Below the Belt and Road

Corruption and Illicit Dealings in China's Global Infrastructure

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FOUNDATION FOR DEFENSE OF DEMOCRACIES

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Table of Contents

Introduction

When the COVID-19 pandemic subsides, hopefully sooner rather than later, the economic devastation left in its wake will preoccupy governments worldwide for months to come. Beijing will present itself as a partner for economic recovery. Already, China is working to burnish its image by providing medical assistance to countries stricken by coronavirus.[1]

Yet, just as Chinese medical equipment has often been faulty, its approach to economic recovery may come with waste, fraud, and political manipulation.[2] Until now, these risks have not dissuaded potential partners, who hope to tap into the more than tenfold expansion of the Chinese economy over the past three decades.[3] But the tide may be turning. A close examination of China's Belt and Road Initiative (BRI) – its flagship program for external investment – suggests that Beijing's partners may become saddled with expensive but under-utilized infrastructure, massive debt, and political instability.

The purpose of the BRI is to leverage the perceived success of the Chinese economic model to spread Beijing's opaque, authoritarian model of governance. The BRI is one of the soft-power tools Beijing wields for global engagement and the projection of power abroad.

In the South China Sea, Beijing has asserted its interests via force, generating a backlash from its neighbors.[4] In contrast, the BRI has faced little resistance. Launched in 2013, the BRI is a trillion-dollar network of projects aimed at building land, sea, digital, and economic infrastructure across more than 100 countries in Asia, Africa, the Middle East, Europe, and Latin America.[5] The BRI, now enshrined in China's constitution as an initiative of lasting importance, could help close the global infrastructure gap, providing much needed ports, railways, bridges, roads, and other critical infrastructure capacity throughout the developing world. It can transform lives and economies.

The BRI is not likely to fulfill this lofty vision. China is not only exporting steel and concrete, but also corruption, opacity, and waste. These features are not incidental side effects of working in countries where graft is already endemic, but rather an upside for China. Beijing maintains a policy of "non-interference" in foreign lands, and it has never been committed to its own transparency. Through the BRI, China has been pumping billions of dollars into knowingly corrupt regimes, making scandals inevitable.

As this report explains, Chinese-driven corruption now permeates high-profile BRI projects. For now, there is little risk for Beijing. Chinese influence is still near its high-water mark (despite increasing scrutiny of China's pandemic response), and BRI recipients may be even more dependent on Beijing as they grapple with post-pandemic economic recovery. However, the eventual exposure of systemic corruption, paired with a lack of accountability, is bound to generate a public backlash. This could present a strategic opportunity for the

1. Vivian Wang, "China's Coronavirus Battle Is Waning. Its Propaganda Fight Is Not." *The New York Times*, April 8, 2020. (https://www.nytimes.com/2020/04/08/world/asia/coronavirus-china-narrative.html)

2. David Brennan, "U.K. Says Millions of Coronavirus Test Kits Brought from China Are Unreliable for Most Patients," *Newsweek*, April 7, 2020. (https://www.newsweek.com/uk-says-millions-coronavirus-test-kits-bought-china-unreliable-most-patients-1496506)

3. "China's Economic Rise: History, Trends, Challenges, and Implications for the United States," *Congressional Research Service*, June 25, 2019. (https://fas.org/sgp/crs/row/RL33534.pdf)

4. Niharika Mandhana, "In South China Sea Confrontation, Indonesia Resists China—Cautiously," *The Wall Street Journal*, January 17, 2020. (https://www.wsj.com/articles/in-south-china-sea-confrontation-indonesia-resists-chinacautiously-11579257004)

5. "Inside China's Plan to Create a Modern Silk Road," *Morgan Stanley*, March 14, 2018. (https://www.morganstanley.com/ideas/china-belt-and-road); Jane Perlez and Yufan Hyang, "Behind China's $1 Trillion Plan to Shake Up the Economic Order," *The New York Times*, March 13, 2017. (https://www.nytimes.com/2017/05/13/business/china-railway-one-belt-one-road-1-trillion-plan.html); Alexandra Ma, "The US is scrambling to invest more in Asia to counter China's 'Belt and Road' mega-project. Here's what China's plan to connect the world through infrastructure is like." *Business Insider*, November 11, 2019. (https://www.businessinsider.com/what-is-belt-and-road-china-infrastructure-project-2018-1)

United States to reassert its leadership and promote a more sustainable model of infrastructure development.

