UNEDITED TRANSCRIPT

2018 US-China Forum — The Impacts of Chinese Investments on Recipient Countries
CHANG-TAI HSIEH: My name is Chang-Tai Hsieh. I'm a Professor at the Booth School of Business here at the University of Chicago. We have an incredible panel lined up. The focus of the panel is going to be on the effect of the Belt and Road initiative on the recipient countries.

So the way I'm going to do it is I'm going to introduce each speaker. And right after I introduce a speaker, I'm going to pose a question, so we can get going quickly. My first question is for-- first, let me introduce Caroline Freund, who runs the Trade and Growth Practice Group at the World Bank. And I was also informed that she's a native Hyde Parker, which is a more important thing for me. So welcome home.

My question for Caroline is-- to give you some background, Caroline has been running a big research project looking at the consequences of the Belt and Road initiative. So her group has collected data. Her group has also conducted a number of interviews with officials in the recipient countries.

So my first question is sort of a softball question. Tell me what your group has done. And tell me what you found.

CAROLINE FREUND: Thank you very much. So we're focusing, as the World Bank, on the development aspects of the Belt and Road initiative, and how it affects the recipient countries. And what we're trying to do is quantify the gains that come from trade, that come from foreign investment, but also think about managing the risks that might come from debt sustainability concerns, environment, social, other things we've talked about.

We're trying to take a very balanced view on this. And first, I'd like everybody to keep in mind that there really is a big infrastructure gap in the region. So I think it was mentioned in the previous panel, but the IDB estimates $1.7 trillion per year.

So this is really a big gap. And there's a country with the know-how and the money to fill this gap. So there's really a development opportunity here.

The problem with trying to analyze the Belt and Road initiative is there's no one data set. So being the World Bank, we have country offices everywhere. So we've gone and asked in different countries, what are the major projects that are happening, so that we can look at what the Belt and Road initiative is.
And I do have one slide, which I think just came up, which shows the data that we have put together. So it's the 71 economies that fall along the six main corridors. And this is a really big area. It accounts for 30% of global GDP, 60% of population, and 40% of world trade.

So it's a big area we're talking about. So that's why we think it's important for the World Bank to look at this. And it's made up of some of the least developed countries, some of the middle income countries, et cetera.

And people talked about infrastructure. I want to mention that there is a reason you may want to coordinate on infrastructure. So when any one country builds a railroad, or a new road, or a port, it has impacts on the countries around it, that the own country doesn't internalize-- so this kind of externality. So there is an advantage to having coordination.

The value of that infrastructure also depends on the timing, so that things are built at the same time, and on the standards. So Stalin was known to have used a different rail gauge for security reasons, so trains can't come in. But that's not so good for trade. So trade is not going to work well if you have different rail gauges at the borders.

So there are reasons one might want to coordinate. So what we did-- what did we do once we put together this data? And it's publicly available on the World Bank website.

What we did was we said, hey-- and this was a big team of researchers at the World Bank who have been working on this, and I'm really indebted to them for this work-- is say, OK, what did travel times look like in 2013 when the initiative was announced? We put this infrastructure on top, and then we look at what happens now.

We do this using Geographical Information Systems technology, the same thing you use when you put your GPS, and you're traveling somewhere, and it tells you how long it's going to take. What we can do is look at how long, how hard it was to travel places in the past, the type of new infrastructure that was put on, and how much that's estimated, based on the quality of that infrastructure, to reduce travel times. Then we use standard trade models, like a computable general equilibrium model, some structural trade models, to estimate the gains in welfare from the initiative.

And we actually find it's pretty big, so about 1% for the economies in the region, with some variation. Some countries benefit more. It also actually helps countries outside the region, because when they trade with the region, they also benefit from reduced travel times.
A really important policy implication is that complementary policies are important. So as I said before, you can improve the infrastructure, but if you sit at the border for 10 hours, it’s not going to have as big effect as if you improve trade facilitation. So what’s really important is that you work on this softer side of infrastructure, as well. Labor mobility also turns out to be really important, because people will need to move from regions that may have been actually connected, before but now there’s new infrastructure. And that’s where a lot of the agglomeration of business is going to take place.

And finally, the standard business-type reforms, because the gains from trade come from expanding in your export industries. And of course, the consumer gains from importing. But to expand, you need to be able to start a business. You need to be able to grow a business. So we also would like to see improvements in the business climate reforms.

And let me just say one thing about the risks and I’m sure we’ll end up talking more about them. We are also looking at some of the environmental concerns to do with public procurement, social risks, as well as debt. And I think right now, with increasing debt in developing countries and some of the low-income, high-risk countries, this has become an important issue.

But when you look at the BRI region as a whole, actually debt from non-Paris Club members is only about 5%. And that includes China. So we don’t have China. We can’t tell the China amount separately, but non-Paris Club is actually less than 5%.

But for a small group of highly indebted low-income countries, it has been growing quickly. And it’s now about a third. And this handful of countries is where there’s concern.

And the fact that we don’t know the terms means it’s very difficult to think about the sustainability. And if there were to be problems, how you would-- it would be complex to manage it. So just to say, I think what we’d really like to see is more transparency around these projects’ data, and a little bit more information around the terms. And we’re trying to put some of that information together from what we can gather.

CHANG-TAI HSIEH: Great. My next question goes to Gyude Moore. Gyude was the Minister of Public Works in Liberia for four or five years.

W. GYUDE: Three.
MOORE:

CHANG-TAI HSIEH: Three years, sorry, for three years. So I wanted him to give us some perspective on what he saw as somebody who was on the other side, as presumably somebody in your portfolio was negotiating these deals. So why don’t you just tell us when you came in as the Minister of Public Works, presumably you came in with some sense of these are my priorities. Here are where my needs are.

The Chinese would come in. And then there would be some discussion about what is it that they want to do, and what is it that you want. So tell us about that.

And the other related question is just give us a sense of when we talk about the Chinese, what do we mean by the Chinese? Are these state-owned firms? Are these private firms? Are these the development banks of the Chinese government that come in?

And the last thing is, if you feel comfortable talking about these deals, why is secrecy so important to these deals-- if you feel comfortable. Because my sense of they’re all secret, so why is that so important? Because these are public projects, so--

W. GYUDE MOORE: Yeah, sure. Well, I’m glad to be here. I think just practically, if you-- so before the Chinese, I think sometimes events, the scale of an achievement is so massive that it's incomprehensible.

