Financing the Belt and Road Initiative (BRI): research agendas beyond the "debt-trap" discourse

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Abstract
By way of introduction to the four papers that follow, we chart some key parameters of debate about finance and the Belt and Road Initiative (BRI). In particular, we argue that the rise of discourses about "predatory lending" and "debt trap" (that feature in much commentary and reportage about BRI) merits critique and contextualization. The financing needs of BRI also raises important implications for the geography of financial markets and business services in Asia and other key locations in global financial networks. The networked nature of financial centres and the vital role of advanced business services brings into view actors, sites and spaces (such as law firms and offshore centres) that have been neglected by the geopolitical lenses most often applied to analysing BRI.

Keywords: Belt and Road Initiative (BRI), "debt trap", global financial networks, geopolitics

Of loans and debts

The Belt and Road Initiative (BRI) was first proclaimed in 2013 as a future-oriented project connecting Eurasia, but one that mobilises imaginations of historical linkages, notably the idea of Silk Roads (Sidaway et al. 2020; Winter 2019). There has been a proliferation of debate and interest in BRI projects and impacts across Eurasia and beyond. A quick search yields hundreds of scholarly articles, reams of media commentary and dozens of books. In Joniak-Lüthi's (2020, 1) words,

> "Since the plan was announced, the Belt and Road Initiative (BRI) and the connectivity it promises have attracted huge international attention. That promise of new connectivity, and the nearly magical powers ascribed to transport infrastructure to generate peace and prosperity, and to unite the states and people along the Economic Belt, are at the very core of the Chinese discourse around it."

However, scholarship on BRI's financial dimensions is sparser. The four papers that follow address different aspects of finance and BRI. This special section is interested in, *inter alia*, where does the money associated with BRI come from? How could we conceptualize BRI within wider circuits of capital, consumption, and crisis? What is the relationship of financing BRI to other financial flows, centres, institutions, infrastructures, and debt? How does financing BRI balance China's aspirations and visions with its overseas commitment and challenges?

Questions about finance and China's wider trajectory and impacts have long been discussed within accounts of China's post-1978 shifting engagement with the global economy, especially its relationship with the United States (Hung 2009) and the advent of the China-led Asian Infrastructure Investment Bank in 2015 (Cai 2018; Knoerich and Urdinez 2019; Yang and Van Gorp; Yu 2017). These issues came into sharper relief after the Trump administration launched a trade war with China in 2018. This continued, albeit with some relaxations, through 2019.

More widely however, a narrative about how BRI embodies wider Chinese "predatory lending" - whereby geoeconomic power is harnessed for geopolitical ends - has become common. In a public letter (dated 3 August 2018, addressed to the US Secretary of State for the Treasury and the US Secretary of State), about the International Monetary Fund (IMF), Edwin M Truman (2018), former assistant secretary of the US Treasury for International Affairs and 15 other US Senators, expressed concerns over Chinese lending. The letter described how "Beijing's attempt to weaponize its capital is not just limited to Asia and Africa but extends to Europe" citing Chinese loans, which are likely to lead to default, for Balkan port and highway projects. The term 'weaponize' clearly situated China's lending as an insidious tool and the letter posed a series of striking questions about China's intentions. There was a particular focus on the then pending IMF bailout of Pakistan, which was said to be necessary due to debt obligations that Pakistan had incurred on the China-Pakistan Economic Corridor, a flagship BRI project (United States Senate 2018, 2):

- How do you plan to raise the dangers of Chinese infrastructure financing through BRI with the IMF?
- Do you believe that additional countries will ask for a bailout from the IMF due to BRI? Which countries?
- As the largest contributor to the IMF, how can the United States use its influence to ensure that bailout terms prevent the continuation of ongoing BRI projects, or the start of new BRI projects?

- How can the United States work with allies and partners to educate countries about the risks of Chinese infrastructure loans?
- How can the United States work with allies and partners to assist countries struggling to repay debts due to BRI?
- How can the United States work with allies and partners to present an alternative to developing nations regarding investment and infrastructure funding?