Detailed case studies of BRI projects in Malaysia and Kenya demonstrate the consequences of China's failure to engage in open and transparent conduct. In Malaysia, massive BRI corruption has not only generated significant anti-Chinese sentiment, but also led to the ouster of the incumbent prime minister and his political party – something unprecedented in Malaysia's six-plus decades of independence. Kenya, meanwhile, is prosecuting Kenyan and Chinese officials and facing unmanageable debt resulting from a railway project that went massively over budget and was never completed. This calamity was the result of implausible expectations, opaque contracts, and a closed bidding process.

In Washington, one school of thought posits that the BRI is designed to lay "debt traps," which shackle China's partners or allow Beijing to seize strategic assets abroad as compensation for defaulted loans and contracts.[6] From this perspective, corruption and waste are effective tools for Beijing, since they amplify debt while reducing the borrower's ability to repay. However, the evidence largely does not support this theory. Advocates of the debt-trap theory often cite the example of Sri Lanka, which surrendered a strategic port to Beijing in lieu of paying its debts. But a closer examination reveals that Sri Lanka was a fiasco for Beijing. Voters kicked local Chinese allies out of office; the infrastructure turned out to be useless; and China's global image suffered accordingly.

Beijing pledged a new "Clean BRI" in 2019. But it is still unclear what concrete steps Beijing is prepared to take to truly eradicate corruption in its foreign dealings.

For Washington, where a bipartisan consensus is emerging about the dangers posed by a more powerful China,[7] this presents an opportunity. The United States can pursue a more responsible approach to foreign investment, thereby enhancing U.S. leadership and promoting more transparent and open governance norms in global infrastructure development.

To seize the opportunity, the United States must reassert leadership in its own infrastructure investments abroad, emphasizing open, inclusive, and transparent governance and execution of projects. This is already happening. The 2018 passage of the BUILD Act, with strong bipartisan support, reflected a growing consensus in Washington that the United States must hone its foreign-investment strategy.[8] The Act authorized the establishment of the U.S. International Development Finance Corporation (DFC). The DFC can effectuate stronger governance models through new investments with private sector engagement. Of course, the DFC alone cannot transform the governance of foreign investment in developing nations. But it can help set the standard for systemic reforms.

Looking ahead, the United States must tend to its own troubled efforts to grapple with the corruption of foreign partners. Washington has certainly not welcomed opacity and graft as a means of cultivating relationships, yet it has often resigned itself to their prevalence. U.S. investments in Iraq and Afghanistan, for example, have empowered kleptocrats, undermined stability, and worked against the development of robust governance and institutions.

Corruption is often viewed as a problem too big to solve, but it is possible to find pathways for change. Providing transparent alternatives to BRI is an opportunity to move the needle. Setting an example for clean infrastructure can also provide support to other anti-corruption reform efforts, both within BRI recipient countries and beyond.

6. Office of Senator Chuck Grassley, Press Release, "Grassley, Senators Express Concerns over China's 'Debt Trap' Diplomacy with Developing Countries," August 10, 2018. (https://www.grassley.senate.gov/news/news-releases/grassley-senators-express-concerns-over-china-s-debt-trap-diplomacy-developing)
7. Nicholas Moes, "China's new role in the global economy," *Bruegel*, May 28, 2018. (https://bruegel.org/2018/05/chinas-new-role-in-the-global-economy)
8. Daniel F. Runde and Romina Bandura, "The BUILD Act Has Passed: What's Next?" *Center for Strategic and International Studies*, October 12, 2018. (https://www.csis.org/analysis/build-act-has-passed-whats-next)

The Belt and Road Initiative

The world faces a mounting infrastructure gap. The *Global Infrastructure Outlook*, an initiative of the G20, estimates that $94 trillion will be required to meet growing global infrastructure demands through 2040, and that $15 trillion will be unmet by current investment trends.[9] Though the global gap of unmet needs is a mere one-sixth of the projected total, the magnitude of the gap is nonetheless staggering. In 2009, the Asian Development Bank estimated that developing nations in Asia alone would require $8 trillion of infrastructure investment from 2010 to 2020.[10]

