A GRI SPECIAL REPORT

CHINA'S BELT & ROAD INITIATIVE: RISK INSIGHTS

TRADE ROUTE LIMITS
ENERGY (IN)SECURITY
REGIONAL TENSIONS

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JANUARY 2018

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- Kerim Derhalli, CEO & Founder of Invstr, Former Head of Equity Trading at Deutsche Bank

GLOBAL RISK INSIGHTS

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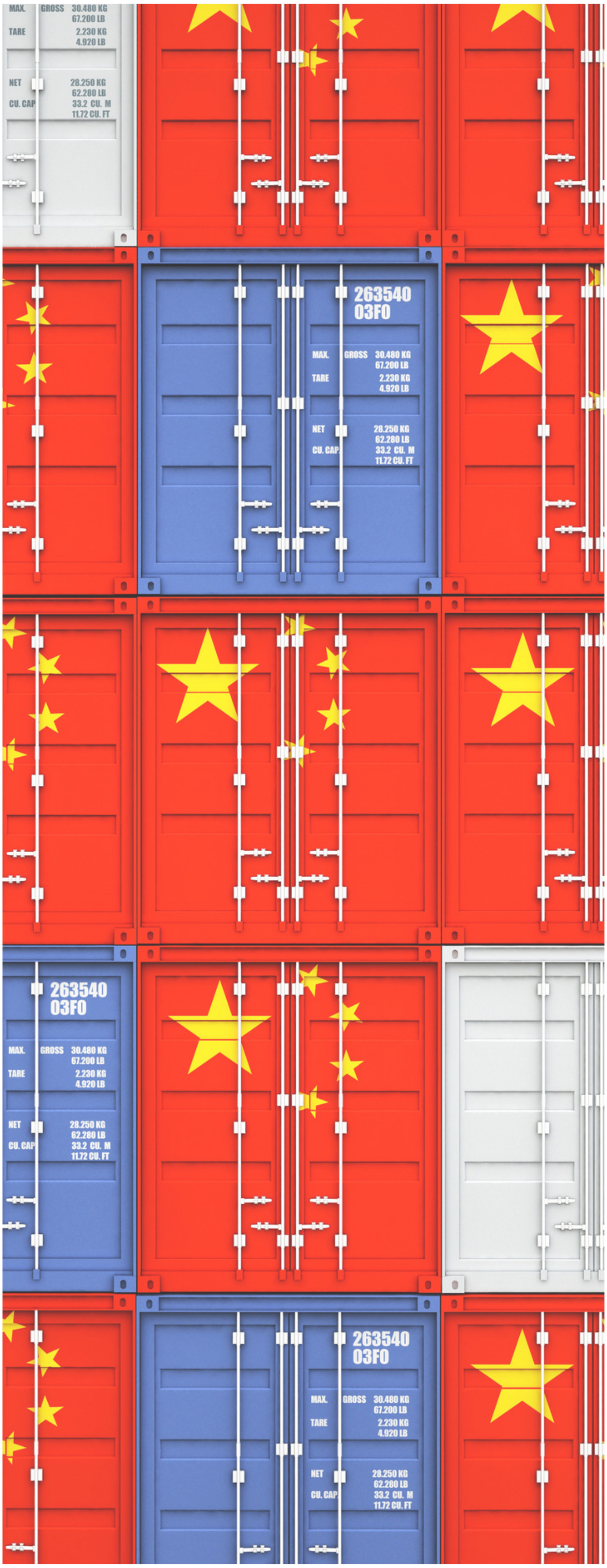

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Note to the Reader: The articles in this publication also appear on the GRI site with hyperlinks to source material, in case further reading is desired.

INTRODUCTION
THE BRI: SYMPHONY OR SOLO?

The Belt and Road Initiative (BRI) is music to Beijing's ears. He Yaifei, the Vice Minister of China's Ministry of Foreign Affairs, has waxed lyrical in describing the initiative as "Not a solo, but a chorus". He is echoed by Wang Yi, China's Foreign Minister, who has referred to a "symphony" of all relevant parties.

But there should be no mistake: 89% of contracts on BRI projects go to Chinese firms, often advancing China's interests considerably more than those of their partners. Beijing is doing what it can to play the orchestra, so to speak.