The Senators' claims have been echoed by Vice-President Pence as part of an extensive discourse about BRI as a "debt trap". The following year saw the Executive Board of the IMF approved a 39-month extended arrangement under the Extended Fund Facility (EFF) for Pakistan for an amount of Special Drawing Right (SDR) 4,268 million (about US$6 billion or 210 percent of quota) to support the country's economic reform program (IMF 2019).

Debt trap discourses have also featured in political cartoons, further provoking controversy. Political cartoonist Wang Liming, under the pseudonym of Rebel Pepper, depicts BRI as a spider's web that has placed Laos, Sri Lanka and the Maldives in cocoons and entrapped Cambodia and Malaysia (see Figure 1). Rebel Pepper's cartoon expresses what Deborah Brautigam (2019, 1) calls the "meme" of debt-trap diplomacy. She traced its origins to India and subsequent circulation in the United States, noting that:

> A meme is an idea that spreads from person to person within a culture, often with the aim of conveying a particular phenomenon, theme or meaning. On 23 January 2017, a Chinese debt-trap diplomacy meme was born in a think tank in northern India and was furthered by a paper written by two Harvard University graduate students who called it Chinese 'debt book diplomacy'. The student paper was enthusiastically cited by The Guardian and The New York Times and other major media outlets as academic proof of China's nefarious intentions. The meme began to take deep root in Washington, DC, and ricocheted beyond Delhi to Japan, all along the Beltway and again into The New York Times and beyond. Later, it was amplified, it was thundered by a US Secretary of State, it walked quietly into intelligence circles, it hovered in the US Congress and it settled in the Pentagon. All these people became very worried about this idea, about this meme. By November 2018, a Google web search generated 1,990,000 results in 0.52 seconds. It was beginning to solidify as firm conventional wisdom and to be accepted as a deep historical truth.

Symptomatic of the dissemination of the meme, a recent paper about the potential of remotely sensed night-time light images to inform analysis of BRI argues that "In relation to capital flows, remote sensing can help corroborate whether Chinese aid is guilty of "debt-trap diplomacy"" (Bennett 2019, 6). Whilst some outcomes of uneven development may be legible from space (but is the complex social relation that is debt?), there are good reasons to doubt that lending related to BRI constitutes a "debt-trap". Indeed, a longer time horizon might more usefully apply that term to the lead-up to and aftermaths of the 2007 financial crisis (French, Leyshon and Thrift 2009; Wyly et al. 2007). The crisis yielded a decade of austerity in the most impacted countries, as banks who had engaged in predatory lending and rolled these debts into "derivatives" (then touted as "investments") had to be bailed out with public funds (Hendrikse and Sidaway, 2014). Likewise, arguably, the early 1980s "Third World debt crisis", became a debt-trap, following a decade in which a number of Eastern European socialist countries and selected governments in Asia, Africa and Latin America borrowed heavily from Western and Japanese banks in the 1970s, on terms that seemed too good to refuse (George 1988; Saddy 1982). Following recession and interest rate hikes in the 1980s, they could no longer pay the interest and started to default on the loans; this yielded structural adjustment, accompanying a shift to neoliberal agendas as defined by the Bretton Woods institutions (Mohan et al., 2000). The Washington consensus emerged, emphasizing markets and openness. In Asia, criticisms of such neoliberal agendas and the Wall-Street-Treasury-IMF Complex become prominent during the 1997 Asian Financial Crisis, when austerity programmes and 'fire sales' of stateowned companies and assets were imposed as part of IMF loan conditionalities on the crisis-laden economies of Thailand, Indonesia and South Korea (Bhagwati 1998; Wade 1998; Wade and Veneroso 1998). China largely escaped unscathed from that financial crisis due to capital controls and limited loans in foreign currencies. Although China increasingly participated in liberalized trade regimes since the 1980s, it did so without significant international borrowing. In fact, by 2003, China became a net creditor (Chin and Helleiner 2008) and surpassed Japan as the largest foreign holder of US debt in 2008 (Sharma 2010).