Over the last 30 years, we used to have 40% of the global population that lived in poverty. And then in 30 years, it was reduced to 10%. Most of that change occurred with China raising about 800 million people out of poverty.

So if you’re in the 10% that's left in poverty, where do you look for inspiration if you want to do that? China seems to be an obvious partner for you to look to, to be able to do this. This is one of the things that the Chinese bring.

And I think in the ’90s and early 2000s, a lot of African countries had accumulated so much debt that we had to go through HIPC, the Highly Indebted Poor Countries. And with the debt removed, then the amount of debt we could take was actually tied to maybe exports, maybe GDP. And so we were pretty limited in what we could do.

This also coincided with most of our traditional partners-- the World Bank, the African Development Bank-- they began to shift towards social issues, investing in health and education. And very few options were available in terms of investing in hard infrastructure. And
take my country, for example, Liberia, where every rainy season-- we have two seasons rainy season and dry season. And every rainy season, about 49% of the country is actually cut off because of the heavy rains.

So it means not only are we running a half-year economy, half of the country is actually getting poorer every rainy season. So when a Chinese company-- and so how do we get to engage with the Chinese company? I always like to say there are three China's. There are the big, state-owned companies from Beijing, there are the provincial companies, and then there are private Chinese companies.

And all of them come in. All of them make the same claims, that they have access to finance. And so normally, where we would engage our Chinese partners would be around-- for Liberia, we had an Agenda 2030.

This is where we want our country to be in 2030. Here are the things that we want to invest in by 2030. But here are the limits to being able to invest in that. And a Chinese counterpart shows up, and offers financing to be able to do it.

I think in terms of the partners, the slate of partners that are available to us as African policymakers, there are very few with the appetite and the resources to back heavy infrastructure. The perception of risk in Africa, real and imagined, has conspired to actually close that space for us. In other areas, it's not as if there's not money available.

So in terms of the risk appetite of Chinese companies, it's slightly higher than other companies in terms of investing in Africa. However, I just wanted to step back for a minute to be able to say that Chinese investment in Africa is actually not remarkable, if you put it within a context of Chinese investment everywhere. So the total debt stock of middle and low income countries, according to the IDS, the International Debt Statistics 2018, is around 6.9 trillion dollars. That's all low and middle income countries.

Of that 6.9 trillion dollars, China is the creditor of 21% of that. African external debt is around $417 billion. And again, China is around 20% of the creditors. So Chinese engagement in Africa is average in terms of what is happening elsewhere.

But Africa lags the rest of the world on every measure of infrastructure coverage, every measure. And without infrastructure, it's almost impossible to be able to grow the economy. At the same time, the population across the continent has been rising. Population Reference
Bureau came out to say that 26 of the 28 countries whose populations are expected to double are going to be in Africa. And Niger is going to see its population triple.

So how do we-- we can barely accommodate what we have now, without adequate-- like an infrastructure spine. And so when the Chinese approach us with financing to be able to-- I hope I've established the context in which we engage with China. I am of the opinion that Chinese presence in Africa has been a net positive. Is the relationship perfect? Absolutely not.

There are things that need to change about that relationship. And she mentioned one of them. One of them is just how opaque it is. But I think it's also a reflection of the laws of the African country.

So every deal-- we did one deal with the Chinese when I was there. It was the airport terminal for $50 million. Because it was debt, most of our debt has to be passed by the National Legislature as law. So there could be nothing secret about it. But in places like Zambia, there's been a significant amount of opacity around the terms of Chinese engagement.

The second thing about Chinese engagement it has that can change and become better is price inflation. So if a Chinese company approaches me with the project, and he negotiates the financing, he tells me how much. They do an analysis, and say the project is going to be about $100 million. So we sign on for it.

Sometimes, it's difficult to determine what the market would have charged for that. On the airport project, when China Harbor Engineering Company approached us about it, and said it was $50 million, I said, I do not have people within the Ministry of Public Works to determine if this is actually the cost. So I hired a British engineering firm, WSP Parsons, and sent the Chinese drawing to them, and asked them to determine, just cost it.

And they came back, and said it was around $48.9 million. For me was "po-tay-to"/"po-tah-to." So $50 million, $48.9, I'll sign onto that.

But it depends on the regulatory capacity of the country. And so weak regulatory capacity in African countries have led to sometimes to overpricing of projects. But again, if I didn't say anything here, I would say that China's presence in Africa, especially in infrastructure financing, has been a net positive.

CHANG-TAI HSIEH: Great, thank you. My next question goes to Arif Rafiq. Arif worked as a journalist in Pakistan for multiple years. So my question for him is, tell us about Chinese involvement in Pakistan. So
what exactly is the China-Pakistan economic corridor? Or you may also want to call it the Pakistan-China economic corridor.

So tell us about what that is. Tell us the similar questions-- when the Chinese are involved, who exactly in China are the people involved? There’s a lot of discussion about the opaqueness, as well.

So just tell us what you know about why there could be this opaqueness? Is it something about the Chinese companies? Is it something about-- Gyude was suggesting that maybe it's about the local institutions that make it opaque. So first just give us the facts on what's happened.

ARIF RAFIQ:

So I'll start with just a general summary of what the China-Pakistan economic corridor is. It's a component of the Belt and Road initiative. It consists of projects that are presently valued at around $62 billion. But that's essentially a notional figure. That figure has fluctuated over the past few years.

But the general idea is to connect the Western region of China, the Xinjiang region, and specifically the southern belt of that with Pakistan's Arabian Sea coast. So in southern Pakistan, there are three ports, two of which are presently established, two deep-water ports, Karachi and Port Qasim. And then there's a third port by the name of Gwadar, which is presently being constructed and operated by Chinese.

Well, it's difficult to actually establish what type of company it is. And that has to deal with the issue of opacity. It appears to be a state-owned enterprise. And that port is around 50 miles away from Iran, so the location is quite strategic.

