The New Silk Road and its network of projects could be a "win-win" for all

Linking the People's Republic of China with Asia, Africa, and Europe by land and sea can be a win-win for China and its partner countries, if the trillions of dollars China plans to invest in infrastructure will benefit its partners, too.

The 65 countries that want to be connected by the so-called Belt and Road Initiative or the New Silk Road need to be vigilant and transparent in screening and financing projects.

But thanks to the promise of easy financing from China, political elites with their own agendas risk saddling their countries with infrastructure projects of limited economic benefit. They could be backed by government-to-government agreements with the involvement of China's banks but without first being scrutinized to determine whether they will promote national development.

A number of white elephants are already strewn across Asia.

In the Lao People's Democratic Republic, a $7-billion China-funded rail project is under way. But once completed, it probably won't generate enough revenue to pay for the increase in public debt. The country's gross domestic product stands at $12 billion.

In Sri Lanka, an unused container terminal was built in the south of Hambantota with the go-ahead from a previous president and financing from Chinese banks. Unable to repay the loan, Sri Lanka transferred the port to the Chinese ownership in December 2017. Many other infrastructure projects were built, including a little-used international airport in the south. Foreign debt to GDP during that period rose from 36% to 90%.

In Malaysia, “dream infrastructure projects” have mushroomed in recent years. These include a port expansion project in the Malacca Strait, where capacity utilization stands at 75%. A port on Carey Island, also sponsored by China, has no obvious economic rationale. Another mega “dream” infrastructure project financed by China, the East Coast Rail Line, is similarly questionable. It’s estimated to cost 55 billion ringgit or $14.07 billion for 620 kilometers of single track, with land acquisition likely to raise the cost and raising questions about the project’s financial feasibility.

China’s policy is not to intervene with their partners’ decisions in selecting and implementing projects or in ensuring they are economically and financially feasible. But it seems that Chinese banks are prepared to finance risky projects for strategic geopolitical benefit.

To reduce the risks of building such white elephants, three measures are needed:

One. Chinese banks must finance sensitive and contentious large infrastructure projects with development banks such as the World Bank or the Asian Development Bank, which require strict safeguards.

Two. Participating countries must submit large infrastructure projects for independent financial auditing.

Three. All participating countries must make public all feasibility studies.

With these safeguards in place, China’s New Silk Road and its network of projects could be a “win-win” for all partners.

This episode is based on research done for the Asian Development Bank Institute by Jean-Francois Gautrin, associate research fellow at the Malaysian Institute of Economic Research, Kuala Lumpur.

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