China's Belt and Road Initiative: Potential Benefits For Select Third-World Countries

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Abstract

China's Belt and Road Initiative (BRI) has long been criticized as a project that exploits third world countries and expands Chinese influence worldwide. Although mounting evidence points in this direction, there exists the possibility that select countries have benefited from the collaboration. Focusing on Kazakhstan and Kenya, this paper analyzes data and other research to reveal that these countries have experienced social and economic improvements due to BRI projects. In Kazakhstan, BRI projects have reduced shipping times, trade costs, and increased exports and imports significantly. The country's GDP per capita has risen substantially, and the economy has benefited from better trade connectivity and infrastructure without accruing unsustainable debt levels. Similarly, in Kenya, the Mombasa-Nairobi Standard Gauge Railway (SGR) has improved travel times between two important cities, stimulated local economies, created jobs, and facilitated the development of the country. Although initial financial concerns were raised, the SGR has begun generating profits and contributing to Kenya's GDP growth.

The paper also addresses criticisms regarding the financial viability and alleged debt-trap diplomacy by highlighting broader economic benefits and clarifying misconceptions about debt ownership. The research does not attempt to defend the BRI as a whole but rather points to specific cases where it has shown some benefits to the host country. Finally, the paper concludes that the BRI's outcomes are diverse and should be evaluated on a case-by-case basis to understand its full potential and implications for global connectivity and economic development.

Introduction

Since assuming leadership in 2013, Chinese President Xi Jinping has pushed for the ambitious Belt and Road Initiative (BRI), an unprecedented global-scale infrastructure and development project that involves 150 countries and over 1 trillion dollars in investment from Chinese banks. Beijing not only hopes for significant economic gains in return, but also increased influence in Asia and Africa. Since the beginning, the initiative has been met with criticism from the West regarding China's purported debt-trap diplomacy and poor planning that have led to losses in assets, resources, and even sovereignty for borrowing countries. However, considering the wide-ranging participation of states from various economic backgrounds, one may question whether certain countries have benefited. Data suggests that the BRI has brought social and economic benefits to a few select countries, and has increased connectivity, boosting trade in those regions.

Many scholars, as well as think tanks (such as the CSIS) and government agencies like the US State Department are critical and tend to portray the initiative, as a whole, negatively.[1] Media coverage often becomes speculative on Beijing's covert intention, especially regarding debt-trap diplomacy, which cannot be easily verified or refuted. In this paper, I intend to focus on

[1] Hillman 2018.

compiling and analyzing data to determine whether certain countries, if any, have benefited from the BRI. This paper will present two case studies that may suggest how the BRI has boosted the economy at the local and national levels, then examine criticisms regarding the financial viability of those specific projects and debt-trap diplomacy.

Background

Over the past few decades, China's economy has seen exponential growth, leading to the accumulation of wealth as banks are seeking investment opportunities. The country also has excess production capacity in the construction industry. Factories are slowing down production and unemployment is increasing.[2] On the other hand, many underdeveloped countries have long had massive infrastructure gas that has stymied economic growth. Infrastructure and economic development share a direct relationship, with numerous studies showing that quality infrastructure is vital to a state's success across the board.[3] By making loans to these countries to hire Chinese firms to work on infrastructure projects, the BRI addresses both of Beijing's economic problems. At the same time, participating countries would, in theory, receive much needed upgrades in infrastructure and would reap social and economic benefits, including increased aggregate demand.

Case-Study of Kazakhstan

The Republic of Kazakhstan is a keystone country in the BRI because it is important to China's overall geopolitical strategy. Its geographic location has potential to develop into an international logistics hub, connecting the East and West, integrating passenger/cargo transport, warehousing, and e-commerce.[4] Seventy percent of all overland trade between Europe and China passes through Kazakhstan. Upgrading infrastructures in the country directly improves trade connectivity between EU and China. Kazakhstan is also rich in oil and minerals, the supply of which are vital to China's economic growth.[5,6] Lastly, Kazakhstan borders China's Xinjiang province, where Uyghurs are being systematically oppressed and anti-government sentiment is high. Because of the similarity between Uyghurs and Kazakhs in terms of ethnic origin and culture, and that many Kazakhs sympathize with the Uyghurs. It is in Beijing's interest to strengthen ties with Kazakh leaders to prevent any cross-border support for the Uyghur dissidents.

According to a report published by the World Bank, "Kazakhstan is likely to be among the larger beneficiaries of the BRI" for some of the same reasons that it is an attractive partner for China. Three BRI corridors pass through Kazakh cities towards Europe and the Indian Ocean. For each highway, Kazakhstan was financially responsible for only the section within its territory, but reaped the benefit of the connectivity created by the entire route. Kazakhstan is one of the largest hydrocarbon fuel producers in the region and the country's oil export alone generated

[2] World Bank Data.
[3] Palei 2015.
[4] Islamjanova 2017.
[5] South Morning China Post 2017.
[6] Zogg 2019.

