Making most of Belt and Road Initiative

SOUTH Asian countries, barring India and Bhutan, are part of China’s Belt and Road Initiative (BRI). In some of these countries, the BRI has made deep inroads, such as in Pakistan, where the China-Pakistan Economic Corridor is being advanced rapidly, and in Bangladesh and Sri Lanka, where seaports, airports, roads, highways, energy infrastructure, etc. have been developed or are under development. In some others, such as Nepal, discussions are underway regarding the projects to be developed under the BRI.

South Asia is in need of massive investment. Its infrastructure investment need is around 9 percent of GDP, but it faces a serious investment gap of around 6 percent. To fill this gap, South Asian countries can tap on the BRI, under which, according to various estimates, total investment is going to be in the tune of US$4 trillion to US$6 trillion. The importance of the BRI lies also in the fact that it would increase trade and foreign direct investment. According to the World Bank, there could be a 2.8-9.7 percent rise in corridor economies’ trade and a rise of 7.6 percent in foreign direct investment due to the BRI.

While the BRI appears to provide significant benefits, there are also controversies and concerns related to several aspects of the initiative. The first and foremost is the allegation that the BRI creates debt traps in recipient countries. Sri Lanka’s building of the Hambantota port with Chinese loan and later leasing it out to China is a widely cited example. There are also concerns related to the BRI in terms of its disregard for environmental sustainability, corruption and transparency in the development of infrastructure projects.

While some of these seem to be valid concerns, others might not be so. As Dushni Weerakoon argues in her article in this issue, the Hambantota port debacle is not a debt trap problem as has been understood in the context of the BRI. This needs to be looked at in the larger context of Sri Lanka’s foreign debt overhang. It cannot be denied that Chinese loans have aggravated Sri Lanka’s foreign debt problem. However, one also needs to look at Sri Lanka’s domestic political economy rather than assigning the blame solely to China.

Recipient countries have major roles to play in ensuring that concerns related to the BRI are addressed. First and foremost, projects should not be chosen based on political gains. The national leadership should perform a comprehensive cost-benefit analysis of each project. More importantly, they should maintain full transparency of project selection criteria, competitive bidding process and the cost of the project, and should fully take into account sustainability of the project from economic, environmental and social perspectives. President Xi’s address at and the outcome document of the Second BRI Forum organized in Beijing in April of this year suggests that China is aware of the global concerns raised against the BRI and that it will devise mechanisms within the initiative to address the concerns.

Given the large size of the South Asian economy, the region’s accelerating growth rate and its huge population with demographic dividend, broadening and deepening of the relationship of South Asian countries with China will add to the progress and prosperity of the people in this region. Moreover, the massive investment gaps of South Asian countries cannot be filled by traditional sources of finance alone. Hence, South Asian countries should maximize their options and make use of all available funding possibilities, including from the BRI.
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Cargo tracking system has increased costs

Nepali freight forwarders have complained that the electronic cargo tracking system, recently launched by the government, has raised transportation costs by 25 percent, despite assurances that it would make shipping cheaper.

Since mid-February 2019, electronic tracking and transshipment has been operational on Nepal-bound cargo released from Kolkata, Haldia and Visakhapatnam ports in India. The cargoes are fitted with electronic chip that allows the shipper track consignments. In addition, Nepal has transshipment privileges from Indian authorities under which goods imported from third countries undergo customs clearance directly at the customs points on the Nepal-India border, eliminating hassles at Indian ports.

The system has reduced the transportation time from 21 days to 4-5 days, and it is also expected to help traders save on shipping costs by freeing them of demurrage and detention charges. To use the system, traders need to pay NPR 4,200 extra per container to fit the electronic tracking device.

But Nepali freight forwarders say they were being forced to pay higher consignment charges after the new system has been enforced. A past president of the Nepal Freight Forwarders’ Association said that shipping companies had hiked the cost of cargo handling to NPR 125,000 from NPR 100,000 per container.

Cargo forwarders suspect the intervention of customs agents behind the hike in freight charges. When the system was launched in February, customs handling agents at Indian ports had disrupted the movement of Nepal-bound cargo. Upset by the loss of income they had been earning by using the manual system, the agents showed their dissatisfaction by stopping the movement of goods.

Currently, six shipping lines are providing services to Nepali traders. Among them, Maersk Line handles around 60 percent of the cargo destined for Nepal, according to the Consulate General of Nepal in Kolkata. (https://kathmandupost.com/, 30.07.2019)

Bangladesh, China sign five deals on power

DHAKA has signed five deals with Beijing to improve power transmission and distribution systems in Bangladesh.

The agreements followed bilateral talks between Bangladeshi Prime Minister Sheikh Hasina and her Chinese counterpart Mr. Li Keqiang on 4 July.

The five deals are framework agreement of expansion and strengthening of power system network under Dhaka Power Distribution Company (DPDC); government concessional loan agreement of expansion and strengthening of power system network under DPDC area project; preferential buyer’s credit loan agreement of expansion and strengthening of power system network under DPDC area project; framework agreement of power grid network strengthening project under Power Grid Company of Bangladesh (PGCB) project; and agreement on economic and technical cooperation between Bangladesh and China.
Pakistan fined billions in mining dispute

AN international arbitration court has imposed US$6 billion penalty on Pakistan for its unlawful denial of a mining lease to a company for the Reko Diq project in 2011.

The Tethyan Copper Company—a joint venture between Chilean mining company Antofagasta and Canada’s Barrick Gold Corporation—had filed claims before the World Bank’s International Centre for Settlement of Investment Disputes (ICSID) in 2012 after the Balochistan government rejected a leasing request from the company. In its 700-page ruling, the tribunal awarded an US$4.08 billion penalty and US$1.87 billion in interests.

The company had claimed US$11.43 billion in damages.

Tethyan Copper discovered vast mineral wealth more than a decade ago in Reko Diq, at the foot of an extinct volcano near Pakistan’s frontier with Iran and Afghanistan.

After the verdict, Pakistan said it welcomed a statement by Tethyan Copper expressing willingness for a negotiated settlement. The government said it was disappointed by the ruling but had taken note of a statement from Tethyan Copper’s chairman expressing willingness to seek a negotiated settlement.

The ruling comes at a sensitive time for Pakistan, which, in early July, signed a US$6 billion bailout agreement with the International Monetary Fund to stave off a looming balance of payments crisis.

As per the agreements, the DPDC will receive US$1.4 billion in loans. The PGCB will get over US$280 million and Bangladesh government will get over US$70 million under the framework agreements, according to officials of the Economic Relations Division.

Under the five-year project, 14 grid substations with 132/33 kV voltages each and 40 sub-stations with 33/11 kV voltages each will be built in Dhaka and Narayanganj.

Apart from the five agreements, two memoranda of understanding have been signed between the two nations on the establishment of investment cooperative working group and hydrological information sharing of Yalu Zhangbo and Brahmaputra River, and cultural exchange and tourism programme.

Tens of thousands losing jobs in India

SLUMPING sales of cars and motorcycles are triggering massive job cuts in India’s auto sector, with many companies forced to shut down factories for days and axe shifts.

The cull has been so extensive that one senior industry source said that initial estimates suggest that automakers, parts manufacturers and dealers have laid off about 350,000 workers since April.

Within this previously unreported figure, car and motorcycle makers have laid off 15,000 workers and component manufacturers 100,000, with the remaining job losses at dealers, many of which have closed, the industry source said. At least five companies have recently cut or plan to cut hundreds of jobs, mainly from their temporary labour force.

The downturn—regarded by industry executives as the worst suffered by the Indian auto industry—is posing a big challenge for Prime Minister Narendra Modi’s government as it begins its second term at a time when India’s unemployment numbers are climbing.

To revive the sector, auto executives plan to demand tax cuts and easier access to financing for both dealers and consumers.

The industry’s plight was highlighted by the Automotive Component Manufactures Association of India (ACMA), with the trade body’s director general, Vinnie Mehta, saying the sector was experiencing a “recessionary phase”.

The malaise has been spreading across much of the industry, both in terms of vehicle type and components, as well as, geographically in India’s manufacturing hubs. The layoffs come as carmakers, including Honda Motor Co, Tata Motors and Mahindra & Mahindra, have implemented brief suspensions to production in recent weeks in the face of slow demand.

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Rise in Nepal’s RMG export

NEPAL’S ready-made garments (RMG) export hit a 13-year high in terms of value in the last fiscal year, thanks to the appreciation of the US dollar against the Nepali rupee and improvement in product quality.

The Trade and Export Promotion Centre statistics show that the country exported RMG worth NPR 6.34 billion in the last fiscal year that ended mid-July, against NPR 5.97 billion in the previous fiscal year, up 6.53 percent.

The statistics show that in the last fiscal year, Nepal exported 12.2 million pieces of RMG against 15 million pieces in the previous fiscal year, down 19 percent year-on-year.

Despite a sharp drop in quantity, improvement in product quality allowed the export item to fetch good value, traders said.

President of the Garment Association of Nepal also attributed the increase in the export value of Nepali RMG also to the appreciation of the US dollar against the Nepali rupee.

During 2000, Nepali garment manufacturers used to export products worth NPR 12 billion annually but exports started to decline after the Multi-fibre Arrangement (MFA) expired in January 2005. Under the MFA Nepali garments were provided duty-free access to the US market.

Chinese Belt and Road plan ‘may result in 2.7°C warming’

CHINA’S multi-trillion dollar global investment plans could blow the 2°C warming limit set by the Paris Agreement without curbs on pollution, a new study has said.

The 126 countries in the Belt and Road region now account for 28 percent of global emissions, but on their current trajectory, that could rise to 66 percent by 2050, said researchers, led by Ma Jun, a special advisor to China’s central bank.

That could mean global carbon levels would rise to nearly double the level needed to keep temperature increases to below 2°C, a major goal of the Paris Agreement.

The research was published jointly by China’s Tsinghua Center for Finance and Development, along with London-based Vivid Economics and US-based Climate Works.

The study estimated that more than US$12 trillion in infrastructure investment would need to be ‘decarbonised’, and called for safeguards to ensure that existing low-carbon technologies and practices were implemented, although even that might not be enough to meet the 2050 goals.

The Belt and Road Initiative is a Beijing-led programme aimed at boosting economic integration through infrastructure and energy investments in Asia and beyond. Signatory countries account for about a quarter of the global output.
Trade war could cut world GDP by 0.8 percent

**TARIFFS** imposed or threatened by the United States (US) and China could shave 0.8 percent off global economic output in 2020 and trigger more losses in future years, the International Monetary Fund (IMF) said.

The IMF said trade tensions were beginning to affect a world economy, which is already facing challenges, including a weakening of manufacturing activity not seen since the global financial crisis of 2007–2008.

In a regularly scheduled news conference, the IMF said that the world economic activity remained subdued, with trade and geopolitical tensions causing uncertainty and eroding business confidence and investment.

The IMF had previously forecast that the US-China trade war and other trade disputes threatened future global growth, and the impact was now being felt.

Trade tensions are not only a threat, but are actually beginning to weigh down the dynamism in the global economy, said the IMF, adding US-China tariffs “could potentially reduce the level of global GDP by 0.8 percent in 2020, with additional losses in future years.”

That forecast is gloomier than one made earlier this year, when the IMF said tariffs already imposed and those planned could shave 0.5 percent off global economic output in 2020. (https://www.reuters.com, 12.09.2019.)

Sri Lankan spice exporters slam India for NTBs

**SRI LANKA’S** spice exporters have slammed India for slapping a series of non-tariff barriers to the island’s spice shipment, which has brought trade in some items to a complete halt.

Spices & Allied Products Producers’ & Traders’ Association (SAPPTA) said India has fixed minimum import prices of pepper and arecanut at two and a half times the local price to block imports from Sri Lanka.

Almost 100 percent of arecanut exports from Sri Lanka had been to India, the trade association said.

The association has also said that the Indian government authority had instructed Sri Lanka’s phytosanitary department not to issue certificates, which is an absolute requirement for the clearing of cargo in India, for the export of clove stems.

There had been concerns that Indian traders were routing arecanut from third countries via Sri Lanka through one or more firms which had Entrepot trade licenses, misusing provisions of Indo Lanka free trade deals. (https://economynext.com/, 26.09.2019)

Pakistan suspends bilateral trade with India

**PAKISTAN’S** top civil and military leadership on 7 August decided to downgrade diplomatic relations, expel the Indian High Commissioner and suspend bilateral trade with India in the wake of New Delhi’s move of revoking special status of Jammu and Kashmir.

The decision was taken at the second session of the National Security Committee (NSC) presided over by Prime Minister Imran Khan to review the situation following the Indian government’s move on Kashmir.

“Our ambassadors will no longer be in New Delhi and their counterparts here will also be sent back,” Foreign Minister Shah Mahmood Qureshi told ARY News.

According to a statement issued after the meeting, the NSC decided to downgrade diplomatic relations, suspend bilateral trade with India, review bilateral arrangements and take the matter to the UN, among others. (https://www.livemint.com/, 07.08.2019)
Aid for Trade to improve economic diversification

USING development aid to build trade capacity in poor countries is helping to improve economic diversification and to economically empower marginalized groups, yet progress remains geographically uneven, according to the latest report on Aid for Trade published by the Organization for Economic Cooperation and Development (OECD) and the World Trade Organization (WTO).

According to the aid-for-trade monitoring and evaluation exercise delineated in the report Aid for Trade at a Glance 2019: Economic Diversification and Empowerment, economic empowerment can be both the outcome of economic and export diversification, as well as the catalyst for this process. The report, based on 133 respondents, highlights how economic diversification is a gateway for economic empowerment but that the link between diversification and empowerment runs in the opposite direction too. The report found that progress was achieved but it is not uniform, with least-developed, landlocked, and small island developing states facing particular challenges. This is also the case in fragile and conflict-afflicted states. For these countries and others, economic diversification is inextricably linked with the achievement of higher levels of productivity resulting from the reallocation of economic resources within and between economic sectors.

