ASIA PROGRAMME

CHINESE INVESTMENTS IN INFRASTRUCTURE WORLDWIDE

BY PENELOPE MARBLER AND LEA SHAN

MASTER'S STUDENTS FROM GRENOBLE ECOLE DE MANAGEMENT,
CURRENTLY COMPLETING A DOUBLE DEGREE IN
GEO-ECONOMICS AND STRATEGIC INTELLIGENCE AT IRIS SUP'.

JUNE 2017

ASIA FOCUS #36

INSTITUT DE RELATIONS INTERNATIONALES ET STRATÉGIQUES

China is the world's second largest economy by nominal GDP ($11.3 trillion in 2016, according to the IMF [1]) and is one of the fastest growing countries since the beginning of the 21st century, with an average growth of 10%. The country is impacted by the global economic slowdown, and its model has been gradually changing from an export-led model to a domestic consumer-led model. These facts can partly explain why the government is willing to invest abroad, notably in infrastructure, and has created specialized institutions to manage it in the recent years.

Indeed, the project "One Belt One Road" (OBOR) was announced by the Chinese President Xi Jin Ping in 2013. This project aims at building and linking mainland and maritime roads of three continents: Europe, Asia and Africa. OBOR is a gigantic project as it covers 2/3 of the global population and 3/4 of energy resources.

Chinese spending abroad for OBOR is expected to reach $100bn per year for the coming decade and funding mainly comes from Chinese banks, state-owned enterprises (SOEs) and Chinese local governments. This initiative was strengthened with the creation of the Asian Infrastructure Investment Bank (the AIIB) in 2015, currently composed of 57 country members[2].

OLD VS. NEW SILK ROADS

Economist.com

[1] Imf.org. (2016). *Report for Selected Countries and Subjects*. [online] Available at: http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/weorept.aspx?pr.x=82&pr.y=16&sy=2014&ey=2021&scsm=1&ssd=1&sort=country&ds=%2C&br=1&c=924&s=NGDPD%2CNGDPDPC%2CPPPGDP%2CPPPPC%2CPPPSH&grp=0&a=#cs3

[2] Asian Infrastructure Investment Bank. (2017). *Homepage*. [online] Available at: https://www.aiib.org/en/index.html

FACTS ABOUT OBOR

Chinese investments in infrastructure are mainly located in Africa and Asia

Many Chinese infrastructure investments are directed to African countries. Ethiopia has received three loans worth more than $380bn from the Chinese government and the Export-Import Bank of China for the development of infrastructure in the country (two road construction projects and upgrading the electric grid system). In December 2016, China has also partnered with Gabon to develop a 111-km highway project in the capital Libreville. The country seeks to further develop the relationship in infrastructure, minerals and technology. The development of ICT infrastructure is also present in Zimbabwe, where the government seeks Chinese funding and technology (partnership with Huawei Technologies notably).

Asian countries see the OBOR initiative positively. The Philippines is planning to borrow $3.4bn from China. At least three infrastructure projects have been agreed between China and the Philippines, especially for the irrigation, water supply and railway projects. The country has an ageing infrastructure and aims at developing its economy with a target growth rate of 8% and is willing to foster its relationships with China. Vietnam seeks infrastructure investments coming from the AIIB, with a total investment across of circa $50bn. Indeed, the country encounters traffic congestion, waste treatment and urban transport infrastructure issues. Thailand is also willing to develop infrastructure projects, especially the railway activity. In the Arab Peninsula, the United Arab Emirates (UAE, Dubai notably) wants to diversify its energy mix by developing a massive "clean coal" project worth $2bn. This project is backed by funding coming from Chinese banks and government ($1.4bn); the construction is expected to be built by Chinese workers and to be completed in 2023.

OBOR could create a centralized trade around Eurasia. Chinese companies are not only active in the Southern Asia (one of the fastest growing regions) with the construction of the high-speed rail linking Jakarta to Bandung (project cost: $5.1bn), but also in the Central Asia region, with a wide range of countries: China-Kazakhstan oil pipeline, Turkmenistan-China gas pipeline, China-Kyrgyzstan railwork. Nevertheless, Chinese investments in infrastructure remain challenging in the Caucasus, even if the governments (Azerbaijan, Georgia) recognized the importance of the Silk Road Economic Belt. Indeed, Chinese SOEs bid smaller and medium-sized projects, compared to projects in Russia, Kazakhstan and Uzbekistan, due to China's government policy.

