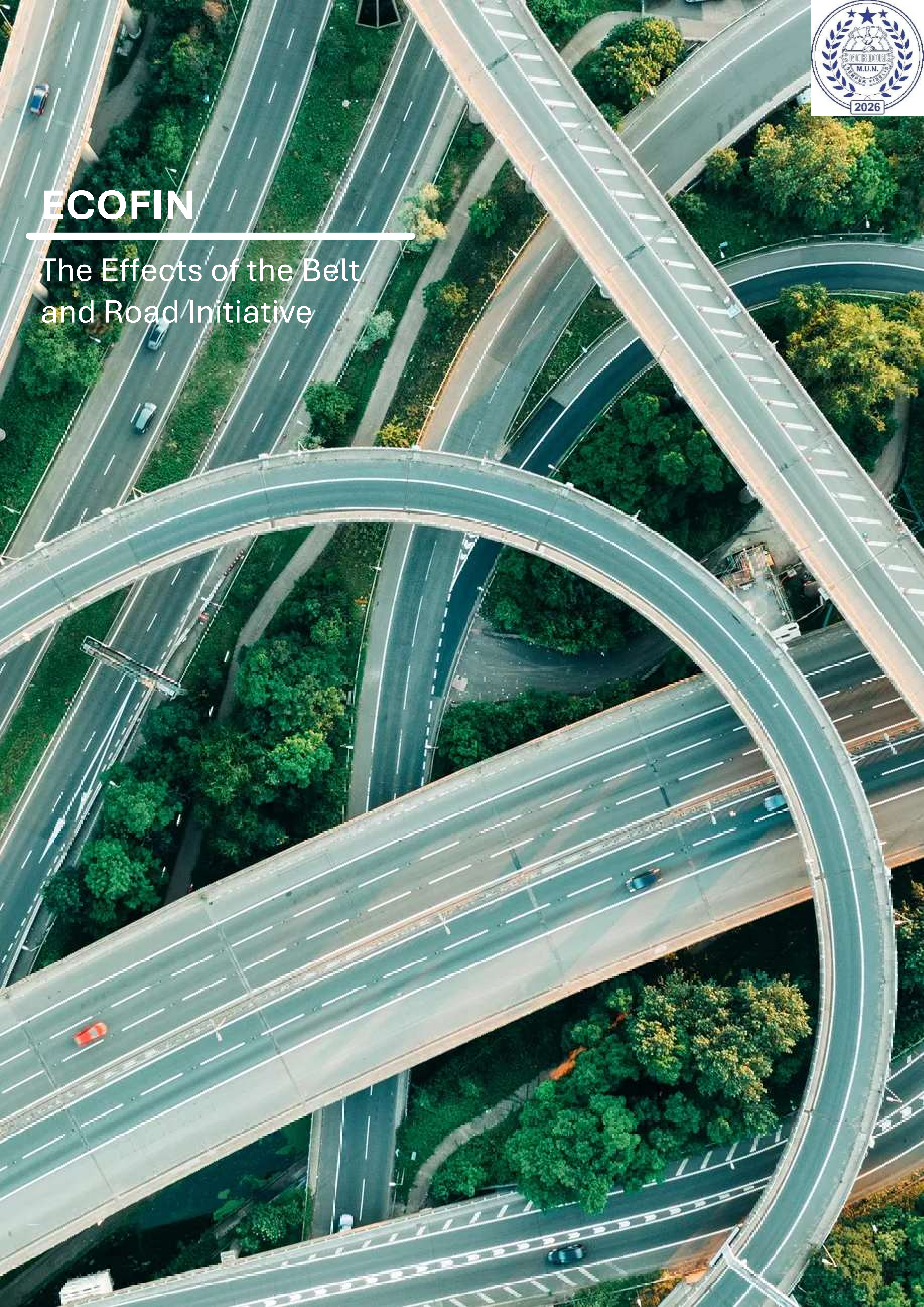
ECOFIN

The Effects of the Belt and Road Initiative



Committee: **ECOFIN**

Topic: **The effects of the Belt and Road Initiative**

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Summary

The belt and road initiative is a plan to develop trade routes to connect China with many other countries across the world. It was announced in 2013 by the president of China in order to design, fund and help implement many international projects and infrastructure funded through Chinese banks and companies.