Since the start of the Aid for Trade Initiative in 2006, donors have disbursed US$409 billion in official development assistance to help developing countries build trade capacities. In addition, US$346 billion in low concessional loans was disbursed. Almost another US$100 billion in both types of flows was committed in 2017. South-South providers contributed US$9 billion according to OECD estimates. Empirical studies and programme evaluations find that this support is helping countries improve their competitiveness, expand and diversify their trade, attract foreign direct investment, and create employment.

According to OECD and WTO, every dollar invested in aid for trade has been found to generate US$8 worth of exports in developing countries and nearly US$20 of exports in least-developed countries, depending on the country and the type of investment. Open, rules-based trading contributes to global welfare by helping to diffuse goods, services, technology and knowledge, though many developing countries still face numerous supply-side constraints.

Moreover, after several decades of so-called ‘hyper-globalization’, the world may be entering a period characterized by slower growth of trade in physical goods and lower foreign direct investment flows. Action to prevent services restrictions from dampening these growth prospects is needed, urges the report.

The report points out that economic empowerment can be fostered through programmes that are specifically aimed at improving the extent to which marginalized groups, including women and youth, participate in and benefit from international trade. At the same time, small and medium enterprises (SMEs) are finding it difficult to attract the skilled employees they need to be competitive. The twin problems of youth unemployment and SME competitiveness can and should be solved together as the objectives of youth economic empowerment and SME competitiveness are synergistic. That is, improved youth skills and innovation promote SME competitiveness and exports, while internationally competitive SMEs provide more opportunities for young people.

While economic diversification is essentially a nationally driven process, the international community can offer assistance in creating an enabling environment for the trade integration of developing countries and helping tackle supply-side constraints. To promote empowerment, aid programmes need to focus more explicitly on helping developing countries create more opportunities for women and youth. Youth employment or entrepreneurship can be harnessed by addressing firm level market failures and improving the business ecosystem. Women’s empowerment should receive more attention. In this context, development of concrete guidance on how to plan, monitor and evaluate donor activities in contributing to women’s economic empowerment through aid for trade will be useful, the report concludes.

This piece is excerpted from the report Aid for Trade at a Glance 2019: Economic Diversification and Empowerment.
The Belt and Road Initiative (BRI), a combination of Silk Road Economic Belt (SREB) and the 21st Century Maritime Silk Road (MSR), is a signature foreign policy programme promulgated by Chinese President Xi Jinping. Originally unveiled in 2013 at Nazarbayev University in Astana as ‘One Belt, One Road’, today, over 100 countries (65 percent of the global population) have formally endorsed the initiative. The primary aim of the BRI is to connect China with countries and continents in the west for economic and strategic reasons, thereby forming more China-centric global order.

Objectives and achievements
Chinese government’s foremost objective has been to preserve its brisk economic growth with the help of the BRI. This would be achieved by creating a conducive economic environment for higher production, through dual measures. First, exporting the overcapacity in steel, cement, construction and high speed rail; and second, promoting trade and investment. In this context, China’s global engagement through the BRI is critical to Chinese growth. Moreover, accelerated growth is essential for China to reduce regional disparity within China.

The BRI is already a six-year old initiative. Starting with seven corridors in 2013, today the initiative covers 11 corridors. BRI routes run through several parts of Asia, Africa and Europe. It focuses on five thematic areas, namely, policy coordination, facilities connectivity, trade and investment, financial integration, and people-to-people contacts.

Geographical spread
The SREB focuses on bringing together China, Central Asia, Russia and Europe (the Baltic), linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and the Indian Ocean. The MSR is designed to go from China’s coast to Europe through the South China Sea and the Indian Ocean in one route, and from China’s coast through the South China Sea to the South Pacific in the other.

Under the BRI, maritime network appears to be more prominent than other forms of transportation networks between China and other nations. China leads in maritime connectivity, with shipping routes connecting its ports to more than 200 nations and 600 major ports.2 As to rail connections, the total number of

The BRI is not grant-in-aid project; it predominantly involves concessionary finance. In other words, the BRI is a plot of loans and certainly not a basket of free lunch. BRI projects are being developed mostly through commercial loans, adding debt to borrowing countries. The popular example is Sri Lanka, which borrowed US$8 billion in loans from China between 2008 and 2018.1

Along with building infrastructure, Chinese foreign direct investment is essential to aid industrial development.

Prabir De

Table
BRI’s share in the world, 2018

| Share in world population | 65% |
| Share in world trade in goods | 35% |
| Share in world GDP | 45% |
| Energy reserves | 75% |
| Countries covered | 100+ |
| Projects covered: Port, SEZ, high speed rail, airport, township, roads and highway, railroad, energy pipeline, customs cooperation, digital connectivity, etc. |

Source: Author’s compilation from various sources
trips made by China-Europe freight trains exceeded 12,000 in 2018, with annual shipments valued at US$16 billion, compared to only 17 trips and less than US$600 million made in 2011. In 2017, tourists made around 60 million trips between China and other Belt and Road countries. The number of tourists to and from China has increased 2.6 times and 2.3 times since 2012, respectively, making it a new source of growth for global tourism.

**Financing**

Major financing of BRI projects has involved debt-financing through Chinese policy banks, international financing institutions and/or sovereign wealth funds. According to the Emerging Market Institute, based in Beijing Normal University, “several banks of China have committed over US$400 billion worth of loans to the BRI countries between 2015 and 2017.” The same study states that of China’s two leading policy banks, the China Development Bank had disbursed around US$170 billion of lending to BRI countries till mid-2017, while the Export-Import Bank of China reported a loan disbursement of US$130 billion to BRI countries as of March 2018.

**Benefits**

One of the major benefits of the BRI is the significant amount of external capital invested through its projects. Through the BRI, China has been recycling its surpluses such as cement and steel. Originally aimed to reduce transportation costs, particularly for the landlocked countries, performance is rather mixed.

Central Asian republics falling along the corridors have gained in terms of border infrastructure, both physical and non-physical, whereas the same is yet to be witnessed in remaining countries.

Through the BRI, China has been laying the foundations of a worldwide transportation network, thereby creating regional and transcontinental transport corridors and other infrastructure networks. Between 2014 and 2018, Chinese investment in BRI development projects reached US$380 billion according to independent estimates. The oil and gas sector received the most support, followed by power and transport. Some of the BRI projects are loan-based (taken by borrowing countries) but can have relaxed repayment schedule. However, foreign direct investment (FDI) could also be a source of financing BRI projects.

**Signs of troubles**

Several countries are either withdrawing from BRI projects or reviewing the financial arrangements (e.g. the Maldives, Pakistan, Malaysia, etc.). In addition, BRI projects are rife with instances of corruption. China’s insistence on single-bid contracts, shady procurement procedures and sovereign guarantees could be the reasons for corruption. Countries such as Kenya, Bangladesh, Uganda, Zambia, etc. have taken drastic steps against corruption in BRI projects. Therefore, BRI projects have come under severe criticisms, from many quarters, for creating debt traps and promoting corruption.
There is a growing scepticism in many countries about BRI projects. The foremost reason is that the countries do not want to lose their geographical sovereignty by signing off key infrastructure assets to China, particularly when countries fall in debt trap. Countries want to avoid the fate of Sri Lanka’s Hambantota port, which was handed over to China under a long term lease mainly due to non-payment of loans by Sri Lanka.

Furthermore, the risks are plenty. First, a single country (China) is placing a huge bet on future prospects of BRI countries. Second, there is lack of transparency in BRI projects. Till date, nobody knows what the master plan of the initiative is or which projects are in its primacy list. At the same time, China and its financing entities have not made official data on investments available, which has raised questions on the transparency of project financing. Third, domestic governance/political environment in BRI countries suffer due to poor domestic governance, extraction of benefits by the elites, lack of transparency, etc. Moreover, some of the most ambitious BRI projects cut across many national boundaries making coordination between multiple nations a big challenge.

Given that the world has been facing deceleration of growth in trade and services combined, the BRI has the potential to undo the protectionism rising across the world. Following the example of the Asian Infrastructure Investment Bank, China may introduce a multilateral system to BRI in order to align infrastructure investments in developing countries, which may need investments (rather than financing) for development of connectivity. Collaboration between Japan, India and China would perhaps be a better option for participating countries’ sovereignty and integrity. Moreover, helping participating countries through grants is better than pushing already financially distressed countries into further debt. It needs to be noted that physical infrastructure development alone would not help countries in stimulating their economies.

Recasting BRI for South Asia
China’s trade with South Asia increased from US$93 billion in 2012 to over US$125 billion in 2017. South Asia is an important destination (and also source) of Chinese trade. China maintains trade surplus with all the South Asian countries, most prominently with India. There is a view that the BRI might further aggravate trade deficits of South Asian countries since China’s access to South Asia would become much easier. However, there is also a view that the BRI could facilitate global exports of South Asian countries.

Chinese FDI is a must to aid industrial development along with construction of infrastructure. Participating countries have opened themselves up for China. China should also open up its markets for South Asian countries. For increased trade engagement, special focus should be on trade facilitation such as streamlining non-tariff measures, paperless trade, services trade and investment. Likewise, value added services of connectivity is crucial for economic integration and regional value chains. Special focus needs to be given to trade facilitation, financial cooperation, and digital connectivity and projects related to digital revolution. China should also address the concerns that the BRI does not adequately respect participating countries’ sovereignty and integrity. Moreover, helping participating countries through grants is better than pushing already financially distressed countries into further debt. It needs to be noted that physical infrastructure development alone would not help countries in stimulating their economies.

Notes
3. The World Bank’s WITS database.
The Belt and Road Initiative (BRI), also known as the New Silk Road, is an ambitious infrastructure project that stretches from East Asia to Europe. The initiative’s objective is to build connectivity and enhance cooperation across six main economic corridors: New Eurasia Land Bridge (NELB), China-Mongolia-Russia (CMR) Economic Corridor, China-Central Asia-West Asia (CAWA) Economic Corridor, China-Indochina Peninsula (ICP) Economic Corridor, China-Pakistan Economic Corridor (CPEC), and China-Bangladesh-India-Myanmar (BCIM) Economic Corridor.

Through the BRI, China intends to engage in the global economy by investing in developing the land network connecting China to Europe via Central Asia (‘One Belt’) and the maritime route from China to Southeast Asia, South Asia, the Middle East and Eastern Africa (‘One Road’). By the end of July 2019, 136 countries and 30 international organizations had signed 194 cooperation documents with China to build the ‘Belt and Road’ cooperation document.1

Bangladesh is connected with the BRI through the BCIM economic corridor, which was formally endorsed during the first inter-governmental study group meeting in Kunming held in December 2013. The corridor covers 1.65 million square kilometres and includes about 440 million people. It connects China’s Yunnan province, Bangladesh, Myanmar and Kolkata in India through road, rail, water and air linkages.

The BCIM initiative envisages building regional cooperation through an economic corridor connecting the sub-regions of South Asia, Southeast Asia and East Asia. Connectivity through the BCIM economic corridor has the potential to benefit the Northeast Indian states through trade with China’s Yunnan province. Bangladesh can benefit through linkages with the Northeast Indian region and Yunnan. Moreover, BCIM, by galvanizing blue economy and international maritime trade through the Bay of Bengal, the Indian Ocean and the Andaman and Nicobar Islands, could be highly beneficial to the sub-region. In order for the BRI to be successful, operationalization of the BCIM is crucial.

Recent developments

Bangladesh has taken a number of steps to materialize the ideas embedded in the BRI. During the Chinese President’s visit to Bangladesh in October 2016, an understanding was reached regarding implementation of various government-to-government (G2G) and business-to-business (B2B) projects. In particular, China pledged to invest (in Bangladesh) an amount totalling US$40 billion in Bangladesh. Of this, US$26 billion was in the form of bilateral assistance for infrastructure projects and US$14 billion in joint ventures. In addition, China also committed US$20 billion in loan agreements.

In 2016, Bangladesh and China signed eight projects costing more than US$9.45 billion, which were all financed by China. They include: Padma Bridge rail link worth US$3.3 billion; the power plant in Payra worth US$1.9 billion; digital connec-
tivity worth US$1 billion and power grid network strengthening project worth US$1.32 billion.

Major activities under the BRI in Bangladesh have been the upgrading of transport infrastructure and the establishment of Special Economic Zones (SEZs). Between 2009 and 2019, China invested in upgrading of the 48 km Dhaka Bypass Road to a dual carriageway, and in a toll road project, which is the first of its kind in Bangladesh. Likewise, as part of Bangladesh government’s initiative of establishing SEZ across the country, the first specialized G2G economic zone—Chinese Economic and Industrial Zone (CEIZ)—is being developed in Anwara Upazilla of Chittagong district on a 783-acre piece of land. China’s state-run China Harbour Engineering Company holds 70 percent share in the project.

**Bangladesh’s ties with China**

In the last decade or so, Bangladesh’s integration with the Chinese economy has been gradually increasing through trade, investment and cultural exchanges. The BRI is expected to strengthen the ties further.

**Investment and financial integration:** Due to the rapid pace of growth of the Bangladeshi economy, the infrastructure investment need as a percentage of gross domestic product (GDP) is expected to fall in the coming years. However, the difference between the infrastructure investment need and the current trends of infrastructure investment in Bangladesh is predicted to be more than 1 percent of GDP. Sectoral decomposition of infrastructure investment needs shows that the greatest need for investment in Bangladesh are in the energy and transport sectors. Predictions show that in 2040, infrastructure investment needs of the energy and transport sectors will be around 1.5 percent and 1 percent of GDP, respectively. The largest proportion of BRI projects in Bangladesh are in the energy and transport sectors. Thus, the BRI has the potential to fill in the infrastructure gaps in Bangladesh.