The labelling and interpretation of "financial" crises is political. Alternative labels embody different interpretations and envision different solutions (Kelly 2001; Sidaway 2008). Concern about China and debt might more gainfully focus on the scale of household and corporate debt within China and Chinese exposures to loans and risks to Chinese banks and firms of international investments turning bad, rather than a putative BRI debt-trap. Discourses about debt require wider applications over longer historical periods than many current debates regarding China and BRI financing. Critical interpretations of the nature and impacts of Chinese BRI financing, debt and developmental outcomes are constrained by collapsing BRI financing into a debt-trap discourse. It bears noting, however, that BRI itself is less coherent on the ground than the grand proclamations of binding Eurasia into a single China focused geoeconomic space might lead us to believe. The journalist Sebastian Strangio (2020 6) notes how:

> …the BRI has frayed on the implementation end. In reality, it has devolved into a kind of catch-all: a unifying rubric for the full spectrum of China's global endeavours, from Confucius Institutes to a high-speed rail. Six years on, the BRI is still more a 'Chinese Dream' than a China plan", according to Bilahari Kausikan, an outspoken veteran of Singapore's diplomatic corps.

Therefore, both BRI itself as well as its fiscal underpinnings and impacts hugely vary. They defy easy generalizations, generating financial patterns and solutions as they proceed. Reminding us of the lessons imparted in a 101-level Macroeconomics class, one of the more balanced considerations of the debt implications of BRI notes that: "Public borrowing to support productive investment is central to the development narratives of today's wealthy countries and it continues to drive growth in emerging economies." (Hurley et al. 2018, 3). The grounded dynamics matter – does the investment yield productivity, who benefits, where and on what terms? These are complex questions and the papers that follow open pathways to consider them, from scholars researching or based in the economies and territories configured by BRI's commercial and geopolitical dynamics.

Insert Figure 1 here

Articles in this special section

The four papers that follow were first presented in mid-September 2019, at the first Global Conference of the Global Network on Financial Geography (FinGeo) held at Beijing Normal University. The conference session thereby brought together our research interests on the genealogy and representation of BRI (Lin et al. 2019; Sidaway and Woon 2017) and new financial geographies of Asian economies and financial centres (Lai 2011; 2012; Lai et al. 2020). To understand the dynamic and variegated landscapes of global finance, it is insufficient to focus on economic factors or cultural explanations; geopolitical interests are also vital in shaping the creation of new markets and financial flows. The rise of Asian finance and the distinctive roles of state actors in Asian economies has prompted renewed interest in political economic analysis and explanations in addition to a cultural economy approach to finance and market making (Hall 2020; Lai and Samers 2017). Given the venue of the conference in Beijing, the growing financial power of Chinese firms and institutions through BRI and renminbi (RMB) internationalisation were particularly topical for this first global conference on financial geography. We were keen to foster discussion on the value of intersecting finance with geopolitical considerations in order to explain how global financial networks and developmental outcomes unfold. The papers by Michael Dunford, Simon Rowedder and Tim Summers were presented in a session on "Financing the Belt and Road Initiative". The paper by Weidong Liu, Yajing Zhang and Wei Xiong draws upon a plenary lecture given by Weidong Lui that preceded the session.

Dunford (2020) sets the stage, with a historical take on the Chinese model of foreign aid along with the western-dominated architecture of development through the Development Assistance Committee (DAC) of the Organization of Economic Cooperation and Development (OECD), uncovering their differences in aims, principles and practice. He argues that China aims to make recipient countries more self-reliant (自力更生) reflecting its own experience of semi-colonial rule. This differs from DAC donors' tendency to develop country assistance strategies that predominantly reflect donor goals. He also stresses caution on claims that China engages in debt-trap diplomacy through its aid via BRI projects, echoing Brautigam's (2019) call to look at foreign aid and debt of the recipient country through a longer historical perspective. Dunford further notes that China's BRI's activities and the establishment of the China International Development Cooperation Agency signal aspirations to compete with the Western order rather just complement it, although as we note in a moment, Tim Summer's paper identifies structural limits to the scope of China's challenge.