The developing world likely will continue to bear a disproportionately greater burden of this scarcity. China's BRI was aimed at addressing, at least in part, this challenge. Officially launched by President Xi Jinping in 2013, the BRI includes both new projects and legacy investments. Through infrastructure, China seeks to redefine and expand its relationships with strategically important nations. It is effectively a "geopolitical enterprise" and the primary vehicle through which China seeks to redefine its political and economic engagement with much of the world.[11] In 2017, the Chinese Communist Party (CCP) enshrined the BRI in its constitution, making the initiative a core component of the party's political strategy. This move also tied the BRI more closely to Xi's legacy, raising the stakes for its success.[12]

> **"Through infrastructure, China seeks to redefine and expand its relationships with strategically important nations. It is effectively a 'geopolitical enterprise' and the primary vehicle through which China seeks to redefine its political and economic engagement with much of the world."**

Through the BRI, China advertises its ability to provide economic growth for developing and emerging economies.[13] More than 120 countries have signed BRI agreements, worth a reported $1 trillion in Chinese commitments.[14] While China's investment may not address the entire projected infrastructure gap, a concerted injection of funds of this magnitude can jumpstart work in thousands of places and bring much-needed investment to capital-starved regions.

9. "Forecasting Infrastructure Investment Needs and Gaps," *Global Infrastructure Hub*, accessed April 14, 2020. (https://outlook.gihub.org/?utm_source=GIHub+Homepage&utm_medium=Project+tile&utm_campaign=Outlook+GIHub+Tile). An additional $3.5 trillion would be required to meet the UN Sustainable Development Goals of universal access to drinking water, sanitation, and electricity by 2030, according to the G20's *Global Economic Outlook*.
10. Asian Development Bank and Asian Development Bank Institute, "Infrastructure for a Seamless Asia," 2009, page 4. (https://www.adb.org/sites/default/files/publication/159348/adbi-infrastructure-seamless-asia.pdf)
11. Daniel Kliman, "China's Power Play: The Role of Congress in Addressing Belt and Road," *Testimony before the Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness*, June 12, 2019. (https://www.finance.senate.gov/imo/media/doc/Daniel%20Kliman_Testimony%20for%20Senate%20Finance%20Committee%20Trade%20Subcommittee_FINAL.pdf)
12. Jeff M. Smith, "Is This the End of Belt and Road, or Just the Beginning?" *The Heritage Foundation Commentary Asia*, April 26, 2019. (https://www.heritage.org/asia/commentary/the-end-belt-and-road-or-just-the-beginning); Jagannath P. Panda, "What the Inclusion of the BRI in the Chinese Constitution Implies," *Manohar Parrikar Institute for Defence Studies and Analyses*, November 7, 2017. (https://idsa.in/idsacomments/what-the-inclusion-of-bri-in-the-chinese-constitution-implies_jpanda_071117). On the other hand, the Chinese constitution also guarantees freedom of speech, press, assembly, and demonstration, indicating that the constitution does not reflect reality. Evan Osnos, *Age of Ambition: Chasing Fortune, Truth, and Faith in the New China* (New York: Farrar, Straus and Giroux, 2014), page 195;
13. Brad Parks, "Chinese Leadership and the Future of BRI: What Key Decisions Lie Ahead?" *Center for Global Development*, July 24, 2019. (https://www.cgdev.org/publication/chinese-leadership-and-future-bri-what-key-decisions-lie-ahead)
14. Jane Perlez and Yufan Hyang, "Behind China's $1 Trillion Plan to Shake Up the Economic Order," *The New York Times*, March 13, 2017. (https://www.nytimes.com/2017/05/13/business/china-railway-one-belt-one-road-1-trillion-plan.html); People's Republic of China State Council, "The Belt and Road Initiative," accessed April 14, 2020. (http://english.www.gov.cn/beltAndRoad/). Some have argued that the $1 trillion figure is substantially inflated. See: Derek Scissors, "The Belt and Road is Overhyped, Commercially," *Testimony before the Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness*, June 12, 2019. (https://www.finance.senate.gov/imo/media/doc/Derek%20Scissors%20-%20BRI%20Testimony.pdf)

The World Bank estimates that "if fully implemented, BRI transport projects [alone] could increase trade between 1.7 and 6.2 percent for the world, increasing global real income by 0.7 to 2.9 percent."[15]