In Fiscal Year 2019, Bangladesh witnessed a record high net foreign direct investment (FDI) inflow of US$3.2 billion between the months of July and March. This surge in FDI was largely driven by Chinese investment. During the period January-March 2019, Chinese net FDI inflows amounted to US$397 million, which was 38.34 percent of total net FDI inflows into Bangladesh during the period. In April 2018, AliPay, a subsidiary of China’s e-commerce and tech giant Alibaba Group, bought 20 percent stakes in bKash, Bangladesh’s largest mobile financial service provider.

**Trade:** Historically, China has never been a major market for Bangladeshi exports. However, since the third quarter of 2010, China has become the biggest import partner for Bangladesh, overtaking the place previously held by India. In 2018, China was the largest trading partner of Bangladesh with a share of 19 percent of total trade. This was almost double the share of trade with India.

**Cultural exchange:** One of the five components of the BRI is cultural exchange. Through means of knowledge sharing, research collaboration
and strengthening of people-to-people bonds, China is expanding cultural exchanges between the countries using the BRI. Since the declaration of the BRI in 2013, there has been a steady increase in the number of Chinese government scholarships offered to foreign students. Since the inception of the BRI, the number of Bangladeshi students pursuing higher education in Chinese universities has grown rapidly over the years. For example, an additional 4,905 Bangladeshi students went to study in China in 2016, compared to 2015. Furthermore, the number of Confucius institutes and Confucius classrooms have proliferated, not only in Bangladesh, but all over the world. Since the start of the BRI, the number of Confucius institutes all over the world has increased from 440 in 2013 to 548 in 2018. This increase in the demand for learning Chinese language has been driven not only through cultural exchange, but also through other components of the BRI, such as trade and investment.

**Overcoming challenges associated with BRI**

Despite all the benefits offered to Bangladesh from enhanced connectivity with China, the BRI is not without risks. Debt financing of BRI projects has emerged as a major issue. Similarly, environmental risk is another concern for Bangladesh that is already in a vulnerable position, geographically.

**Debt issue:** Sustainable financing of BRI projects in the participating countries is an important issue. China has faced criticism for pushing its borrowing countries into debt trap. Notably, Chinese government has also provided debt relief to the countries, which have been suffering from debt distress, on a case-by-case manner. There are several examples of how China has approached debt issues in various countries. According to the International Monetary Fund (IMF), China was a creditor to 31 of the 36 heavily indebted poor countries, and it provided relief to at least 28 of them, providing 100 percent waivers in several cases (for example, Burundi, Afghanistan and Guinea). In the case of Sri Lanka, China agreed in July 2017 to a debt-for-equity swap for US$8 billion loan and a 99-year lease for managing the Hambantota Port.9

The external debt of Bangladesh fell from 20 percent of GDP in 2007 to 15 percent of GDP in 2015, but rose again to 17 percent of GDP in 2018. The absolute amount of outstanding external debt has also increased from US$19.4 billion in 2007 to US$33.5 billion in 2018. Despite the recent trend of increasing external debt, Bangladesh’s sound debt servicing record has ensured that external debt has not piled up. The total debt service as a percentage of total exports decreased from 8.6 percent in 2013 to 3.9 percent in 2018.10 These numbers suggest that Bangladesh possibly has the capacity to sustain more debt financing for necessary projects.

**Environmental concerns:** While the BRI has the potential to bring in positive economic development, it may cause irreversible damage to the environment as infrastructure may threaten ecosystems and livelihoods of the people who depend on environmental resources surrounding them. Thus, China’s own national sustainability commitments could be applied across the whole of BRI. Making its environmental guidelines mandatory overseas, China can improve local standards in BRI countries. President Xi Jinping’s concept of ‘ecological civilization’ could contribute to environmental governance.

A positive sign is that 58.3 percent of BRI transport sector construction contracts are in railways, which are relatively environment-friendly, compared to other modes of transportation. However, 38.05 percent of BRI construction contracts in the energy sector are in coal, which is highly damaging to the environment. Furthermore, around 56 percent of China’s total investment in Bangladesh is in the energy sector, more precisely, in coal.11 Such large investment in coal-based energy sector projects could potentially be detrimental to the environment.

**Transparency:** Lack of an open, transparent and competitive procurement process can lead to poor performance of projects due to missed deadlines, cost overrun, and low quality services. Transparency International’s Corruption Perceptions Index (CPI) indicates that the perceived corruption in the Belt and Road corridor economies is higher than the global average and, particularly, higher among lower middle income and low income countries.12 Increased transparency in procurement process and other compliance can benefit BRI projects by...
opening the possibility of co-financing by other sources, including the multilateral development agencies.

As a response to the charges of opaqueness, corruption, and environmental damages, a number of initiatives were announced at the second Belt and Road Forum in Beijing held in April 2019 (for example, ‘The Beijing Initiative for Clean Silk Road’), which calls for international cooperation to promote transparency and integrity and combat corruption. Likewise, the ‘Green Investment Principles (GIPs) for the Belt and Road’ calls for environment-friendly, climate resilient and socially inclusive investments under the new BRI projects. Furthermore, the Ministry of Finance of the People’s Republic of China published a Debt Sustainability Framework (DSF) for Participating Countries of the BRI in April 2019.

Conclusions and way forward for Bangladesh

The BRI promises to deliver physical and soft infrastructure to foster connectivity and economic development across several selected corridors. For Bangladesh too, the BRI provides an opportunity to seize benefits, particularly in the areas of trade, investment, connectivity, education and tourism, through strong ties with countries, particularly in the Southern Asian region, and more specifically, with China and India. For example, the Kunming-to-Kolkata corridor can reduce costs of transport and benefit Bangladesh through enhanced trade and investment. This will create opportunities for employment and income. Bangladesh’s enhanced competitive strength through the BRI will help it integrate better with the global economy.

Implementation of BRI projects will, however, require trade facilitation reforms. Some of these measures include standardization and harmonization of procedures and regulations across countries, improvement of trade facilitation and logistics at the border, cross-border electronic data exchange, speedy customs clearance, customs cooperation and measures to ensure security of people, vehicles and cargo on the move. Vast quantity of resources will need to be mobilized to build the needed transport infrastructure. Bangladesh has to mobilize domestic resources through tax reform and public-private partnerships. Selection and planning of BRI projects should be sound, with a full understanding of the economic and social benefits that will be created through such projects. In order to address the challenges associated with the BRI projects, the Government of Bangladesh should implement the BRI projects through open, transparent and competitive contracting and procurement process.

For timely completion of projects and for minimizing cost overrun, public disclosure of BRI projects’ terms and conditions of finance, monitoring, reporting and anti-corruption measures should be in-built in the project implementation mechanism.

Debts should be managed well and debt sustainability issue should be closely monitored in order to avoid any possible debt traps. For green and clean governance mechanisms in BRI projects, financing and environmental information should be disclosed in advance, and on a continuous basis. Social and environmental impact assessments of projects should be done through meaningful and informed engagement of local people. On the whole, while BRI projects hold high promises for economic development, the outcome will be determined by the way Bangladesh plans and executes these high value projects.

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Notes

1 Belt and Road Portal. 2019. “List of countries that have signed a ‘One Belt, One Road’ cooperation document with China.” https://www.yidaiyilu.gov.cn/xwzx/roll/77298.htm.


5 ibid.


11 ibid. Note 3.

South Asia captures attention of the international community as it occupies a strategic position in the Asia Pacific region. Particularly, a large population, with a promise of significant demographic dividend, and the current high growth trajectory, have contributed to an increased attention of the international community towards this region. But it is also true that the region has yet to realize its full potential. Over 200 million people living in extreme poverty, growing inequality and the huge infrastructure gap, coupled with regional tensions, are major hindrances preventing South Asia from achieving its rightful place in the world. Furthermore, its strategic location—straddling key international shipping lanes and encompassing major geostrategic competition—makes it highly crucial to many global issues such as world peace, security and prosperity. The ruling, rising and aspiring powers all are keen to generate influence in the South Asia region.

Gyan Chandra Acharya
It is in this broader context that we have to analyze the potential impacts of China’s ambitious Belt and Road Initiative (BRI) in South Asia.

The BRI is the largest economic cooperation initiative of the 21st century. It aims to promote, primarily, multidimensional connectivity. Its maritime belt and transcontinental road connectivity is going to be a massive undertaking that would enhance the longer term integration of economic activities of countries around the world, among themselves and with China, in an unprecedented scale. Its blueprint closely follows the ancient trade routes of the Silk Road, thus making South Asia and its surroundings figure prominently. Since its announcement in 2013, the BRI has gone through some important changes, signifying its evolving nature. Core areas of collaboration identified in the framework include building connectivity infrastructure such as roads, ports, railways and telecommunications; enhancing commercial interactions; consolidating economic cooperation; promoting people-to-people relations; and collaborating on policy coherence.

The BRI is the coming of age of China. As China has transformed itself into an economic superpower from an economic backwater in just four decades, it aspires to spur a global order shaped by its achievements, aspirations, expectations and contributions. This is also an effort aimed at gradually rebalancing global power. The initiative, which vies to promote a win-win cooperation for engendering transformative change in the new era, although ambitious, rests on a solid foundation.

The Constitution of the People’s Republic of China has incorporated the BRI as its major approach to engage with the wider world. Along with being promoted as the signature initiative of President Xi Jinping on international cooperation, it is backed up by considerable financial prowess. The China Development Bank, the China Export-Import Bank, the China Silk Road Fund and new banks such as the Asian Infrastructure Investment Bank and the New Development Bank are financing the massive funding requirements needed to implement BRI projects and programmes. Various estimates show that BRI-related investments could be between US$4 trillion and US$8 trillion.

This grand initiative is indeed a fundamental shift from the traditionally cautiously strategy propounded by Premier Deng Xiaoping, who said, “Hide your strength, bide your time, never take the lead.” Thus, China taking the lead could be interpreted as the advent of a new China—more confident, ambitious, resourceful and willing to tread a new path to promote its long term interests on the basis of mutual benefit and comprehensive cooperation agenda, but also promoting its strategic objectives.

Global status of BRI
When the second BRI forum was held in Beijing in April 2019, it was announced that 127 countries, representing about 4.4 billion people of the world, and 29 international organizations, have been formally affiliated with the BRI. The Eurasian transcontinental railway has already completed 14,000 trips, linking 15 countries on the way. These and other similar information help us glean the scope of activities under the BRI. The goods trade volume between China and countries involved in the initiative surpassed US$6 trillion between 2013 and 2018, with an average annual growth rate of 4 percent.1 The value of new foreign contracts signed by China with countries involved in the initiative surpassed US$600 billion in the same period, with an average annual growth rate of 11.9 percent.2 Currency swap agreements were signed with more than 20 BRI-associated countries and there had been Renminbi (RMB) clearing arrangements with seven countries.3 Likewise, Chinese enterprises have already invested more than US$30 billion to build a number of overseas economic and trade cooperation zones in BRI countries, creating about 300,000 local jobs in the process.4

Status of BRI in South Asia
In South Asia, all countries, except India and Bhutan, have joined the BRI. Their extent of involvement, as well as progress in the implementation of BRI projects, however, differ markedly.

The biggest BRI undertaking in South Asia is the China-Pakistan Economic Corridor (CPEC), which covers construction of ports, Special Economic Zones (SEZ), cities, energy infrastructure, roads and railways in Pakistan, with a mammoth Chinese investment that has increased to US$60 billion from the original commitment of US$46 billion.5 CPEC is important for many reasons, but mainly because it will open up a direct and strategic access for China to the Arabian Sea via Gwadar port, reducing travel time between western China and western Asia by almost 90 percent. In Sri Lanka, BRI’s advance includes construction of ports, airports, cities and SEZs. In the Maldives, sea bridge connecting islands, development of new massive urban settlements and ports are given high priorities. Bangladesh is building bridges, energy infrastructure and a port with Chinese assistance. Nepal is eyeing the Trans-Himalayan multidimensional connectivity network that includes railways, hydropower infrastructure and other economic activities. Afghanistan embarked on the BRI in 2016, and China’s involvement in Afghanistan is steadily increasing. There have been talks to extend CPEC into Afghanistan and link China with Central Asia through Afghanistan. India refused to join the BRI claiming that the CPEC runs through the disputed territory of Kashmir.

One common thread running through South Asian countries in relation to the BRI is their primary focus on infrastructure development.
The BRI perhaps ameliorates, to some extent, the big infrastructure gap in South Asia. This comes as a boon to the region given its history of failing to attract meaningful foreign direct investment (FDI) in infrastructure. Raising sufficient funds from global capital markets is not easy and also expensive, because of the poor or no credit rating of these countries. Moreover, global financial institutions can only offer limited resources. Therefore, the BRI has attracted pivotal interest in South Asia.

However, BRI in South Asia is not devoid of contentions. Some of the projects are mired in controversies owing to cost, transparency and debt sustainability issues. Sri Lanka’s leasing out of the Hambantota port to China, and controversies in the modality of sea bridge construction and sovereign guarantees in the Maldives are some examples highlighting the contentious nature of BRI projects in South Asia.

For a better understanding of the intricate dynamics and allure of the BRI in South Asia, it is necessary to examine the economic situation and engagement of South Asian countries with China.

South Asia and China
South Asia has been the world’s fastest growing region since 2014. However, there are impediments to South Asia’s further growth. These include inferior and inadequate infrastructure, low export capacity, growing trade deficit, low capital investment and paucity of skilled workers (which is unfortunate given the huge demographic dividend in the region). Rising political tensions, fiscal slippage and sluggishness in economic reforms exacerbate the constraints that South Asian economies face. Moreover, the worsening US-China trade war and anaemic growth in European economies foreshadows a dwindling global growth rate with cascading effects on South Asian countries.

