China’s Belt and Road Initiative: Implications for the Philippines

by Darlene V. Estrada

In 2013, President Xi Jinping introduced the Belt and Road Initiative (BRI), bannering it as China’s key initiative designed to engage neighboring states and regions in international cooperation through overland and maritime connections. The idea was to connect Europe to Asia through infrastructure projects that would promote not only physical connectivity between regions, but also trade and people-to-people linkages.

The idea stirred discussions, inciting both positive and negative perceptions. Jonathan Hillman of the Center for Strategy and International Studies described it as “the most ambitious and the least understood initiative in global affairs.”

On one hand, BRI was seen as a promising initiative, marveled for its potential to be a catalytic global project. On the other hand, it was criticized for being too ambiguous and murky, prompting states to exercise more caution, as it could be a move for China to pursue its geostrategic interests. As the BRI rolled out, it gained more popularity and support. Current projects have revealed important details about the initiative, its objectives and mechanisms. However, speculations continue to arise.

The Philippine government, however, remains receptive to the initiative, given BRI’s congruence with its domestic goal of ushering a “golden age of infrastructure” under President Rodrigo Duterte’s regime. This was evident as President Duterte attended the Belt and Road Forum in early 2017 and entered in a number of agreements with China on infrastructure projects.

While the Philippines and China have aligned goals when it comes to infrastructure plans, there remains a need to assess risks and explore opportunities attached to Philippine participation in BRI, especially in the face of a volatile and unpredictable geopolitical environment. With this in mind, this paper aims to discuss BRI, its objectives and parameters, perceptions in the international arena, and progress. The paper will also look into opportunities and considerations for the Philippines.

The Belt and Road Initiative (BRI)

BRI takes on the task of reviving the ancient Silk Road by building its first component, an overland route from China to Western Europe, sweeping through South Asia and Southeast Asia, Russia, the Persian Gulf, the Middle East, North Africa, and the Mediterranean. Dubbed as the Silk Road Economic Belt (SREB), the plan consists of the following:

- six economic corridors, namely: the New Eurasia Land Bridge, PRC-Mongolia-Russia, PRC-Central Asia-West Asia, PRC-“Indochina Peninsula”, PRC-Pakistan, and Bangladesh-PRC-India-Myanmar corridors;
- a number of railroad connections; and
- a few gas and oil pipelines.

The second component is a maritime route which runs southbound down the east coast of China, through the South China Sea and into the South Pacific before heading westbound through the Indian Ocean and Mediterranean Sea to...
Europe referred to as the 21st Century Maritime Silk Road (MSR). The concept of a “Maritime Silk Road” is nothing new as it dates back to as early as the nineteenth century, when ancient merchants journeyed the route of China’s eastern coast, the southernmost region of India, East Africa, the Persian Gulf, and the Red Sea to enhance economic and cultural relations.\(^4\)

In March 2015, the Chinese government, led by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce, issued the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road.\(^5\) In the document, the initiative’s major goals were declared. These goals include (a) policy coordination, (b) facilities connectivity, (c) unimpeded trade, (d) financial integration, and (e) people-to-people bonds.

Cooperation and coordination remain as important buzzwords to the initiative. The Chinese government envisages a well implemented BRI that would promote policy coordination among concerned states and, in turn, strengthen existing dialogues and mechanisms, advocate mutual trust, and ultimately build an environment conducive to harmonious relations between and among neighboring states. Moreover, through BRI, the Chinese government hopes to promote an environment with aligned economic development strategies.

Building an infrastructure network that would traverse all sub-regions in Asia, the Eurasia region, including Africa is considered a priority area for the initiative. However, BRI’s connectivity aspiration goes beyond road network connectivity and port infrastructure construction. It also pushes for international transport facilitation that will address the standardization of transport rules and clearances, comprehensive civil aviation cooperation, energy infrastructure connectivity, and international communications connectivity through an Information Silk Road.

The initiative envisions the creation of a sound business environment between and among countries and regions through the improvement of investment and trade facilitation, removal of investment and trade barriers, and opening of free trade areas. BRI promotes customs cooperation, supply chain safety and convenience cooperation, lowering of non-tariff barriers, exploration of new growth areas of trade, and the speeding up of investment facilitation. The BRI also highlights the expansion of mutual investment areas to include agriculture, forestry, animal husbandry and fisheries, and the joint development of conventional sources of energy and hydropower, nuclear power, wind power, solar power and other clean, renewable energy sources. Moreover, BRI pushes for the improvement of the division of labor and distribution of industrial chains along concerned states and regions, stressing the need for increased openness among service industries. More importantly, BRI brings forth Chinese companies to the world and promotes localized management to boost the Chinese local economy.