So the idea in the long term is to build this economic corridor that stretches from Western China all the way to Pakistan's Arabian Sea coast. But in the initial stage, the emphasis is on dealing with the electric power shortages, in terms of supply in Pakistan, and then also addressing many of the bottlenecks that are in the country's ground infrastructure network. So most of the expenditures, or the project costs in that first stage, of that $62 billion or so, around 70% is for electric power projects.

And these are implemented in an IPP mode, with Independent Power Producers. And then most of the remainder is for rail and road networks, which more or less will constitute an upgraded version of Pakistan’s own national highway network. So it's not necessarily a single corridor that stretches from China to Pakistan.
So that's the initial stage of it. And that $62 billion figure is quite impressive. It's often been derided as an indication of this overambitiousness the Belt and Road. But what we've seen in the past few years since the formal launch of CPEC in 2015 is that $20 to $30 billion worth of projects have either been initiated or completed.

And in fact, there are two sets of electric power plants, one in the central part of Pakistan, and the other in the southern part, which have actually been completed. And they were completed roughly about a year earlier than is typical for such power plants, pretty much in any country. So the fact that that was done in a country like Pakistan, which has its lingering issues or longstanding issues with governance, security, and just it's a challenging environment for accepting foreign investment-- the fact that this speed, in terms of achieving financial close, and having these projects operational has been achieved, at least with a small subset of projects, I think that's significant.

But when we come to the issue of speed, I think that by itself is not necessarily a virtue or something that is positive on its own. So Pakistan today faces a balance of payments crisis. And to some extent, the rapid scale at which a lot of these CPEC projects have been implemented is a contributing factor.

The major factor is the fact that Pakistan is a net energy importer. And oil prices have risen since 2016. But the import of heavy machinery for these electric power plants, and these roads, and tunnels, and things like that-- that contributed to a surge in Pakistan's imports.

And as a result, the current account deficit widened. And to Pakistan's own detriment, its exports actually declined in net terms over the past five years. So Pakistan, once again, has to go back to the IMF.

And I think it showcases the challenges that many governments have to face, or the predicament they're in, or the dangers of easy financing. Because the timetable that was established for the China-Pakistan Economic Corridor, at least initially, was this series of three five-year periods, going up to 2030. But the government in Pakistan, the previous government, established another arbitrary period known as Early Harvest Projects.

And that three-year time period ended just when this summer's general elections were scheduled for. So what they did was they tried to sandwich a huge chunk of these projects before the summer elections. And as a result, the economy, based on the way Pakistan's
The economy has been growing for quite some time—it's heavily import based, it's consumption based--CPEC really just embellished that disequilibrium.

And so there is allure of easy financing that a lot of these countries are tempted by. And unfortunately, I think, the government in Pakistan succumbed to those temptations. And as a result, we've seen a lot of success in terms of the speed of implementing a lot of these projects, but the economy just didn't grow in a sustainable way.

And then when we look at as these CPEC projects started to pick up pace, the federal government in Pakistan became less interested in reform. And this is mainly in the energy sector, where there's a huge problem of liquidity. And the major contributing factors are huge amounts of transmission and distribution losses, rampant theft in the electric power system.

So the government's interest in addressing these challenges subsided. And even though the fact that the electricity grid in Pakistan can't handle more than 19,000 or 20,000 megawatts of electric power, the government still just kept on investing in developing and increasing the generation capacity within the grid. Because I think politically that's more impactful--to do the ribbon cutting, to showcase the completion of these projects. But when it comes to the electric power system, it was, frankly, quite irresponsible.

And then when we look at the composition of FDI, the impact of the surge of Chinese investment in Pakistan, the general notion was that there would be secondary effects, where investors from other countries would come in. But the fact is that through CPEC, they created these ad hoc mechanisms to bring in Chinese investment, and facilitate a lot of these projects, including with respect to security. But those privileges have not been afforded to investors from other countries.

And so what we see is that the composition of FDI, or net FDI in Pakistan, is really overwhelming Chinese now. And when you go back, and look back around 10 years ago, it was mainly from the Gulf. So it's because the playing field is not leveled. And the government of Pakistan is not really invested in making these reforms that would allow for FDI to come in from a broad segment of sources, and help fuel economic growth that can sustain itself about the 6% range over a longer period of time.

CHANG-TAI HSIEH: Great, thanks. Last question for this first round goes to Andrew Small. So Andrew Small is with the German Marshall Fund. So the question I want to ask Andrew is, talk a little bit about what you see as the priorities of the Chinese firms, or maybe the priorities are different depending
on what we mean by the Chinese firms.

Perhaps that's something that you've seen. And the priorities of the countries, and maybe you want to distinguish between the government and also other parts of civil society. And tell us a little bit about how you've seen that play out in different places. And then also just tell us about what you see happening after political transitions, and what we see after what we've seen in Sri Lanka, and in other places that you've been observing.

**ANDREW SMALL:** So thanks very much for the chance to join this excellent forum. This really follows on from what Arif I was talking about, where I think we're basically now heading into a new phase with the Belt and Road initiative. The model that he was talking about, which I think was largely characterized by kind of getting as many projects as possible moving on as large a scale as possible, and really pretty much as bilateral Sinocentric even as possible, I think is not now holding. It's not going to hold for the next few years.

And I think the reasons for that are as much political, and some of the political transitions that we're seeing, as they are economic. And I think some of the elections that we've seen, in particular in recent months in Pakistan, in Malaysia, in the Maldives, as well, you've had various governments taking office which to very differentiated degrees in terms of how noisily they've taken this stance, but they've taken critical stances on the Belt and Road investments. They were all elected on strong anti-corruption mandates. And they're now really in the process of trying to figure out a renegotiation of the terms of China's economic engagement with their countries.

And these are really not minor cases. Pakistan is, of course, the flagship of the Belt and Road initiative. Malaysia, depending on how you count it, is probably among the top handful of kind of total BRI economic packages. And so these have real resonance in terms of how the scheme as a whole plays out.

So I think they're very interesting cases to look at in terms of the politics. And as Arif actually mentioned, again, it was supposed to be the case that some of these fast, politically directed investments would act as political assets for governments, that they'd help them win their next elections, in essence. And instead, I think the issue has been, in each case that you've seen, even in a country that is as generally friendly to China as Pakistan is, that a relatively critical stance is relatively popular, and has been a reflection of real concerns-- questions about debt, questions about job generation, questions about transparency, environmental costs,
grumblings from local businesses who don’t like the terms for Chinese companies, grumblings about ties to particular political interests, and so on, and so on.