Also, South Asia faces a severe investment gap in infrastructure. The infrastructure investment needed for South Asia stands at 7.6 percent of GDP, with a whopping gap of 4.7 percent. Given the low base and low growth rate of gross fixed capital investment, low net FDI in relation to GDP, and growing trade deficit and negative current account balance in most countries of the region, there is an obvious need to mobilize external resources to develop quality infrastructure, promote rapid economic growth and enhance productive and export capacities of South Asian countries.

The consequence of infrastructure investment deficiencies is well reflected in South Asia’s dismal logistics performance index. Substantial, coherent and systematic reforms, adequate investment in hard and soft infrastructure and human resources, and favourable international environment are needed to propel South Asia into a major growth trajectory.

China’s trade with South Asia is witnessing a significant rise—an increase from US$111.2 billion in 2015 to US$140.4 billion in 2018. There is, however, a growing concern about the rising level of trade deficit. The region’s exports to China stood at US$22.4 billion in 2018, compared to a much higher import of US$118 billion. China’s exports to South Asia predominantly comprise manufactured goods and its imports from South Asia mostly constitute primary products and semi-finished products.

Chinese investment in South Asia is also growing substantially. For example, despite geopolitical competition and tensions, even the venture capital investment from China to India skyrocketed to US$5.6 billion in 2018.

Besides trade and investment, tourism is another area where there has been steady improvement. However, the current level is still low as no South Asian country has attracted more than 300,000 Chinese tourists in a year.

Attempts to invigorate economic relations between China and South Asia are carried out through structured annual forums, bilaterally as well as collectively. The China-South Asia Expo is being organized every year since 2013 in Yunnan. There is also the China-South Asia Business Forum, established in 2004, which held its 14th meeting in Yunnan recently. Another is the China-South Asia Cooperation Forum, which recently held its second meeting, where all the South Asian countries participated. Their impacts, however, have sadly been rather limited in terms of promoting comprehensive economic cooperation between China and South Asia.
Learning from China and ASEAN cooperation

South Asia could emulate another regional bloc—the Association of Southeast Asian Nations (ASEAN)—in deepening economic engagement with China. ASEAN became China’s second-largest trading partner in the first half of 2019 while China has been ASEAN’s largest trading partner for the past 10 consecutive years. It will be insightful to examine the China-ASEAN relationship to better understand and reflect on where South Asia stands in terms of the scope and depth of its economic engagement with China.

It needs to be noted though that no two regions are similar because of disparate geography, historical relations, proximity and interlinkages, culture, and political relationship between them. ASEAN and South Asia also have some fundamental differences. There is a strong Chinese diaspora, outward orientation or export-led economic growth policies and higher level of economic development in ASEAN countries. Similarly, in terms of the regional integration framework, ASEAN is far ahead of the South Asian Association for Regional Co-operation (SAARC). Thus, institutionalized collaboration frameworks of the two regions are also not comparable. Yet, there are some lessons to learn in a few specific areas.

South Asia’s population is about 1.8 billion, which is three times more than that of ASEAN. Economic sizes, however, are comparable—US$3.46 trillion of South Asia in 2018 against ASEAN’s US$2.97 trillion the same year. Trade figures are in contrast to their relative economic sizes. ASEAN’s total external trade is US$2.78 trillion against South Asia’s US$1.04 trillion.

Although several ASEAN members have serious misgivings with China regarding sovereignty of various parts of the South China Sea, they have found a way to reconcile with China on economic issues. All of them are part of the BRI. Under the heading of ‘economic corridors and other projects catalyzed and supported by connectivity’, 10 projects out of 35 are related to ASEAN countries. A large majority of ASEAN projects, as stated in the BRI Joint Communiqué, are related to infrastructure development. However, BRI projects in ASEAN have suffered some setbacks as well. Controversies have emerged about size, cost and debt sustainability of some grand infrastructure projects in Malaysia, Thailand and Myanmar, forcing renegotiations.

China and ASEAN share a vibrant trade relationship. China-ASEAN trade stood at US$587 billion in 2018, a meteoric rise compared to US$192 billion in 2008. The creation of the ASEAN-China Free Trade Area (ACFTA) has substantially eliminated tariff barriers on goods and the proposed Regional Comprehensive Economic Partnership (RCEP), of which both ASEAN and China are members, aspires to deepen the current level of integration.

China and ASEAN also share a burgeoning investment linkage. Chinese FDI in ASEAN’s non-financial sectors was US$9.95 billion in 2018 and ASEAN’s investment in China was US$5.72 billion in that period. FDI stock of China in ASEAN amounted to US$89 billion and ASEAN’s FDI stock in China stood at US$116 billion—a remarkable 22-fold increase in two-way investments in 15 years.

Furthermore, China and ASEAN are also witnessing a tourism boom, courtesy of rapidly increasing tourist inflows from each other. Roughly 20 million Chinese tourists travelled to ASEAN in 2016 and 10 million tourists from ASEAN entered China in 2016, making them the largest sources of tourists for each other.

Regarding connectivity, ASEAN has approved a Master Plan on ASEAN Connectivity (MPAC 2025). ASEAN and China have also unveiled plans to synergize MPAC 2025 with the BRI. Besides MPAC 2025, there are also connectivity initiatives under the Greater Mekong Subregion and the Lancang-Mekong cooperation.

Forgoing figures and China’s diverse engagements with ASEAN suggest that there is also a great potential for enhancing China-South Asia relationship in various dimensions. The size of the South Asian economy, geographical proximity, its robust growth rate and the need for massive investment all point to the fact that if appropriate approaches, strategies and policies are adopted, China-South Asia cooperation can reach new heights in coming years.

Major highlights of BRI 2.0

The Second Belt and Road Forum for International Cooperation, held in Beijing last April, saw robust participation of all partner countries. About 40 countries’ heads of state attending the forum implied a growing international interest on the BRI. Most importantly, the forum came out with some new commitments of principles, which could be dubbed as BRI 2.0.

President Xi Jinping, in his address to the forum, stressed on the BRI being an open, inclusive and transparent initiative. The outcome document also emphasized that cooperation would be based on extensive consultations, joint efforts and shared and mutual benefits. It also laid stress on promoting clean, green and people-centered development.

Thus, BRI 2.0 makes it a point to promote sustainable development with green growth, climate resilience, and makes clear reference to transparency and safeguards against corruption. Similarly, under the topic of strengthening practical cooperation, it calls for cooperation to be people-centered, results-based and growth-oriented, in accordance with market-based rules and respective legal frameworks. There is also a specific mention of the importance of open, transparent and non-discriminatory public procurement procedures in accordance with national laws and United Nations principles on debt sustainability.

These are important policy pronouncements, which should be adhered to in the implementation of programmes and projects on the ground. The fact that they have been articulated in the Joint Communiqué shows both the level of concerns of partner countries as well as the com-
mitment by the Government of China to address them in a direct manner.

Way forward

The BRI, with its focus on infrastructure development and economic transformation, has the potential to be a crucial instrument in engendering rapid and sustainable development of South Asia. However, there are ambiguities that have to be dealt with judiciously. Most importantly, BRI projects and programmes need to be consistent with the aspirations of participating member states to deliver the maximum positive impact on the ground. As BRI 2.0 has made substantial commitments in terms of transparency, environmental and social sustainability and debt sustainability, the governments negotiating programmes and projects should ensure that these commitments are effectively put into practice.

There have been a number of studies, by various institutions, on the potentials of the BRI as well as risks associated with it. They have emphasized the importance of the BRI in infrastructure financing and in ensuring rapid and sustainable development in developing countries. Equally important, these studies have also raised concerns primarily about transparency, sustainability and issues related to prioritization. Therefore, governments need to consider these concerns while selecting and implementing projects and programmes under the BRI in South Asia as well as elsewhere, in order to make them mutually beneficial and transformative.

National leadership in the selection of projects and programmes will be critical, and the decision should come only after a comprehensive cost-benefit analysis of each project. The leadership should maintain full transparency of selection criteria, competitive bidding process, and total cost of the project. Sustainability of the project from economic, environmental and social perspectives should be fully taken into account.

Building infrastructure should transform the region into an economic corridor with strong backward and forward linkages and contribute to enhancing logistics industry in the region. Augmenting productive capacity and structural transformation with upgrading of technology and products should be prioritized, with the possibility of developing capacity for participation in and linkages with global value chains. Obviously, borrowing should be prudent and should help maintain macroeconomic stability and debt sustainability.

Given the strategic competition in the Asia-Pacific region, South Asian countries should maximize their options and make use of all available funding possibilities from all global players. What Singapore’s Prime Minister Lee Hsien Loong said in the recent Shangri-la Dialogue is worth considering. He said, “We want to be friends with everyone. We should not be asked to choose friends. The world would be poorer, if one has to do so.”

South Asian countries should maximize their options and make use of all available funding possibilities.

Because of the size of the economy, accelerating growth rate and huge population with demographic dividend, broadening and deepening of relationship of South Asian countries with China will have a far-reaching impact on the progress and prosperity of the people in these countries, and the Asia-Pacific region as a whole. Both sides would have to be forward-looking in their approach and sensitive to the aspirations of the people. That way, cooperation and collaboration will be productive, meaningful and sustainable, and the BRI would be an important transformative cooperation programme for the countries in South Asia.

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Notes


2 Ibid.


4 Ibid. Note 2.


7 Data obtained from World Integrated Trade Solution (WITS).

8 Ibid.


10 South Asia’s data is obtained from the World Bank’s World Development Indicators. ASEAN’s figure is sourced from: The ASEAN Secretariat. 2019. ASEAN Economic Integration Brief No. 05 June 2019.

11 South Asia’s data is obtained from the World Integrated Trade Solution (WITS). ASEAN’s figure is sourced from: The ASEAN Secretariat. 2019. ASEAN Economic Integration Brief No. 05 June 2019.


13 Ibid.

Since the Chinese President Xi Jinping unveiled the idea of the Belt and Road Initiative (BRI) in 2013, the number of countries that have become part of the BRI has increased over the years. Nepal joined the initiative by signing the Memorandum of Understanding (MoU) with China days before the first ‘Belt and Road Forum for International Cooperation’, which was held in Beijing on 14-15 May 2017. There are high hopes from, as well as concerns related to, the BRI. The concerns mainly relate to the apprehensions that the BRI creates debt traps.

The initial idea behind the BRI, as its name suggests, was to develop all kinds of transport infrastructure—rail, road, air and maritime transport. A large majority of the ongoing and proposed projects under the BRI globally are related to building and upgrading transport infrastructure. Nevertheless, the BRI also covers other infrastructure development, such as those in the area of energy. This is good news for Asia, where, between 2016 and 2030, developing countries will need to spend US$1.7 trillion per year to build the infrastructure required to “maintain its growth momentum, eradicate poverty, and respond to climate change.”

South Asia alone needs to invest 9 percent of its gross domestic product (GDP) on infrastructure development over 2016-2030, which is higher than what most other sub-regions of Asia require. According to the World Bank, Nepal needs infrastructure investments of around 10-15 percent of GDP annually for the next 10 years.

The BRI can contribute immensely in meeting these needs. A recent study by the World Bank finds that the BRI, through investments in infrastructures and reducing trade costs, would result in enhanced trade globally. It estimates that due to the BRI, corridor economies’ trade could rise by 2.8–9.7 percent and trade of the rest of the world could rise by 1.7–6.2 percent. There will also be a 7.6 percent rise in foreign direct investment. Therefore, increasing number of countries are becoming part of the BRI and identifying projects to develop under the initiative. Nepal is no exception. This article sheds light on the BRI from Nepal’s perspective.

BRI and Nepal
The MoU signed between Nepal and China on cooperation under the BRI covers five areas of cooperation, namely policy exchanges, facilities connectivity, trade connectivity, financial integration and people-to-people connectivity. It also envisages enlarging the areas of cooperation based on agreement between the two countries and stipulates the formulation of “the framework of cooperation plan, as and when necessary, to assess the economic, environmental, legal and other associated risks and opportunities.”

As per media reports, Nepal had initially proposed to receive support for 35 projects under the BRI. These projects were mainly in areas related to trade and transport infrastructure and energy. Considering that it might not be tenable to operationalize such a large number of projects, they were later reduced to nine upon China’s advice to prioritize them. Of the nine projects, five are related to transport connectivity, three are related to transport connectivity, and one is related to the establishment of a technical institution.

The ‘Nepal-China Trans-Himalayan Multi-Dimensional Connectivity Network, including Nepal-China cross-border railway’, has been included in the Joint Communiqué of the Second BRI Forum. The ‘multi-dimen-
sional connectivity network’ could encompass all the nine projects that Nepal has proposed for development under the BRI, and also additional projects that will be identified in the future. But the emphasis given to cross-border railway is obvious.

Being a landlocked country, Nepal needs to rely on its neighbours, India and China, for transit, to trade with third countries. Nepal has traditionally been dependent entirely on India for transit due, among other things, to the favourable geography and ease of access. Nepal’s transit trade through India has been guided by the bilateral treaty of transit between Nepal and India. On the other hand, until recently, Nepal did not have a transit agreement with China, and Nepal’s third country trade through China was non-existent. Even the bulk of Nepal’s bilateral trade with China occurs through the sea route, via India.

Nepal and China signed the transit transport agreement in March 2016, the protocol of which was signed in April 2019. The agreement refers to the importance of the One Belt One Road initiative, or the BRI. The agreement provides both the countries freedom of transit across their respective territories through the agreed upon routes. While Nepal’s signing of the transit agreement and related protocol with China is one of the most important developments of recent years, this is not enough. Because of the difficult topography between the two countries and the poor state of transport infrastructure that connects them, the transit agreement can be operationalized only when those physical barriers are removed. The BRI can be instrumental in this regard.