Nevertheless, Chinese investments are also located in other parts of the world.

China infrastructure investments are present in America. Three Chinese SOEs (China Communications Construction Corporate, China Harbour Enginerring Company and China Railway Group) have shown interest to participate in the tender for the development of 1 200 ha of lands around the Panama Canal.

OBOR is also entering the Arctic region, with and investment from the Silk Road Fund (9.9% stake) in the Yamal LNG project, which is a crucial project in terms of transportation, infrastructure and resource development in the Eurasian Arctic. China and Russia are expected to further cooperation in the Arctic projects.

Chinese investments in infrastructure appear to adapt to foreign local cultures. This is the case in Pakistan, where the China-Pakistan economic corridor (CPEC) has been created and whose financing tools will partly come from Islamic finance (which are sharia compliant). It is estimated that the CPEC would create over 700 000 jobs and add 2.5 points of Pakistan's GDP growth.

Of note, the stock market has been favorable of the OBOR initiative: financial securities related to OBOR have seen their price rise in February 2017, like the energy sector (+1.7% for PetroChina).

GEOPOLITICAL CONFLICTS AND RISKS

Geopolitical conflicts arose from Chinese infrastructure investments.

Sri Lanka's people protested in January 2017 against the construction of a port and an industrial zone by China in the southern part of the country (Hambantota). In fact, Sri Lanka concluded a 99-lease of the port to an 80% Chinese-owned company that will create an industrial zone. This project plans to move thousands of people, thus leading to conflicts between the local population and the government.

Some risks can also be underlined.

For instance, India is not part of OBOR. At some point, the growing economic relationships between China and Bangladesh can be an advantage for India, as it can reduce poverty in Bangladesh and thus decrease the number of illegal Bangladesh migrants into India. But on the other hand, ignoring global trade through OBOR can be a challenge for India, as the country cannot ignore its foreign policy if it wants to become a global power. Indeed, OBOR aims at bolstering connectivity through infrastructure, new institutions and integrated market. Nevertheless, India seeks other alternatives, such as planning to start air cargo transportation between India, Afghanistan and Iran, which is a way to compete the China-Pakistan Economic Corridor.

Plus, Chinese investments abroad can be negatively perceived. This is the case in Australia, where the Chinese growing influence in Papua New Guinea brings uneasiness in the Australian local community. Indeed, Papua New Guinea signed a MoU with China to build a series of processing and manufacturing plants.

OBOR can also face a technical risk. For example, there is no interconnection between the different railway systems of the countries concerned.

FURTHER THOUGHTS

The aims of OBOR are diverse.

OBOR is first a Chinese economic tool to leave the surplus of domestic industrial overcapacity and give it to other countries in need; as well as a way for China to diversify its energy projects. This initiative is also a means for the country to accelerate the internationalization of the renminbi, shifting from a merchandise exporter to a capital exporter place. Secondly, OBOR has an external reason: foster trade connectivity and create an alternative to the trade rules imposed by Western countries (i.e. challenge the US, Europe and Russia activities in Southern and Central Asia). Indeed, one example can be the Chinese high-speed rail network, as it has become the world leader in just a decade. China is now exporting its railway knowledge as a diplomatic tool to spread its influence in the other countries (Ankara-Istanbul in Turkey, Jakarta-Bandung in Indonesia).

OBOR can called into question the establishment of a new zone of influence, as the US appears to be no longer the guarantor of the global economic system

OBOR is a way to shift the rules of world trade, as Pacific and Atlantic are historically dominated by the US. With the idea of linking three continents together, OBOR could allow China to extend its soft power both in the culture and in the economy.

New forms of cooperation are also emerging with OBOR: the International Finance Corporation (member of the World Bank Group) signed a master agreement to bolster investments in emerging markets projects, especially in Asia's infrastructure sector.

Plus, some policies will change, notably the place of Israel in the case of Europe.

Israel could be the mediator between the world's leading powers in terms of economic and trade integration and cooperation, as Israel is in a very strategic place in the view of the OBOR initiative.