Initially conceived as the slightly less mellifluous *Silk Road Economic Belt and the 21st-century Maritime Silk Road*, the roots of what we know as the BRI can be found in President Xi Jinping's speech in Kazakhstan in September 2013. He called for the creation of a "Silk Road Economic Belt" that could link East and West.

Now, the BRI in all its glory covers **over 900 projects across 60 countries,** to the tune of more than $1 trillion. By launching the BRI and more recently by embedding it in China's constitution, President Xi Jinping's administration hopes to achieve a number of aims.

Economically speaking, China hopes to find new outlets for its hottest industries - coal, steel and solar are all key to BRI projects, for example - and to use its vast foreign reserves to ease ties to the USD, thereby strengthening the RMB. Beijing also hopes to boost overall GDP and reduce regional economic disparity by targeting China's Western region.

From a **security** perspective, by improving transport and infrastructure in Xinjiang and in the countries on China's borders, China also aims to tackle the 'three evils' as defined by the Shanghai Cooperation Organisation: terrorism, separatism and extremism.

In **trade and energy** terms, China hopes to secure access to key commodities in Central Asia, lock-in oil imports from the Middle East and secure pipelines in South and Central Asia as well as Russia's Far East, enabling China to mitigate its ongoing energy security concerns and reliance on sea-lanes controlled by the U.S. Navy.

As far as symphonies go, the BRI is a hugely complex composition, widely known but rarely examined in depth. **This report aims to be your guide** to the risks and opportunities most likely to affect the initiative in 2018 and beyond. We hope you enjoy the performance.

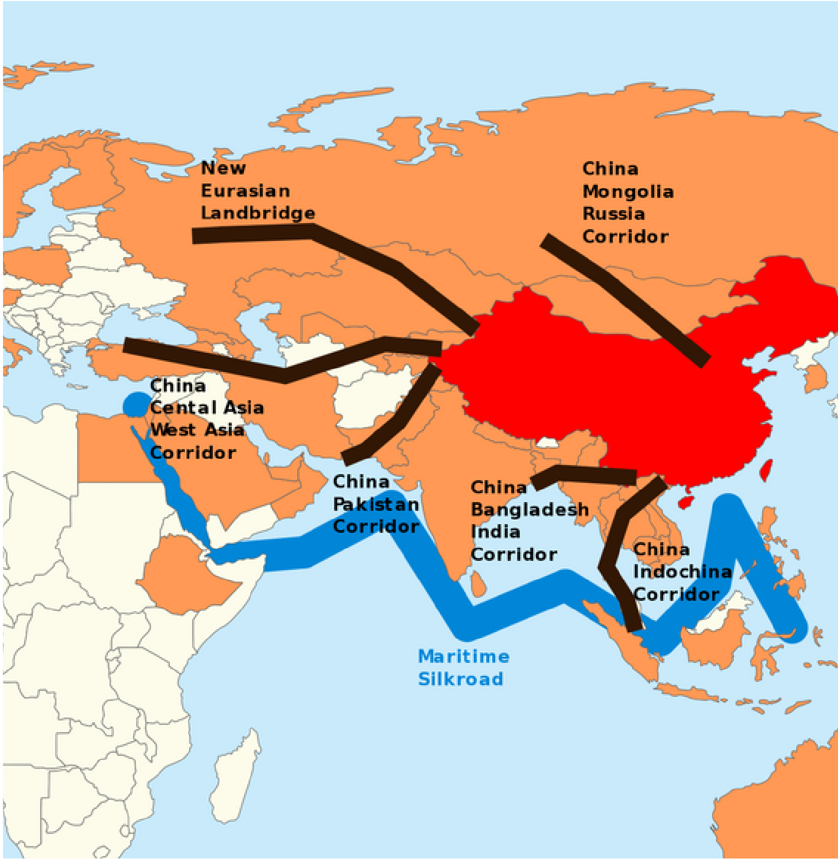
Nick, James, Joanna & Qi

TRANS-EURASIA TRADE ROUTES

The growth of China-Europe rail transit has sparked intense interest as new routes have created new openings for trade, set to compete with slower shipping routes. But there are inescapable limits.