The **BRI** is inspired by the ancient silk roads, which connected China to Europe, the Middle East, and Africa. China now reuses this idea for development of railways, ports, and digital networks to increase global trade and economic connectivity.

How the BRI works:

First, a country agrees to make an infrastructure project with China, for example a port, highway or power station. These projects are all designed to help trade, transportation, or energy supply. Then, Chinese state-owned banks give large loans to the country with interest. After that, Chinese companies design, supply materials for, and build, the project. Sometimes they also operate the project after construction. Once it is built, the country can export goods, import resources, attract investment and grow its economy.

If the country does not gain enough profit, they might not be able to pay back the debt on the accrued interest, so then China might negotiate for control of their infrastructure, gain more political influence or have access to the nation’s land and natural resources.

Overall, this means that a large amount of the money flows back into China through Chinese firms, workers, and equipment.

Main nations involved

Pakistan was one of the first countries involved, with projects starting in 2013. The projects involve roads, railways and power plants that link the ports of Pakistan to China.

Laos also joined the project in 2013, and they have been working on a high-speed railway from Laos to China since 2021, mainly for trade and transport.

Indonesia worked with China on the Jakarta Bandung railway, opened in 2023. This was the first China-funded high-speed rail network abroad.

Kenya also became involved with **BRI** as the project expanded into Africa. In 2017, they began working on Mombasa Nairobi Standard Gauge Railway, which became one of the largest projects in Kenya's history. This reduced logistics costs and improved **freight movement**.

Europe is also involved with the BRI, with Greece signing a cooperation agreement with China. Italy signed an **MoU** in 2019, becoming the only **G7** country to join. Later, Italy considered withdrawing due to concerns about economic effects.

Colombia also signed a cooperation agreement with China, with China providing the most imports to them. Brazil also signed cooperation plans in 2024, expanding the BRI to South America.

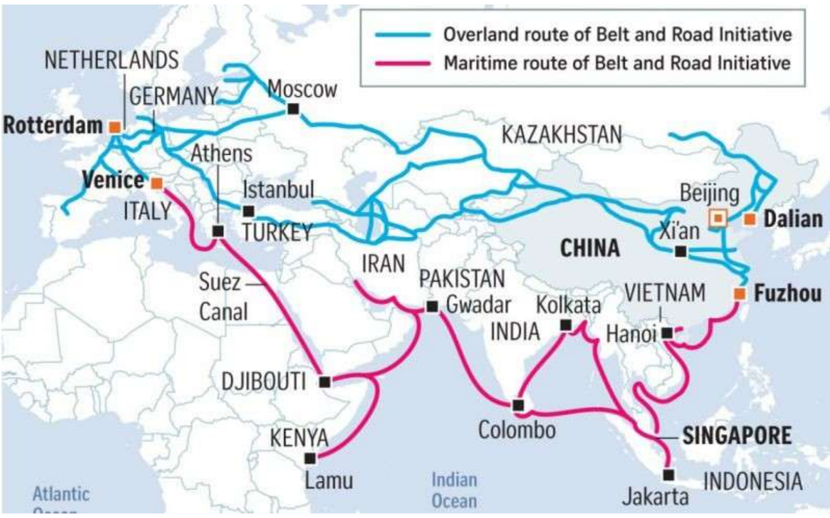

Figure 1: A map of the main countries involved in the Belt and Road Initiative

There are also many more countries in Africa that are involved, including Ethiopia, Djibouti and Nigeria, which joined in 2018. Projects there include railway lines, ports and energy trade.

Recently, more countries in the Middle East have been increasingly receiving major BRI investments, especially in energy and industrial zones.

Issues and Effects

Environmental Effects

Loss of farmland when roads are being built leads to higher food prices, job losses, increased land prices and more reliability on food from imports. When the land is cleared for construction, the food chains, ecosystem and biodiversity are also disrupted. Infrastructure and mining projects can contaminate rivers and farmland because of industrial waste, **construction runoff**, and chemical use from mining. This damages agriculture, fisheries and drinking water. This puts more economic pressure on governments because of the loss of food production capabilities.

