

# The Belt and Road After COVID-19

*Possible post-pandemic scenarios for China's long-term foreign policy strategy.*

By Plamen Tonchev

The COVID-19 pandemic is increasingly looking like a watershed, one of those moments in history that mark the end of an era and usher in a new one. The world is poised to change dramatically as a result of the novel coronavirus and many of the assumptions that seem plausible today may have to be revisited a few months down the road. Everything will depend on the severity of the coming socioeconomic shock and the resilience of the world order.

While it is too early for authoritative forecasts, three scenarios are possible at this stage. The best case envisages a moderate economic disturbance, which can hopefully be dealt with by the existing world order and through the mobilization of existing financial tools. A much more likely scenario, which qualifies as bad, foresees severe economic damage necessitating a massive demand for reconstruction, even if it cannot be met through available resources and by the shaky global institutional architecture. The worst-case scenario will be really ugly: it includes a devastating economic collapse of potentially historic proportions, leading to social and political turmoil in a number of countries, a sea change as to configuration of the world order, and curtailed connectivity.

The oft-repeated assertion that we'll be living in a different world once the pandemic has been contained certainly applies to China's emblematic Belt and Road Initiative (BRI), too. Interestingly, the pandemic has exposed the risks and weaknesses of global interconnectedness, which cannot but affect China's BRI.

It'll take some time before the impact of the COVID-19 calamity can be gauged with a sufficient degree of precision. The first scenario seems to be a pie in the sky and the third one is simply impossible to grasp in its entirety, which is why the only somewhat credible conjectures for the time being could be made in relation to the bad scenario. In this case, several key questions about the future of BRI stand out.

## **Who Foots the Bill?**

In the bad scenario, a snag that BRI is likely to hit is a funding shortfall. So far, President Xi Jinping's signature project has been powered primarily by China, whose growth rates were decreasing even before the outbreak. The Chinese Communist Party (CCP) leadership is facing a daunting task revitalizing an economy that is up against serious structural challenges. Three months after disaster struck in Wuhan, the country appears to be coming round, but a V-shaped rebound is not a given and analysts continue to slash their forecasts. With the United States and Europe reeling from the pandemic, Chinese exports will take a big hit. At home, Beijing is faced with limited room to stimulate the country's highly leveraged economy, with persistently bad news coming in. Last February, China's official urban unemployment jumped to an unprecedented 6.2 percent, though the real rate may be even higher. Some 5 million jobs in urban China have reportedly been lost to date because of the lockdown and that number may go up to 9 million by the end of 2020. Therefore, Beijing's utmost priority will be preserving low

levels of unemployment, while it will probably postpone the vaunted goal of doubling the country's 2010 GDP by the end of this year.

The political imperative of ensuring social stability will require much-needed resources, at the expense of what many Chinese citizens view as a waste of money overseas. While Xi's grip on power remains unchallenged, there is a perception that he may have jumped the gun with an overly ambitious and assertive foreign policy agenda, including the BRI. The COVID-19 outbreak has exposed the need for Beijing's decision-makers to focus on domestic development and China will have to reconcile two competing priorities: avoiding the middle-income trap, while at the same time posturing as a superpower abroad. So, not only may BRI be short of cash, but it will also be hard to sell at home and mostly probably won't be touted within China for a while.

### **Will China Get Its Money Back?**

Worse still, all the economies along BRI routes will find themselves in tatters in the wake of the outbreak. There will be an ever-growing demand for infrastructure in Eurasia and Africa, but already-limited available resources in recipient countries may evaporate altogether. For instance, Pakistan, China's all-weather partner and host to the biggest BRI megaproject in the world, is poised to sustain a \$8.2 billion loss, according to a preliminary assessment by the Asian Development Bank. At present, the respective figure for Bangladesh is \$3 billion. Thailand has given up hope of hitting a 2.8 percent growth target this year and is now bracing up for a recession. Africa is equally vulnerable, as China is the continent's largest market for natural resources, and a primary source of industrial products and consumer goods. It's only a matter of time before the epidemic spreads across African countries in full force and leads, in parallel to a public health crisis, to a severe economic slump.

In all developing countries remittances are bound to shrink due to job cuts overseas, thus putting further pressure on the economies vying for Chinese investment. Project failures, cases of insolvency, and bankruptcies are expected to grow exponentially along BRI routes in the months, if not years, to come. Reportedly, coronavirus-hit Chinese companies executing BRI contracts can rely on support from the China Development Bank in the form of low-cost financing and special foreign exchange liquidity loans. Yet, Chinese policy banks will be increasingly picky and inclined to stay away from new projects that may turn out to be loss-makers.

### **The Show Must Go On**

According to a recently published theory, the terrestrial Silk Road Economic Belt and the Maritime Silk Road, the two distinct BRI strands, are priorities eight and nine on Xi's Top Ten list — not even close to No. 1 (preserving the CCP's power), No. 2 (maintaining national unity), and No. 3 (the expansion of the economy). This reading of Xi's worldview suggests that, under extreme circumstances, Beijing will not deem the BRI as important as political and social stability at home. And the position of the Chinese leadership over the past two years has been anything but enviable — it's been steadily exacerbated by the trade war with the United States, an inexorable economic slowdown, riots in Hong Kong, Tsai Ing-wen's re-election in Taiwan, and now the coronavirus calamity.