Liu, Zhang and Xiong's (2020) contribution, "Financing the Belt and Road Initiative" builds on what Dunford has highlighted about China's development model, in a contemporary context. They highlight the financial resources that China has mobilized in support of BRI and identify five types of these in China supporting BRI construction, namely pure aid, preferential loans, development finance, commercial loans and various special funds. Among the five types, development finance and special funds are particularly important for BRI infrastructure development and connectivity projects. They argue that geographical studies of foreign direct investment (FDI) need to consider financing issues, and BRI and its financing models present valuable opportunities for geographers to examine BRI's political and economic dynamics. They further stress that given cultural and institutional differences between China and its BRI partners, the importance of developing good financing practices in Belt and Road construction may require time and learning through the experience of multi-lateral development financial institutions in different countries.

In his account of "Structural power and the financing of the BRI", Tim Summers (2020) situates the financing of BRI within the broader debates of the extent of China's revisionist intentions and capacities. Summers argues that the implementation of BRI is checked by structural power in the global political economy. He raises the constraints posed by US Dollar financing, and China's limited capacity to do RMB financing due to capital controls. He asks how novel is Chinese BRI financing, and how far it is based on established international standards and models, despite rhetorical claims to the contrary? Summers joins an evolving discussion on the degree of systemic contestation or convergence from Chinese development finance (Chin and Gallagher 2019).

The final paper by Simon Rowedder (2019) illustrates BRI financing and its impacts on local communities with a case study of high-speed rail (HSR) development in Laos, examining BRI's spatial outreach in terms of (re)developing transport networks. Rowedder offers a bottom up view of local sentiments of HSR and shows the frustration of the locals with very limited direct benefits and the rise of Chinese enclaves in northern Laos. These sentiments and impacts are embedded in wider geopolitical and economic backdrops of BRI in Southeast Asia (SEA) (Gong 2019; Kuok 2019), and pre-existing Chinese roles in Laos and other parts of mainland SEA. He examines the spatial logic of Chinese development and the HSR financing, and juxtaposes the financial mechanism of the railway project and the different temporal and spatial scales of Laos' and China's calculations of potential benefits.

Agendas

As BRI approaches its tenth birthday in 2023, its financing mechanisms are important concerns for China and partner countries. During the 2020s, BRI will face numerous challenges in light of international and domestic scrutiny and the twists and turns of US-China relations, as well as the path of China's relations with leading US allies, notably Australia and Japan, and with India; where sceptical commentary on BRI as debt-trap originated. The question of the boundaries of BRI currently looms large, with all Chinese investment in some places discursively linked with BRI, whatever the specific rationale, nature and context of the investment. As Michael Dwyer (2020, 1) has argued, "the BRI is more an effort to marshal a variety of existing initiatives under a single grand narrative associated with the leadership of Xi Jinping than it is a *de novo* plan." Similarly, Alessandro Rippa (2020, 2, italics in the original) judges BRI:

> "as a fundamentally *un*-coherent strategy, one characterized by centripetal tendencies and uncoordinated efforts. Thus to say that a particular project is part of the BRI says little about its aims, financial foundations, and structure."

Sihanoukville in Cambodia serves as one example, with private commercial capital transforming the coastal city into the "next Macau" of South East Asia and casinos sprouting rapidly, raising concerns whether this is sustainable and who benefits (see, for example, Huang 2019). Hameiri and Jones (2018, 593) argue that to mitigate the negative impacts of such developments,

> “policy-makers and practitioners elsewhere must develop a capacity to analyse power relations at the level of individual projects, as well as ways of engaging actors, whether in China or recipient states, with the power to exert pressure for better governance standards.”