China is predicting 15% annual growth in container volumes exported by rail to Europe every year for the next 10 years. Thus far, growth has largely been driven by generous subsidies for rail routes in China. As European firms find niche export markets in China via rail, volumes are running up against logistical constraints in Russia and Trans-Caspian routes are growing more attractive.

China has three primary rail routes linking it to Europe: Russia's Trans-Siberian Railway from China's northeast, the Trans-Siberian via Mongolia, and Kazakhstan's rail system as well as Turkmenistan's carrying goods to Caspian ports. At that point, goods are shipped across the Caspian to Azerbaijan where they're then loaded onto the rail network crossing the South Caucasus and into Turkey.



THE RUSSIA ROUTE

Rail transit volumes through Russia have limited room to grow. Profitable rates for the Trans-Siberian route stand at $8,000-$9,000 per 20-foot container. It costs $1,000-$2,000 to deliver the same via container ship. China is now mulling pulling its subsidy support covering 40-50% of the cost of shipping via the Trans-Siberian due to a shortage of capacity on the Russian rail network and incredibly slow train speeds. Russia has failed to convince China to commit financing for its modernization plan for the Trans-Siberian and Baikal-Amur Mainline rail routes, and Russia's Ministry of Transport is leaning towards ceasing Belt and Road cooperation with China unless financing needs are met by Beijing. Russia's transport ministries and infrastructure sector will likely struggle to win state resources during a time of increasingly strict budget controls from Moscow.

Domestic demand for grain, coal, and other essentials strains from a systemic shortage of rolling stock due to poorly conceived regulatory schema. It's estimated that higher rental costs for rail wagons have taken 200-250 billion rubles ($3.4 billion to $4.3 billion) out of the economy. Depending on market prices for grain and coal in particular, Russian firms see exports as more profitable. The domestic industries and consumers that pay for infrastructure improvements will likely suffer next year due to China's import needs. China appears to be giving up or else trying to drive an unacceptably hard bargain on large-scale projects and financing.

THE TRANS-CASPIAN ROUTE

The growth outlook is much rosier for China's Trans-Caspian route. The recent completion of work on the Baku-Tbilisi-Kars (BTK) Railway in the South Caucasus has made rail shipments through Kazakhstan and Turkmenistan much more attractive. Iran's expanding rail links with the South Caucasus and Central Asia are also set to create trade opportunities. Rail turnover through Kazakhstan to Europe reached 102,000 containers by the start of November. Current plans aim to hit 2 million containers by 2020.

The opening of the BTK will surely help boost transit turnover volumes, but there's no good means of judging whether 2 million is realistically attainable. Prime Minister Bakytzhan Sagintayev recently spoke at the "Kazakhstan Global Investment Roundtable," citing hopes to earn as much as $5 billion annually of transit on top of the 2 million container figure. Observers should be skeptical while acknowledging that significant growth is real.

For one, growing transit volumes should first be assessed in terms of China's export turnover with the South Caucasus and Turkey, since the route is multimodal. Even with significant subsidies, the relevant routes Kazakhstan hopes to exploit are most viable for destinations just before or else at the edge of Europe. For example, China has become Turkey's leading source of imports, worth $2.1 billion for the year at the end of November. As of September, trade with Georgia was worth $640 million for the year with hopes in Tbilisi that this year's FTA agreement will bring that total to $1 billion annually on average. Work remains to increase turnover between the states along the route.

For another, Kazakhstan is hoping to rely on private investment and public-private partnerships. The move is meant to reduce strains on the budget so that money can be spent elsewhere, particularly as social spending is trending upwards through 2020. Political reforms are beginning to decentralize power slightly and allow technocrats to manage Kazakhstan's economy, but progress could vanish if President Nazarbayev dies without naming a successor. Now that Nazarbayev is demanding the country's companies and elites to bring money back from offshore, it's possible that elites will seek new means to curry favor or else look for tax breaks via investments into specific projects.

THE BLACK SEA AND BEYOND

Expansions of capacity are needed given the growing strain on Russia's rail system. Azerbaijan expects the BTK Railway's initial capacity of 5-6.5 million tons of cargo is expected to grow to 17.5 million tons. Some of that trade will flow into the Anaklia Deep Sea port currently under development on Georgia's Black Sea coast. Ports in Batumi and Poti are restricted by shallower drafts and are located in the center of urban areas, which limits their ability to handle container traffic. The consortium building Anaklia signed a Memorandum of Cooperation (MoC) with ports in Baku in Azerbaijan and Kuryk in Kazakhstan.