Health problems come from pollution from BRI projects, and this puts an economic burden on the country, whether this be from hospital bills or people unable to work.

To build large roads and railways, forests are cleared. The trees usually absorb rainwater and hold soil in place, but when rain comes and there is concrete instead of trees, previously manageable storms can cause flooding. These climate disasters require more money for repairs.

Economic Effects

When other countries borrow money for construction costs they can end up with high **debt-servicing costs** from interest. This leaves the country with less money for education, healthcare and **climate resilience**.

Larger projects such as some ports and railways don’t always guarantee a return on investment, which makes it harder for countries to pay back the loans.

When the transport infrastructure improves, this can lead to more imports, (e.g., Chinese products), but there are not always more exports. This leads to an imbalance, so the country is not making enough money. This causes a further **trade deficit.**

Some governments are concerned about the lack of **transparency**, where loan terms that are unclear could increase costs of the loans and the borrowing country will be left with debt and unable to pay back.

Social Effects

Clearing land can lead to displacement of local communities, and people may be forced to move without much compensation. Many BRI projects use Chinese companies and workers, which can reduce job opportunities for local populations and create tensions.

Weak labour and environmental standards in some projects can also affect worker safety and long-term community wellbeing.

International concerns

USA

When China builds infrastructure in other countries, America has less global influence. The BRI creates blocs of countries led by China, which reduces the USA’s international leverage. As a result, China could control **maritime** infrastructure (ports, terminals), which gives them more military information about other countries.

France

France is concerned about China gaining more influence over other nations, which could end up with countries trapped under the control of China. France would prefer if European standards were promoted in these countries, such as better access to information and a more democratic approach.

There are also concerns about transparency regarding the construction.

President Macron and other European leaders also want Europe to be less dependent on China regarding technology and infrastructure. Concerns have been raised that the BRI could create too many connections to Beijing.

Russia

Russia is more supportive of the BRI than the other countries, as they see more opportunities for connections across Europe and Asia to have more trade between nations.

Moscow values cooperation with Beijing, but is also concerned about benefiting economically without losing influence and control over central Asia when China's growing influence will dominate the other countries instead. However, Russia and China both have the same aim of gaining more power than the USA.

Previous solution attempts

Repayment changes

Sometimes countries that are unable to pay back the debts have asked for longer repayment periods, lower interest or debt forgiveness.

IMF and World Bank

The **IMF** and World bank promote **debt sustainability** and publicly reporting loans. They warn countries against taking on risky loans, but they have no power to stop countries form signing BRI contracts.

Alternative infrastructure options

The **G7 PGI** in 2022 promised 600 billion USD to be used for clean energy, digital infrastructure and transport. The EU Global Gateway in 2021 also had €300 billion to be used for sustainable infrastructure to be built without any attempt at political control.

Opposition from the original country

Some of the countries partnered with China have cancelled projects, renegotiated contracts or reduced Chinese involvement. Malaysia cancelled some rail projects, Pakistan renegotiated **CPEC** loans and Sri Lanka changed some port agreements.

Definitions of Key Terms

BRI - The Belt and Road Initiative

Climate resilience - When a system can adapt to, and recover from, climate-related impacts, such as floods, storms, and heatwaves.

Construction runoff – When water and other liquids flow off construction sites, often carrying soil, debris, or pollutants, into nearby rivers, lakes, or oceans.

Debt-servicing costs - The amount of money a country must pay periodically to cover interest repayments on its debt.

Debt sustainability - Whether a country can manage its debt over time while still funding essential services and growth.

Freight movement - The transport of goods by land, sea, or air, including shipping, rail, and trucking.

G7 - A group of countries: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States, which coordinate on global economic policy.

Maritime - Anything related to the sea, shipping, or navigation on oceans.

MoU - (Memorandum of Understanding) A formal agreement between two or more parties that expresses an intent to cooperate but is not legally binding like a contract.

PGI - A G7 initiative funding sustainable, transparent infrastructure projects in developing countries as an alternative to China's BRI.

Trade deficit - When a country imports more goods and services than it exports, leading to a negative balance of trade.

Transparency - The practice of making information open and accessible, so that actions, decisions, and finances can be clearly seen and understood.

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