Managing Sustainable Megaprojects along China’s New Silk Roads

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This editorial is for the Special Issue on managing sustainable megaprojects along China’s new silk routes.

Mooted in 2013, China’s new silk roads (NSRs) proposal is a global infrastructure development strategy to connect China to many parts of the world, particularly developing countries. It includes the Belt and Road Initiative, with the overland route, or “belt”, towards Europe and the maritime “road” towards Southeast Asia and Africa, and the polar (ice) silk route towards Russia and the Arctic. By addressing the widening infrastructure gap and physically connecting domestic markets across many countries, the NSRs are expected to contribute substantially to the global Gross Domestic Product [1]. Other benefits include political mileage for China as a new global power, training and education, the diffusion of technology, and cultural exchanges.

Many of these initiatives are megaprojects in energy, mining, real estate, and transport projects such as rail, road, and ports. It will be of interest to determine how these megaprojects are managed, particularly in relation to criticisms of Chinese neocolonialism and debt traps [2]. From a Marxist perspective, the NSRs are a “vent for surplus” to overcome over-accumulation. They do so by slowing the tendency of the organic composition of capital to increase and the consequent tendency of the rate of profit, the incessant driver of capitalism, to fall [3]. The organic composition of capital or capital intensity per worker rises over time because of capitalist competition, resulting in more costly technological changes. These higher capital costs, uncompensated by rising productivity, drag the rate of profit down.

To assist in the financing, China is the largest shareholder of the Asian Infrastructure Investment Bank (AIIB), which was proposed in 2013 and began operations in 2016. China also established the USD 40 billion Silk Road Fund in 2014 to invest in businesses rather than projects. Most of these investments are in equity, such as in transport, mining, and energy firms. Other Chinese banks and institutional lenders also fund many projects.

The performances of such megaprojects depend on both internal and external factors. The internal factors and conflicts among stakeholders, such as owners, regulatory authorities, lenders, contractors, and consultants, are well known [4,5]. Megaprojects contain many commercial and non-commercial risks. The commercial risks include fluctuations in revenues, rising interest rates, volatile currency exchange rates, inflation, poor construction quality, cost overruns, and delays. Non-commercial risks are largely political, regulatory, and legal. In the developing world, weak states need to bargain with stronger interest groups to trade votes for subsidies, monopoly licenses, project contracts, and the protection of domestic industries. Consequently, it is possible for projects to fall short of revenues because of corruption or over-optimistic projections.

Externally, the COVID-19 pandemic has created new issues. Arguably, the most pressing concern is high inflation because of disruptions to the global supply chain, the Russia–Ukraine war, and the over-printing of money to stimulate demand in the virus-battered global economy. Consequently, many developing countries are unable to service
their Chinese debt because of the economic slowdown, rising interest rates, and strengthening dollar. Herein lies the accusation of debt-trap diplomacy by some Western observers. However, China has forgiven some of the loans given to African countries and has agreed to restructure others [6]. Some deals involve the exchange of debt for leasehold land, but this hardly constitutes a debt trap.

Many megaprojects are also suffering from overruns in cost and schedule as well as quality issues because of high inflation. However, it is an exaggeration to say that they are falling apart [7]. Many of the prime contracts were awarded before the pandemic at fixed prices. As the costs of materials, financing, and labor have risen, contractors are seeking ways to cut costs. The results are predictable. Sympathetic owners seek ways to share the rising costs equitably with contractors. In some countries, governments step in to negotiate reasonable deals such as no liquidated damages for pandemic-related project delays, wage support, and the release of buffer stocks.

Lastly, China suffers from problems which cast doubt on the sustainability of the silk roads. Rapid urbanization has caused house prices to spike, resulting in social unhappiness and unrest. In response, local governments relaxed lending standards and offered cheap loans to developers to increase the supply of housing. This sowed the seeds of an extended housing boom, and developers started to issue foreign bonds to cash in on the frenzy. Developers also created pre-sales agreements to generate cash for new projects. The Chinese property market boom ended with the COVID-19 lockdowns. Slower property sales and the accumulation of debt led to the imposition of “three red lines” [8] in August 2020 to shore up the balance sheets of developers. Unfortunately, it also led to defaults by developers and a chain of credit breaks, affecting lenders, contractors, depositors, local wealth funds, and foreign bondholders.

The prolonged pandemic lockdowns have also been costly for the central and local Chinese governments. The latter tended to rely on land transfers to balance the books. However, with the collapse of the property bubble, many local governments experienced fiscal crises and could no longer co-fund the rising pandemic expenses.

On balance, the silk roads projects are likely to continue but on a smaller scale. With hindsight, the program is too ambitious and risky for the Chinese government, foreign governments, and other stakeholders. Some forms of phasing and safeguards are necessary. For example, some countries are politically unstable and do not have the financial means nor the institutional quality to embark on megaprojects.

List of Contributions

Conflicts of Interest: The authors declare no conflict of interest.

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