BRI infrastructure projects include power plants, roads, seaports, airports, railways, telecommunications, digital networks, and more. In addition, the BRI envisions, at least in theory, six official economic corridors, which can be further distilled into two main geographic axes. The first axis emphasizes a "belt" of new land-based connections across ancient trading lanes stretching westward from China to Europe. The second axis proceeds along a 21st-century "maritime silk road," including nautical corridors and ports throughout Asia, India, and Africa.[16] Projects in Latin America, Europe, and the Arctic broaden the BRI's scope even further, along with special economic zones in numerous host countries.[17] The BRI Digital Silk Road – one of the BRI's most controversial initiatives – aims to bring digital communication networks to dozens of countries, promoting the use of Chinese-backed technologies, enabling a "backdoor" for Chinese surveillance, and promoting the spread of "digital authoritarianism" in host countries.[18] Securing military access is also a component of the BRI, demonstrated by the construction of a Chinese naval base in Djibouti and a Chinese deep-space tracking facility in Argentina, and by agreements guaranteeing China port access in strategic maritime locales such as Pakistan and Sri Lanka.[19]

"Beijing funds the BRI largely through its foreign reserves, which are driven by its trade surplus with countries such as the United States. The peak year for BRI investment was 2015, with construction reaching its highest point a year later."

Beijing funds the BRI largely through its foreign reserves, which are driven by its trade surplus with countries such as the United States. The peak year for BRI investment was 2015, with construction reaching its highest point a year later.[20] Since then, higher levels of domestic debt, slowing domestic growth rates, and U.S. trade tensions and tariffs have drawn down Beijing's foreign reserves.[21] Thus, as scholar Derek Scissors has noted, "[China is] more dependent on selling to the United States than when they started in 2013."[22] The economic fallout from COVID-19 will likely continue to shrink China's reserves. China's position could suffer

15. World Bank, "Belt and Road Economics: Opportunities and Risks of Transport Corridors," accessed April 14, 2020. (http://documents.worldbank.org/curated/en/715511560787699851/pdf/Main-Report.pdf)

16. Indermit Gill, Somik V. Lall, and Mathilde Lebrand, "Winners and Losers along China's Belt and Road," *The Brookings Institution*, June 21, 2019. (https://www.brookings.edu/blog/future-development/2019/06/21/winners-and-losers-along-chinas-belt-and-road/)

17. Nadege Rolland, "Securing the Belt and Road: Prospects for Chinese Military Engagement Along the Silk Roads," *The National Bureau of Asian Research*, September 3, 2019. (https://www.nbr.org/publication/securing-the-belt-and-road-prospects-for-chinese-military-engagement-along-the-silk-roads/)

18. "China's Digital Silk Road: Strategic Technological Competition and Exporting Political Illiberalism," *Council on Foreign Relations*, September 26, 2019. (https://www.cfr.org/blog/chinas-digital-silk-road-strategic-technological-competition-and-exporting-political)

19. Leah Dreyfuss and Mara Karlin, "All that XI Wants: China Attempts to Ace Bases Overseas," *The Brookings Institution*, September 2019, page 4. (https://www.brookings.edu/wp-content/uploads/2019/09/FP_20190930_china_basing_karlin_dreyfuss.pdf)

20. Derek Scissors, "The Belt and Road is Overhyped, Commercially," *Testimony before the Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness*, June 12, 2019. (https://www.finance.senate.gov/imo/media/doc/Derek%20Scissors%20-%20BRI%20Testimony.pdf); BRI "investment" refers to Chinese ownership, and "construction" refers to "services performed in the host country." See: Cecilia Joy-Perez and Derek Scissors, "Be Wary of Spending on the Belt and Road Initiative," *American Enterprise Institute*, November 14, 2018, page 1. (https://www.aei.org/research-products/report/be-wary-of-spending-on-the-belt-and-road/)

21. Derek Scissors, "The Belt and Road is Overhyped, Commercially," *Testimony before the Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness*, June 12, 2019. (https://www.finance.senate.gov/imo/media/doc/Derek%20Scissors%20-%20BRI%20Testimony.pdf)

22. Derek Scissors, *Testimony before the Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness*, June 12, 2019, 1:14. (https://www.finance.senate.gov/hearings/chinas-belt-and-road-initiative) further as governments in developing countries struggle in the wake of the pandemic to repay Chinese loans.

If Chinese foreign reserves continue their downward trend, the scope of the BRI may narrow to projects and corridors of only the greatest strategic value to Beijing.[23] The need for investment at home may also place a strain on available resources.

