

THE NEW RATIONALIST

REASON IN THE FACE OF DOGMA



The Aftermath of COVID-19 on China's Belt & Road Initiative

By Jacob Jair - April 12, 2020

Much like major infrastructure projects around the world, the global outbreak of COVID-19 has also put China's Belt & Road Initiative (BRI) on hold. What was seen as a juggernaut powered by Chinese monies and authority and implemented on the ground quite aggressively has paused and the economic fallout from this is already visible. Work has halted along the China-Pakistan Economic Corridor and Cambodia's Sihanoukville Special Economic Zone, besides BRI projects across Indonesia, Myanmar, and Malaysia according to a report on ET.

There is no doubt that we are living in a watershed moment in history.

So we asked people a few questions:

How significantly will the coronavirus outbreak impact the belt & road initiative by China?

Are global economies ready to forgive China? Do they really have a choice?

Are manufacturers ready to move their factories away from China?

3. Building leverage with debt-trap diplomacy

Albert Goldson, Executive Director of Indo-Brazilian Associates LLC, had this to say:

“Ironically because of the devastating global economic impacts of Covid-19, China’s BRI will continue uninterrupted.

Firstly, the BRI is more of a “brand” than a specific project consisting of many diverse projects in the region.

Secondly, all of the countries along the BRI are emerging countries that owe considerable monies in loans to China in US dollars at commercial rates, not below market rates issued by international organizations. Debts to China include Malaysia \$12 billion, Indonesia \$4.5 billion, Pakistan \$36 billion.

Thirdly, because these countries are commodity exporters, paying these loans during a period of plunging commodity prices and zero demand is daunting.

China can then use this leverage called “debt-trap diplomacy” to assume control of each of these country’s strategic resources in lieu of loan repayment.”

2. No longer close friends

Jennifer Willy, editor at ETIA.com says, “As we all know how difficult and painful these times are with the spread of the deadly disease. Coronavirus (COVID-19) has spread in an unprecedented manner throughout the world. China, from where the virus has allegedly originated will bear the brunt of the blame.

Their international politics and relation will get severely impacted. The magnanimous and ambitious Xi Jinping’s Belt and Road Initiative has been touted as the way to connect the Asian countries with the European and Middle East countries but was known as a means to project China’s influence around the world.

The deadly outbreak is prompting delays and disruptions to China’s construction and investment plans overseas, risking years of planning and hundreds of billions of dollars in economic diplomacy. Projects that have been affected since the virus emerged in December include a \$5.5 billion high-speed rail line in Indonesia.

There’s also a separate railway initiative in neighboring Malaysia, construction projects in Sri Lanka and corporate expansion plans in Pakistan. According to the experts, it is going to be difficult for the hosting countries to maintain the same, former close relations with China.”

1. Global supply-chain weakness

John Boyd, Principal at The Boyd Company, a top authority on global supply-chain issues is more optimistic.

“COVID-19 has put a spotlight on our nation’s risky supply chain relationship with China and it has brought forth new momentum for the re-shoring of manufacturing investment back to the U.S. from China and other parts of Asia.

I expect our nation’s pharmaceutical and medical devices sector – now dangerously concentrated in China - first in line to bring back jobs and investment to the US. Currently, less than 30 percent of active pharmaceutical ingredient production sites are in the U.S. - while the number of pharmaceutical production sites in China has doubled over the past decade.

The new bipartisan bill introduced by Senator Blackburn (R) TN and Senator Menendez (D) NJ to increase U.S. drug production underscores this dangerous state of affairs. The momentum for reshoring has been building over the past several years with an administration proactive on economic development (i.e. the corporate income tax cut, the streamlining of regulations, a pro-business energy policy, an aggressive America first posture on federal procurement) – this new spotlight on risky supply chain dependence on China could be yet another driver for a US manufacturing resurgence.”

Uncertain Future?

Whatever end result that will reveal itself in the coming months, it’s clear that what was once pioneered as a world-changing infrastructure project will see the emergence of new bottlenecks.

Several of the participants in the initiative are reeling under economic pressure and this is not expected to subside any time soon. It will be interesting to see what China does to get the project back on track.

However, given China’s enormous political clout and shrewd diplomacy, any temporary setback will be fixed soon.