at the expense of state-to-state sovereign engagement. This became more apparent recently by the frequent calls from Chinese Communist Party leaders to Nepali communist top hats when political opinion was vertically divided regarding the MCC with some for and others against it. It gave the impression that China was more interested in placating some chosen communist outfits of Nepal than consolidating official diplomatic relations.

The United States in Kathmandu expressed its view following parliament's ratification. It stated that the decision as to whether or not to ratify the MCC Nepal Compact rested with the Government of Nepal (myRepublica 2022d). Further:

> The Government of Nepal signed the MCC grant in 2017 after determining its goals to modernize Nepal's energy and transportation sectors with the hope of helping more than 23 million Nepalis, which is nearly 80 per cent of the total population.

Thailand

The final case study is that of Thailand, a middle-income economy with a very extensive infrastructure portfolio. Whilst the current Government has a very close relationship with China, it has been reluctant to sign up for BRI projects. Le (2020) considers this results from a more prudent approach "mainly out of commercial considerations". Even the number of BRI projects in Thailand is clouded by the fact that some categorise Chinese-funded projects outside the BRI agreement as BRI projects (Zawacki 2021). Analysis by Zheng (2022, p. 5) from verified sources found that since January 2021, Thailand had awarded one bid, started construction on one project, signed two contracts and had one project in progress. Of the five projects, two were in energy (one gas and one hydro), one in health and two in transportation (p. 6).

More broadly, and a concern for the ten nations of the ASEAN region, is the role of state-owned enterprises undertaking China-financed BRI projects. Seventy-six per cent of the Chinese companies undertaking BRI projects since January 2021were state-owned (Zheng 2022, p. 7).

China hoped that Thailand would sign on to two signature projects: the Kra Canal and the Kunming-Singapore rail link.

<u>Kra Canal</u>

The Isthmus of Kra is the narrowest neck of land (135 km wide) through the Malay Peninsula, which joins southern Thailand with west Malaysia. A canal through the Isthmus of Kra has been a dream since at least 1677, during the reign of King Narai the Great, who initiated an investigation that found the project impossible (Cameron 2021). The dream has gained impetus over the last 40 years or so.[2]

The Government dismissed the concept of a sea passage in 2020 (Cameron 2021). The concept became a Thai Land Bridge that would use road and rail transport to carry goods to and from deep-sea ports on the Gulf of Thailand and the Andaman Sea. As well as costing less than digging a canal, it would avoid the generation of excessive environmental waste, as would be the case with a canal. It would also not be seen as cutting off the southern part of the country as the five southernmost provinces are embroiled in an insurgency. This solution would cut approximately 1,200 km and 2 to 3 days from a journey through the heavily congested Straits of Malacca.

China would no doubt prefer the Kra Canal as control of it would allow a more secure route for its oil and gas imports and allow easy access of its naval vessels to the Indian Ocean (Cameron 2021). Zawacki (2021) opines that the Kra Canal "may seem like only a sub-issue of the BRI in Thailand, but it exposes a much larger challenge confronting the country and its citizens". The concept of a Canal is also politically controversial as it would significantly impact fellow ASEAN members Malaysia and Singapore (Oxford Business Group 2018).

[2]In 1991 the author was shown a letter signed by the then Prime Minister of Australia, Bob Hawke giving Australian government support for the company by whom the author was employed to be in a consortium to develop the Kra Canal. Nothing further proceeded at that time.

Kunming to Singapore Railway

The current phase is the 607 km link between Bangkok and Nong Khai on the border with Laos. Significantly this link is being fully financed by Thailand with Chinese design and technology (Damuri et al. 2019, p. 37). It will also be operated by Thailand (O'Connor 2022). In December 2017, the Thai Prime Minister signed a design and supervision contract for the Bangkok-Nakhon Ratchasima section (Oxford Business Group 2018). This 253 km double-track section has been designed to carry passengers only at a maximum speed of 250 km/h (Ghoshal 2022). In addition, Thailand denied China's request for development rights within the right of way and on the adjoining land.

China continues to conduct a charm offensive about the benefits of the railway. This included quoting the Deputy Director of the Thai-China Belt and Road Research Centre: "[t]he China-Laos railway has inaugurated a new era for Laos. Thailand, if not being able to accelerate the construction of the railway project, will miss out on the opportunity" (Xinhua 2022).[3] The charm offensive continued in May 2022 during an online meeting between the First Deputy Speaker of the Thai House of Representatives and the Vice Chairman of China's National People's Congress (Johjit 2022). During the meeting, the Vice-Chairman "said China is looking to connect railway routes from the country to Thailand's EEC special economic zone" (Johjit 2022).

None-the-after less

> Thailand seems more interested in connecting Bangkok with Nakhon Ratchasima in the northeast, Chiang Mai in the north, and to beach resorts like Pattaya and Hua Hin, than being part of some broader Chinese scheme for the entire region. Most of those plans, despite Bangkok's years of repeated assurances to Beijing the plan is on track, remain on the drawing board (Lintner 2021).