Anaklia is set to become a significant hub for the Black Sea container trade. Security remains a concern, as the port is not far from the border of the Russian-backed breakaway republic of Abkhazia.

Romania and Bulgaria are seeking international investors for two bridge projects over the Danube River and a 200-kilometer motorway linking the Romanian port of Constanta with Varna and Burgas. Chinese companies will certainly take note. Going into next year, there's talk of listing Portul Constanta for an IPO. With success elsewhere in the region, expect Chinese firms to look for ways to buy in.

China Harbor Engineering Company (CHEC) has expressed interest in investing into the Bulgarian ports of Varna and Burgas as reported by party members of GERB, the senior partner in Bulgaria's governing coalition. The company would create industrial zones that would funnel trade from Chinese firms. But the GERB party – the senior partner of the governing coalition in power – suffered a setback as legislative gamesmanship with the Prime Minister led to speaker Dimitar Glavchev to step down. New developments for Chinese investments have stalled thus far.

Ukraine also provides opportunities for China. CHEC already won a contract in May to dredge the approach to Yuzhny port near Odessa. China's Sinohydro Corporation Ltd. recently won a contract to upgrade the Kyiv-Chop highway. The construction sector is up 23.4% year-on-year as of October, worth $2.3 billion, and China is poised to competitively bid on port and highway projects. Infrastructure investment is needed to make up for economic losses imposed by the loss of the Donbas, Russia's annexation of Crimea, and to build a foundation for sustained growth. The state of political and economic reforms in Kyiv are the best predictor of sustainability. Unfortunately, the outlook is mixed.

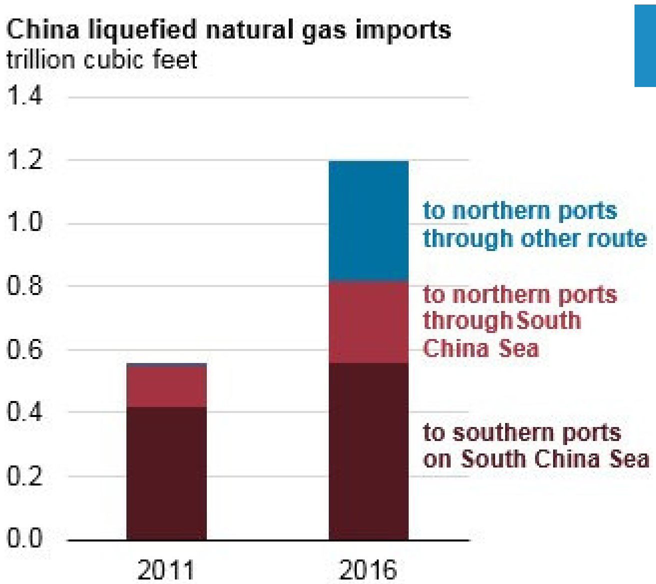
MULTIMODAL ROUTE OUTLOOK

There is a hard ceiling approaching on China-Europe rail transit via Russia due to budgetary strain in Russia and a refusal to allow Chinese or other concessionaires to negotiate terms for projects. Barring significant network upgrades, bottlenecks will hinder growth. The Trans-Caspian route, however, seems to set to keep growing. In reality, the volume of trade it can handle will always be constrained.

Large container ships can't access the Caspian and it makes little sense to build them there. This limits the economies of scale that can be achieved and means that trade will largely be driven by the countries along the route based on the sectors of their economies showing growth. But the BTK railway has made it China's preferred option for transshipment to Europe.

ENERGY SECURITY INVESTMENTS

China's general approach of hedging against over-dependence on maritime routes via the Straits of Malacca or else on any one supplier of oil and gas has not shifted. The two should be assessed separately, given that oil volumes are fungible and natural gas volumes have not reached that point.