Rowedder’s article in this special section illustrates such a need, which is certainly the case for many other sites under the BRI’s radar as well. There have been, however, some key indications that such concerns are duly noted. In January 2019, a memorandum of understanding (MOU) was signed by the Singapore International Mediation Centre and the China Council for the Promotion of International Trade to offer mediation services to resolve disputes related to the BRI. It is reported that the two organisations will jointly develop a BRI mediator panel comprising mediation professionals from China, Singapore and BRI partner countries who will familiarise themselves with the various jurisdictions and enforcement procedures to handle dispute cases (Iwamoto 2019; Tan 2019). Additionally, the recent signing of the UN’s Singapore Convention on Mediation to assist international trade and promote mediation as an “alternative and effective method” of resolving trade disputes saw China as one of the first states to sign it and offer BRI disputes a key avenue to be settled efficiently (Love 2019). More widely, Singapore presents itself as a key financial centre for BRI, citing its position as a global financial centre and one of the largest offshore RMB centres in the world,

> “It is crucial that Singapore leverages its strengths as a global centre of trade, finance and talent as well as its geographical proximity and strong ties with China and Southeast Asia to tap growth opportunities arising from the Belt & Road trade routes.” (Ernest Kan, Deputy Managing Partner, Deloitte Singapore, cited in Yap 2018)

Xinhua News Agency, the official state-run press agency of the China also reported in an interview with Singapore’s Prime Minister, Lee Hsien Loong, where he shared his thoughts on the future of Sino-Singapore relations,

> “According to Chinese statistics, we are your biggest foreign investor. We are also a major destination for Chinese investments out of China, into the Belt and Road region. In fact, we account for, I think, one quarter of your investments for the whole of the Belt and Road partner countries. So, the economic ties have grown tremendously, and the basis of this has been, of course, China’s reform and opening up, and our assessment and perspective that this has been a tremendous boon to China and the world. Therefore, where possible, Singapore will participate in this and make a modest contribution to help the process. And in the process, we also hope to benefit from China’s development and progress.” (Lee, cited in Prime Minister’s Office Singapore’s transcript, 2019)

Singapore seeks to become a financial node within BRI networks, establishing links that connect with, but also transcend, those depicted in the many maps of BRI (such as Figure 2). In terms of the city-state’s aspirations at another investment frontier, Singapore seems to be “living up to its quest to view the world as its hinterland” (Bennett 2018, 289-290). This emphasis on hinterland and wider networks draws our attention towards other centres and dynamics connected to, although not necessarily at the core of, BRI maps and debates. The financial geography literature has demonstrated the ways in which financial actors and strategic places intermediate in the control and coordination of capital flows and in the configuration of production in the global economy (Bassens and van Meeteren 2015; Coe et al 2014). Other than specific characteristics and locational advantages of particular financial centres or capital markets, they also accrue power and influence through their relations with other financial centres and positions within broader regional and global networks (Lai 2012; Wójcik 2013a).

Insert Figure 2 here

China’s ability to finance BRI has come under increasing pressure, not least because of the scale of the projects, but also due to the slowing down of its economy since 2015 and the wider problems of non-performing loans in Chinese banks, which have been the largest lenders in BRI so far (Bloomberg News 2019; Zhou 2019). In seeking to diversifying funding sources, the financing needs of BRI is creating new financial markets and networks. Kazakhstan, for example, has invested in the establishment of Astana International Financial Centre (AIFC). The AIFC envisages: “a pivotal role in positioning itself as a global centre for business and finance, connecting the economies of the Central Asia, the Caucasus, EAEU [Eurasian Economic Union, comprising Belarus, Kazakhstan and Russia] and, West China, Mongolia, Middle East and Europe” (https://aifc.kz, accessed 25 January 2020). Formulated as a platform to create joint ventures and special purpose vehicles, the AIFC is seeking to attract a range of financial market players, such as family offices, wealth managers, securities traders and financial technology firms; targeted as potential investors in BRI projects through their global financial networks to institutional and retail investors elsewhere. Such endeavours necessarily draw upon capital and institutional expertise of various financial actors from across the world. For instance, the new Astana International Exchange (AIX) is backed by Shanghai Stock Exchange, the Chinese state-run Silk Road Fund, US investment bank Goldman Sachs and stock exchange Nasdaq, all of which own shares in AIFC and/or AIX (Lee 2019).