Even the goal for the Nakhon Ratchasima to Nong Kai link may differ between Thailand and China as "Bangkok's sights are firmly fixed on the narrow objective of boosting trade and exports into Laos and onto Southern China" (O'Connor 2022).

Ambiguity in Thailand's Response to the BRI

The ambiguity in Thailand's response to the BRI is best summarised in the following extracts:

> As Thailand itself presents a unique situation to the BRI as a U.S. treaty ally, the world's twenty-second largest economy (2019), an authoritarian democracy, and a superlative social media consumer, its civil society alternately ignores, accepts, welcomes, and opposes its numerous elements. This has been the case in Thailand for the past eight years and can be expected to hold for the foreseeable future (Zawacki 2021).
>
> The lack of progress on the rail project and partnership with China reflects growing unease in Bangkok about Chinese expansionism, even within the economic sphere,

[3]What they failed to say is that the research centre is part of the Asian Institute of Technology and is formally called the AIT Belt & Road Research Centre (Asian Institute of Technology 2019).

> with the kingdom being pulled between competing financial and commercial interests from the United States and Thailand's biggest investor Japan (O'Connor 2022).
> But as Bangkok's tarrying on the train is by now more clearly unstated policy than mere bureaucratic torpor, some observers, diplomats and officials perceive China's slow but deliberate "encirclement" of the kingdom in an increasingly hard power play to get its way with the Thais (Crispin 2022).

China's BRI Lending Policy

The whole BRI process appears to be somewhat opaque as the number of the projects, and their loan conditions are challenging to obtain (see, for instance, Bandiera and Tsiropoulos 2019, Zawacki 2021). The BRI financing must be considered in conjunction with a country's total borrowing capacity:

> Lack of transparency around the terms and size of Chinese financing also poses significant risks for countries and other creditors. Debt transparency is critical for borrowers and creditors to make informed decisions, ensure efficient use of available financing, and safeguard debt sustainability. It is also important for citizens to be able to hold governments accountable to their actions. In this context, it will be critical to build on past successful engagements with borrowing countries and the international creditor community, including China, while further enhancing the coordination of sustainable lending practices and debt restructuring regimes (Bandiera and Tsiropoulos 2019, p. 35).

It would be prudent for the BRI authorities to actively coordinate with the other IFIs so that there is no duplication of effort and all loan funds are considered in the loan negotiations. This would help to avoid situations such as that which occurred in the case of Sri Lanka where excess borrowing from various sources resulted in the collapse of the economy followed by the collapse of the government. To be effective, all donors and lenders should commit to such coordination, whether multilateral or bilateral donors and lenders.

Wolf Warrior Diplomacy

As noted earlier in the comments from (Wagle 2022a), during the deliberations about parliamentary approval of the MCC, China was perceived to have cultivated more intensely with the major communist parties of Nepal [of which there are a number] "at the expense of state-to-state sovereign engagement." This was exacerbated by acerbic and inflammatory articles such as those from Jianxue (2022) in the Global Times.

Crispin (2022) considers that "the innately non-confrontational Thais" would prefer that the United States and China "would refrain from jousting for power and influence within the kingdom". He claims that the recently appointed Chines ambassador's "go-go style [is seen] as pushy if not tone deaf", with the result that it "hasn't won him many allies or advocates at Thailand's Ministry of Foreign Affairs". He concludes by quoting an anonymous top-level Thai official stating, "China sees us as a customer; the US views us as a partner; that's always been the difference."

Discussion

What has become clear from an analysis of the three case studies is that the BRI is an amorphous creation. Each of the three states has taken a different approach in its dealings with China.

Sri Lanka is in a dire financial state due to its previous profligate government policies and poor governance. It is currently beholden to China, but that is an outcome resulting from its behaviour and not the cause. At all times, the Government was responsible for its actions. Its issue was that it overcommitted in USD-denominated debt, which drained its foreign reserves. In retrospect, the international lenders and multilateral financial institutions should have been more rigorous in their due diligence and restricted their lending. To blame the BRI for its crisis is gratuitous at best and wrong, in fact. Despite this, it continues to this day to be a cause célèbre for the BRI sceptics, particularly those opposed to an expansionist China. In summary, *a debt-ridden country, but the BRI is not the cause*.