The March 2015 document says:

\[\text{[We]}... \text{encourage Chinese enterprises to participate in infrastructure construction in other countries along the Belt and Road, and make industrial investments there. We support localized operation and management of Chinese companies to boost the local economy, increase local employment, improve local livelihood, and take social responsibilities in protecting local biodiversity and eco-environment.}\]\(^6\)

Efforts to build a currency stability system, investment and financing system, and credit information system are crucial in deepening financial cooperation, which is also regarded as one of BRI’s major goals. The use of the renminbi was also promoted, to wit:

\[\text{We will support the efforts of governments of the countries along the Belt and Road and their companies and financial institutions with good credit-rating to issue renminbi bonds in China. Qualified Chinese financial}\]
Institutions and companies are encouraged to issue bonds in both renminbi and foreign currencies outside China, and use the funds thus collected in countries along the Belt and Road. The BRI provides the opportunity to tap the Asian Infrastructure Investment Bank (AIIB), the BRICS New Development Bank, the China-ASEAN Interbank Association and SCO Interbank Association, including the Silk Road Fund and sovereign wealth funds, to finance the initiative’s projects. It also promotes the use of commercial equity investment funds and private funds in the construction of key projects.

Furthermore, BRI endeavors to foster a spirit of friendly cooperation among countries through the promotion of extensive cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchanges, and volunteer services. It underpins the opportunity to cooperate in tourism, science and technology, and medicine. It also aspires to link cities and have them cooperate in practical issues to enhance people-to-people linkages.

China’s effort to become transparent about the initiative is crucial in managing public reception and perceptions of BRI. However, despite attempts to foster positive discourses about the initiative, apprehensions persist. A review of what has been written on BRI will provide varying perspectives on how some scholars project their suspicions on the objectives of the initiative.

Tom Miller, author of China’s Asia Dream: Empire Building Along the New Silk Road, argued that BRI is a maneuver to strengthen China’s position as the undisputed power of Asia. In other words, China aims to project power through BRI and pursue the restoration of its historical status as the dominant power in Asia. Peter Cai of the Lowy Institute for International Policy, on the other hand, believes that by looking at BRI in its entirety through a geopolitical lens, one misses other significant aspects of what could be China’s drivers behind the implementation of BRI. Cai argued that BRI is largely driven by China’s pressing domestic economy concerns, and despite the “outward” orientation that BRI is being projected with, it will have a heavy domestic focus. He also views BRI as a solution to the country’s chronic overcapacity and a means to globalize Chinese technological and engineering standards and upgrade Chinese industries.

To Neil Cuthbert and Atif Choudry of Dentons, apparent key objectives of BRI include establishing connectivity, tapping new markets, addressing production excess capacity, advancing political interests, Chinese domestic economy growth, internationalization of the renminbi and exploring financial markets. They also highlighted the importance of looking at BRI beyond economics and infrastructure.

It also encompasses China’s future role in the world, promoting its ideas and philosophies and demonstrating how China can cooperate with the rest of the world and build mutually beneficial partnerships with other countries.

Vague Parameters

The persistence of debates and speculations suggest the need for further clarifications from the Chinese government. Furthermore, BRI’s form, or the lack thereof, appears to be one reason for the negative perceptions. The absence of parameters has become a common misgiving among the public. When it was initially announced, a number of important questions surfaced, among them: “which countries can participate?”

“The persistence of debates and speculations suggest the need for further clarifications from the Chinese government. Furthermore, BRI’s form, or the lack thereof, appears to be one reason for the negative perceptions. The absence of parameters has become a common misgiving among the public. When it was initially announced, a number of important questions surfaced, among them: “which countries can participate?””
cooperation projects, while some signed up to become members of the Asian Infrastructure Investment Bank (AIIB) in the hopes of getting into the BRI project. In a statement by Laurel Ostfield, the head of communications for the AIIB, however, it was explained that membership in AIIB does not translate to participation in BRI because the two are separate entities.\textsuperscript{14}