But this is not to say that the BRI is over, far from it. As Mark Twain would have chuckled, rumors of the death of the BRI are greatly exaggerated. It is a symbol of China's emergence as a leading global power and a big chunk of Xi's personal legacy, hence its inclusion in the CCP's

constitution. As is to be expected, Beijing's official rhetoric is that the COVID-19 outbreak will only have a temporary impact on the BRI. In fact, the initiative's fuzzy content is being further enriched with the "Health Silk Road" add-on narrative and "mask diplomacy" in a major soft-power push, as Beijing seeks to fend off unpalatable questions about its fumbled initial response to the outbreak and turn the tables on its critics.

In the short run, the BRI will be in trouble. In particular, the summer of 2020 may be a period of hibernation for a number of BRI projects. The outbreak has brought Chinese labor supplies and equipment imports along BRI routes down to a trickle. Currently, major infrastructure projects in Sri Lanka, Bangladesh, Indonesia, Nepal, and other countries are progressing at a snail's pace. Yet, while the Belt and Road has been put on hold due to the outbreak and proliferation of the virus, this shouldn't be seen as anything other than a short-term upheaval.

### **A Different BRI**

In the mid to long run, ongoing BRI projects will pick up again, though it is reasonable to assume that this will be a new BRI, an enterprise of a different complexion. And the BRI is bound to change, with inescapable questions about its China-centered nature: overdependence on Chinese companies and Chinese staff working on BRI projects financed through loans from Chinese banks. But, above all, it needs to change due to its inherent conceptual defects. Long before being hit by COVID-19, the BRI was infected with the virus of poor design, misconception, and chutzpah.

Notably, Chinese authorities have yet to come up with a clear-cut definition of the BRI, which remains a loose set of infrastructure projects and bilateral deals. Seven years after this ambitious initiative was announced it remains, at best, a blurred vision in need of a comprehensive conceptual framework, international standards, and a coherent implementation strategy. This is one of the reasons why the BRI has become controversial and has caused a backlash in many countries. And this is also why a process of recalibration, of sorts, has been under way for at least a year now, if one is to take Xi's words at the second Belt and Road Forum in April 2019 at face value.

The Chinese president sketched out his grand vision in September 2013, at a time China had an annual growth rate close to 8 percent and some \$4 trillion in its coffers. Back then, initial estimates of the resources to be allocated to the BRI went all the way up to a bombastic \$8 trillion, only to come down to \$4 trillion later on. In March 2018, Morgan Stanley predicted that China's overall expenses along BRI routes could reach \$1.2 to 1.3 trillion by 2027, but even this is now looking increasingly unlikely.

The World Bank estimates that cumulative BRI expenditure up to 2019 stood at \$545 billion. So far, about two-thirds of Chinese spending on completed BRI projects has gone into the energy sector and transport, roughly accounting for \$50 billion and \$15 billion, respectively. However, developing countries in need of infrastructure will be terribly cash-strapped, so unless money is offered by multilateral financial institutions or debt relief is considered, there may be a shift away from roads, bridges, and coal-fired power plants funded through Chinese loans.

Due to domestic political and financial constraints, China will no longer be in a position to shower BRI partners with loans. Arguably, it will think twice before getting embroiled in ill-conceived investments, such as the standard gauge railway in Kenya or the highway to nowhere

currently being built in Montenegro. From now on Chinese policy banks will be much more wary of a potential “creditor trap” and will identify projects on the basis of robust due diligence.

Instead of the hitherto scattershot Chinese approach to building anything that’s buildable, new BRI projects will probably be more strategically chosen. Beijing has been investing in the creation of a globe-spanning network of economic corridors, logistics zones, and financial centers, with stress laid on sea ports and adjacent areas. Egypt’s Suez Canal Economic Zone and Sri Lanka’s Colombo Port City clearly exemplify this trend, while the ambitious Sino-Oman Industrial City project has yet to take off the ground.

Investment in energy will remain sought-after, with Chinese solar-panel makers aggressively seeking overseas contracts now that state subsidies are being slashed at home. In addition, projects are likely to focus on more sophisticated forms of connectivity, such as 5G networks or, in the wake of the pandemic, disaster management, public health-related high-tech, and even remote surgery. China will surely use the BRI for the projection of its soft power, an increasingly important battlefield in international relations. Not least of all, the geopolitical dimension of the BRI will be further accentuated by the involvement of China’s military, ostensibly under a humanitarian and peace-building camouflage.

A different BRI will not necessarily be embraced by the rest of the world, marked by fragmentation and confrontation. It is true that recent developments have undermined confidence in the capacity and competence of U.S. governance and the EU is in disarray. However, it remains to be seen whether China’s attempts at burnishing its image as a global leader will pay off. The world has become aware of the risks of overwhelming reliance on China and the coronavirus may convince some in the international community to approach ties with Beijing with a greater degree of wariness. The outbreak has engendered profound skepticism about the prudence of leaning too closely on China and BRI may very well be a case in point.

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