Amidst uncertainties regarding the sustainability of such new stock exchanges and financial centres, existing financial centres have been quick to plug in to BRI opportunities. Unsurprisingly, Hong Kong has become a significant hub in facilitating external financing. As a major offshore centre and the gateway to global capital for China, Hong Kong offers deep capital markets for funding opportunities and a large banking sector with access to a wide range of international banks. Recent regulatory support includes easing the listing conditions for firms linked to BRI, the establishment of the Infrastructure Financing Facilitation Office (IFFO) to support investors into BRI projects and funding vehicles (Garcia-Herrero 2017). As a global financial hub, London has played an active role in various forms of financial support to BRI projects, such as through raising equity, debt financing, integrated financial services and expert advice from key players like Standard Chartered, Linklaters, Clifford Chance, the London Stock Exchange Group and UK Export Finance. Plans include joint efforts at setting up equity funds from London to invest in BRI projects, bond issuance, brokering public-private partnerships, promoting derivatives for diversification, and hedging (City of London 2018). London is also expanding its financial centre capacities relating to BRI activities and wider business opportunities from Asian firms. In addition to the City of London and Canary Wharf, the redevelopment of the Royal Albert Dock in East London envisions London’s third business and financial district, with a BRI focus (South China Morning Post 2018; Naderi 2019). The revitalised Royal Albert Dock, which some have dubbed Asian Business Port, will serve as an international platform for Chinese companies and investors to enter the British and European markets, although enthusiasm for the project has dampened recently with uncertainty around the outcomes of Brexit (Clarence-Smith 2019). These economic and urban developments connected to financial centre growth point to the rise of new configurations in established cities, demanding just as much critical scholarly attention as BRI projects in new and emerging regions and economies.

In addition to banking and financial capacities, legal expertise is vital to BRI projects. Whether it is cross-border lending, bond issuance, listing on stock exchanges or entering into joint development projects, legal contracts are fundamental to the conduct of these economic activities and legal services are vital in shaping the internationalisation process. Where such legal expertise comes from and to whom firms and state entities turn to for legal advice and arbitration may strengthen the market power of established law firms and financial centres or lead to the development of new centres of expertise. Singapore, for instance, has been developing itself as a global arbitration centre in recent years; it is currently the most preferred centre for international arbitration in Asia and third in the world (after London and Paris) (Singapore International Arbitration Centre 2018). Many of the arbitrations do not involve Singapore entities and point to the role of Singapore as a neutral venue (less viable now for Hong Kong) for the resolution of international commercial disputes. The reputation of Singapore's courts and legal system for competence, integrity and skills when there is a need for any dispute resolution arising from BRI, Asian trade cooperation, or other investments between Chinese and Southeast Asian companies and entities is being promoted by Singapore's government (The Straits Times 2019). In this context, Singapore-based law firms are strategically positioned in shaping corporate activities (Faulconbridge 2019). Given the vital role of legal service and other advanced business services for financial centre capacity and their networked power (Wójcik 2013b), the development of legal services and expertise plays a crucial role in the financing of BRI and its impacts on broader networks of capital and knowledge.

Scholarly attention on an evolving BRI and its financing needs to transcend the 'debt-trap' meme. As David Harvey (1982, 324) signalled in a landmark discussion of finance capital and the state:

> "The state is both controlled and controlling in relation to the circulation of capital. Which force dominates depends upon circumstance. But there, as elsewhere, the disequilibria have to be conceived of as perpetual oscillations around a moving point of equilibrium between countervailing forces… the relation between finance capital (however conceived) and the state is founded on a contradiction within a unity. Any analysis of the state and of power relations between states must understand the nature and origin of the contradictions and place that understanding at the very centre of its concern."