Source: EIA

NATURAL GAS

China faces a growing diversity of options in coming years. Some observers have expressed concerns over a decision to cancel Line D of the Central Asia-China gas pipeline network. The pipeline would carry 30 billion cubic meters (bcm) of natural gas from Turkmenistan were it completed, adding to the current 55 bcm of capacity that have been built. But that 55 bcm is not fully utilized and China is now negotiating for greater exports via Lines A, B, and C to cover winter shortages. China is also set to import 10 bcm from Kazakhstan.

The **Power of Siberia** pipeline being built by Russia's Gazprom will come onstream some time in late 2019, built to a capacity of 38 bcm. Once it does, China will have successfully gained access to piped gas volumes from competing overland suppliers. However, the country's pricing schema for consumers and geographic concentration of industry make LNG a better bet to maintain diversity of supply and keep prices lower. The concentration of capacity is borne out by the fact that China's LNG imports hit record highs last November since they can more flexibly meet fluctuations in demand.

Production from Russian Novatek's **Yamal LNG** – a China-invested project that has weathered sanctions – has finally come to market. Australia's Gladstone port is now providing record volumes to China and Beijing's interest in investment into Australia's LNG production will most likely only grow despite back and forth between businesses over projects. A recent deal to jointly build a LNG plant in Alaska was reached in broad strokes, though the project is questionable economically. It's likelier that China was trying to send a message to Gazprom to push it lower prices or else speed up construction. By and large, LNG is more flexible and affords many opportunities for competition as the market is facing a glut for the foreseeable future.

More broadly, LNG prices in Asia have hit three-year highs on spot markets due to winter demand. China is looking into **projects in Mozambique and Tanzania** as it expands its ownership over international production. Given that only Japan imports more LNG than China now, the geographic location of LNG investments will be largely irrelevant for major investments. The most important goal for Chinese policymakers will be making markets more liquid and interconnected, which entails increasing production anywhere possible and applying various levers to end destination clauses or oil-indexation for contracts.

OIL STRATEGY

China's import dependence is large – 65-66% of its needs – and set to rise to as much as 80% by 2030 due to falling domestic production alongside economic growth. Energy investments are increasingly important to ensure access to supply. These will take on greater salience this year as the oil market tightens. Prices have edged above $70 a barrel as production has collapsed in Venezuela and demand has beaten expectations. Growing security concerns over Chinese investments will prove an important narrative for 2018 if China wants to further diversify its energy assets in the U.S. Chinese firms are looking to reopen U.S. trading desks to capitalize on growing shale production as oil prices have risen.

Russia and Saudi Arabia compete to be the largest provider of crude oil to China. In 2017, Russia took the top spot, selling an average of about 1.19 million barrels a day through October. Rosneft's rising deliveries to China are straining existing infrastructure, which remains oriented towards Europe due to Soviet legacies, and foreign investment is likely needed to meet domestic and Chinese demand longer-term. Pipeline capacity from Mohe at the border of the two countries will enable further import growth as Russia pivots its oil supplies eastward where markets are growing. Most recently, the Russia Direct Investment Fund has approached Chinese banks and companies in search of investment to expand oil pipeline capacity for Russia's pipeline monopolist Transneft.

Saudi Arabia has courted Chinese investment, reportedly signing deals worth $60 billion with China in late August 2017. The two countries are seeking to expand cooperation on industrial projects. As Saudi Aramco transitions its revenue model to focusing on petrochemical projects and value-added parts of the supply chain, China will be a focus to lock in market share. Further, Saudi Arabia is looking to make up ground on Russia and other resource-rich states to play a bigger role on commodities markets. China's steadfast support of Riyadh amidst its current anti-corruption campaign is partially aimed at turning memoranda of understanding into bricks and mortar work on the ground.

China is now launching yuan-backed oil futures traded on the Shanghai International Energy Exchange. In doing so, Beijing is carving out a space to have some control over oil prices. Investors will likely be hesitant given China frequently intervenes in the market and has implemented strict capital controls, but the symbolism is in keeping with the broader attempt to use BRI and related initiatives as scaffolding for alternative multilateral institutions dominated by China.

ENERGY OUTLOOK

Chinese firms will continue to buy up assets to guarantee access to resources. Look for China's commodities traders to deepen access to and control of supplies in Russia and Central Asia. while China's petroleum sector hopes to draw in Saudi investment and broadens its trading reach. It's also likely that China will begin seeking export opportunities for nuclear power projects, a move that would free up more oil for export in states like Saudi Arabia. At the edges, China Inc will buy up downstream projects in Eastern Europe and the Balkans.