It will be recalled that in January 2016, the Asian Infrastructure Investment Bank (AIIB) was established, which currently has 80 members.\textsuperscript{15} AIIB agreed to lend USD 1.73 billion by the end of 2016 and has cooperated with the World Bank and Asian Development Bank (ADB) in co-funding projects.\textsuperscript{16} The Chinese government has announced that the AIIB can be tapped in financing BRI projects. At present, the AIIB has listed projects in India, Tajikistan, Pakistan, Georgia, Bangladesh, Indonesia, Myanmar and Azerbaijan, but to date, no official BRI-tagged projects have been declared to have been funded by AIIB. Jin Laqun, Chairman of AIIB, explained that BRI and AIIB are not synonymous; however, naturally, there will be overlaps because most of AIIB projects are located along the BRI routes.\textsuperscript{17}

The Chinese government also set up the Silk Road Fund with USD 40 billion following the BRI launch in 2013.\textsuperscript{18} The Silk Road Fund has made investments in a number of projects, including the Mombasa-Nairobi Standard Gauge Railway, the Karot Hydropower Project as part of the China-Pakistan Economic Corridor, and the Dubai Hassyan Clean Coal Power plant.

As to the mode of payment, no standard parameters were mentioned. Projects may be funded through government-to-government grants, the traditional export credit models such as the buyer credit and supplier credits, or the Public Private Partnership model.\textsuperscript{19}

Apparently, the BRI has no specific set of countries defined, no limit on set of sectors for cooperation, no defined associated policies and programs, and a mix of geopolitical and commercial objectives.\textsuperscript{20} A number of scholars see this ambiguity as a cause for distrust in China; however, Pricewaterhouse Cooper (PwC) thinks otherwise. In their 2017 report titled “Repaving the Ancient Silk Routes,” the lack of specificities was to show BRI as being broad and inclusive “to work towards a balanced regional economic cooperation architecture that benefits all.”\textsuperscript{21} PwC observed that the lack of definitions and guidelines permit an unlimited variety of projects to fall under the BRI umbrella, which would be more strategic for China.

\textit{Gaining Momentum}

Clearly, the world has not seen anything like the BRI. Thus, it needs to be followed closely as it unfolds. Monitoring BRI-related progress and developments would provide a clearer picture that could help stakeholders understand the initiative better.

Shortly after BRI was launched, the world witnessed Chinese President Xi Jinping and his senior officials conduct visits to countries across Asia, Europe, Africa, Latin America and Oceania – a total of 37 official visits. Since then, more than a hundred countries and international organizations have expressed intent to participate in BRI, with 56 countries and regional organizations issuing joint statements and proposals.\textsuperscript{22} A total of 46 China Overseas Economic and Trade Cooperation Areas (OETCAs) have been established by China together with 17 other countries.\textsuperscript{23} This has resulted in the creation of more than 60,000 jobs for locals.

The Belt and Road Big Data Report 2017\textsuperscript{24} provided the following chronicle of BRI’s progress as of November 2017:

- Belt and Road transnational cooperation index witnessed an increase of 3.5% from 2016 to 2017.
- Leaders from 17 countries conducted high-level visits to China, 11 of which visited China for the Belt and Road Forum for International Cooperation in May 2017.
- China has signed cooperation documents with 74 countries and international organizations as of the end of September 2017.
- By the end of May 2017, China has established direct air routes with 43 countries along the BRI route.
By the end of August 2017, more than 5,000 Chine-Europe freight trains have serviced China and 29 cities in 11 European countries.

A slight increase from 25.4% (2015) to 25.7% (2017) was seen in China’s trade with the countries along the routes.

Chinese enterprises’ non-financial direct investment in 53 countries along the Belt and Road routes reached 14.53 billion USD.

The countries along the routes set up 2,905 enterprises in China with a total investment of 7.1 billion USD.

Financial cooperation-wise, 21 countries have signed bilateral currency swap agreements with China; and China Unionpay is available in 41 countries along the routes.

About 700 sister-city relations with 53 countries have been established, 66 more than in 2015.

An estimated 25 million touristor tours have been made between China and the countries along the routes since BRI’s establishment.

A total of 23 countries along the Belt and Road routes implemented visa-free policies for Chinese nationals in 2016.

In 2016, a total of 207,700 foreign students came to China for education from the countries along the route, seeing a 13.6 % increase.