And China has been saying to these new governments, who are in the process of some of these renegotiations—essentially, what it said to them in opposition, which was, look, we can do the same thing for you as we did for your predecessors. You tell us what your priorities are. You tell us what projects you want.

We can accommodate you. Honor your existing contracts, preferably. But we can be flexible around whatever a new agenda looks like.

And clearly, all of these governments want a strong economic relationship with China, want Chinese investment, in some respects, welcome alternative options to Western economic institutions. But the comeback and the pushback that you’ve seen has, to a certain extent, been, we don’t want it to look like this model. We don’t want it to look like just a replication of the model that it’s been so far.

It’s leaving us too dependent. There are too many opportunities for corruption. It’s not good enough in terms of the benefits for our companies and, of course, for our macroeconomic situation.

I think this political pressure that you’re seeing—again, sometimes playing out very noisily, sometimes playing out very discreetly in some of the negotiations that are taking place, even today in Beijing where Imran Khan is paying a visit—has also coupled with, I think, some other political pressures that have been quite acute, which is you’ve had a number of these governments, whether it’s Rajapaksa in Sri Lanka, Yameen in the Maldives, essentially looking to instrumentalize their relationship with China as a kind of balance against other powers.

But then, the problem that we’ve seen for them in the last few years is that these other powers, like India most obviously, push back. And oppositions also see an advantage in aligning more closely with these powers, and taking a more critical stance on China and on the BRI projects, in order to kind of curry favor with some of these powers. And really, none of this is making for a sustainable political framework for the BRI investments.

Wenzhong Zhou this morning talked about selecting projects where, if the government changes, people still need the project. And that has clearly been in question in a number of these cases. And right now, you have a situation in which virtually every single country that
has an election where there is a really big Chinese investment package, that election is now a source of political pressure for China on the sustainability of these investments.

And I think as a result of all this, China is now, in the process of these negotiations, facing some really difficult choices on how it adjusts to this. What lessons is it going to incorporate? Will it take some of the kind of fair critiques on board?

And clearly, some of the critiques are unfair. We spent a lot of time in some of the earlier sessions talking about debt traps in Hambantota. The institute that Gyude is currently affiliated with, the Center for Global Development, had an excellent report that came out earlier this year looking at a number of the kind of debt cases.

The headlines were all focused on the cases where China clearly has pushed up debt levels in a number of countries. But if you go to the third appendix, and look at all of the cases-- I think is close to 100 that are listed, around 100 that are listed of all the different renegotiations and restructurings and things-- Hambantota is a data point.

It's an important data point, but for now, you do not have, yet, some kind of major track record that China has of debt for equity swaps, seizing assets, these sorts of things. China has, in lots of cases, in many of these other instances, acted as a relatively normal creditor, and in some cases, has got into a lot of trouble, as we've seen, say, in Venezuela. I think the version of this that is tails we win, heads you lose-- I'm not sure that that really holds in the case of a number of these investments.

And the last point I'll make on this is just China has a lot of bilateral tools, the multilateral tools to make some of these adjustments. The AIIB, of course, has a very good reputation. Silk Road Fund that Dr. [? Fritsch ?] was speaking earlier on has a very good reputation. And we've already seen moves on China's part towards closer cooperation with third countries.

There was a very important visit by Shinzo Abe to China the other week, in which there's new agreements on third-party infrastructure cooperation. And you've seen a lot of these reassessments taking place in China right now. How do we deal with debt differently? And how do we rethink and readjust the BRI for the next phase?

But there are real tradeoffs if you want to move towards what Jin Liqun, the President of the AIIB used to call the "lean, green, clean model." The version that we've seen, there are reasons that it has happened the way it's happened. It's beneficial for some Chinese
companies that want to see projects directed towards them. It’s beneficial for certain governments, still, that the projects are structured in this way. There are payoffs that can take place if it’s operated in this way.

And so I think there have been seen to be political and commercial advantages to the kind of old model. I think the real question now, though, is simply whether it’s politically viable in the next few years. And I don’t think it is anymore.

**CHANG-TAI HSIEH:** So great. So I have two questions I want to throw out. And I’ll leave it to the four of you to decide which of the questions that you want to tackle. So we’ve heard a lot about Sri Lanka.

So the first question I want to ask is, is there a counterpart? Or is there another example that we can point to as being, if there’s one country that you could point to as being the poster child of success, what country would that be? In the same way that when we talk about successful US interventions, the two examples are Germany and Japan after World War II. And then you can obviously point to many examples of unsuccessful interventions of the US-- Iraq, Vietnam. So are there examples of success where the problems that a lot of you have pointed out are minimized?

And the related question is, going forward, if you could draw up your own terms of engagement, like if you could put together a wish list of this is ideally what I want the Chinese to do, granted you may not be able to do it, because you don’t have all the power. You don’t have all that. But if you could draw up a wish list, what would you want them to do?

And I want you to just think broadly. Not just infrastructure, not just the choice of infrastructure projects, but also, is it that you really would rather have jobs? You really would rather have better governance? You really would-- just think broadly about-- so if you were in the driver’s seat, what would you do? So anyone.

**ARIF RAFIQ:** I can address the first question, and then actually try to answer some the question you asked me earlier that I didn’t respond to. I think the China-Pakistan Economic Corridor is an interesting case study. And it’s an example of, perhaps, a relative success.

We’re dealing with a short time period. So I think in terms of evaluating success, especially for infrastructure projects, the timeline should be much longer. But what we see in terms of how decisions are made, in terms of what projects are constituted as part of the China-Pakistan Economic Corridor in terms of the funding, and so on, and so forth, when the initial
agreements were signed in July of 2013, within months, China and Pakistan convened the first of what's called a Joint Coordination Committee for CPEC.

So it was led by the head of Pakistan's Planning Commission and the Vice Chairman of China's NDRC. So there was a clear effort to institutionalize decision making in terms of how to determine which types of projects are part of the CPEC portfolio. And so I think it's held around seven or eight meetings since then, and then they've created subcommittees.