Chinese companies have completed some projected in Europe, such as the Ankara-Istanbul high-speed railway in Turkey. Nevertheless, Western countries are facing a dilemma: should they accept all the Chinese investments in infrastructure, or should they protect their national interests at all costs? Indeed, the China Investment Corporation has acquired a 61% stake in the British National Grid's gas division, which worth £13.8bn. The presence of Chinese entities is seen more and more often, with leading investors such as Fosun.

What appears challenging in the OBOR initiative is that there is no one definition of OBOR, as the action plan seems colossal.

The core of the action also remains vague, as it appears to be more a vision than an action. In addition, even if China has invested a lot in infrastructure all over the world, the IMF pointed out the urgency to invest in soft infrastructure, meaning to strengthen fiscal and monetary frameworks, to continue to reform SOEs, to develop a policy against financial risks and to improve macroeconomics statistics.

Nevertheless, the initiative of creating a new form of financing trade through the AIIB can be considered as a major change in the globe, as it can be viewed as a model that other countries should follow. Indeed, some journalists evoked the possibility of the creation of a Europe-led "Africa Infrastructure Investment Bank" (source: FT). This institution could lead to the development of the agriculture and the industry, as well as creating employment for the high number of African workforce. It is also advantageous to Europe as it has special historical bonds with Africa and that Europe has the capacities to create a win-win situation.

BIBLIOGRAPHY

Af.reuters.com. (2016). *Russia's Novatek completes deal to sell Yamal LNG stake to China's Silk Road| Agricultural Commodities| Reuters*. [online] Available at: http://af.reuters.com/article/commoditiesNews/idAFR4N0ZC01H

Allix, M. (2017). *China leads charge to promote sub-Saharan infrastructure*. [online] Available at: https://www.businesslive.co.za/bd/companies/industrials/2017-01-05-china-leads-charge-to-promote-sub-saharan-infrastructure/

BBC News. (2017). *Sri Lanka protest over Chinese investment turns ugly - BBC News*. [online] Available at: http://www.bbc.com/news/world-asia-38541673

China.org.cn. (2016). *China expects progress in China-Thailand railway - China.org.cn*. [online]
Available at: http://www.china.org.cn/world/2016-12/12/content_39901916.htm

China.org.cn. (2016). *Gabon's infrastructure plans get major boost - China.org.cn*. [online] Available at: http://www.china.org.cn/world/2016-12/08/content_39874344.htm

Chinadaily.com.cn. (2016). *Ethiopia parliament approves loan agreements with China for infrastructure projects*. [online] Available at: http://www.chinadaily.com.cn/business/2016-12/28/content_27796802.htm

Clifford, T. (2017). *How China is making its own pivot west into Europe | The National*. [online] Thenational.ae. Available at: http://www.thenational.ae/opinion/comment/how-china-is-making-its-own-pivot-west-into-europe

Diop, M. (2017). *Infrastructures: quand l'Afrique se crée une dépendance inquiétante vis-à-vis de la Chine*. [online] Le360 Afrique. Available at: http://afrique.le360.ma/algerie-mauritanie-senegal-guinee-autres-pays/economie/2017/02/19/9834-infrastructures-quand-lafrique-se-cree-une-dependance

Ecns.cn. (2017). *Zimbabwe seeks Chinese funding to develop ICT infrastructure*. [online] Available at: http://www.ecns.cn/business/2017/02-03/243766.shtml

Eurasia Review. (2017). *China's Strategy In The Caucasus – Analysis*. [online] Available at: http://www.eurasiareview.com/07042017-chinas-strategy-in-the-caucasus-analysis/

Eurasia Review. (2016). *Should India Be Concerned About China's Belt And Road Initiative? – Analysis*. [online] Available at: http://www.eurasiareview.com/15122016-should-india-be-concerned-about-chinas-belt-and-road-initiative-analysis/

Fortune. (2016). *Inside China's Global Spending Spree*. [online] Available at: http://fortune.com/china-belt-road-investment/

Gallo, E. and Biava, G. (2017). *Infrastructure is the way to a united world*. [online] Chinadaily.com.cn. Available at: http://www.chinadaily.com.cn/opinion/2017-01/10/content_27906813.htm

Goh, B. (2017). *China state firms eye land around Panama Canal: waterway authority*. [online] Reuters. Available at: http://www.reuters.com/article/us-panama-canal-land-idUSKBN16Y13J