Perhaps this is the reason that five of the nine projects that Nepal has identified to pursue under the BRI are related to transport connectivity between Nepal and China. Among the five projects, the Nepal-China cross-border railway, or the Kerung-Kathmandu railway, is being given the utmost importance by Nepal and this has drawn tremendous excitement and debate.

**Nepal-China cross-border railway**

The Kerung-Kathmandu railway will be an extension of the 2,236 km long Qinghai-Lhasa-Shigatse railway. China has planned to extend this railway further from Shigatse to Kerung, but has been postponing the project completion date repeatedly, the latest being 2025. When the railway line reaches Kerung, it can then be extended to Kathmandu. The total length of the railway line from Shigatse to Kathmandu will be around 600 km, of which 528 km falls on the Chinese side and 72 km on the Nepal side.

Some view that development of this railway will be a ‘game changer’ for Nepal, while others are sceptical about the benefits that could accrue relative to the cost of building, operating and maintaining it.

China conducted the pre-feasibility study of the railway project on the Nepal side and handed over the report to the Government of Nepal in December 2018. The report states that the project poses engineering and geological challenges. Due to the difficult topography of the Himalayas, almost 99 percent of the railway on the Nepal side would have to be bridges and tunnels, thus entailing high costs. The total cost of building the railway on the Nepal side is estimated to be about US$2.75 billion. The detailed project report (DPR), which is estimated to cost around US$300 million, is yet to be prepared.

**Recent developments**

During the recent visit of Chinese President Xi Jinping to Nepal on 12-13 October, 20 instruments were signed and exchanged between Nepal and China and a 14-point joint statement was signed by the two countries. Of the 20 instruments, two relate to transport and connectivity and fall directly under the ambit of the BRI as is generally perceived. The two instruments are: 1) MoU on the feasibility study of China-Nepal cross-border railway project, and 2) MoU on tunnels construction cooperation. In the joint statement, the two countries have reaffirmed their commitment to take the BRI “as an important opportunity to deepen mutually-beneficial cooperation in all fields in a comprehensive manner”. They have agreed to “intensify implementation of the Memorandum of Understanding on Cooperation under the Belt and Road Initiative to enhance connectivity, encompassing such vital components as ports, roads, railways, aviation and communications within the overarching framework of trans-Himalayan Multi-Dimensional Connectivity Network with a view to significantly contributing to Nepal’s development agenda that includes graduating from LDC at an early date, becoming middle income country by 2030 and realizing the SDGs by the same date.”

Details of the instruments that have been signed by the two countries are not yet available. Therefore, it is not clear what the modality of the feasibility study of the cross-border railway will be and who will bear the cost. Some media reports have quoted government officials saying that China has agreed to bear the entire cost of the feasibility study of the cross-border railway and the construction of a tunnel along the road connecting Kathmandu with Kerung. Also, according to media reports, the Chinese President pledged to provide NPR56 billion as grant to Nepal, but this information is not mentioned in the joint statement or any other publicly available official document.

Because of the difficult topography and high cost of constructing the Kerung-Kathmandu railway, perhaps China is not very keen in this project, which is also reflected in its...
postponement of the plan to extend the railway from Shigatse to Kerung. Even if China extends the railway up to Kerung, it needs to be extended further by around 170 km to reach Kathmandu, which will be the most difficult section to build. Of this 170 km difficult section, around 100 km is on the Chinese side. Hence, China might be wanting to wait and see if, using this railway route, it could make Nepal the gateway to reach other South Asian countries, especially India. In his article published in a number of newspapers in Nepal just prior to his visit, President Xi stated, “A trans-Himalayan connectivity network is thus taking shape, which will serve not just our two countries but also the region as a whole.”6 Also, according to media reports, President Xi, in his address during his visit to Nepal, pledged that China would help turn Nepal from being a landlocked country to a land-linked one. These are indications that China wants to reach other South Asian countries through Nepal. If turning Nepal into a gateway to reach other South Asian countries would be possible, then China might expedite the plan to extend the existing Qinghai-Lhasa-Shigatse railway up to the China-Nepal border and then further to Nepal. Extending the railway only up to Nepal might not be sensible enough given the limited trade between China and Nepal.

Nepal-China trade

In 2018, Nepal exported goods worth around US$22 million to China and imported goods worth around US$1.7 billion from China. Nepal’s exports to China mostly takes place through the land border between the two countries, but Nepal’s imports from China mostly happens through the sea route via India. With the development of the Nepal-China cross-border railway, even if Nepal’s trade with China takes place entirely through the railway network, the existing trade figure is too small to make the railway project viable. An argument could be that with the development of the railway network, there will be dynamism and hence an increase in trade between the two countries. It could be true, but we do not know yet what such dynamism could be and how it could kick in. Moreover, a comprehensive study assessing the costs of doing trade between Nepal and China via rail, road and sea is lacking, and therefore, it is uncertain to what extent the cross-border railway will attract the bilateral and transit trade between Nepal and China. Hence, an overemphasis on Nepal-China cross-border railway, without the prerequisite assessment, might not be in Nepal’s interest at the moment.

Conclusion

Nepal does want to develop connectivity through all means. However, prioritizing projects is important. Currently, Nepal is linked to China via roads, which are in bad shape. Expanding and upgrading these road networks should be a priority. China is willing to support Nepal in this endeavour, including in conducting a feasibility study for the construction of tunnels along the road connecting Kathmandu with Kerung. Developing good road connectivity could spur other economic activities along the corridor. Also, given the increasing bilateral trade between China and India, the two countries might reach an agreement to expand their trade via Nepal. If these happen, then the cross-border railway project between Nepal and China might become more viable.

For sure, projects under the BRI need to be developed through Chinese loan. Therefore, Nepal should assess whether its chosen projects are worthy enough. If the railway project would be beneficial mostly to China and India, then the question as to why Nepal should fund the project becomes important. Therefore, for the time being, Nepal should focus more on other projects that are less costly and have the potential to offer better returns and harp less on the railway project, which is being understood synonymously with the BRI. If the projects are wisely chosen based on a proper cost-benefit analysis, there should be nothing to worry about, including the debt trap issues, in relation to the BRI. Moreover, Nepal needs to focus also on other areas of cooperation as stipulated in the MoU on the BRI between Nepal and China.

Notes

5 ibid.
9 ibid.
While Sri Lanka’s political and economic relations with China have spanned decades, the scale of engagement escalated rapidly as China began to emerge as a major source of development loans to Sri Lanka. As the country’s foreign debt veered disproportionately towards costlier foreign borrowing because traditional sources of concessionary foreign borrowing shrank, Sri Lanka’s reliance on China for large-scale infrastructure project loans have come to the forefront of discussions related to the resultant hike in debt vulnerability. Indeed, in more recent times, these discussions have come to be viewed almost exclusively through the lens of a so-called ‘debt trap diplomacy’. In short, the argument made is that a rising foreign debt overhang in Sri Lanka owes its origins to low-return mega infrastructure projects funded generously by China, where an inability to service debt thereafter allows China to take ownership of these strategic assets. The most famous of such cited examples in the narrative is Sri Lanka’s China-funded Hambantota seaport.1

As China-funded mega infrastructure projects spanning seaports, airports, energy, roads and highways, among others, have sprung up across Sri Lanka, it is generating renewed interest in how Sri Lanka’s future economic engagement will plan out vis-à-vis China’s ambitious Belt and Road Initiative (BRI). This article attempts to shed some light on China’s role in Sri Lanka’s growing foreign debt overhang.

Sri Lanka’s foreign debt dynamics
The issue of a high and growing debt overhang in Sri Lanka’s post-war economic development strategy is an area garnering growing policy and research attention.2 Sri Lanka’s initial foray into international capital markets in 2007 came hard on the heels of obtaining its first sovereign credit rating a year earlier. Against the backdrop of a heightened military effort, the government sought to build up its dwindling foreign exchange reserves through a debut issue of a five-year US$500 million International Sovereign Bonds (ISBs). Despite the fact that it drew significant political opposition at the time, Sri Lanka has issued ISBs and returned to international markets on 12 occasions since 2007. Sri Lanka went for its largest offshore US$2.5 billion issue in 2018. Outstanding ISBs amounted to nearly 15 percent of gross domestic product (GDP) by 2018.

In addition to ISBs, Sri Lanka also raised foreign capital from time to time through syndicated loans—the foreign currency term financing facilities (FTFFs)—i.e., credits granted by a group of banks to a borrower. The FTFFs often offer lower rates to a borrower with shorter maturities than a bond issuance. This is because the monitoring process involved poses a credible threat to borrowers of loans being canceled at a relatively low cost to the banks. Thus, banks can limit their risks on FTFFs relative to the issuance of bonds. Also, ISBs have longer maturities with bondholders being able to exert only limited influence over the issuer since bonds cannot be reversed before they mature.

Sri Lanka also tapped additional sources of foreign capital by issuing government gilt-edged securities from 2006 onwards. In 2006, a threshold limit of 5 percent of Treasury bonds outstanding to foreign investors was introduced. The limit was augmented further to 10 percent in 2007. In 2008, the Treasury bill market was also
opened to foreign investors with a threshold limit of 10 percent. The limit on outstanding Treasury Bills and bonds stock for foreign investors was increased further to 12.5 percent in 2011. This was subsequently reduced to 10 percent in 2016 and cut further to 5 percent in 2019.

Finally, from relying primarily on traditional sources of development finance such as multilateral financial institutions (MFIs) and Japan, Sri Lanka began to lean towards long-term loans from emerging lenders, with the primary source being China. During the period 2006-2014, long-term loan commitments from China to the government of Sri Lanka (GOSL) approximated to just under US$8 billion. There was a brief hiatus in 2015 as Sri Lanka’s newly elected government suspended ongoing China-funded projects, but loan commitments resumed once again in 2016. By the end of 2017, US$9.2 billion of development loans had been obtained from China.7 In 2018, departing from its past of concessional and long-term loans, China was providing medium-term and short-term loans at a fixed rate of 6.3 percent with a four-year moratorium. Clearly, Sri Lanka was placed disadvantageously in regards to the initial loan conditions, when globally, rates declined rapidly following the global financial crisis of 2008. However, it should also be borne in mind that Sri Lanka’s debut five-year ISB offer in October 2007 was issued at 8.25 percent. Moreover, what is often overlooked is that the rest of the loan (US$1 billion) was obtained on concessional terms of 2 percent from the Exim Bank of China.

The facts of the Hambantota port loan lay bare some of the fallacies. Of the total US$1.3 billion estimate for Phase 1 and Phase 2 of the project, funding for the former (US$307 million) was obtained in 2007 at a fixed rate of 6.3 percent with a four-year moratorium. Clearly, Sri Lanka was placed disadvantageously in regards to the initial loan conditions, when globally, rates declined rapidly following the global financial crisis of 2008. However, it should also be borne in mind that Sri Lanka’s debut five-year ISB offer in October 2007 was issued at 8.25 percent. Moreover, what is often overlooked is that the rest of the loan (US$1 billion) was obtained on concessional terms of 2 percent from the Exim Bank of China.

As a result, China Merchant Ports Holdings obtained a 70 percent equity stake in the port in a 99-year lease for a sum of US$1.1 billion in 2017 to develop, manage and operate the port valued at US$1.4 billion. The fact that Sri Lanka’s growing foreign debt overhang made a quick injection of non-debt flows in the form of the Hambantota port sale attractive to Sri Lanka’s government of the day can hardly be interpreted as a forced

Figure 1
Foreign borrowing and external public debt

![Figure 1](image-url)

Source: Estimated from data available from Performance Report (various years), Department of External Resources, Government of Sri Lanka; and Annual Report (various years), Central Bank of Sri Lanka.

Case of Hambantota port
As Sri Lanka’s foreign debt exposure grew, so did criticism of China’s role in facilitating the debt-driven infrastructure push. Indeed, the argument that China is responsible for Sri Lanka’s growing foreign debt overhang and debt servicing difficulties came to reflect a ‘fact’ with the decision by the Sri Lankan government to enter into a debt-for-equity swap with regards to the Hambantota port in 2017. It came to be interpreted as a forced sale by Sri Lanka to China and a warning to other borrowing nations of the perils of Chinese debt entrapment.8

The Hambantota port became operational in 2010, but its commercial performance was below expectations. Nonetheless, while the port itself failed to generate revenues to cover the loan repayments, there is no evidence to suggest that Sri Lanka was unable to service its debt obligations to China. Rather, the government was understandably reluctant to make additional investments needed to make the port commercially viable, and instead saw it as an opportunity to hand over responsibilities to develop, manage and operate the port to Chinese authorities themselves. Importantly, the transaction also had the added advantage of bringing in non-debt capital inflows as a public-private partnership (PPP) deal at a time when Sri Lanka was struggling to raise FDI inflows.

In the period 2007-2018, Sri Lanka raised US$15.3 billion by way of ISB issues and FTFFs while tapping China for a total of US$9.2 billion as development loans, and additional large amounts as foreign investments in gilt-edged government securities (Figure 1a). Sri Lanka’s shift to these new and relatively costlier forms of foreign borrowing saw its outstanding debt stock undergo a swift change. Non-concessional forms of borrowing, which accounted for less than 7 percent of total foreign debt, had spiraled to over 50 percent by 2012, accompanied by a rising foreign debt service ratio (Figure 1b).
sale because Sri Lanka was unable to service its Hambantota port loans from China.