There were problems in Pakistan, because in each of the main provinces, there were different parties in power. So Pakistan on its own side did not develop a means of consensus building. But the Chinese eventually did respond to that challenge, due to protests in Pakistan, and eventually included the Chief Ministers of the other provinces in that.

So I think the CPEC example shows inclinations towards inclusive decision making, and also a process of learning by doing. So despite the challenges Pakistan is facing today in terms of having to go back to the IMF, there's still a bright side in terms of decision making processes and responsiveness.

W. GYUDE MOORE:

I'll go next. So I would like to echo what Arif said in terms of the time frame, the time frame over which we qualify Japan or Germany as a success is much longer. And so maybe the jury's still out, yet in terms of being able to find a success.

The second thing I wanted to use also is use the United States as an example, where when the interstate system was built, initially, it had military reasons as the justification for building it. But today, the interstate system is only 2.5% of lane miles in the US, but still carries over 25% of the vehicular traffic. But it's been over 50 years, and we're now able to see the success in terms of that. So because of the long time frame of infrastructure projects, maybe we'll see.

I wanted to talk just a little bit more, because as African policy makers talk about debt trap diplomacy, and that African countries are saddling themselves, or China is saddling African economies with so much debt, it'll be stuck in it, is something that we've had to engage. So we look at Sri Lanka because supposedly, this is the case where things went wrong.

But in the Sri Lanka case, in 2012, Sri Lanka's total debt was around $48 billion. And $8 billion of that was owed to China. And Sri Lanka's total receipts were around $11 billion. And just servicing the debt was around $11 billion. The debt equity swap that China did with Sri Lanka on the port was basically within this context.
And-- sorry, your name?

ANDREW SMALL: Andrew.

W. GYUDE MOORE: Andrew mentioned a report that my colleagues at the Center for Global Development did. And there are 84 times between the year 2000 and 2018 when China, like any other lender, waived or restructured loans that were given to it. What happened in Sri Lanka is an anomaly. So the weight of evidence is on the side of China behaving like any standard lender would do.

Now, what would I like to see in terms of the Chinese engagement? One of the things, and Caroline mentioned that, was the quality of enforcement of environmental standards on Chinese projects, especially in a place like sub-Saharan Africa, where you don't have as strong a regulatory environment, it's wanting. And so there have to be some improvements around that.

And again, I can't overemphasize, for countries that are really, really poor, then value for money means a lot to them. And so if the terms of the engagement are unknown, then-- so we would like to see more openness. Maybe that's coming, though, because China just recently-- was it this year? This year it created a version of USAID or JICA. And that's going to be responsible for China external aid. And so it's possible we're going to see the Chinese now begin to publish the terms of these, and allow us to be able to at least be more open.

Two elections were held in Africa in the past, say, 30 years, in which China was-- the opposition candidates basically ran on, "I'm going to kick the Chinese out." That was in Zambia. Chiluba was one of them. However, because Zambia has the longest relationship with China, once they became president and saw the scale of the proposal, and how exposed they were to China, they were, like, oh, we'll work it out.

So I think if you have an entity like China, an actor like China in an economy with as much resources as it does, it's going to alter the politics of the country. And we've seen civil society angling for more transparency in how Chinese loans are done, especially in places like Kenya. But we also see it in places where the government is not actually representative of the needs of the people. We see civil society also calling for transparency. So if I were to restructure deals with Chinese, I think I would emphasize the [INAUDIBLE] transparency.

ANDREW SMALL: I'd just add on a couple of points on this. I mean, first of all, the definitions of success for the BRI have been kind of moving targets. I mean, the challenge, I think, in the first phase was
that part of the definition of success was simply getting a lot happening on a large scale.

And this is why, if we were sitting here a year or so ago, and even then, we'd be weighing Pakistan a little bit differently. Even the internal assessments, I think, of, well, we got $19 billion worth of projects in motion in Pakistan-- that, I think, exceeded expectations.

But the number of these kind of mega packages has not actually been so great. I mean, there have been a few of these instances, which is why cases such as Malaysia and Pakistan are interesting, where you get this kind of comprehensive, national strategic economic scale projects. And these are still, I think it's still, in a number of these cases, too early to tell. Myanmar too early to tell. Pakistan too early to tell. Malaysia too early to tell how all of this is going to net out, particularly when we go through the kind of second phase of this rebalancing.

If you look at individual projects-- and all of these things predate the BRI, as well-- if you look at big, successful projects you've plenty of instances. I mean, you look at Central Asian pipeline networks, or you look at Piraeus Port, when China was going around snapping up infrastructure assets in Europe during the sovereign debt crisis. I think Portugal's done pretty well out of this. But I mean, these have been smaller-- I mean, in some cases, large, consequential economic projects, but not the kind of super packages that you've seen put together under the BRI.

And I would even push back a little bit in the Sri Lanka case. It's still a much more mixed picture. There's been a particular narrative around it for obvious reasons that relate to all the projects in the south. But you go around all of these things.

I've been to the cricket stadium, and the empty airport, and all of this sort of stuff. There are other projects in Sri Lanka that have been good projects. Colombo Port is a pretty successful project-- huge transshipment hub for India, of course, where most of the trade actually flows through.

You compare the roads, the airport road that you can use now versus the one that you used to use, even the Southern Expressway. I mean the Galle road, the Galle piece is finished. I mean, some of these infrastructure projects have been good. You have these old, problematic, Rajapaksa projects where a lot of the kind of focal point of the problems has been.

But I think even in a case like Sri Lanka, which is supposedly the poster child, there is a way in
which, if the right balance of projects emerges, there are still potentially beneficial consequences to large-scale Chinese economic involvement. But I think it's just going to depend on how these things-- on a few kind of quite important decisions that are made in the next couple of years. And I think the list of areas that one would hope to see a readjustment, in some respects is pretty shared by everyone.

I think there's a checklist of all the things that you would want to see done differently. The challenge is, we know what these rules look like. We know what kind of good, multilateral project rules and things look like. And again, there's a reason they haven't been done. China knows what these rules look like.

I mean, you could have channeled a lot more investment through-- either Chinese investment could have gone through other multilateral routes, or they could have focused on significantly scaling up the AIIB as a vehicle. The choice in the first place was these big, bilateral vehicles for very clear reasons. And the decision will have to be to rebalance away from that. And there are reasons why it's going to be-- political and commercial reasons why that might not happen on the scale that you would want.