China's State Owned Enterprises (SOEs) are responsible for "50 percent of infrastructure projects already under construction or planned, and 70 percent of the contract value of those projects."[24] The BRI provides massive subsidies for these SOEs, which are less competitive in China's domestic market. Moreover, Chinese financial institutions, including the China Development Bank, the Export-Import Bank of China, and other state owned banks, account for more than 90 percent of the outstanding loans and equity investments in the BRI.[25]

Thus, in the wake of the COVID-19 crisis, the BRI may face unprecedented challenges. But the initiative's greatest vulnerability lies in the way that Beijing conducts business.

BRI, Conditionality, and "Non-Interference"

Developing nations traditionally chafe at the conditions foreign governments and international organizations attach to their financing for infrastructure projects. The BRI exploits this frustration by providing capital with few strings attached. Beijing frames this as a commitment to "non-interference" – meaning it places "no economic or political conditionalities on funding."[26] However, non-interference is not without risk, nor should it be confused with a lack of intention to shape political and economic conditions within partner countries. In practice, Beijing asserts itself through less visible tactics, including bribery and election meddling, to ensure that BRI projects serve its interests.

The BRI is riddled with graft, influence peddling, and embezzlement. The unstated purpose of non-interference is to provide cover for such practices, which Beijing treats as a natural part of doing business, although their exposure can result in scandals that undermine China's investment objectives abroad. BRI corruption also undermines U.S. and international governance objectives. It creates a competing system of investment "norms" that works to erode decades-long efforts to combat corruption in infrastructure development.

The United States and its partners have worked hard, particularly in recent years, to implement measures that reduce political and governance risk, provide transparency in procurement, mitigate bribery and undue influence of public officials, safeguard public funds from misuse, and promote capacity building. These measures have the added benefit of protecting human rights and the environment in host states.

These restrictions are precisely what China rejects. At the Forum on China-Africa Cooperation in September 2018, China announced its "Five Nos," which include, inter alia, "no interference in internal affairs" of partner countries and "no attachment of political strings

23. American Enterprise Institute, Press Release, "AEI's Derek Scissors warns China's Belt and Road Initiative is becoming a distraction," June 12, 2019. (https://www.aei.org/press/aeis-derek-scissors-warns-chinas-belt-and-road-initiative-is-becoming-a-distraction/)
24. World Bank, "Belt and Road Economics: Opportunities and Risks of Transport Corridors," accessed April 14, 2020. (http://documents.worldbank.org/curated/en/715511560787699851/pdf/Main-Report.pdf)
25. Roy D. Kamphausen, *Testimony before the Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness*, June 12, 2019. (https://www.finance.senate.gov/imo/media/doc/Roy%20Kamphausen%20-%20BRI%20Testimony.pdf)
26. Republic of the Philippines Foreign Service Institute, "China's Belt and Road Initiative: Implications for the Philippines," *FSI Insights*, Vol. V, No. 3, March 2018. (http://www.fsi.gov.ph/chinas-belt-and-road-initiative-implications-for-the-philippines/). China does precondition the establishment of diplomatic relations on acceptance of its "One China" policy, which prohibits recognition of Taiwan. In that sense, BRI funding does depend on one form of conditionality. Furthermore, development funds may entail a tacit quid pro quo in the form of expected support for China's position in the United Nations and on Taiwan or Hong Kong. Thus, BRI may create diplomatic opposition to democratic reforms within China.

regarding assistance."[27] The underlying argument is that countries benefit from foreign investment without the imposition of Western conditionality.

China has engaged with international development agencies since the early 1980s, when it began a partnership with the World Bank. China has adopted international frameworks such as the UN Convention Against Corruption. Beijing cooperates and engages in formal dialogue with the Organization for Economic Cooperation and Development (OECD), and China joined the World Trade Organization in 2001. China has been a recipient of support from multilateral development institutions over the last forty years and continues to benefit from this system. For example, China continues to receive World Bank funding in the form of below-market interest rates on loans from the International Bank for Reconstruction and Development despite having eclipsed the GDP per capita threshold that typically serves as a cut-off point for such favorable terms.[28]

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China has increasingly secured leadership roles in the international system, with Chinese officials serving in key roles within Interpol, the International Civil Aviation Organization, the UN Department of Economic and Social Affairs, and others. As of September 2019, Chinese nationals led more than a quarter of all UN specialized agencies.[29]

