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The Belt and Road Is Overhyped, Commercially

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There are a number of easy myths to dispel about China's Belt and Road Initiative. It's worth trillions – false. China is buying up the participating countries – if so, only in self-defeating fashion. The Belt and Road Initiative (BRI) is primarily about transportation – reasonable but still mostly wrong.

Perhaps the most important mistake is that the BRI represents a growing Chinese footprint globally. It did in 2016, not now. More countries are joining the BRI in name but the extent of activity is shrinking. Moreover, inadequate foreign currency reserves means Beijing will be hard pressed to keep the BRI afloat as a global commercial effort. It is therefore likely to devolve toward a talk shop with substantial resources assigned only to a small set of priority countries.

The first implication for American policy of this likely BRI trajectory is: do not overreact. The second is to identify the much smaller group of countries China will favor going to forward. Our interests are very different than the PRC's and the BRI does not appear to call for any substantial American response on economic grounds (only).

Facts On The BRI's Past and Present

Data on the BRI are drawn from the American Enterprise Institute's China Global Investment Tracker, the only publically available compilation of Chinese investment and construction globally.[1] The Tracker presently includes over 3000 transactions compiled from 2005-2018, each valued at $95 million or more. It does not capture the lending which usually supports the investment and construction transactions.

What countries are actually in the BRI and which subset of projects should be counted are open questions, as Beijing has deliberately left the BRI ill-defined. "BRI projects are only the good ones" is not far off from the Chinese position. When the initiative was launched in 2013, it was said to include 64 countries. More have been added, most famously Italy. In statistical notes, the Ministry of Commerce never uses even the original 64, the number instead bizarrely varying between 49 and 55 or not mentioned at all.[2]

The Tracker's view of the BRI is based on the official Chinese government website, using all projects in all countries profiled.[3] The intention is to get the largest numbers possible, numbers which can only overstate the impact of the BRI to date, yet still turn out to be on the small side. At time of writing, 137 countries were profiled on the BRI site.

From 2014 to 2018, total Chinese investment in all BRI countries was $190 billion. Again, this is a deliberately high estimate. At this rate, it will take until 2040 for investment to reach the $1 trillion goal often bandied about - if this is a new Marshall Plan, it's a slow one. It's also not especially vital to the PRC. Sizing it as aggressively as possible, the BRI comprised less than 30

[1] American Enterprise Institute and Heritage Foundation, "China Global Investment Tracker," http://www.aei.org/china-global-investment-tracker/.
[2] Belt and Road Portal, "China's non-financial ODI in B&R countries rose to 3.76 billion dollars in Q1," April 17, 2019, https://eng.yidaiyilu.gov.cn/qwyw/rdxw/86102.htm and Ministry of Commerce, People's Republic of China, "Investment and Cooperation with Countries along Belt and Road Routes in January-October of 2018," November 23, 2018, http://english.mofcom.gov.cn/article/statistic/foreigntradecooperation/201812/20181202815840.shtml.
[3] Belt and Road Portal, International Cooperation Profiles, https://eng.yidaiyilu.gov.cn/info/iList.jsp?cat_id=10076.

percent of total investment and less than combined Chinese investment in the US, Australia, and United Kingdom over this period.

Investment is not the main economic activity in the BRI, construction is. Chinese construction activity in the full set of BRI countries was worth twice as much, at $388 billion for 2014-8. (While construction is heavily financed by Chinese loans, it does not involve any ownership of assets and therefore does not qualify as investment. It is properly categorized as part of services trade.) The construction figures are impressive but, at this pace, it would still take 50 years for the BRI to be the $6-trillion program some anticipate.[4]

What is being built and, to a lesser extent, bought? Road-, rail-, and port-building win the most attention but are nosed out by power plant construction. In investment, energy dominates.

BRI by Sector, $ billion 2014-8

Construction		**Investment**	
1. Power	152.4	1. Power	71.7
2. Transport	137.7	2. Metals	26.0
3. Property	43.3	3. Transport	18.1
4. Utilities	13.5	4. Property	15.9
5. Metals	10.4	5. Logistics	11.3

Source: China Global Investment Tracker

By country, the investment pattern within the BRI reflects that of Chinese investment in all countries: greater foreign wealth draws more Chinese money. Tiny Singapore leads by a substantial margin because it is rich and there is money to be made there. Construction goes first to heavily populated developing economies, which naturally have the most available projects.