BRI's roles in such oscillations, (dis)equilibria and contradictions offer challenging objects for analysis. Inevitably, they will be moving targets. Their framing already encompasses a wide range of discourses, from debt-trap to "game changer" and "much ado about nothing" (Yang and Van Gorp 2019). Simultaneously, the networked nature of financial centres and the vital role of advanced business services (e.g. law and accounting) brings agents and sites into view (such as law firms, financial regulators and offshore centres), that are generally less visible in geopolitical analysis, but vital in the financing of BRI.

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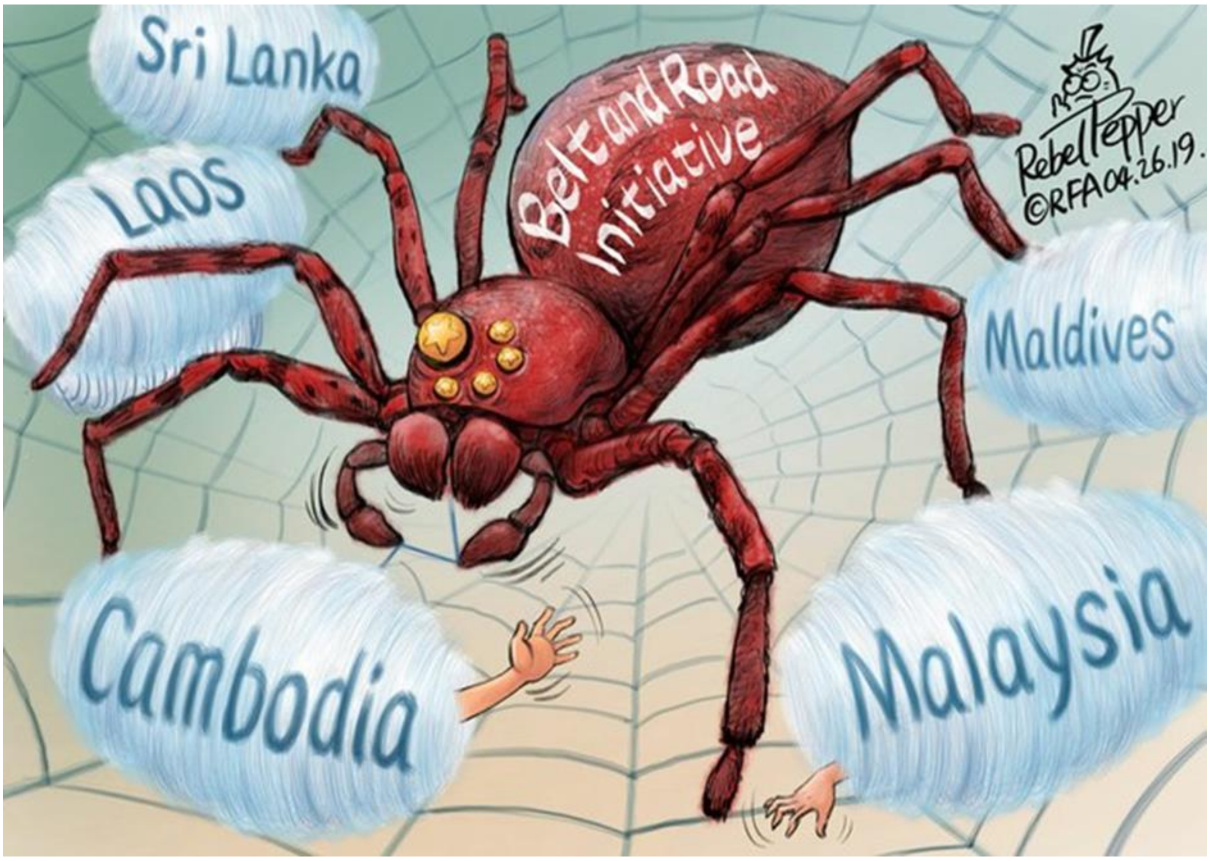

Figure 1 Cartoon accompanying story "China Belt and Road Spins Web of Debt." Source: Radio Free Asia, 29 April 2019, https://www.rfa.org/english/cartoons/China-Belt-and-Road-cartoon-04292019125545.html. Reproduced with permission from Radio Free Asia.

