Energy Intelligence

Reproduced with permission by Energy Intelligence for ISEAS-Yusof Ishak Institute
Issue Vol. 31, No. 25, June 19, 2020

ENERGY COMPASS®

Vol. 31, No. 25 www.energyintel.com June 19, 2020

CHINA

Post-Crisis, a New-Look Belt and Road

As China strives to recover from the coronavirus outbreak and its impact on the country's economy and reputation overseas, it is likely to look to its signature foreign economic policy, the Belt and Road Initiative (BRI), to come to the rescue. But as Beijing, with more limited funds on hand, looks to grease the wheels of its economy in the most efficient way possible after the crisis, health care and digital technology are expected to gain new prominence within the BRI — likely at the expense of traditional infrastructure projects. A question for the leadership, too, will be whether the pandemic offers an opportunity for resetting the economy on greener lines, which could trigger an emphasis on cleaner BRI energy projects.

President Xi Jinping's BRI, launched in 2013 and enshrined in the constitution in 2018, aims to increase China's connectivity to other countries, open new markets for Chinese companies and expand China's influence — all in one go. More health-care provision during and after the pandemic offers Beijing the opportunity to achieve all three goals and show goodwill toward its 126 BRI allies. As the epidemic turned into a pandemic, most BRI countries received medical equipment, supplies and in some cases training. Medical help was swiftly sent to Iran, the second country where the epidemic took hold after China, and masks dispatched to Italy, the only country in Western Europe to have joined the BRI (EC Apr.3'20).

But in perhaps the biggest shift since the 2008-09 global financial crisis, the gigantic road and rail plans launched at home that helped speed China's recovery then — and before any other country, albeit at a massive cost — are gone, even as they remain part of the wider BRI. This time, China is betting on "new infrastructure" to stimulate its economy and go up the value chain, including Artificial Intelligence, 5G and smart cities.

The post-coronavirus world will see increased demand for online doctor consultations, e-commerce platforms, and technologies to identify and monitor virus carriers that were pioneered in China, noted consultancy Baker McKenzie in a report on the impact of the coronavirus on the BRI. The digital BRI will involve giant Chinese tech firms Huawei, Alibaba and Tencent, which had already started expanding overseas, either directly or through stakes in local start-ups.

None of this means the recipients will turn a blind eye to China's other activities. "Each country in Southeast Asia is keenly aware of the opportunities and threats. If China is the first country to develop a vaccine, and makes it available and affordable to the wider community, it will generally be welcomed. But at the same time, countries can be expected to continue to assess their relationship with China based on Beijing's actions and their own national interests," Lye Liang Fook, with Singapore's ISEAS-Yusof Ishak Institute, told Energy Intelligence.

For example, as China has largely brought the pandemic under control, despite a recent spike in cases in Beijing, it has resumed incursions in contested waters off Malaysia and Indonesia. China's "mask diplomacy" has been criticized in Europe and the US as a propaganda tool and, in some instances, rejected due to the poor quality of the products, although it has received a more positive response in Southeast Asia, which had already last year become a favorite recipient of China's BRI largesse (EC Nov.22'19).

Cleaner and Greener?

As the world rolls out stimulus policies weighted toward green projects, especially in the case of the EU and Canada, there are also hopes that future Chinese initiatives will follow suit (EC May29'20). The Belt and Road Forum held last year in Beijing called for greener developments (EC Apr.26'19).

However, even as China has become the world's largest renewables manufacturer and producer, these same companies have failed to transfer that success overseas. Publicly available data compiled by Greenpeace show that Chinese equity investments in green energy in BRI countries between 2014 and 2018 added 1,277 megawatts of new solar capacity and 432.5 MW of wind power. But they also supported six times as much coal power capacity, or 10,400 MW, in those same countries.

One recurrent issue has been the lack of available financing for Chinese renewables projects, with China's banks shying away from such projects abroad. This may be about to change. China last month excluded clean coal from a list of projects eligible for green bonds, which should increase the pool of money available for renewable projects, and reflect China's stronger commitment to tackling climate change.

"What we need is for Beijing's policy to encourage financial institutions to implement these guidelines on investments in the BRI.

(continued on page 2)

CHINA *(continued from 1)*

It would make it very hard for clean coal projects to find financing," Simon Zadek, co-author of the report *Decarbonizing the Belt and Road: A Green Finance Roadmap* and chair of the Finance for Biodiversity Initiative, told Energy Intelligence.

China's overseas coal power plant projects are also often part of integrated packages, which include a financing deal, coal supplies guaranteed over a long period and various additional infrastructure elements. One case in point is the $57 billion China-Pakistan Economic Corridor, which involves rail, roads, ports, pipelines and coal power plants (EC May1'15).

Looking ahead, the key could be in harnessing the scale and momentum of this approach to integrated projects with greener credentials. "China has excelled in building projects into ecosystems. It can be done by Chinese clean technology companies. They need to make use of the Chinese model," Zadek said. ■

Maryelle Demongeot, Singapore

Compass Points

- SIGNIFICANCE: The BRI was first introduced in 2013 when China's economy was still growing at more than 7% a year. Now, with GDP falling by 6.8% in the first quarter, China may need to be more selective when deciding which overseas projects to prioritize.
- CONNECTION: China needs the support of its BRI partners more than ever as it faces a backlash in the West over its early handling of the coronavirus.
- NEXT: Rolling out a coronavirus vaccine as a public good shared with its BRI partners would be a coup for China.