BRI by Country, $ billion 2014-8

Construction		**Investment**	
1. Pakistan	31.9	1. Singapore	24.3
2. Nigeria	23.2	2. Malaysia	14.1
3. Bangladesh	17.5	3. Russian Federation	10.4
4. Indonesia	16.8	4. Indonesia	9.4
5. Malaysia	15.8	5. South Korea	8.1
6. Egypt	15.3	6. Israel	7.9
7. UAE	14.7	7. Pakistan	7.6

Source: China Global Investment Tracker

The BRI's Future

What the BRI has been to now is often mildly exaggerated, where it is headed is in some cases greatly exaggerated. Investment volume and growth peaked in 2015. Though construction

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[4] Lihuan Zhou, et al., "Moving the Green Belt and Road Initiative: From Words to Actions," World Resources Institute and Boston University Global Development Policy Center working paper, October 2018, https://www.bu.edu/gdp/files/2018/11/GDP-and-WRI-BRI-MovingtheGreenbelt.pdf.

transactions are publicized more gradually and 2018 figures are certainly not final, volume and growth looks to have peaked in 2016. Rather than building toward global transformation, the BRI may have already seen its most dynamic days.

BRI by Year, $ billion

	Construction	Investment
2014	67.6	36.9
2015	77.4	45.3
2016	96.7	34.4
2017	83.3	34.0
2018	67.2	39.7

Source: China Global Investment Tracker

For the first half of 2019, all results are of course incomplete for investment and nowhere close to complete for construction. But Chinese investment around the world appears to have dropped again, after dropping sharply in the second half of 2018. The reason is plunging investment by state-owned enterprises (SOEs), which had until last autumn unfailingly outspent private Chinese enterprises. For roughly eight months, major state investors have either reported drastically less global investment for some reason or actually cut their spending.

While that is a global trend, it is telling for the BRI. In 2014-8, SOEs accounted for about 73 percent of BRI investment. They accounted for about 96 percent of construction, which is utterly dominated by giants such as State Construction Engineering and PowerChina and their many subsidiaries. The BRI is a program of SOEs. Private companies avoid BRI construction because there's no financial return to often-difficult projects in what are mostly poorer countries. The same is true to a lesser extent for investment.

It is no surprise, then, that the official BRI investment tally for January through April 2019 was tallied for just 50 countries and stood at just $4.6 billion.[5] No on-year growth was given, which is Chinese for "it's declining and we don't want to say that." If SOEs have stopped disclosing some BRI activities, it obviously harms transparency and raises questions about Beijing's commitment. If SOEs have stopped investing, the questions become pointed: the PRC is a reliable partner, until it needs a break?

The SOE pause has weight because it can be traced back to serious problems in Chinese external finance. When Xi Jinping launched the BRI in September 2013, China's foreign exchange reserves were valued at $3.66 trillion.[6] They rose to $3.99 trillion in June 2014, then began falling, standing at $3.09 trillion at the end of April 2019. There is also a smaller amount of foreign currency held in the state banking system which appears to have fallen more steeply. The

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[5] "China's non-financial ODI up 3.3 pct in first four months", Xinhua, May 16, 2019, http://www.xinhuanet.com/english/2019-05/16/c_138063770.htm.

[6] Ministry of Foreign Affairs of the People's Republic of China, "President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries," September 7, 2013, https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml and State Administration of Foreign Exchange, "Data and Statistics," https://www.safe.gov.cn/en/DataandStatistics/index.html (accessed June 2, 2019).

BRI was launched under conditions of not only abundant but also fast-rising reserves. They are still abundant but the trend has reversed.

Reserves are what make the BRI go. While China and others fuss over the yuan becoming a globally used currency, the share of the yuan in global transactions is about two percent, with most of those in Hong Kong. For global reserve holdings, the yuan is about as important as the Canadian dollar.[7] BRI governments and local businesses want dollars or other hard currency from Beijing, hard currency which it increasingly cannot spare. Unless the foreign exchange pattern of the past five years is flipped, the BRI as a global program will slowly starve to death.

Adding a bit more pressure, if only a bit, is internal financial failure. The PRC pushed domestic outstanding credit – an aggregate debt measure -- from $6.5 trillion in 2008 to $33.2 trillion in 2018, mocking all claims of recent economic success.[8] But this is not money used for the BRI. To protect fragile banks, Beijing still employs a closed capital account, which keeps domestic and foreign funds separate (and money from freely leaving the country). A secondary impact: weak growth from heavy debt gradually undermines the BRI by making it politically sensitive.

US Policy On the BRI

The first question for American policy-makers is a surprise but follows directly from current conditions: what is it worth to the US to kill the BRI? In most situations, for instance with regard to intellectual property, the US does not have the ability to halt Chinese actions outright. With the BRI, we effectively do.