Congruence with the Philippines’ Infrastructure Plans

President Duterte, in his 10-point Socioeconomic Agenda, targeted poverty reduction from 21.6 percent in 2015 to 13-15 percent by 2022. To accomplish this, one reform that is being pushed by the administration is infrastructure acceleration and industry development through the “Build, Build, Build” (BBB) Program. The administration aims to achieve a “Golden Age of Infrastructure,” calling the “Build, Build, Build” program “the boldest, most ambitious infrastructure program in Philippine history.”

The program rests on the premise that good infrastructure, which the country has long overlooked, is a necessary condition in achieving economic growth. The Philippines’ lowest rank among the ASEAN-5 countries in overall infrastructure since 2010 in the World Economic Forum Competitiveness Rankings is a clear indicator that the country has not given much attention to infrastructure.

The prioritization of infrastructure acceleration has become evident in the administration’s allocation of PHP 847.2 billion in the 2017 National Budget, which is 5.3 percent of the Philippine gross domestic product (GDP). The grand plan is to spend around PHP 8-9 trillion for the next six years. According to the Philippine Development Plan 2017-2022, infrastructure development will focus on transportation systems, water resources, energy, information and communication technology (ICT), and social infrastructure.

The government plans to finance the infrastructure projects by: (a) pursuing an expansionary fiscal strategy with 80 percent of loans coming from domestic sources and 20 percent coming from foreign sources; and (b) tax policy and tax administration reforms. All these are seen as measures that will improve Philippine competitiveness in ASEAN.

Opportunities and Considerations for the Philippines

With aligned infrastructure development agenda, the Philippines and China are set to explore greater opportunities for cooperation and collaboration. One could say that the signing of a number of infrastructure cooperation agreements during President Duterte’s visit to China in 2016 was a good start.

With aligned infrastructure development agenda, the Philippine and China are set to explore greater opportunities for cooperation and collaboration. One could say that the signing of a number of infrastructure cooperation agreements during President Duterte’s visit to China in 2016 was a good start. Clearly, the Philippines and China could look into infrastructure development as one of the aspects for functional cooperation to improve the relations. As discussed earlier, BRI projects may be funded through government-to-government grants, the traditional export credit models such as the buyer credit and supplier credits, Official Development Assistance (ODA) or aid, or the use of a Public Private Partnership model. Most, however, have been funded through aid or PPP. China has recently been
projected as a reasonable aid donor compared to other countries due to its “no economic or political conditionalities, except adherence to the “One China Policy” and access to natural resources its aid finances.”31 Also, China’s more than 20 years of experience in carrying out international contract projects contributes to its attractiveness as a partner.

The success of implementing a BRI project in the Philippines will depend on how the Philippine government will balance opportunities with the risks attached to participation. PwC’s report identified risks associated to BRI, including geopolitical risks that could possibly arise out of (1) the long gestation periods that may witness political shifts and (2) political developments in bilateral relations and regional dynamics that would inevitably affect project implementation.32 Financial risks may also come about because of the capital-intensive nature of the projects that may result in a high debt service ratio, long pay-off periods, and the volatility of forecast demand. It is important to understand that in these projects and transactions, different currencies and national financial capacities are at play.33 Differences in legal frameworks, possible incompatibility of technical specifications, language barriers, and other forms of operational risks also need to be looked into.

The Case of the Colombo Port City in Sri Lanka could provide a picture of how a mix of risks could affect a project. The Colombo Port City project began in September 2014, months before the election of a new Sri Lankan president. Some argue that it was actually President Mahinda Rajapaksa’s support for the Chinese project that cost him his presidency.34 As current Sri Lankan President Maithripala Sirisena assumed power in 2015, the project was put on hold to give way to a reassessment of the deals that were signed with China. The change in leadership has brought about a serious disruption to the project, resulting in a year-long suspension of the project and over 100 million USD losses to the Chinese developer, China Communications Construction Company (CCCC).35 What is even more disturbing in this predicament is the new administration’s discovery that debt to China has already reached USD 8 billion.