CAROLINE FREUND: Let me just add that infrastructure development is really difficult and it takes a long time. So coming from Washington, DC, where we still don't have the rail to Dulles for anyone who's been there. And it's been being built, and now I understand they used the wrong type of cement or something. So it's difficult to build infrastructure, but it has really big benefit.

So I think the best economic study of this was done by the MIT economist Dave Donaldson, who looked at the rail built in the 19th century in India. And in a way, it's similar to some of the infrastructure being done in this case, where there really-- we just heard about roads getting washed out during the rainy season, et cetera. And there, the estimated gains are nearly 20% welfare gain, so really big gains.

But like the other panelists mentioned, it's going to take time before we know what the gains are in this case. So I think it's hard to say. And I think where the gains are biggest is also where the risks are largest. So when we do our estimates, we get really big gains for Laos and Cambodia, but there are also big, big risks there.

But let me just focus a minute on your second question, which is my wish list, because I do have one. Transparency is the first thing. So there really should be a data set. You could imagine a nice map like this.
We do this for the World Bank projects, where you can click on any World Bank project, and see all the details about it. And that would be really nice as a start, just to understand what this is. Because I think that's what makes people so afraid, is the fact that they feel like they don't know. So information is powerful.

Then, I think just the internationalization of standards along this. And I think we're moving towards that. I think just like any other big lender, there are some repercussions coming from having a Sri Lanka. And so working with the IMF to think about debt sustainability, and there's projects with the World Bank in some of the least developing countries. And there's projects along those lines.

Opening up procurement-- one of the things we heard from one of the countries we visited was they wished they had thought to ask the Chinese for training. And the Chinese probably would have given it, because they have to maintain this infrastructure later. So if they'd asked for training of engineers and things like that, it could have been a bigger boost.

And I understand that terms can be private. But I think if we have a sense of the range, and that's what we're trying to put out, it gives countries a bit more information to bargain with. So they know, oh, there are some projects being done on really soft terms. I want those kind of soft terms, too.

So I think just if we have more information, it will be a lot clearer, both the benefits and then we can think about how to do even better, because we can do analyses, and then think, oh, actually, if we build this, maybe we want to build this, too, because that will boost the level.

And then finally, just what I've talked about before. And I think this is the softer side, and maybe where an institution like the bank could come in with some technical assistance, is to ensure that countries have the kind of governance, business climate to really make the most of the infrastructure.

CHANG-TAI HSIEH: So I want to push you, sort of two follow-up questions. One is the question of what you do in the context of low capacity? And let me put it in this way-- one of the things that really strikes me about if you go to any, I'm going to say, third-tier Chinese city, and you wake up in the morning, and you go down for breakfast.

And you look around you, and you look at who is around the breakfast table. And the people
that you could find around the breakfast table are basically buyers from all the companies in
the world. And they're there basically scouting for projects, for projects, looking for people that
can make the-- they're scouting all the local firms.

Whenever I have gone to, say, Africa, I wake up for morning and the breakfast, and it's three
groups of people that I find. Number one-- well, first of all, there never has been a buyer. And
the three groups of people that I see now are, they are going to be all the NGOs who are
there.

And so think of these as people that have their own pet projects. They want to do water. They
want to do help. They something.

The other big group are the religious groups. I think of these people who were there because
they want to-- they have some vision of heaven, and they want to save our souls. And the
other big group now are these Chinese firms, are the Chinese.

So I want to push back on the statement that Gyude made, and say, they're the only ones
there. Well, it's not quite that, right? They're there along with the NGOs, and along with the
religious groups. Those are the three dominant groups that I see are among the choices that I
have.

But then going to the question of-- but that's not the choice that a Chinese city has. I mean,
there's nobody there that that's coming there to build their infrastructure. There's nobody there
that's out to save their soul. And they don't allow for NGOs, either. I mean that's enough for
NGOs.

But then the question is, presumably, you want to think more broadly about-- you can't just
take what's coming to you. You also want to think about what is it that you want. So I want to
push you on the sort of follow-up question of-- this related to the point that Caroline made at
the beginning about complementary investments-- that granted, they're there. You want to
take advantage of the fact that people are here. The NGOs are there, and you want to do as
much as you can.

But presumably, you want to be aware of what their agenda is, and what you can get from
them, and where you want to go next. Where you want to go, so you're thinking about where--
given that the Chinese are there, and they have this agenda, where would you want to go
next? Because you can't-- if you just stop here, if you just stop with the people that are
coming, I can almost guarantee you that you’re going to get nowhere. You’re going to get nowhere.

So then just want to just think more about, given that this is the environment that you face, then what else do you want to do, to take advantage of the fact that the world has changed, that it’s no longer just the NGOs, no longer just the religious groups, but now it’s also the Chinese that are coming in. What can you ask? What else can you invest in? What do you do? So let’s stop complaining, but let’s be-- let’s think more broadly. Anyone.

CAROLINE FREUND: Go ahead, Gyude.

W. GYUDE MOORE: So just quick-- so we’ve talked about the constraints, and why China’s finances is acceptable. But then there are constraints that are also endemic. And those are related to governance.

I mean, for a long time, most of the economies on the continent have been stuck in extractives-- oil, metals, minerals, with limited scope for product differentiation or even value addition. And consequently, it’s consequently subject to the vagaries of the prices of these that go up and down. And for some reason, leadership on the continent has never actually made that break.

I’ll just give, because I’m personally interested in cocoa, so I’ll give that example, that 76% of the cocoa that goes into chocolate produced in the world, 76% comes out of West Africa. And yet we don’t process. We sell beans. That’s basically-- and we’ve sold beans for the last 40 or 45 years. And as long as there is no action up the value chain, I mean, that’s what we’re going to make any money.

So I think improvement-- and Carolyn talked about that-- how do you leverage the infrastructure that you have unless the business environment improves? And how does the business environment improve if it is not predictable, if there is not rule of law? These are there.