$46.8 billion in revenue in 2022.[7] Unlike many BRI participating countries, Kazakhstan did not borrow much from China and was able to avoid potentially unfavorable loan terms. For example, the construction of the Khorgos Gateway dry port (completed in late 2015), which is estimated to increase economic activity 20 fold and create 50,000 new jobs, was funded and majority owned by the Kazakh State Railways Corporation.[8] The country's ability to not rely on Chinese funds is reflected in their debt levels: Kazakhstan's general government gross debt to GDP ratio is 23.5% and their external debt to GDP ratio is 7.8%.[9,10] Both numbers are far below general benchmarks of debt sustainability set by the World Bank and the IMF (77% and 50% respectively).[11,12] Furthermore, Kazakhstan has borrowed $1.6 billion from China as of January 2023 (excluding intercompany and private investments), amounting to only 7.1% of their total external debt.[13] Not only is Kazakhstan's external debt under control, they have low amounts of public debt attributable to China.

Overall, BRI infrastructure projects have reduced shipping times across Kazakhstan by 8% and trade costs by 4%.[14] Exports and imports also increased by 149% and 94% respectively, with the proportion of exports to China rising from 10.8% to 19.8% and imports from 23.5% to 29.3% from 2016-2021 according to the Observatory of Economic Complexity.[15] Additionally, BRI projects have benefitted Uzbekistan in similar ways. According to the Eurasian Research Institute and the World Bank, these BRI projects reduced transportation time across Uzbekistan by 15%, the highest across all Central Asian states. As a result, exports to the international market are expected to increase by up to 23%.[16]

In 2000, Kazakhstan's GDP per capita lagged behind those of developing European and Central Asian countries by approximately $500. Today, it is $2000 *higher* than those countries. This signifies an impressive 922% increase in economic output.[17] These advancements can be largely attributed to the BRI, with an estimated 6.5% increase in Kazakh GDP as a result of improved infrastructure alone. Enhancing trade facilitation and reducing tariffs along economic corridors would add an additional 15%.[18] Kazakhstan stands out as one of the nations that has reaped the most benefits from the BRI.

Case-Study of Kenya

Overview

The Mombasa-Nairobi Standard Gauge Railway (SGR), East Africa's largest and most expensive BRI project ($3.6 billion) was built between 2013 and 2017 to replace the aging colonial railroad that connects the port city with the Kenyan capital.[19] It reduces travel time by

[7] Reuters 2023.
[8] Hillman 2016.
[9] International Monetary Fund Data.
[10] World Bank Data 2022.
[11] International Monetary Fund Data.
[12] Grennes 2013.
[13] National Bank of Kazakhstan, External Debt 2023.
[14] World Bank Group 2020.
[15] Observatory of Economic Complexity Data 2016-2021.
[16] World Bank Group 2020.
[17] World Bank Data.
[18] World Bank Group 2020.
[19] Kenya Railways Corporation 2018.

more than 50% for millions of citizens, tourists, and tons of cargo that have traveled since completion. As a result, this reduces heavy trucking, road maintenance costs, and carbon emissions.[20] The SGR connects with other lines, including the old Meter Gauge Railway that passes through the border city of Malaba to provide port access to the inland countries of Uganda and Rwanda.

The SGR employed 38,000 Kenyan workers, stimulating the local economy by fostering the growth of banks, stores, markets, and hotels as observed in the town of Voi in Tata-Taveta County.[21] Select cities along the route have begun to develop Special Economic Zones, such as the one in Naivasha for manufacturing, and the one in Mombasa for logistics.[22] The transfer of technological skill required for higher level workers was another benefit of the project. The contractor, China Road and Bridge Corporation offered advanced training in railroad management and engineering in China for 18,000 Kenyans.[23]

Altogether, according to a World Bank study, the SGR project accounted for 1.2% of Kenya's GDP in 2015. Because "weak infrastructure is a binding constraint, [the railway] when completed, should relieve these supply-side constraints, spur economic activity, and improve productivity."[24] Between the start of the Mombasa-Nairobi SGR construction in 2013 and 2022, Kenya's GDP per capita had increased by 40.9%, while the average global increase was only 16%.[25]

Unrecoverable Infrastructure Costs

Critics of the BRI often focus on the inability of host countries to repay loans due to overpricing by the Chinese and poor economic viability of projects. A prominent Kenyan lawyer, Okiya Omtatah challenged the project in court on the basis that there had been no competitive bidding and that it was overpriced, compared to initial estimates by the World Bank and the Kenyan government.[26] One scholar cited that the SGR project had lost up to $100 million within the first year of operation due to high maintenance fees, low ridership, and low cargo volume, and that the railroad was not generating enough revenue to offset the construction cost.[27] While these concerns are valid and financial sustainability is a critical aspect of any development project, it is important to consider: 1) After the first year of operation, SGR revenue began to increase yearly, surpassing operations costs, and generating a profit of $18 billion KSh (≈ 110 million USD) in 2023.[28] 2) Although it would take decades of annual profits to repay the costs of construction, broader economic benefits should be taken into account.