At the same time, China has sought to replicate elements of the international model through its creation of the Asian Infrastructure Investment Bank (AIIB), through which Beijing generates influence by driving international investment in Asia. (The AIIB, which includes more than 90 member countries, has attached some conditionality to its lending, and few BRI projects are financed through this entity.[30])

The BRI thus represents an intentional upending of the rules of the game, even as China has prospered by those rules. As Helsinki University scholar Guilherme Vasconcelos Vilaça has written, "[E]ven if the normative and practical contours of the [BRI] are still blurred, it is quite clear that the [BRI]—especially when put together with the establishment of new regional international organizations such as the New Development Bank—signals a turn [in] China's foreign policy towards reshaping the existing world order."[31]

China rejects conditionality not because of a lack of exposure to the international development system and its requirements, but because of ample exposure. Indeed, the BRI demonstrates China's readiness to defy prevailing international norms when doing so suits Beijing.

Historically, China has done little to address corrupt practices by Chinese actors outside the country.

27. "China's "five-no" approach demonstrates real friendship toward Africa: Kenyan analyst," *Xinhua News Agency* (China), September 6, 2018. (http://www.xinhuanet.com/english/2018-09/06/c_137447556.htm)

28. Stephanie Dhue, "China still borrows billions in low-cost loans from World Bank, as Trump administration pushes back," *CNBC*, January 9, 2019. (https://www.cnbc.com/2019/01/09/china-no-longer-a-poor-nation-still-borrows-billions-from-world-bank.html)

29. Kristine Lee, "Coming Soon to the United Nations: Chinese Leadership and Authoritarian Values," *Foreign Affairs*, September 16, 2019. (https://www.foreignaffairs.com/articles/china/2019-09-16/coming-soon-united-nations-chinese-leadership-and-authoritarian-values)

30. Roy D. Kamphausen, *Testimony before the Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness*, June 12, 2019. (https://www.finance.senate.gov/download/06122019-kamphausen-testimony)

31. Guilherme Vasconcelos Vilaca, "Strengthening the Cultural and Normative Foundations of the Belt and Road Initiative: The Colombo Plan, Yan Xuetong and Chinese Ancient Thought," *Normative Readings of the Belt and Road Initiative: Road to New Paradigms*, Eds. Wenhua Shan, Kimmo Nuotio, and Kangle Zhang (New York: Springer Publishing Company, 2018), page 15. (https://play.google.com/books/reader?id=BB9eDwAAQBAJ&hl=en&pg=GBS.PA14.w.1.2.104)

According to Transparency International, China has never brought charges against any of its companies, residents, or citizens for foreign corrupt practices.[32] While the Foreign Corrupt Practices Act provides the U.S. federal government with substantial powers to tackle corruption by U.S. entities overseas, China has no equivalent. There are some laws in China that criminalize foreign bribery. For instance, the 2018 "Regulation on Jurisdiction of the National Supervision Commission," dubs foreign bribery a "duty crime."[33] Nevertheless, China has thus far chosen to allow Chinese private companies, SOEs, and individuals to engage in corrupt practices with impunity while working abroad. Absent enforcement actions from the mainland, Chinese firms abroad are unlikely to engage in meaningful anti-corruption compliance efforts.

This lax approach to corruption on foreign soil stands in stark contrast to the CCP's determination to tackle corruption at home. Since 2012, Xi's anti-corruption campaign, dubbed "Hitting Tigers, Swatting Flies," has sanctioned or prosecuted more than 1 million people.[34] But this anti-corruption push contrasts sharply from Western approaches. Its principal targets are official extravagance and deviations from "correct behavior," rather than seeking to eliminate all forms of corruption.[35] As a result, those who flaunt ill-gotten gains (described as "lavishness" or "hedonism") are more likely to be targeted than corrupt persons outside of the public eye.[36] To a significant extent, the campaign's focus is political, serving to consolidate Xi's power and preserve the CCP's unchallenged authority.[37] Thus, this approach may leave untouched the conditions and practices that engender corruption in the first place.[38] Eight years on, domestic corruption in China appears to be as pervasive as ever.[39]

Overseas, Beijing has pursued enforcement actions in pursuit of national interests, not to address corruption committed overseas by Chinese nationals or companies. China's two primary extra-jurisdictional anti-corruption efforts, "Operation Sky Net" and "Operation Fox Hunt," served the narrow purposes of repatriating stolen money and pursuing persons responsible for unlawful capital flight.[40]