Halliday, J. (2016). *UK-China relations still 'golden', says PM, as investment talks open*. [online] the Guardian. Available at: https://www.theguardian.com/uk-news/2016/nov/10/uk-china-relations-golden-pm-investment-talks-theresa-may-north-england

Hu, K. (2017). *High-speed Diplomacy: Exporting China's Train Technology - CKGSB Knowledge*. [online] CKGSB Knowledge. Available at: http://knowledge.ckgsb.edu.cn/2017/01/30/technology/china-high-speed-train-technology/

Jiang, H. (2016). *Fu Ying: Infrastructure can be China-US bridge - USA - Chinadaily.com.cn*. [online] Usa.chinadaily.com.cn. Available at: http://usa.chinadaily.com.cn/world/2016-12/02/content_27551290.htm

Khalil, A. (2017). *Pakistan and China: Don't Fear Chabahar Port*. [online] The Diplomat. Available at: http://thediplomat.com/2017/01/pakistan-and-china-dont-fear-chabahar-port/

Lim, K. (2017). *How Israel can align its strategy with China's Silk Road*. [online] Atimes.com. Available at: http://www.atimes.com/israel-can-align-strategy-chinas-silk-road/

McBeth, J. (2016). *In Indonesia, Chinese appeal undimmed by power failures*. [online] South China Morning Post. Available at: http://www.scmp.com/week-asia/geopolitics/article/2053395/why-does-indonesia-cling-its-plagued-chinese-infrastructure

Nielsson, E. and Gudjonsson, H. (2017). *China's Belt and Road Enters the Arctic*. [online] The Diplomat. Available at: http://thediplomat.com/2017/03/chinas-belt-and-road-enters-the-arctic/

Peterson, C. (2016). *UK government's China investment policy to be tested by latest infrastructure sale - AFRICA - Chinadaily.com.cn*. [online] Africa.chinadaily.com.cn. Available at: http://africa.chinadaily.com.cn/world/2016-12/08/content_27615941.htm

Reuters. (2016). *China to build $4 bln industrial park in Papua New Guinea*. [online] Available at: http://www.reuters.com/article/china-papua-investment-idUSL4N1E82EN

Shen, L. (2016). *Belt and Road showing the way as the world's axis shifts*. [online] South China Morning Post. Available at: http://www.scmp.com/comment/insight-opinion/article/2054143/xi-jinpings-one-belt-one-road-strategy-showing-way-new-world

Themalaymailonline.com. (2017). *China commits US$3.4b for Philippine infrastructure projects*. [online]
Available at: http://www.themalaymailonline.com/money/article/china-commits-us3.4b-for-philippine-infrastructure-projects

Tlozek, E. (2017). *Infrastructure investment has Australia uneasy over Chinese influence in PNG*. [online] ABC News. Available at: http://www.abc.net.au/news/2017-02-12/australia-uneasy-over-chinese-investment-and-influence-in-png/8263384

Usa.chinadaily.com.cn. (2017). *IMF urges China to invest in soft infrastructure - USA - Chinadaily.com.cn*. [online] Available at: http://usa.chinadaily.com.cn/world/2017-02/15/content_28216228.htm

Vera, B. (2017). *PH eyes $300M to $500 million from China-led AIIB in 2017*. [online] Business.inquirer.net. Available at: http://business.inquirer.net/221241/ph-eyes-300m-500-million-china-led-aiib-2017

ASIA FOCUS #36

CHINESE INVESTMENTS IN INFRASTRUCTURE WORLDWIDE

BY PENELOPE MARBLER AND LEA SHAN

JUNE 2017

ASIA FOCUS

Collection supervised by Barthélémy COURMONT, research director at IRIS, lecturer at the Université Catholique de Lille, and Emmanuel LINCOT, professor at the Institut Catholique de Paris – UR "Religion, culture and society" (EA 7403) and Sinoligist.
courmont@iris-france.org – emmanuel.lincot@gmail.com

ASIA PROGRAMME

Supervised by Barthélémy COURMONT, research director at IRIS, lecturer at the Université Catholique de Lille.
courmont@iris-france.org

THE FRENCH INSTITUTE FOR INTERNATIONAL AND STRATEGIC AFFAIRS
2 bis rue Mercoeur
75011 PARIS / France
T. + 33 (0) 1 53 27 60 60
contact@iris-france.org
@InstitutIRIS
www.iris-france.org