Changes in the geopolitical shape of the oil markets - the potential for the U.S. to export greater volumes in coming years - should be watched closely as fears of a U.S.-China trade war escalate. Oil trade would be a logical area of cooperation between the two countries. Higher prices seem set to sustain for a considerable part of this year given stronger than expected demand. Expect greater interest and appetite in upstream investments from China's oil majors so long as these do not rely on long-term high price projections like those in the Arctic's offshore.

SOUTHEAST ASIA

Southeast Asian states will need investment equal to 5% of their GDP to cover infrastructure growth between 2016 and 2030. Through the BRI, China can fill a critical funding gap - with strings attached.

BRI'S PIVOT TO THE SOUTHEAST

China has targeted Southeast Asia as one of the central nodes of its Belt and Road Initiative, with projects such as the China-Laos high-speed railway, hydropower plants in Cambodia, and Indonesia's first high-speed railway, connecting the cities of Jakarta and Bandung. This region's growing markets, numerous manufacturing hubs and abundant natural resources offer Beijing considerable economic opportunities. The region also plays a key role in securing sea routes in the South China Sea and Strait of Malacca.

Chinese investments can also fill a critical funding gap for Southeast Asian countries, as funding through private investors and international financial institutions remains limited and falls short of the region's demand. China has already made huge investments in Southeast Asian infrastructure.

BEIJING'S INTEREST IN THE SEA

New infrastructure and an expanded maritime presence have allowed China to establish more secure sea lines of communication through the South China Sea and Straits of Malacca. These efforts include ambitious port projects in countries like Indonesia, Malaysia, Singapore, and the Philippines.

In Indonesia, Beijing has strived to accommodate Jakarta's domestic priorities with its BRI projects. For example, in 2015, Indonesia chose China over Japan to build its first fast-train rail link connecting Jakarta to Bandung. Several Indonesian state-owned enterprises, in a consortium with China Railway International Co Ltd., signed a $4.5 billion loan with the China Development Bank this past May. China is also investing $6 billion in Indonesia's Tanjung Sauh Port on the island of Batam. In Malaysia, China is pouring $1.9 billion into the Melaka Gateway port along the strait's northern shore and the Kuantan port on the South China Sea.

Involvement with these countries provides China a strategic opportunity to shape the contentious maritime sphere in its interests, raising concerns that China would use the BRI as economic leverage to support its claims over disputed territories in the South China Sea. It is likely that the other claimant states would be constrained in their ability to challenge China if they are dependent on BRI investments.

SOUTH ASIA

Chinese investment projects in South Asian countries have met with some resistance, reflecting a rising trend of internal disagreements among China and its BRI partners.

CHINA'S PORT INVESTMENTS

In 2015, China and **Pakistan** launched the China-Pakistan Economic Corridor (CPEC), signing 49 agreements to finance projects valued at $46 billion, including upgrades to Pakistan's Gwadar Port, oil and gas pipelines, roads and railways. CPEC aims to connect Kashgar in China's Xinjiang Province with Gwadar, via 2,000 miles of railroad and pipelines, cutting transport costs for commodities. Chinese investment in Gwadar Port is important for its proximity to the Strait of Hormuz, a strategic choke point providing sea passage to the open ocean for many of the petroleum-exporting countries. China would be able to provide safe passage to its oil tankers, and monitor U.S. naval activities in the Persian Gulf and Indian activity in the Arabian Sea.

Besides Pakistan, **Sri Lanka** has been the leading beneficiary of Chinese infrastructure investment in South Asia, with nearly $15 billion worth of projects between 2009 and 2014. Since construction began in 2008, China has taken a prominent role in developing Hambantota. Billions of dollars have gone towards construction in this town on Sri Lanka's southern coast, including a $1.4 billion port, an airport, numerous highways, and a planned 15,000-acre industrial zone. China Merchants Port Holdings is to invest $1.1 billion to develop the port and related facilities. China's interest in Sri Lanka is driven by the country's strategic location, equidistant from the eastern coast of Africa and Indonesia. As China's interests in East Africa grow, huge quantities of bulk energy and other raw supplies will be transported from Africa to China. As such, investing in ports in Sri Lanka becomes a strategic imperative.