Facts about debt entrapment
Overall, available debt statistics do not support the argument that Sri Lanka is overburdened and overwhelmed by its debt to China. In 2018, loans from China accounted for just over 9 percent of Sri Lanka’s overall foreign debt, having held a share of 0.5 percent of total debt in 2006. By contrast, the ISBs and FTFFs together accounted for the biggest chunk of debt at over 40 percent in 2018 (Figure 2).

Even more tellingly, out of the US$9.2 billion loans obtained from China by end 2017, 61 percent was on concessional terms (amounting US$3.6 billion) pale in significance compared to the US$15.3 billion taken from ISBs and FTFFs during the same period. China’s share of these non-concessional borrowing amounts to only 20 percent of Sri Lanka’s large and rising non-concessional share of foreign debt, which stood at 55 percent of total foreign debt in 2018. Thus, the vast bulk (80 percent) of the country’s high cost foreign borrowing is made up of ISBs, FTFFs, and foreign holdings of Treasury bills and bonds. This shift in composition has been the main driver of Sri Lanka’s rising debt service ratio, where Chinese development loans have played only a secondary role.

Conclusion
Chinese loans are clearly not the primary cause of Sri Lanka’s debt imbroglio. But it can be argued that they have contributed to, and possibly aggravated, the problem. Loans from China are attractive to governments for multiple reasons, but they also carry heavier risks in weak institutional settings. China’s model of loan repayment, a policy of not questioning national economic policies and priorities, certainly contributes to poor project selection and related weak revenue flows that exacerbate debt build-up, but not to the extent of interpreting it as China’s debt entrapment.

A key lesson is that governments must be more accountable and transparent in sharing information on the proposed projects, not only on the terms and conditions of loan disbursements, but also regarding protocols on environment protection, economic feasibility assessments, population displacement, etc. In the absence of transparency and accountability mechanisms, perceptions of costly Chinese loans bankrolling political prestige projects or contributing to an environment that facilitates corruption will persist. Safeguards on project appraisal and selection, and strong national debt management practices are essential to safely navigate the new financing landscape. At the global level, channelling more of the growing volume of bilateral loans through entities such as the Asian Infrastructure Investment Bank will provide stronger institutional arrangements for both the lenders and borrowers.

Notes
5 ibid. Note 4.
6 ibid. Note 3.
The China-Pakistan Economic Corridor (CPEC) is recognized as the flagship programme of China’s Belt and Road Initiative (BRI), designed to connect 152 countries around the world. CPEC will link Kashgar in China to Gwadar in Pakistan. This linkage is a combination of energy, transport and information technology connectivity projects that are being constructed with an estimated US$62 billion investment.

Under the CPEC initiative, Pakistan’s existing road and railway networks will be upgraded, increasing local connectivity as well as potentially integrating Pakistan in regional value chains. In addition, the CPEC is expected to help Pakistan overcome its energy shortages with over 10,400 MW of energy generating capacity set to be installed under the programme. The 21 energy projects (as part of early harvest programme), 8 infrastructure projects (road and rail links), the port of Gwadar, 9 Special Economic Zones (SEZs), as well as a string of small scale poverty reducing interventions are set to be developed under CPEC.1 Table 1 provides some details regarding ongoing initiatives by sector and their completion status.

The next phase of CPEC is focused on business-to-business engagement

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Table 1

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Current status and progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>Out of 15 planned projects declared as priority, 7 are completed and 6 are under construction. The completed projects have already added 3,240 MW to Pakistani national grid.</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Includes projects targeted at better management of water resources, and livestock and fisheries development.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Karakorum Highway Phase-II (Havelian to Thakot) project of about 118 km will reduce the travelling time. Peshawar-Karachi Motorway is a six-lane, access controlled, intelligent transportation system funded by EXIM Bank of China.</td>
</tr>
<tr>
<td>Trade</td>
<td>In Gwadar, new quay cranes have been set up along with additional storage yard, a seawater desalination plant, sewage disposal systems and cargo handling equipment. Chinese commercial shipping companies have already started using Gwadar port.</td>
</tr>
<tr>
<td>Science and technology</td>
<td>A ‘China-Pakistan Joint Cotton Bio-Tech Laboratory’ will be established, along with ‘China-Pakistan Joint Marine Research Center’ and ‘Pakistan-China Science, Technology, Commerce and Logistic Park’. The ‘Pakistan-China Fiber Optic Project’ has already been completed.</td>
</tr>
<tr>
<td>Railway</td>
<td>Construction of railway track from Karachi to Shadhara has been completed. The remaining track between Shadhara and Peshawar is upgraded to a dual railway track. In addition, the work on ML-1 railway line is expected to begin soon.</td>
</tr>
<tr>
<td>Job creation and social responsibility</td>
<td>China Fund for Peace and Development has built schools designated as ‘China-Pakistan Friendship School’. The ‘Pakistan-China Youth Conclave in Gwadar’ is an example of efforts towards deeper youth engagement.</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation

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The true dividends of CPEC can only be reaped when political tensions between India and Pakistan do not impact business relations in the region.
between Pakistan and China. A key step to promote this is the development of SEZ in all provinces of Pakistan. China will facilitate construction at the SEZ sites. The SEZs being planned and designed under CPEC will allow for increased participation and inclusion of the unskilled labour (only after relevant training) residing there and in the peripheries. A list of SEZs and their current status is described in Table 2.

CPEC’s sectoral impact

**Combating Pakistan’s energy crisis:** The already completed energy projects have contributed to creating additional production capacities, particularly in the industrial sector. Pakistan’s GDP growth rate surpassed 5 percent post 2015, after almost a decade of depressed output.

**Manufacturing growth:** Pakistan’s large-scale manufacturing sector was the main beneficiary as a large part of its output was demanded locally for CPEC projects, which also had the effect of bolstering its position leading to increased exports.

**Boosting tourism:** The large influx of skilled Chinese workers and trainees helped improve Pakistan’s image as a destination ready to welcome outside collaborators. This led to revival of tourism sector in Pakistan which is now all set to achieve new heights on the back of a new liberal visa policy applicable to over 50 nationalities. This sector is also expected to benefit from CPEC investments in strengthening road network.²

**Cooperation in agriculture:** Inclusion of agriculture in CPEC Long Term Plan (LTP) pledges to support productivity improvements in Pakistan’s agriculture.³ This is particularly aimed at rural areas through propagation of knowledge and technolo-

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**Table 2**

<table>
<thead>
<tr>
<th>SEZs</th>
<th>Location/Area</th>
<th>Status</th>
<th>Focused sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rashakai Economic Zone</td>
<td>Located on 1,000 acres of land, of which 702 acres are to be used for industrial development, at the junction of Karakoram Corridor and ML-1 development corridor, about an hour drive from either Islamabad or Peshawar.</td>
<td>Feasibility study reports of SEZs have been shared with China. The MoU and Engagement Agreement was signed in January 2018. Presently, the two parties are finalizing the Concession Agreement.</td>
<td>Garments and textiles manufacturing, steel, electronic appliances and other manufactured consumer goods</td>
</tr>
<tr>
<td>Economic Zone at Dhabeji</td>
<td>Located in Dhabeji in Sindh province at a distance of around 55 km from Karachi covering 1,000 acres of land.</td>
<td>Feasibility study reports of SEZs have been shared with China. Interest to apply for land has been received from private sector representatives.</td>
<td>Ideal for providing a link with Karachi’s airport and sea port to increase local connectivity. Key sectors could include storage and warehousing.</td>
</tr>
<tr>
<td>Bostan Industrial Zone</td>
<td>Located in Balochistan Province on 1,000 acres of land.</td>
<td>Feasibility study reports of SEZs have been shared with China.</td>
<td>Fruit processing, agricultural manufacturing, and pharmaceutical.</td>
</tr>
<tr>
<td>Allama Iqbal Industrial City, Faisalabad</td>
<td>Covers 3000 acres of land in Faisalabad, Punjab.</td>
<td>Purchase of land by private sector representatives underway.</td>
<td>Textiles, pharmaceuticals, steel, light engineering and chemicals industries.</td>
</tr>
<tr>
<td>ICT Model Zone, Islamabad</td>
<td>Covering approximately 500 acres of land.</td>
<td>Land acquisition underway.</td>
<td>IT equipment and ICT enabled services.</td>
</tr>
<tr>
<td>Industrial Park in Karachi</td>
<td>Situated at Port Qasim (Karachi) on 1,500 acres of land.</td>
<td>Civil works completed.</td>
<td>Steel, garments, automobile, auto parts, and manufacturing industries.</td>
</tr>
<tr>
<td>Special Economic Zone at Mirpur</td>
<td>Covering 1,078 acres in Azad Jammu &amp; Kashmir; land connectivity with Sialkot being approximately 140 km.</td>
<td>Feasibility studies of SEZs have been shared with Chinese side.</td>
<td>Will feature mixed industries.</td>
</tr>
<tr>
<td>Mohmand Marble City</td>
<td>It is situated in erstwhile Federally Administered Tribal Areas.</td>
<td>The project awaits land allocation.</td>
<td>Industries will be similar to those being proposed for Rashakai.</td>
</tr>
<tr>
<td>Moapondass SEZ Gilgit-Baltistan</td>
<td>Covers 250 acres of land and will link Gilgit with Skardu.</td>
<td>Feasibility study reports of SEZs have been shared with China.</td>
<td>Marble/granite, leather, fruit processing, steel, mineral processing, and iron ore industries.</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation
gy, which in turn can help enhance crop yields. Additionally, China has offered duty-free access to agricultural products from Gilgit-Baltistan region of Pakistan. The key beneficiaries will be producers of cereals, dairy, meat, tobacco, fruits, honey, etc. Further gains are expected as both countries embark upon full operationalization of second phase of China-Pakistan free trade agreement.

Promoting digital connectivity: A cross-border optical fibre cable from China now connects Pakistan. This communication framework also includes submarine stations and digital television. Besides ensuring high-speed data availability, this is also expected to encourage proliferation of e-commerce. The joint venture between AliPay and Pakistan’s Telenor Microfinance Bank is an example that is expected to be replicated by other enterprises across the two countries.

China-Pakistan free trade agreement: After eight years of negotiations, China and Pakistan successfully concluded the second phase of bilateral FTA on 28 April 2019. China is currently a large destination for Pakistani exports. China has agreed to provide duty-free access and unilateral concession to 313 Pakistani product lines (an increase of 257 tariff lines).

Managing challenges

Delays in service sector agreement: Perhaps a key disappointment resulting from the FTA was for the service sector entrepreneurs, who were informed that the recently concluded FTA didn’t include services. On the back of Pakistan’s large, educated, English-speaking and information technology savvy youth, the country was recently ranked the fourth largest market for global gig and freelance activities by Global Gig-economy Index. It is this segment of the population that yearns to integrate with the Chinese services sector and offer their specialization.

Security threats to CPEC: There have been anecdotal evidence that some countries in the region may take a position to slow down or curtail the overall BRI programme. This has prompted Pakistan to run higher levels of budget deficit to finance enhanced security for CPEC projects and staff working at these projects.

Debt sustainability: Debt is not a key concern as most projects under CPEC have a revenue-sharing arrangement. In the overall CPEC amount disbursed until January 2019, almost 11 percent was loan component and even that carried an average annual interest rate of less than 3 percent to be paid over a decade and a half. However, given Pakistan’s resort to the International Monetary Fund owing to marked current account deficit, the latter is reluctant to allow Pakistan to enter into any further contractual arrangements with China, even if these are at concessional rates.

Social and environmental safeguards: Both governments will require a deeper understanding of global and regional commitments towards maintaining environmental protocols.

Interventions, which help sustainable development in the region, will also give a more humane face to China’s future investments abroad.

In this regard, CPEC LTP offers cooperation in areas of green and clean technologies, renewable energy, water resource management and energy conservation. However the progress on these themes is slower than anticipated. Such interventions, which help sustainable development in the region, will also give a more humane face to China’s future investments abroad. On the social aspect, China could allay most of the concerns by ensuring that maximum number of local population is provided a chance for employment in BRI projects.

Offering dividends of CPEC to neighbours: A safe and developed neighbourhood ensures sustainability of production, trade and jobs. The true dividends of CPEC can only be reaped when political tensions between India and Pakistan do not impact business relations in the region. In this regard, China and other regional powers will need to play a role if Pakistan, the fifth most populous country in the world, has to be supported in regional value chain integration. India may also consider a more active role for China in the South Asian Association for Regional Cooperation forum. This could perhaps allow China, to link its projects in Afghanistan, Pakistan and Sri Lanka, and extend them to other countries in the region, backed by long term investment and technology transfer.

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Notes

1. From official CPEC website
China’s interest in Afghanistan has been increasing since 2014, as evidenced by heightened interactions between Kabul and Beijing. The numerous new initiatives indicate that Chinese foreign policy towards Afghanistan is indeed becoming more proactive and dynamic, to say the least. To date, Beijing’s focus has mainly been on achieving political reconciliation between the Afghan government and Taliban forces. In this context, China supports the notion that any peace process in Afghanistan should be an ‘Afghan-led and Afghan-owned’ endeavour.¹ However, the increase in diplomatic activity is not the only aspect of China’s recent engagement in Afghanistan. For quite some time, along with providing financial aid to the Afghan government, China has been expressing its willingness to strengthen business collaboration to push for economic...
development. At the first China-Afghanistan-Pakistan Foreign Ministers’ Dialogue meeting in 2017, Beijing and Islamabad announced their plans to extend the China-Pakistan Economic Corridor (CPEC) into Afghanistan. If this scheme pans out, not only would it make Afghanistan a part of China’s Belt and Road Initiative (BRI), but would also constitute the most far-reaching step in China-Afghanistan economic cooperation so far.