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32. Gillian Dell, "Time for China to step up to global anti-corruption responsibilities," *Medium*, October 19, 2018. (https://voices.transparency.org/time-for-china-to-step-up-to-global-anti-corruption-responsibilities-fffb80d565be)
33. "Exporting Corruption – Progress Report 2018: Assessing Enforcement of the OECD Anti-Bribery Convention," *Transparency International*, Sept. 12, 2018, pages 93–94. (https://www.transparency.org/whatwedo/publication/exporting_corruption_2018)
34. "Four years on, Xi's war on corruption is more than hunting tigers, flies," *Xinhua News Agency* (China), December 9, 2016. (http://www.chinadaily.com.cn/china/2016-12/09/content_27626887.htm); Bertram Lang, Ed. David Jackson, "China and global integrity-building: Challenges and prospects for engagement," *U4 Anti-Corruption Resource Center* and *Chr. Michelsen Institute*, July 2019. (https://www.u4.no/publications/china-and-global-integrity-building-challenges-and-prospects-for-engagement)
35. Bertram Lang, Ed. David Jackson, "China and global integrity-building: Challenges and prospects for engagement," *U4 Anti-Corruption Resource Center* and *Chr. Michelsen Institute*, July 2019. (https://www.u4.no/publications/china-and-global-integrity-building-challenges-and-prospects-for-engagement)
36. An Baijie, "Thousands of officials punished for lavishness," *China Daily* (China), November 26, 2013. (http://www.chinadaily.com.cn/china/2013-11/26/content_17131881.htm); "Keeping extravagance within the cage of regulations," *People's Daily Online* (China), January 25, 2013. (http://en.people.cn/90785/8106968.html)
37. Jerome Cohen, "Xi's crackdown on corruption has hit the obvious targets," *Financial Times* (UK), January 1, 2015. (https://www.ft.com/content/32b90fd8-8129-11e4-b956-00144feabdc0); Gerry Smith, "In China, investigations and purges become the new normal," *The Washington Post*, October 22, 2018. (https://www.washingtonpost.com/world/asia_pacific/in-china-investigations-and-purges-become-the-new-normal/2018/10/21/077fa736-d39c-11e8-a275-81c671a50422_story.html)
38. Discrete political allies of Xi may also be shielded from prosecution. Indeed, Xi's own family has apparently amassed a fortune equivalent to several hundred million dollars, despite Xi's own modest salary. Evan Osnos, *Age of Ambition: Chasing Fortune, Truth, and Faith in the New China* (New York: Farrar, Straus and Giroux, 2014) pages 258–59.
39. "China," *Transparency International*, accessed April 14, 2020. (https://www.transparency.org/country/CHN)
40. "China launches 'Sky Net 2019' to capture fugitive officials," *Xinhua News Agency* (China), January 28, 2019. (http://www.xinhuanet.com/english/2019-01/28/c_137781988.htm); "China launches 'Sky Net 2017' to hunt down corrupt suspects abroad," *Xinhua News Agency* (China), March 8, 2017. (http://www.xinhuanet.com//english/2017-03/08/c_136113421.htm)

Of course, Beijing participates in international institutions such as the UN Convention Against Corruption and the Financial Action Task Force, but China lacks the legal framework, enforcement processes, and preventive mechanisms envisioned by these agreements and organizations.[41] Moreover, China is a notable non-signatory to the OECD Anti-Bribery Convention despite being the world's largest exporter.[42] Chinese business norms thus will likely continue to deviate from international best practices.

"But absent good-governance preconditions, China is imposing substantial risks upon both itself and upon recipient countries. As the consequences of the BRI become apparent over time, some countries are dealing with the unanticipated and unpleasant side effects of easy money."

If Beijing wishes to demonstrate that its domestic development model works in other countries, it must address these deficiencies. Developing countries around the globe are undeniably attracted to the allure of fast and cheap money. Chinese terms are often unbeatable. And Beijing's seemingly steadfast commitment to its partners, at least as long as the money flows, is also attractive. But absent good-governance preconditions, China is imposing substantial risks upon both itself and upon recipient countries. As the consequences of the BRI become apparent over time, some countries are dealing with the unanticipated and unpleasant side effects of easy money.