Balance of payments weakness since 2014 has made the PRC extremely dependent on sales to the US. The PRC's cumulative goods and services surplus with the US from 1999 through 2018 was close to $4.6 trillion, more than its foreign exchange holdings at their peak.[9] Moreover, from June 2014 to April 2019, when China's reserves dropped $900 billion, it still ran a $1.5-trillion goods and services surplus with the US. Without that, Beijing cannot avoid a balance of payments crisis, much less fund a global BRI.

Enter the trade dispute. Available 2019 data show goods imports from the PRC falling $17 billion from January to March.[10] The US has since hiked from 10 to 25 percent tariffs on $200 billion of Chinese imports, pending exclusions, and a tariff of unknown rate is possible on $300 billion more. Neither action is yet reflected in trade or reserves. Nearly-across-the-board US

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[7] China Global Television Network, "Share of Chinese RMB in global payments rose to 3-year high in Jan.," March 1, 2019, https://news.cgtn.com/news/3d3d414d3449444d33457a6333566d54/index.html and International Monetary Fund, "Currency Composition of Official Foreign Exchange Reserves, https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4 (updated March 29, 2019).

[8] The equivalent US rise was a disturbing but considerably smaller $17.4 trillion. Bank of International Settlements, "Credit to the Non-Financial Sector," https://www.bis.org/statistics/totcredit.htm?m=6%7C380%7C669 (updated June 4, 2019).

[9] Bureau of Economic Analysis, "U.S. International Trade in Goods and Services, April 2019," June 6, 2019, https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services.

[10] United States Census Bureau, "Trade in Goods with China," https://www.census.gov/foreign-trade/balance/c5700.html (accessed June 3, 2019).

tariffs, perhaps half 25 percent and half 10 percent, would cost Beijing at least $150 billion in hard currency annually, a loss the PRC can afford for a while but the BRI cannot.

The BRI presently depends on American consumers buying Chinese products and can be paralyzed for an extended period just by making those products more expensive. Such actions of course have costs for the US, though they are not especially large (unless combined with 25-percent across-the-board tariffs on Mexico). Is the BRI a sufficient threat on its own to justify fairly minor sanctions against China? Not on the commercial side.

With regard to frequently cited "debt traps," Beijing can no longer afford the billions in hard currency needed to spring a trap. The clearest illustration: there turns out to be nothing Venezuela can provide worth what China has risked. A deeper answer involves assets the PRC might acquire for debt forgiveness. In most cases, there are no commercially valuable assets available, hence the initial involvement of heavily subsidized SOEs instead of profit-motivated multinationals. In Sri Lanka, for example, the obvious pieces for China to gain are infrastructure projects for which there is little supporting demand.[11]

The idea behind debt traps, however, is relevant more broadly: what does Beijing gain from the BRI to justify devoting (increasingly) precious resources? The PRC faces rising labor and land costs, making its exports particularly less competitive in lower-income countries that dominate the BRI. Better transport and logistics can boost demand there. The stress on energy reinforces China's interest in commodities extraction and shipment, from Russia and other oil suppliers primarily and metal ore suppliers such as Vietnam and Chile secondarily.

The US should care little about either exports to poor BRI countries or competitive commodities extraction. American exports skew heavily to NAFTA partners and Europe. Net American oil and oil products imports in the first quarter of 2019 were less than 10% of those in the first quarter of 2009 and metals imports have never been sizable.[12] It makes no sense for the US to mirror Chinese economic priorities, much less dubious actions like subsidizing power plant construction in Laos.

This discussion is limited to economic issues and security concerns may be much sharper. Economics can inform those concerns, as well. China cannot fund a truly global BRI and odds are better that financial constraints will tighten rather than loosen. Beijing will inevitably focus on what it sees as the most important countries. On economic grounds, these are the richer countries in Southeast Asia for export markets and the Arab world for oil. American policy should anticipate where China's gaze will finally land and evaluate to what extent this very select set of countries calls for a US response. The BRI as a whole has become a red herring.

[11] Nick Miroff, "China strengthens ties to cash-strapped Venezula with $5 billion loan," *Washington Post*, September 3, 2015, https://www.washingtonpost.com/news/worldviews/wp/2015/09/03/china-strengthens-ties-to-cash-strapped-venezuela-with-5-billion-loan/?utm_term=.6272849a6ce1 and Iain Marlow, "China's $1 Billion White Elephant," *Bloomberg*, April 17, 2018, https://www.bloomberg.com/news/articles/2018-04-17/china-s-1-billion-white-elephant-the-port-ships-don-t-use.

[12] United States Energy Information Administration, "U.S. Net Imports of Crude Oil and Petroleum Products," May 31, 2019, https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=mttntus2&f=m.