However, trilateral cooperation between Beijing, Kabul and Islamabad depends on myriad conditions, each having the potential to be a significant roadblock. More specifically, in order for the CPEC extension into Afghanistan to be possible, the following puzzles need to be addressed—how will Washington react to the idea of including Afghanistan into the CPEC equation? What will be the impact on the troubled ties between Kabul and Islamabad? Will Islamabad go beyond its official rhetoric and play a constructive role in extending the CPEC into Afghanistan? How should one factor in the Taliban threat? What are the ramifications for India and how would New Delhi respond?

The problematic Afghanistan-Pakistan relationship is one of the most significant South Asian flashpoints and is likely to continue influencing future political and socio-economic developments in the region and beyond. Although the two countries have a lot in common in terms of culture, their relation has always been tense. Despite some temporary improvements in the past, attitudes of the countries towards each other remain unchanged; mistrust, suspicion, and resentment between Kabul and Islamabad constitute deep-seated attributes of this political deadlock. In spite of this situation, Islamabad claims that its major interest is to work towards a unified, stable and peaceful Afghanistan. It seems that this ‘three-in-one strategy’, proclaimed by Islamabad as the cornerstone of its Afghan policy, has been eroded by competing interests, poor implementation and mutual misperception. Instead of opening an avenue towards friendly and constructive cooperation, the two neighbours have been, for decades now, blaming each other of interfering in each other’s internal affairs and hampering social, economic and political development.

While Afghanistan blames Pakistan for supporting militant oppositional forces so as to destabilize inconvenient governments, Islamabad accuses Kabul of reinforcing insurrections in its resource-rich border province of Balochistan as well as of being responsible for the deterioration of the security situation in the Federally Administered Tribal Areas (FATA)—now merged with Khyber Pakhtunkhwa (KPK) province in Pakistan.

The fact that no Afghan regime has ever recognized the legitimacy of the Durand Line (imposed by the former British colonial ruler as an international border between Afghanistan and Pakistan) further complicates the bilateral relationship. Territorial claims by the Pashtun and Baloch communities on both sides of the de facto border is just another facet of the dispute between Islamabad and Kabul.

Pakistan’s Afghan policy during the last decades was not merely influenced by external factors—foremost being the fear that arch rival India would instrumentalize its development initiatives in Afghanistan (governed by a potentially ‘non-Pakistan friendly’ administration in Kabul) for activities against Islamabad. The influence of domestic trajectories must be considered too. In times of weak and unstable governance in Pakistan, Afghanistan was regarded by both civilian and military administrations as a strategic tool to distract from or even influence internal politics. Yet it seems obvious that attempts to use the Afghan policy as an instrument, not only against New Delhi but also within its own political theatre in Islamabad, backfired. Today, India’s engagement in Afghanistan as well as the positive perception of India among Afghans are both at historical peaks. In contrast, mistrust aimed at Pakistan is constantly increasing, creating an adverse scenario for Pakistan’s political strategists. It should also be noted that Islamabad’s aim to establish a Pakistan-friendly Afghan government has yet to succeed.

As such, there is the need for a strategic reassessment by Pakistan of its long-term national security interests. Pakistani have to re-evaluate their interpretation of what constitutes a ‘friendly Afghanistan’. ‘Friendly’ should at least mean cooperative; it should not imply subservience as some hard-liners among Pakistan’s political elites view it to be (hence referring to Afghanistan as ‘little brother’ or ‘strategic outpost’). Thus, it is not surprising that the current Afghan government is apprehensive about relying on Islamabad’s commitments towards peace process between Kabul and the Taliban. Afghans are not fully convinced about Pakistan’s willing involvement in the trilateral development cooperation between Islamabad, Beijing and Kabul.

The current situation in Afghanistan needs to be analyzed in the context of the rising US-China rivalry (besides the trade tensions) in both South and Central Asia as well as in relation to rising tensions in the South China Sea. The India-US rapprochement and the related reconceptualization by Washington of the Asia-Pacific region as Indo-Pacific, as well as Beijing’s increasing diplomatic activity regarding Afghanistan and the BRI initiative, must be considered in order to understand the US strategic calculus in Afghanistan. After China confirmed its interest to extend the CPEC into Afghanistan, the interactions between Beijing and Kabul (and the growing Chinese security interests in Afghanistan) started receiving more interna-

Any cooperation between China and India will most likely appear outside the BRI and CPEC development schemes.
tional attention, especially from the US and India. Notwithstanding the strong determination of the current US administration to withdraw troops from Afghanistan, the US is still willing to demonstrate its regional interests and military power to Beijing. This is gaining momentum, since the actual setting indicates that the CPEC’s expansion into Afghanistan will have both domestic and regional implications that counter US interests. Thus, the US undoubtedly feels ‘uncomfortable’ with China’s growing engagement in Afghanistan.

Another crucial issue for the feasibility of a successful extension of the CPEC into Afghanistan is the Taliban factor. One needs to be aware that all peace and reconciliation processes so far failed, mainly because the Taliban is not interested in ending armed confrontation and terror attacks. Beijing, which was able to establish some kind of ‘normalized relations’ with the former Taliban regime in the past, will most likely enter into conflict with the jihadist group. The perceived human rights abuses of the Chinese government against its Muslim communities on its soil is most likely to provoke hostile activities from the Taliban (and other terrorist groups) against any kind of Beijing’s development projects in Afghanistan. It goes without saying that this will have tremendous negative ramifications for a CPEC expansion into Afghanistan.

This is unfortunate since a successful, sustainable extension of the CPEC into Afghanistan within a ‘win-win framework’ would change the geopolitical and geoeconomic landscape of the country as well as the region. It would not only improve connectivity but also help to industrialize and modernize Afghanistan. Furthermore, it would serve as a roadmap for future and partly ongoing mega-development projects, such as the envisaged Turkmenistan-Afghanistan-Pakistan-India pipeline or the energy transmission line project CASA-1000, both of which face similar problems as those affecting the CPEC extension. As such, there is a tremendous scope for cooperation between China and the international community, especially regional actors such as India. New Delhi with its long history of cooperation, experience, and people-to-people contacts could be a valuable partner for China and other international actors in development projects within Afghanistan. China has to take India’s concerns and objections regarding the CPEC more seriously into account, especially India’s apprehensions that CPEC passes through a disputed territory.

Any cooperation between China and India will most likely appear outside the BRI and CPEC development schemes. Potential collaboration seems rather likely on selected individual projects instead of within larger development initiatives. However, either within or outside the BRI/CPEC scheme, a constructive and transparent collaboration between New Delhi and Beijing would most likely help reduce the US unease towards an extraordinary increase of Chinese engagement in Afghanistan.

The vision of implementing a potential CPEC expansion into Afghanistan thus stands on shaky ground. Besides all the obvious aspects related to security and the internal power dynamics in Afghanistan (namely problems related to regional power centres), the idea to extend the CPEC into Afghanistan faces fundamental challenges. The incorporation of Afghanistan into the BRI, and the fact that it should be conducted via the CPEC scheme requiring a ‘determination through tripartite consultations on an equal footing’ constitutes an enormous challenge by itself. Such a trilateral mechanism will produce constructive results only if there is a significant improvement in Pakistan-Afghanistan relations. Although the two countries agreed to improve their ties at the first China-Pakistan-Afghanistan Dialogue, their relations have not improved substantially.

It remains to be seen whether the decision-makers involved are willing to ‘walk the talk’ and try to break the unfortunate patterns of the past. Besides the imperative of ending Pakistan’s undue interference into Afghanistan’s domestic affairs, another major litmus test is how far Islamabad might (mis)use the potential CPEC enlargement as a foreign policy asset vis-à-vis Kabul so as to achieve political leverage in Afghanistan and challenge India’s position in the area. India, as well as other international actors, have invested tremendous efforts and large amounts of money in crucial infrastructure projects and other multi-sectoral measures so as to improve the overall conditions of both the state and society in Afghanistan.

In sum, the extension of CPEC into Afghanistan has, in theory, the potential to boost China’s role in the region as a facilitator of cooperation and provider of security and economic growth. Yet, by considering the realities on the ground, one must state that the proclaimed benefits of the BRI extension into Afghanistan threatens to worsen rather than improve conditions of the Afghan people.

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Notes


7 ibid. Note 5.

Mega infrastructure projects reshaping development

Today’s infrastructure-led development is geared towards attracting foreign investment and fostering export-oriented industrialization.

Seth Schindler and Juan Miguel Kanai

Huge investments in infrastructure are redefining global development, from China’s Belt and Road Initiative to infrastructure development plans from the African Development Bank and the Initiative for the Integration of the Regional Infrastructure of South America.

The scramble to build infrastructure across Africa, Asia and Latin America is reconfiguring the economic geography of countries and regions. As we argue in our recent research, these initiatives enhance the connection between territories so that strategic industries and resources are easily plugged into global networks of production and trade.

But large infrastructure projects come at a significant economic cost and may not foster long-term economic growth and industrialization. Their unintended social and environmental consequences can also be devastating.

Infrastructure networks, of transport, communication and energy, are expanding rapidly and increasingly extend across national borders. The Lamu Port–South Sudan–Ethiopia Transport Corridor in East Africa boasts plans for a deep-water port, international airports, highways, resorts and oil pipelines. Narendra Modi’s ‘Make In India’ initiative includes the establishment of five industrial corridors that connect India’s most economically dynamic cities and “offer effective integration between industry and infrastructure.”

Leaders with diverse political ideologies are embracing investment in infrastructure as a strategy for unlocking growth potential. According to Forbes, the legacy of Philippines strongman president Rodrigo Duterte may be a ‘golden age of infrastructure’ whose slogan is “Build, Build, Build!”

Across the Pacific and the political...
spectrum, Mexico’s recently elected progressive president Andrés Manuel López Obrador (AMLO) introduced national territorial development strategy in his 2018 campaign. Initially entitled AMLopolis, Obrador’s vision is reflected in the ambitious Maya Train development corridor, a 1,525 km railroad plan to serve both passengers and freight.

Such plans resurrect strategies that were exported to Latin America, Africa and Asia in the second half of the twentieth century. These strategies included development corridors, new towns such as Brasilia and Chandigarh, and comprehensive river basin schemes modelled on the Tennessee Valley Authority. The primary objective in the twentieth century was to foster integration within countries and reduce regional inequality by investing in poor areas. However, today’s infrastructure-led development is geared towards attracting foreign investment and fostering export-oriented industrialization.

Sea change in development policy
In the 1980s, the World Bank, International Monetary Fund (IMF) and the US Treasury known collectively as the ‘Washington Consensus’ imposed a strict set of reforms on low- and middle-income countries. Countries were forced to discontinue planning strategies designed to reduce regional inequality. The objective of these neoliberal reforms was to ‘get the prices right’ and allow market forces to determine the geographical distribution of goods, services and productive activities.

A series of economic crises in the Global South ensued, from Latin America and Sub-Saharan Africa in the 1980s to East Asia and Russia in the 1990s. In response, the World Bank and the IMF introduced reforms meant to create institutions that could support markets in the 1990s.

These reforms enhanced transparency and strengthened private property rights, and they were designed to reduce the cost of doing business. The World Bank’s imperative to ‘get the institutions right’ culminated in the 2002 World Development Report which outlined the so-called ‘good governance agenda’.

Neoliberalism’s proponents hoped that by implementing painful reforms, countries would attract foreign direct investment and ultimately move up global value chains. In practice, restructuring had the opposite effect in many places. Industry was offshored from rich nations, but as the economist Richard Baldwin has shown, it agglomerated in a very small number of countries. Meanwhile, other countries in the Global South were forced to liberalize their markets, which exposed their domestic industry to highly productive global value chains and resulted in deindustrialization.

Infrastructure-led development has superseded economic policies characterized by minimal government intervention and good governance agenda.

Unintended consequences
The 2008 financial crisis served as an opportunity to redefine the role of the state. Under the leadership of chief economist Justin Yifu Lin, the World Bank changed course and asserted that governments should not abandon economic geography to the whims of markets.

After a hiatus of nearly three decades in which development policy did not focus on geography, the World Bank embraced planning as a way to correct the failures of markets and governance institutions. It argued that the absence from earlier rounds of neoliberal reform of deliberate plans to integrate countries with global markets was the missing ingredient that inhibited their success.

The overarching imperative of current development policy is to ‘get the territory right’, and infrastructure-led development has superseded economic policies characterized by minimal government intervention and the good governance agenda. Integrating countries’ economies with global value chains is the focus of the World Bank’s most recent World Development Report.

Yet it remains to be seen if infrastructure-led development will offset the geographical disadvantages of places, such as Tanzania and Ethiopia, that have historically struggled to attract investment and integrate with global value chains.

Integration with the global economy won’t automatically translate into local prosperity and social well-being. Overinvestment in hastily built infrastructure poses significant risks. The IMF recently sounded alarm bells over Tanzania’s infrastructure spending spree, while the collapse of dams in Laos and Brazil demonstrate that the social and environmental impacts of large-scale infrastructure projects can be devastating.

While the jury is still out on the social, economic and environmental implications of infrastructure-led development, it looks set to reshape the Global South. It is vital to continue to track its impacts and unintended consequences.

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Infrastructure-led development has superseded economic policies characterized by minimal government intervention and good governance agenda.
Law underpins the creation and distribution of wealth, and hence is considered the foundation of capital. Throughout history, legal arrangements have been guiding capital formation processes. However, such arrangements remain arcane as long as there is no major setback. The recent global financial crisis that began in the fall of 2007 compelled many to dig deeper into the cause of the crisis. Katharina Pistor’s *The Code of Capital* is an outcome of such investigation—an inquiry into what led to finance’s prodigious rise and equally incredible downfall. The essence of her finding is that capital owes its life to the legal codes.