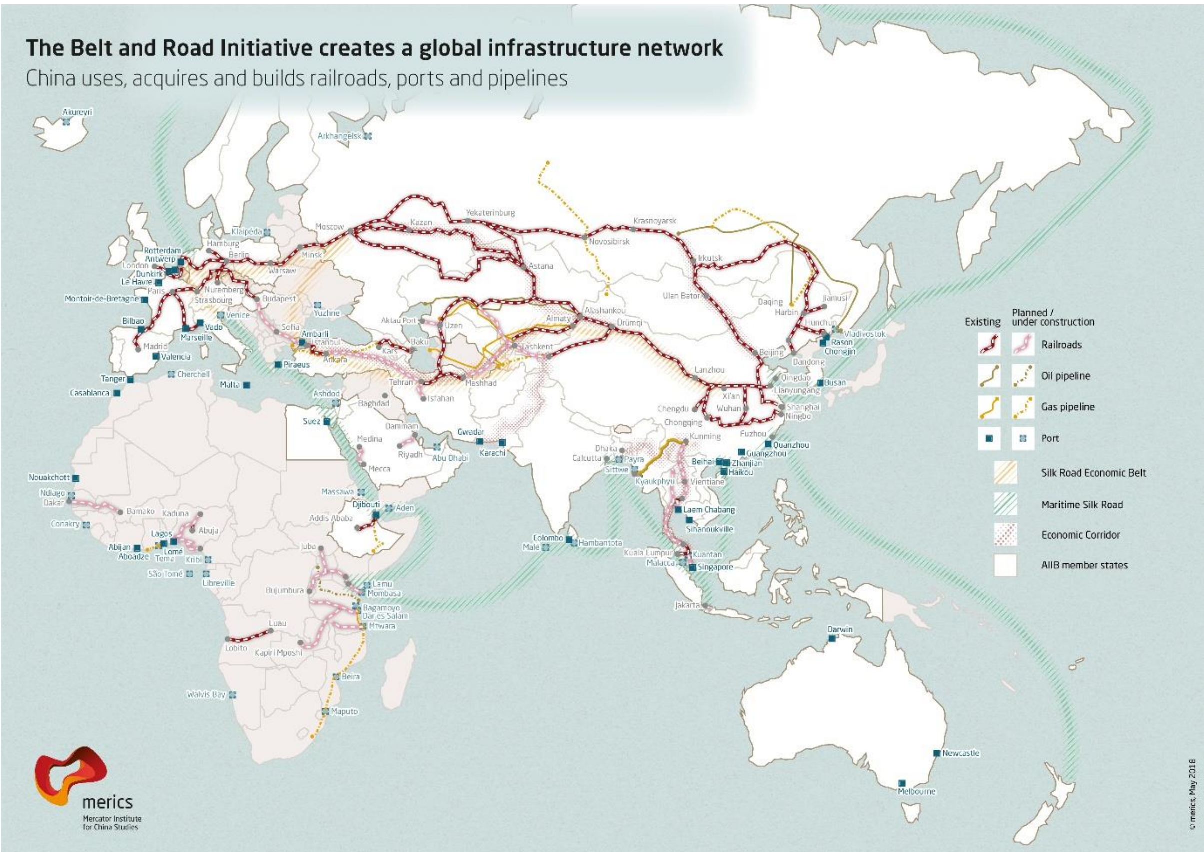

Figure 2 Mapping the Belt and Road Initiative**.** Source: *The Economist* 28 July 2018, 14. https://www.merics.org/en/bri-tracker/mapping-the-belt-and-road-initiative. Reproduced with permission from Mercator Institute for China Studies

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