China has also financed the modernization of the Chittagong Port, which handles around 92% of **Bangladesh's** trade. China has also expressed interest in investing in the proposed Sonadia Island deep-water port in Cox's Bazaar. Similar to both Pakistan and Sri Lanka, Bangladesh is also located at a strategically significant location, which can provide the Southern Chinese province of Yunnan access to the Indian Ocean via Myanmar or India. Bangladesh also has a huge economic potential to provide a big market opportunity for Chinese entrepreneurs as its economy has grown roughly 6% per year since 1996 and has maintained steady export growth in the garment sector. More importantly, Bangladesh has confirmed reserves of 200 trillion cubic feet of natural gas; the government has already offered exploration rights to China at Barakpuria.

POTENTIAL BACKLASH

Chinese investment projects in South Asian countries have met with some resistance, reflecting a rising trend of internal disagreements among China and its BRI partners. High interest rates, strict commercial conditions, and lack of transparency are some of the biggest drawbacks of Chinese financing. In addition, typical conditions attached to Chinese loans - such as those extended by state-owned Exim Bank - stipulate that project contracts be given to Chinese companies and at least 50% of material, equipment, technology, or services to be sourced from China.

In Pakistan, BRI and CPEC face growing criticism. The CPEC projects have remained under the control of Chinese companies and banks, and the project bidding, contracting, and financing processes lack transparency. In addition, the financing of these projects is done through market-rate loans and equities. Pakistan's government has given the sovereign guarantee of 17-34 percent returns on Chinese equities in projects. Chinese banks have charged an 8 percent interest rate on loans to Pakistan for projects under CPEC, whereas international interest rates for energy projects are only about 1.6 percent. Pakistan is expected to start repayment in 2020; however, its fiscal deficit continues to increase and the balance of payment situation remains critical. In the Gwadar Port Project, a revenue-sharing agreement dictates that 91 percent of the revenue generated goes to China for the next 40 years. Recently, Pakistan canceled the $14 billion Diamer-Bhasha Dam project because of China's tough financing terms. In Nepal, the $2.5 billion contract for construction of Budhi Gandaki hydro-electricity project met the same fate, with the Nepalese government accusing the Chinese company of financial irregularities and lack of transparency.

The Trump administration's opposition to the JCPOA and recent U.S. sanctions on Iran create value opportunities for China. Some believe the new sanctions will worsen Iran-U.S. relations and prevent future economic cooperation between Iran and the West, further establishing China as Iran's only reliable economic partner. As Western firms stall, China's CITIC Trust has pushed a $10 billion credit line to support projects in Iran; China Development Bank is considering a further $15 billion.

SPOTLIGHT ON IRAN

Jockeying with China for geopolitical influence is India. India's investment interest in Iran has focused on the expansion of Chabahar Port. By funding the Port in Iran, India expects to establish a secure transit route to markets in Iran, Afghanistan, Central Asia and the Gulf region. For India, easy access to Chabahar would connect the country to Afghanistan and the energy-rich Central Asia through the Jawaharlal Nehru and Kandla ports. Additionally, the port will promote Indian strategic interests in the Persian Gulf and Strait of Hormuz.

China's alleged predatory behavior has created another type of risk to its investments and their host countries: civil unrest. China's leasing in Hambantota has sparked violent protests and drawn a backlash from parliament, amid fears that Beijing seeks to establish what is effectively a Chinese colony in another sovereign state. Although the Sri Lankan government has worked out a compromise to decrease the Chinese share from 85 percent to 65 percent over a decade, it does not limit China's 99-year lease on the land or preclude a future security or military role for Beijing.

AFRICA

China has become the largest source of foreign funds for African projects, due in no small part to Chinese attempts to bring the east of the continent into the BRI's embrace.

China's ongoing investment on the African continent has been the subject of controversy and suspicion for some time now, investing in 293 projects since 2005 to the value of some US$66.4 billion. The benefits of the move are obvious, with Chinese money filling major potholes on the road to African economic development while opening up both markets to a booming middle class on either side of the globe. Bilateral trade has soared to more than $160 billion in revenue each year, at the same time as the West axes its foreign aid budgets and own FDI flows. But it's not a balanced relationship: in 2016, Chinese exports to Africa amounted to $82.9 billion, with African outflows leveling out at just $54.2 billion. Chinese investment is in some ways just as political as the actions of Africa's former colonisers, a means of securing critical pressure points between East and West.