The book is divided into nine chapters. Each chapter is complete enough for readers to begin from anywhere. Usually capitalism is viewed through the lens of economics but this book examines it through the legal lens. It begins with an elaboration of how legal empire was built and has been evolving throughout human history. It ends with an explanation of how capital’s ascendancy is a result of the legal codes. The essence of the book is succinctly explained in one of these lines of the book’s closing chapter, which reads, “Law is the cloth from which capital is cut; it gives holders of assets the right to exclusive use and to the future returns on their assets; it allows capital to rule not by force, but by law.” The book shines light on how lawyers code institutions of private laws—property law, contract law, corporate law, trust law, bankruptcy law etc.—on behalf of private parties to turn assets into capital generating assets globally.

The nature of assets has been changing over time but what has remained the same is how these assets are coded into law to ensure the durability of these assets, ensuring easy transfer from one generation to another, and ultimately favouring the holders in accumulating more wealth. Even though capital is volatile in nature, law and governance institutions have ensured that the value of assets remain intact by creating the code—a comprehensive set of laws that can convert set of assets, objects and ideas into capital. In doing so, Pistor argues that lawyers have established themselves as masters of the code. Explaining further how globalization has been a boon for private attorneys, she attributes the flourishing of capitalism to the “ability of lawyers to fashion new capital and organizations from existing materials” as they ‘code’ capital on behalf of their clients.

Pistor, who is a law professor at Columbia Law School, points out that this is not a recent phenomenon since lawyers have been coding capital for centuries. The only difference is “the value of their coding effort has increased over time with the changes in the nature of the assets”. The legal codes have been shaped in such a way that it favours those who can afford lawyers, who are trained at best schools. The result is rising inequality, which Pistor calls “the logical conclusion of a legal order that systematically privileges some holders’ assets, but not others.”

The contribution of lawyers to the economy, however, is portrayed as debatable. Financial economist Stephen Magee’s famous opinion piece in the Wall Street Journal in 1992 plotted the number of lawyers in the US economy against GDP growth rates. The result was an inverted U-shaped curve, with clear implication that lawyers contribute to economic growth, but only up to a point; too many lawyers have negative effect on growth. But Magee’s interpretation has been challenged by legal scholars.

In a nutshell, the book is written in a way that even readers outside the legal profession can easily grasp and use it as a guide to understand how the history of capitalism has been, by and large, shaped by private attorneys and protected by coercive power of the state. This book is a masterpiece that directly links to and gives continuity to the debate that French economist Thomas Piketty, through his celebrated book *Capital in the Twenty-first Century*, raised about inequality resulting from the inheritance of capital.

Overall, through this intriguing and insightful treatise, Pistor gives us a novel, interesting perspective on the political economy of capital, delighting us with her gripping arguments, and enlightening us on how law can contribute to burgeoning inequality. ■

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Launch of the AIIB: The context
Despite experiencing rapid and sustained economic growth for over three decades—for instance, at 11 percent between 2001 and 2007—the global financial crisis marked important shifts in China’s growth story as its growth rate declined in the 2007-2013 period. To keep its growth momentum going, China expanded investments (reaching 50 percent of the GDP). However, increased capital injection has been generating lower growth relative to the past. This crisis of sorts was the exact moment when China launched its new multilateral initiative—principally, the Asian Infrastructure Investment Bank (AIIB) and its mammoth global connectivity project, the BRI (Belt and Road Initiative)—with the objective to address changing growth dynamics via external mechanisms.

AIIB is established as a multilateral development bank with the primary objective to improve social and economic outcomes in Asia, chiefly through investing in infrastructure. Most of China’s neighbours and many developing as well as developed countries welcomed the formation of the AIIB and joined the undertaking as members. This even includes several American allies despite ‘nudges’ from the then Obama Administration.

Another backdrop in which the formation of the AIIB can be situated is the longstanding demand of advanced developing countries such as China and India to reform the deficiencies seen in Multilateral Development Banks (MDBs). That there are problems with the existing MDB governance has been highlighted by the findings of the Zedillo Commission set up by the World Bank itself. The Commission’s report observes that the World Bank processes—whether it is project preparation or approval (from a resident board)—are cumbersome, time-consuming and costly, especially when it comes to financing infrastructure. Against this background, the AIIB might provide an alluring alternative to the existing MDBs—perhaps the AIIB will be quicker and efficient than the old-guard MDBs; and, without sacrificing the sustainability dynamics. The other viewpoint from which the AIIB has been observed is whether China will adhere to or challenge the US-led ‘rule-based liberal international order’ and if AIIB aims to challenge the dominance of traditional west-led international financial institutions.

What is the AIIB?
Launched in late 2014, it was generally assumed that the AIIB and the BRI are two hands of the same body; that AIIB would be the funding arm of China’s infrastructure building foray under its One Belt One Road initiative (the BRI).²

To be sure, both BRI and AIIB were floated by the same leadership, in the same year, and with some overlapping goals (such as improving infrastructure and enhancing connectivity in Asia-Pacific). Moreover, there are synergies and intersections between the BRI and AIIB. For instance, beyond funding of BRI projects, the AIIB-funded transportation and power-related projects assist implementation of the BRI.² Notwithstanding the somewhat intricate links with the BRI, AIIB is essentially an MDB, but having somewhat different mission, rules and governance mechanism than those of the existing MDBs. It also has a different focus AIIB’s sole focus is infrastructure financing and not development goals such as poverty reduction.⁴ The focus on infrastructure stems, in part, from major infrastructure financing shortfalls in developing countries and hence to fill the critical space that has been created. While the private sector has major disincentives to invest in infrastructure, the old-guard MDBs like the World Bank have been grossly unable to address the huge gaps.

Nine of the twelve directorships in the AIIB are reserved for Asians while its board of directors is non-resident, which potentially means greater freedom to the management. China’s 26.6 percent vote share gives it veto power over decisions requiring a supermajority—not in operational matters though. By mid-2018, the total lending of the AIIB stood at under US$4 billion when its paid-in capital is roughly US$9 billion.⁵ For all its differences, it is important to highlight, however, that AIIB collaborates closely with oth-
er MDBs. Indeed, an overwhelming majority of AIIB projects are co-funded with other MDBs and, hence, governed by MDB rules.

Probing AIIB
It has often been argued that the China-promoted MDB will be used for its narrow political and economic ends.6 However, that view cannot be substantiated as AIIB has too wide a membership, which includes nearly all major economies except for the US. The wide membership renders AIIB not particularly able to dominate processes and exclude certain countries and regions.7

Another contentious topic regarding the AIIB is whether AIIB’s sole purpose lies in ameliorating China’s overcapacity problems in goods like steel, cement and heavy machinery. Evidence doesn’t corroborate this line of reasoning. If the AIIB is very successful, its lending may be close to US$20 billion when over US$60 billion of additional demand is needed in steel alone. AIIB makes a rather menial contribution in the overcapacity issue.8

Furthermore, one strand of discussions around the AIIB observes that it has been floated as a competitor to the existing MDBs. Setting aside the aspirations behind its creation, the evidence so far does not indicate such pursuit. By mid-2018, AIIB had lent under US$4 billion compared to over US$20 billion of the World Bank.9 The pledged capitalization of the AIIB is US$100 billion or half the capitalization of the World Bank while an overwhelming majority of the AIIB projects are co-funded with existing MDBs.10

Similarly, the observation that the environmental and social compliance standards may potentially be lax than those of the existing MDBs may not be veritable for two reasons. The AIIB has gradually evolved into a truly multilateral initiative as its current membership stands at 100, including all major economies except the US. This has required governance norms based on set global benchmarks. More crucially and as noted earlier, the founders of the AIIB have drawn from recommendations of the 2009 Zedillo Commission report. While the commission does note that existing World Bank environment and social compliance standards impose unwanted burdens on developing countries and slows project preparation and funding approval mechanisms, it does not advocate slipshod compliance.

Lastly, the contention that the AIIB will steer Chinese revisionism appears potentially played up as it is a marginal player in China’s development finance domain, which is composed mainly and broadly of China’s policy and commercial banks like China Development Bank and Exim Bank.11 Intriguingly, the AIIB is, so far, a marginal player in the BRI as well. For instance, China Development and Exim bank both have lent over US$ 100 billion to the BRI. The figures are similar for BRI allocations from commercial banks.12 However, on China’s revisionism questions, there is some valid basis to probe the issue but this, so far, should not concern the AIIB. China’s international development finance presence—in which AIIB is an extremely marginal player—has expanded exponentially between 2000 and 2014 and so, from a low base. China provided over US$350 billion in the period 2000-2014 compared to about US$390 billion by the US over the same period.

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Notes
3 ibid.
5 ibid.
6 ibid.
7 ibid.
9 ibid.
10 ibid.
11 ibid.
12 ibid.
Workshop on Pakistan and US relations

**Sustainable Development Policy Institute (SDPI)** organized a seminar ‘Pakistan-US relations: searching for a common ground’ on 31 July to discuss issues and questions that have emerged in the wake of Pakistani Prime Minister Imran Khan’s visit to the United States (US).

Pakistan’s Former Ambassador to the US Ashraf Jahangir Qazi stressed that US-Pakistan relationship has to be seen in the context of what is going on between China and the US on the one hand and between Pakistan, Afghanistan, India and the US, on the other.

Haroon Sharif, former Chairperson of the Board of Investment said that outcome of the Prime Minister Imran Khan’s recent-Washington visit should have been in the form of some tangible economic transaction between the two countries.

Former Ambassador Ayaz Wazir pointed out that the US always uses Pakistan for its interest and Pakistan needs to be extremely careful in making any promise on Afghanistan to the US. He proposed to include Iran, China and Russia in solving the Afghanistan issue.

Dr. Abid Qaiyum Suleri, Executive Director, SDPI said that Pakistan needs to work on strengthening its relationship with the US beyond Afghanistan.

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**Sanitary and Phytosanitary issues in agriculture trade**

**MINISTRY** of Industry, Commerce and Supplies (MoICS), Government of Nepal (GoN), and South Asia Watch on Trade, Economics and Environment (SAWTEE) organized a programme on 5 August to discuss Sanitary and Phytosanitary (SPS)-related international laws and practices that could impact agriculture trade.

Considering the decision of the GoN to make pesticides residue testing mandatory for fruits and vegetables imports and withdrawal of the decision within 18 days and ensuing public reaction, the event aimed at unknottyng the issue. The main objective of the programme was to create awareness on SPS issues in agriculture trade and discuss measures that Nepal should undertake in moving forward. The then Honourable Minister for Industry, Commerce and Supplies Matrika Prasad Yadav pointed out that despite the initial turmoil created by the recent policy change and its retraction, it has also generated awareness.

Presenting a paper on ‘SPS measures in Nepal’s agricultural trade’, Dr. Paras Kharel, Research

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**SAES XII calls on South Asia to act on the 4IR urgently**

**TWELFTH** South Asia Economic Summit (SAES) was organized in Colombo, Sri Lanka, on 26 and 27 September with the theme ‘Shaping South Asia’s Future in the Fourth Industrial Revolution (4IR)’. The deliberations in the two-day event outlined the need to understand what the intersection of technology, economics, culture and politics means in shaping the region’s collective future for the Fourth Industrial Revolution.

Executive Director of the Institute of Policy Studies of Sri Lanka (IPS), Dr. Dushni Weerakoon, called on South Asia to act with urgency to make use of the opportunities presented by the 4IR, during the inauguration of the Summit.

Despite being the fastest growing region in the world, South Asia is faced with challenges such as weak public finances, inadequate investment in the public sector, income inequality, global volatility, and shifting geopolitical risks, among others.

The SAES XII is the first initiative at the regional level to explore some of these common issues facing South Asia through the lens of the 4IR. SAES is led by five prominent South Asian think tanks that have taken turns in organizing and hosting the annual event in one of the SAARC nations on a rotating basis. The SAES think tanks comprise of Centre for Policy Dialogue (CPD), Bangladesh; Research and Information System for Developing Countries (RIS), India; Sustaina-
Implementing the Bangladesh-Bhutan-India-Nepal (BBIN) Motor Vehicles Agreement (MVA) could make Nepal’s third country trade faster and cheaper, experts pointed out during a programme organized on 11 August by South Asia Watch on Trade, Economics and Environment (SAWTEE) and the Asian Development Bank (ADB). They said that the Agreement will allow Nepal’s export shipments to directly enter Bangladesh without the cumbersome process of transloading at the border, and Nepal’s cargo vehicles can carry export or transit cargo to and from the dry ports and ports in India.

The framework agreement of the BBIN MVA was signed in June 2015. However, further processes to operationalize the MVA was stalled after Bhutan’s upper house failed to ratify the agreement. The other three countries are now exploring, with Bhutan’s consent, ways to move ahead with the Agreement, as Bhutan’s consent has been received. Attended by high-level decision makers from different ministries, representatives from the private sector, representatives from the academia, key media representatives, among others, the workshop discussed implications for Nepal of the three country MVA, explored the concerns of stakeholders, and dispelled common myths and confusions.

Participants suggested conducting pilot programmes along certain routes for a few months to address the concerns and to make it a win-win for all. They also pointed out that the MVA implementation would not result in a ‘free-for-all’ in cross-border transport operations. The MVA has restrictions on number of permitted vehicles, allowable routes and border crossing points, and technical specifications of vehicles.
Policy Brief: Economic implications of post-disaster reconstruction
Author: Neelu Thapa and Dikshya Singh
Publisher: SAWTEE

Policy Brief: Gender concerns of recovery-reconstruction
Author: Neelu Thapa and Dikshya Singh
Publisher: SAWTEE

Policy Brief: 2015 earthquake as a driver of migration
Author: Pragati Koirala
Publisher: SAWTEE

South Asia Watch on Trade, Economics and Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization. www.sawtee.org