Nepal, on the other hand, although a least developed economy, has been more prudent in its approach to the BRI. The prudent approach has been the case even during periods of instability due to political infighting and the emergence of several so-called "communist" parties, all of which have very little in common with communist dogma except for their relationship with the Chinese Communist Party. Nepal has recognised the limits of its borrowing capacity and is pushing China for grant funding which China is rejecting. The nine projects accepted as BRI projects, notably the Kerung-Kathmandu Railway and the Tamor Hydropower Project, will be significant undertakings if they actually reach the construction stage. It is possible that Nepal may rethink the railway project if they do not see a benefit to Nepal and instead see it as an intermediate stop between China and India, with trade between the two flourishing at its expense. The furore over the MCC funding with political posturing and foreign diplomatic interference is a salutary lesson for governments to ensure that their constituency is well-informed and false narratives are not allowed to flourish. Most negative comments were ill-informed and purely used for party political purposes. In summary, *a least-developed country with divisive politics but decisive decision-making (at last!).*

Thailand already has a vast infrastructure programme and is not reliant on multilateral financial institutions for financing. Thailand has really dealt a blow to the two signature projects promoted by China. In the case of the Kra Canal, Thailand is developing a Land Bridge of a road and rail corridor with deep sea ports at each end. China desperately needed an alternative maritime link to the Indian Ocean to avoid the congested Strait of Malacca. From Thailand's perspective, the political risk within its borders and with its ASEAN neighbours, Malaysia and Singapore, would be too great. As for the Kunming-Singapore railway, Thailand has other rail priorities and appears reluctant to open a freight link as it perceives that it will benefit China to its detriment. Regardless Thailand will construct and operate the railway using its resources but has undertaken to use Chinese designs and technology. In summary, *Thailand is not being duplicitous in its dealings with China but instead displaying common sense*.

Conclusion

In conclusion, it is proposed to expand on the insights provided in the review by Jones and Hameiri (2020) as they apply to the three case studies presented in this paper and whether, in fact, they apply more broadly to all International Financial Institutions (IFIs):

- Project governance needs to be improved. As it stands, there is no clear indication as to what projects are BRI projects nor what China's lending policies are. The only data available is from independent sources. *Whilst there are specific concerns about project governance concerning BRI lending policies, which appear to vary project by project, governance is an issue that impacts all IFIs. Their lending and grant awarding policies may be transparent, but their overall governance still has issues. Project oversight can be variable and dubious practices can occur during the award and delivery of projects. Whilst the IFIs have systems in place to monitor and detect such abuses, they are still dependent on the honesty of the recipients and those in the supply chain, including Consultants and Contractors. Unfortunately, this is not always the case. Knowledge management is also an issue that must be addressed to provide the information across the entire organisation. This may also require a change to the organisational structure to improve governance.*
- Chinese State-owned Enterprises (SOEs) are very active in BRI projects. Checks and balances must ensure they meet their fiduciary duties and adhere to the highest social and environmental protection standards. For instance, how will Chinese SOEs manage the extremes of topography, weather, hydrology, tectonics and environmental protection on the Kerung-Kathmandu Railway? *The same checks and balances must be applied by all IFIs and recipients on all projects, with greater oversight on complex and sensitive projects.*
- Policymakers, whether those involved with BRI projects or potential recipients, need to improve their capacity to have a realistic understanding of and appropriate responses to the BRI and be able to evaluate, negotiate and regulate BRI projects. Whilst not BRI-related, Sri Lanka has failed disastrously in this regard. Nepal and Thailand have fared much better, with Nepal only wishing to have grant aid and Thailand rejecting Chinese financing for the railway project and Chinese participation in the operation of the railway whilst at the same time utilising Chinese designs and technology. Thailand also decided to develop a high-speed passenger line and not a freight line preferred by the Chinese. *These issues are also a genuine concern with funding from other IFIs. Whilst the financial terms might be quite clear. This does not mean that the borrower has a good understanding of the impact of the funding. With multiple IFIs offering funding, the is a clear risk that more than one IFI provides funding to undertake an essentially similar task, especially with technical assistance. It would appear that IFIs need to consider whether the borrower is really as sophisticated as it first appears. Undertaking a risk analysis is a helpful*

starting point, and negotiations are undertaken at a sufficient level to ensure that each party is fully aware of the impact of its commitments. IFIs should share a higher responsibility than just adopting a caveat emptor approach.

- Infrastructure funding is desperately needed, and there are limits to current funding sources. Chinese funding should be welcomed, provided it is on just terms and for the right projects. Move away from the name-calling, whether it be about the BRI being part of China's geopolitical strategy or the MCC being part of the United States' geopolitical strategy. In the end, all funding has an ideological bent. *What is often lacking is coordination between any or all of the IFIs operating in a country. Such a process should be required as part of each IFI's governance structure and should be introduced on a sector-by-sector basis so that input can be obtained from the line departments of the recipient. The BRI organisations should be part of that process.*
- All multilateral financial institutions and bilateral lenders should investigate other financial modalities. This will assist nations in meeting their development needs without falling into a debt trap, however caused. *Foreign direct investment should be encouraged provided the recipient has assistance, if necessary, to develop the appropriate oversight framework and does not outsource these functions to the FDI provider.*
- Engage recipients and China to improve BRI governance, especially the transparency of mega projects. *The same rules should apply across all projects, with all IFIs ensuring that their governance and that of their clients meet best practice.*
- Civil society and political opposition need to recalibrate campaigning and ensure they have the facts before embarking on a pro- or anti-BRI, MCC or other funding modality. *This applies equally to all projects and all donors.*

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