SECURING WATERWAYS VIA DJIBOUTI

Hot on the heels of a polished opening ceremony at China's first ever overseas military base in Djibouti, a tiny African nation of just 875,000 people, People's Liberation Army (PLA) troops have begun holding live-fire drills in the surrounding sands under the banner of peacekeeping missions. Traditionally the playground of bases belonging to the US and its allies, Djibouti has emerged as a vital security beachhead in the struggle to secure global maritime routes, the BRI included, and China's perceived intrusion has not gone unnoticed.

China first announced plans for the base in 2015, beginning construction soon afterwards. Signing an initial 10-year lease for the site, the Chinese Foreign Ministry has alleged that the base will support Chinese troops escorting ships in the Gulf of Aden and pirate-infested waters off the Somali coast. With a military budget second only to the US, and expanding by the year- spending is set to double to $233 billion in 2020- China is bound to continue its current trajectory of military investment on the continent in coming years.

EGYPT AT THE CENTRE

Egypt stands at a critical juncture of the Maritime Silk Road, the Suez Canal forming the main transit point between the Indian Ocean and the Mediterranean Sea. Without Egypt's partnership, the entire "Road" section of the BRI is redundant; fortunately for Xi, Egyptian President Abdel Fattah el-Sisi has expressed a keenness to make his country a "pivot" for the project.

The planned expansion of the China-Egypt Suez Economic and Trade Cooperation Zone is set to take a decade to complete and over $230 million in financing, at the same time as Egypt undertakes its own internal economic reform. An industrial zone of 7.23 square kilometers in Ain Sokhna on the Red Sea coast well underway; the first phase has been completed and successfully attracted investment from some 68 enterprises.

A memorandum of understanding has already been signed between the two leaders, with China promising an additional $1 billion in financing for Egypt's central bank and $700 million in loans to the National Bank of Egypt. China has been less than subtle about its intentions in ensuring regional stability, labelling itself the "new" choice as Middle Eastern relationships with the US sour ever further.

CHINA'S AFRICA STRATEGY: OUTLOOK FOR 2018

Despite the fanfare, 2018 presents very real challenges to Chinese attempts to secure alliances throughout the African continent. Local discontent with rising Chinese influence will need to be managed effectively; commodity prices and rising debt levels are also a concern along the entirety of the BRI, and Africa is no different.

Africa is wary of colonial-style inflows, and China must constantly manage domestic perceptions and ensure stability if BRI projects are to succeed in the long-term. China's propensity to hire Chinese firms and Chinese workers on overseas infrastructure investments has not gone unnoticed. Paired with a never-ending, and seemingly unquestioning, line of credit from Chinese banks to African governments, the question of repayment is less sexy than the overall BRI hype - but no less important.

A pervasive infrastructure deficit in Africa has not emerged simply out of a global blindspot; there are **broader societal and political barriers at play** that China's cash-heavy approach may be failing to address. China's disinterest in ensuring the transparency of local governance may ultimately backfire, exacerbating existing fragility instead of ensuring the stability China so desperately seeks.

KENYA HOLDS THE KEY

At the inauguration of a new railway line connecting Kenya's capital, Nairobi, and the coastal Mombasa city earlier this year, Kenyan President Uhuru Kenyatta hailed the project as ushering in a "new chapter" for the country. Funded by Chinese money, the railway is the largest project since Kenya achieved independence in 1963, as ties with China evolve in line with the government's new focus on multifaceted engagement.

Under the former President Mwai Kibaki, Kenya launched a deliberate policy to distance itself from traditional investment partners in Europe and the US, instead resolving to "Look East". Since then, China has formulated several major projects in the country, including a 50-kilometer, eight-lane highway linking Nairobi to Thika (inaugurated in November 2012) in addition to the Nairobi-Mombasa railway. With projects well underway in Tanzania, Nairobi holds the key to China's expanding network among Africa's southern states.

YOUR GRI EXPERTS

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