A case in point is Kenya's cut flower industry. Cut flowers are Kenya's second most profitable export, however, they are perishable and need to be transported quickly.[29] In 2022, Kenya began using the faster SGR, instead of trucks, to transport flowers from the farms around Nairobi to the Port of Mombasa.[30] Although increase in flower export will not increase railway revenue by large margins, it will lead to higher earnings for farmers as well as for workers in

[20] Hu, Ong'iyo 2020.
[21] Wissenbach, Wang 2017.
[22] Irandu, Owilla 2020.
[23] Otele 2021.
[24] World Bank Group 2016.
[25] World Bank Data.
[26] Dahir 2022.
[27] Dezenski 2020.
[28] Oluoch 2024.
[29] Fredenburgh 2019.
[30] Andae 2022.

associated industries. The true economic impact should be "valued on the social cost-benefit that they contribute to the regional economies."[31] One reliable indicator of this socioeconomic impact would be GDP. Increased economic activity, job creation, and higher incomes across various sectors due to the multiplier effect would collectively contribute to an increase in GDP. Note that a boost in GDP would not be a singular one-year occurrence, but would benefit the economy for years to come. As stated above, Kenya's GDP per capita has increased 40.9% since the construction of the SGR and other infrastructure projects. In conclusion, after taking into consideration the overall social economic benefit in the long run, an expensive project such as the SGR can still be a sound investment.

Perception of Excessive Foreign Debt

Many critics who believe that the BRI is detrimental to Kenya often mistakenly claim that China now owns over 60% of the country's external debt, instead of its bilateral debt. Bilateral debt is a subset of external debt, and only accounts for contracts between two countries excluding international organizations (IGOs). According to the National Treasury of Kenya, while China owns 60% of bilateral debt, it accounts for only 17.65% of external debt on average per year in the past decade (2013-2022). By contrast, the World Bank's International Development Association, an IGO, holds a much larger proportion of total external debt, at 27.3%.[32] Furthermore, when calculated as a percentage of GDP, which is a more accurate measurement, Kenya is at 27.3% (external debt/GDP).[33] Although the threshold for debt burden varies and depends on many economic factors, the IMF has estimated healthy levels of external debt at 30% and medium levels at 40%.[34] This suggests that Kenya's external debt and China's role in it, may not be as significant a problem as commonly believed.

Debt-Trap Diplomacy

Critics of the BRI have said that BRI lending policy has been predatory and have accused China for using debt-trap diplomacy to gain political and economic leverage on participating countries.[35,36] One of the most prominent cases of alleged debt-trap diplomacy is the "seizure" of the Hambantota Port in 2017, after Sri Lanka failed to pay off its debts.

It is important to recognize the Hambantota Port project predated the BRI. In the early 2000s, the prime minister Mahinda Rajapaksa issued a tender and accepted bidding from companies in Western countries and China. The Chinese construction firm China Harbour Engineering Company won the bid, with a 6.3% interest rate from China EXIM Bank. Second, there was no debt-for-asset swap made in 2017 when Sri Lanka defaulted. Instead, the Sri Lankan government entered a 99-year lease agreement with China Merchants Port Holdings, securing a 70% stake for 1.12 billion dollars. The funds from this contract were used to boost Sri Lanka's foreign reserves, rather than being allocated for repaying China.[37] In the context of

[31] Mukwaya, Mold 2018.
[32] National Treasury of Kenya 2013-2022.
[33] World Bank Data 2022.
[34] IMF-World Bank Factsheet 2023.
[35] Green 2019.
[36] Goodman 2017.
[37] Jones, Hameiri 2020.

assessing potential debt-trap diplomacy, China's willingness to pay rent, may suggest otherwise. Additionally, at the time of the Hambantota Port lease, most of Sri Lanka's foreign debt was owned by Japan, the World Bank, and the Asian Development Bank, not China. Only five percent of Sri Lankan foreign debt was attributed to the construction costs of Hambantota Port. Both Mahinda Rajapaksa and the newly elected prime minister in 2015, Maithripala Sirisena acknowledged that the business dealings with China were not the source of Sri Lanka's financial ruin.[38]

Conclusion

This paper does not attempt to address the entirety of BRI projects as it has been established that there have been cases of Chinese exploitation of resources in Latin America, the Balkans, and other regions. Instead, the goal of this paper is to bring attention to specifically two countries that have potentially benefited from these investments to demonstrate the complexity and multifaceted nature of the BRI.

While skepticism and concerns about the viability of BRI projects and debt-trap diplomacy have rightfully raised questions about the initiative's impacts, a closer examination of Kazakhstan and Kenya may present a different narrative that the BRI has brought benefits through improved infrastructure, enhanced connectivity, and increased trade opportunities. The successes highlighted in this paper reveal that the BRI is not one, but rather a collection of projects with diverse outcomes. We should avoid sweeping generalizations and instead open up to understand how each project can impact its respective host country. By analyzing aspects of the BRI's successes, we can navigate the path forward with a clearer understanding of the BRI's potential to impact — both positive and negative — the growth, connectivity, and prosperity of an interconnected global landscape.

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