So when I said that our traditional partners have moved away from hard infrastructure to these things, these were the things that they were now financing, but it’s a combination of both that’s needed. So I am sorry if I created the impression of an Africa without agency, of an Africa without role in trying to get to this place. I was trying to address the question of the desirability of Chinese financing of infrastructure.
But there's a whole portion of this that is the responsibility of African governments themselves---the perception of corruption. American companies, European companies, have a version of the Foreign Corrupt Practices Act, which will preclude them from investing in places that are considered corrupt, and they don't want to do bear that risk. So I think there is a big part about the governance in Africa that is yet to be addressed by Africans themselves. And unless that is done, this situation is going to persist, I think.

ANDREW SMALL: Just one sentence in addition-- the interesting thing that has now happened, of course, as a result of the Belt and Road as well is it has catalyzed responses from a number of other actors, as well, that had been kind of out of the game or a bit less in the game than they were. Japan moved very quickly, of course, with its own quality infrastructure initiative, and which has significant resources behind it. The US with the Build Act that was just passed.

The EU a few weeks ago just signed off its Europe-Asia Connectivity Initiative, which is modeled on the Juncker Plan, which mobilized about 350 billion euros of new private sector investment in infrastructure in Europe in the last few years. And they're basically looking to replicate that kind of financial model to better mobilize private sector capital in infrastructure investment overseas, on pretty similar scale. Several hundred billion dollars is intended.

And so I think you are also, in addition to kind of the people that you're talking about popping up in these places, I mean, I think you're going to-- I think there's been a self-critical look on the part of a number of governments, institutions, countries, in saying what are we not doing well enough? And how do we do this better? And how do we mobilize the right kind of finance for this?

And I think some of this is only just kicking in. But I think it's going to be a very different landscape. And that's not even to go down the long list what Taiwan is doing, what South Korea is doing, what Australia is doing, what India is doing. The package of what all of that amounts to is going to give a lot more options than just the Belt and Road option, which will also recondition the way these negotiations take place, and has, in some countries, already.

I mean when JICA offer $3 billion support for a port development in Bangladesh, it's a significant sum of money that wasn't there before, and was done to ensure that the Chinese didn't get the first [INAUDIBLE] to put there. So it's a very different environment to the one that China was kind of stepping into. And I think it's going to look even more different in the next
few years.

CAROLINE FREUND: I would make the same point, just that now there's a competition for infrastructure development. And that might be a good thing.

CHANG-TAI HSIEH: Great, all right. So I'm going to turn to questions from the audience. The first question from the audience is on-- I think it's on exactly this point. The question is, how does Chinese investment in Africa impact the engagement of the EU? And I would extend it to thinking about the engagement of the US. So it seems that the answer is that it's that's more competition.

W. GYUDE MOORE: Definitely. I mean, around the time that FOCAC-- that's the Forum on China Africa Cooperation-- was held, Angela Merkel was in Africa talking about the EU. And in fact, when the EU President gave his State of the EU address, he talked about engaging Africa as peers now on a commercial scale, and because most times, it had been development. But I think there's a little problem with Europe's engagement with Africa.

Of course, we welcome that. But I think it's being anchored in sort of an extension of Europe's borders, to stem the flow of migrants. And that is the anchor around which the conversation is happening. Good. That is improvement from Europe.

I think at the same time, the British Prime Minister was also visiting a number of African countries. So we've seen that. One of the ways advocates convinced the US Congress to pass the Build Act was to say, this gives us an opportunity to go toe to toe with China. So it has definitely prompted further engagement from others.

CAROLINE FREUND: And just to add as the World Bank, I think that-- and there was some discussion of this in previous sessions-- that in the past, countries moved away from doing it bilaterally, because there can be pushback, the kind of Sri Lanka effect or Malaysia now. And the multilateral institutions have a lot of experience in doing this. There's a problem now, in that maybe we're too slow sometimes.

Maybe there are too many safeguards we go through. And maybe, hopefully, we're trying to improve on that. We're trying to become more agile. But I think at some point, it would be nice with this competition if we went back to the Multilateral Investment Bank kind of process for doing this, rather than bilateral, where I think we're more likely to get into problem projects.

CHANG-TAI HSIEH: So since you mentioned this, I wanted to ask you. So my understanding of the intellectual history of the World Bank is that the 1950s and the 1960s, the World Bank was basically-- the
vision was like that of the Belt and Road initiative. I mean, the formal name of the World Bank is the International Bank for Reconstruction and Development.

So it was very much the same infrastructure vision. It was only afterwards that the vision changed. But I assume that there were some lessons that were learned. And that there's a reason why the vision shifted away. So could you tell us more about what we learned from those two decades? And why it shifted?

CAROLINE FREUND: Just to go back, infrastructure is very difficult. And there can be a lot of problems and pushback. So the World Bank did a lot of infrastructure. There were some problems.

And then it moved away from infrastructure, and went more towards policy-type lending, in order to avoid where a population had to be moved, or houses were torn down. I mean, you can really get into difficult social issues, difficult environmental issues. So it moved more towards policy lending.

And now, in recent years, it has shifted back towards infrastructure, with lots of safeguards in place, which is good. The problem with that is that countries will complain, and prefer to go sometimes elsewhere. Because all these safeguards mean that we're going to do it right.

We're going to get everything perfect. But it may be slow to disperse. And that isn't always what countries are looking for.

CHANG-TAI HSIEH: OK. So the next question is, can you talk about the domestic challenges of accepting Chinese investment relative to investments from multilateral institutions?

CAROLINE FREUND: Well actually, I think that feeds into what I was just saying, that the multilateral development institutions, they're going to do some of the projects. But it may be slower. You may, in some cases, get a better rate. You might get a better project because all the boxes have been ticked on social, on environment.

But some of the stuff, we're going to say no to. And it might be something that is very valuable, but it's also very risky. And it's too risky for us.

So in some cases, it's good there's someone else to come in and build it. In some cases, it might not be so good. And that's the world we're living in.

W. GYUDE: Yeah, can I just say something?
MOORE:

CHANG-TAI HSIEH: Yeah.

MOORE: So this is one of the advantages. For some reason, I didn't say that in my notes. So the presidential term is anywhere between four to five to six years in most countries.

So take countries that are in the tropics-- half of the year, it's raining. Half of the year, the sun's out. So you can only do construction in the months of the year when the sun's out.