The levels of predictability of geopolitical, financial and operational risks vary. While geopolitical conditions and developments are more difficult to forecast, financial and operational risks could be analyzed and calculated. A review of existing policies and practices concerning infrastructure funding would aid in mitigating financial risks. The National Economic Development Authority, for one, has clarified that the government will make use of an optimal mix of government domestic financing, aid, and private capital in funding infrastructure projects.36 To avoid being debt-trapped, the current administration has pushed for 80:20 debt mix, with the larger bulk falling on local financing. Likewise, the administration declared its preference for ‘hybrid’ PPP deals in carrying out its infrastructure plans. A hybrid PPP strategy means that “the government completes a project then transfers it to the private sector for maintenance, operations, and marketing.”37

Following the same strategy, the Philippine government is said to work with the advantage of having the means to borrow at lower rates. Under the Official Development Assistance Act of 1996, ODA funds are excluded from foreign debt limit to facilitate absorption and optimization of the utilization of funds.38 This facilitates longer-term maturity and favourable concessional financing terms, with a grant element of at least 25 percent, and provides wider access to knowledge, experience, and technology.39 The Department of Budget and Management will further initiate reforms to improve the absorptive capacity of government agencies. The PPP planning and implementation, on the other hand, is undergoing improvements to address difficulties. NEDA acknowledged the need to review PPP assumptions and processes, including the government’s investment decision-making, where one recommendation was to ensure quality of project at entry point.

To address operational risks, careful planning and thorough consultation with partners are needed. Central to this is the crafting of the project contract containing clear terms and agreement on how these terms will be interpreted and implemented.
Included in the first basket of infrastructure projects funded and built with the assistance of China through aid is the PNR South Long Haul, which is also registered under BBB projects. The implementation of the project commenced in 2014 and is targeted to end by the second quarter of 2022.

As it implements the PNR South Long Haul and other future projects, the Philippine government ought to equip itself with practical knowledge and preparedness. It is crucial that lessons from the shortcomings of the past be taken into serious consideration as the projects are carried out. Looking back on previous projects with China that have gone off track, the Philippine government could enhance implementation by focusing on improvement of project designs, including the technicalities of contracts, the accountability of implementing and partner institutions, and the execution of corruption-free processes. In this sense, the importance of feasibility studies and rigorous planning cannot be overstated.

Conclusion

China’s BRI is a global game changer that has gained ground since its announcement in September 2013. The launch of the initiative gave rise to discussions and speculations as to what BRI is all about, how it works, and who could participate. The ambiguity of the Chinese government in explaining the ins and outs of the project has led people to have the notion that BRI is a blueprint to pursue its geopolitical interests and emerge as a dominant power in the region. BRI has stirred wariness among the public especially concerning the risks on commercial and operational viability that may be affected by volatile and uncertain conditions in economic markets. There are also fears that engaging China in these large infrastructure projects could put participating countries at debt risk. Many argue that this debt will then be used by China as leverage to gain access to resources and pursue its strategic interests.

The Philippine government, in engaging China through the BRI, should be mindful of these risks. It is always best to conduct risk planning and feasibility studies before entering a particular project. It could also be noted that government support alone will not always translate to the success of the projects. Other actors such as the private sector, local government units, and the citizenry play key roles. Addressing geopolitical, financial, and operational risks, altogether, will always be crucial to the success of the project undertaking, as demonstrated in the case of Colombo Port City in Sri Lanka.

Nonetheless, BRI still poses impressive prospects for the Philippines. The scale of the project is unprecedented and exudes so much potential. First, the aligned infrastructure goals will bring both China and the Philippines to a higher level of engagement. Knowledge exchange and access to huge, potentially profitable projects will be attained by both countries. In the end, what is clear is that the success of BRI projects will surely impact not just China but also participating countries, with implications spanning economic, political, and sociocultural aspects.

With the potential of the initiative to become a catalytic project that would change the geopolitical arena, the Philippines would be amiss not to take part in it. However, it is always good to be equipped with a comprehensive understanding of the initiative and each specific project under it to be able to balance the risks and benefits. It is important for the Philippines, with its direction toward a “golden age of infrastructure,” to not just see the agenda but also be cautious of the risks.

Endnotes


5 Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,

6 Ibid.

7 Ibid.


10 Ibid.


12 Ibid.


15 Ibid, PwC.

16 Ibid, PwC.


19 Cuthbert and Choudry, op cit.

20 Ibid.

21 Ibid.

22 Ibid.

23 Ibid.


26 Renmin University of China, op cit.


29 Ibid.
Darlene V. Estrada is a Foreign Affairs Research Specialist with the Center of International Relations and Strategic Studies of the Foreign Service Institute.

Ms. Estrada can be reached at dyestrada@fsi.gov.ph

The views expressed in this publication are of the authors alone and do not reflect the official position of the Foreign Service Institute, the Department of Foreign Affairs, or the Government of the Philippines.