So if it's going to take me, from concept to financial close, it's going to take me 24 to 36 months negotiating with the World Bank, I would rather go to the China Exim Bank and get that thing done. Because look, I have an election coming up. So it's also the combination of being able to-- how quickly can I get this rolling? But I think because the Chinese system is so fast, then there are boxes that aren't ticked. So can we find some sort of middle ground between not so slow, but maybe not so fast?

CHANG-TAI HSIEH: So have there been projects? Do you know, are their projects the Chinese have said no to?

ARIF RAFIQ: Well, I know in Pakistan, when the previous government came to power in 2013, they actually asked for a bullet train.

[LAUGHTER]

And that was actually the response of the Chinese government. The Railways Minister said that they laughed at us. And they said, you will not be able to sustain this. So there is a tendency of Chinese investment in these emerging and frontier markets to kind of align with the interests and the very politicized interests of the individual or persons that are in power, whether it's in Africa or elsewhere.

And the previous Prime Minister in Pakistan had-- that was one of his electoral promises, that he would build a bullet train. Instead, the focus has been shifted towards a higher speed, conventional railway, which itself is still quite expensive. And there is questions of whether Pakistan has the capacity to absorb that kind of debt. But still, I think that's an example of the Chinese saying no, and rightfully so.
ANDREW SMALL: Yeah, I mean, there were piles of projects, in fact. Because so much was just thrown as, we could do this. Here’s an old project that we couldn’t get anyone else to finance, certain obvious major dam projects, where-- in some of the cases, it was also the terms that were offered, that the Chinese were willing to take it on, were so problematic that it was essentially, we need so many guarantees, we need such generous terms, that it then becomes completely unattractive for the government to proceed.

And this-- I mean, you saw this. Pakistan was a really interesting case in this respect, because you saw, in the early stages, a willingness on Pakistan’s part to say "yes" to some rather questionable terms, just to suck in Chinese investment, to get them committed, with a view that probably it would get renegotiated later. Further down the line, you had much tougher negotiations that took place between the Chinese and the Pakistani governments, in terms of the terms that both sides were willing to accept. So I mean, it’s been a fluid process in any of these instances.

CHANG-TAI HSIEH: We’re going to wrap this. I’m going to give the last word to Gyude.

W. GYUDE MOORE: So between now and 2050, 900 million Africans are supposed to enter the labor force. And as a continent, we’re going to need as much assistance as we can get. But in 2018, the US National Defense strategy targets China as a strategic competitor, which now might devolve into a zero-sum game, where every action of China requires a counter action from the United States.

When the relationship between China and the United States becomes so competitive, then it’s difficult to find areas to be able to cooperate. And I believe Africa provides an opportunity for us to be able to do that. It is my hope that the relationship between the United States and China, as the dominant and the rising power, is resolved in such a way that we don’t bear the brunt of it. We have a saying in Liberia that when two elephants fight, it’s the grass that suffers. And so we hope these two elephants will refrain from fighting. Thank you.

CHANG-TAI HSIEH: You can ask for another import, right? Thank you.

ERIK HURST: Thank you, Chang, and the other panelists for a great discussion. My name is Erik Hurst. I’m a
Professor of Economics at the Booth School of Business and Deputy Director of the Becker Friedman Institute. And the Becker Friedman Institute is the organization that put this on.

So I have a few thank yous before we head off to lunch, and then one announcement. So I want to start by thanking many of our distinguished panelists for all their contributions over the last two days. We've had many people come in from very large distances. And I think we were all better off from their participation.

I'd also like to thank Michelle Caruso-Cabrera, who did a fantastic job moderating many panels.

[APPLAUSE]

And making sure the conference stayed focused on key themes and issues. I honestly thought she was fantastic, unbelievable. I would also like to acknowledge and thank a few other groups-- the US China Exchange Foundation for their support of the event, the staff of the Becker Friedman Institute, the University of Chicago Global, and the Central Events Office for their hard work in putting the dev forum together.

And particularly, I would like to specifically recognize Karen Anderson, BFI's Senior Director of Policy and Communication and External Relations. Through Karen's leadership, her and her team has made this event such a success, from designing an insightful and star-powered agenda to the flawless execution. So maybe we should give one up for one more time for Karen and her team.

[APPLAUSE]

And of course, I'd like to thank all of you who attended, both in person but virtually-- a lot of people were watching this as we were live streaming. So that is important for sharing their comments and questions online. We've covered an incredible amount of ground these past two days-- China's increasingly influential role in the global economy, and its implication for policy in both China and the United States is in the news almost daily.

However, unless you're a student of these subjects or at the forefront of policy, it could be difficult to keep track of all the nuances. And that's why conferences like these are so valuable, and why we are lucky to have had this event on our campus. The insights we've gained from the expertise of our outstanding panelists helped put the news in context.
And throughout our discussions, we've not only learned about key policy questions affecting the US and China, but how they will shape our relationship in the many years to come. And the good news is that if you missed any of these discussions, or would like to revisit any of the sessions, we have them all available online. Somewhere, they told me, they're going to post a link right above, and there in the panel. So if you and your friends want to revisit these, you're more than welcome to, and pass it along.

As President Zimmer noted in his opening remarks these past two days, the conference is marking a new era of the partnership between the University of Chicago and researchers in China. And here comes the announcement part-- later this month, the University of Chicago will christen its Francis and Rose UN Campus in Hong Kong, a state-of-the-art hub for education, research, and collaboration. And as part of that opening, we at the Becker Friedman Institute will enter into a formal agreement with Tsinghua University to launch a Joint Center dedicated to fostering cutting-edge research among our faculty.

In addition to scholars from Tsinghua the Center's leadership will include a number of University of Chicago economists, including Chang, who are intellectual leaders in their fields. Importantly, the Research Center will not only be committed to fostering new and exciting research, but also fostering deeper ties and exchanges between researchers in China and Chicago. Faculty from both institutions will meet regularly to share insights, identify new areas for collaboration, and discuss areas of mutual interest that we will hope will spur joint projects in programs between the two universities.

Consistent with our mission here at BFI, our hope is that the outputs of these partnerships will serve to inform policy making, both in the United States and in China. So we look forward to continuing this important conversation about China's economy, and its role in the world. And we hope that you, too, stay involved.

Thank you all for joining us. Lunches are outside. Please feel free to pick one up as you are exiting. Thank you very much.

[APPLAUSE]