One significant challenge is the diversion of attention and scarce local resources toward projects that may be of little value to local populations. In business terms, these projects are "unbankable." Moreover, bribery and other forms of extractive behavior can serve the short-term personal interests of autocratic leaders and their cronies at the expense of longer-term, citizen-centric outcomes. This kind of illicit activity also paves the way for more bad deals and practices, steering wealth and benefits away from the general population.

Should it continue to fund white elephant projects whose costs skyrocket because of corruption, Beijing may come away with little more than bad debt. A greater risk may be that revelations of corruption generate an anti-China backlash that undermines Beijing's goal of using BRI to expand its geopolitical influence.

Sri Lanka's Port Hambantota: Debt-Trap or Accident?

Sri Lanka's Port Hambantota has become a focal point for debate about the BRI. When the country could not pay back its debt, Beijing asserted ownership over the port and other strategically important assets. U.S. officials often cite this case to support the claim that China is engaged in "debt-trap diplomacy."[43]

Sri Lanka also serves as a warning for other countries that are part of the BRI. Malaysia's finance minister, for instance, has said, "We don't want a situation like Sri Lanka where they couldn't pay and the Chinese ended up taking over the project."[44] In Kenya, too (as

41. Bertram Lang, Ed. David Jackson, "China and global integrity-building: Challenges and prospects for engagement," *U4 Anti-Corruption Resource Center* and *Chr. Michelsen Institute*, July 2019. (https://www.u4.no/publications/china-and-global-integrity-building-challenges-and-prospects-for-engagement)
42. Gillian Dell, "Time for China to step up to global anti-corruption responsibilities," *Medium*, October 19, 2018. (https://voices.transparency.org/time-for-china-to-step-up-to-global-anti-corruption-responsibilities-fffb80d565be)
43. Sens. David A. Perdue, Patrick Leahy, Charles E. Grassley, James M. Inhofe, John Cornyn, John Thune, Johnny Isakson, Roy Blunt, Marco Rubio, Ted Cruz, Cory Gardner, Tom Cotton, Steve Daines, John Kennedy, Dan Sullivan, and Joe Donnelly, *Letter to Secretary of the Treasury Steven T. Mnuchin and Secretary of State Michael R. Pompeo*, August 3, 2018. (https://www.perdue.senate.gov/imo/media/doc/IMF%20China%20Belt%20and%20Road%20Initiative%20Letter.pdf)
44. Hannah Beech, "'We Cannot Afford This': Malaysia Pushes Back Against China's Vision," *The New York Times*, August 20, 2018. (https://www.nytimes.com/2018/08/20/world/asia/china-malaysia.html)

discussed in the next section), the Port Hambantota episode looms large.[45]

A rigorous review of the evidence, however, suggests that Port Hambantota is less an example of debt-trap diplomacy or an intentional seizure of key assets. Rather, it is an example of corruption and cronyism backfiring on both the Chinese and their local partners – circumstances that played out again in both Kenya and Malaysia.

The port was intended to be a signature project for both the Sri Lankans and the Chinese – a deep-water port along one of the world's busiest shipping lanes, capable of accommodating an additional 10,000 ships a year. The project, which feasibility studies questioned from the beginning, required more than $1 billion in loans from the Chinese – loans that theoretically would be repaid from port proceeds. But after the port was built, no one came. Only 34 ships used the port during all of 2012.[46] By 2017, that number was still only 175.[47] Unable to make payments on the debt, Sri Lankan authorities agreed to surrender a 99-year lease on the port and surrounding land to a Chinese company, China Merchant Port Holdings, in exchange for release from their financial obligations.

The whole episode casts the BRI in a dangerous and predatory light. However, Port Hambantota is a peculiar case. First, as noted by Deborah Bräutigam of Johns Hopkins' China-Africa Research Initiative, Port Hambantota is the only case, out of thousands of BRI projects, that could be seen as debt-trap diplomacy.[48] Moreover, while the port was poorly conceived and irresponsibly financed, it was a vanity project eagerly pushed forward by Sri Lanka's then-president, Mahinda Rajapaksa, who similarly built a cricket stadium whose seats numbered more than the local population, and a major international airport with no daily commercial flights – now dubbed the world's emptiest airport.[49] Once Rajapaksa lost power in 2015, the new government was eager to jettison these projects in exchange for relief on the massive external debts the Rajapaksa administration had accumulated with numerous international creditors – only 10 percent of which were held by China.[50]

More than an example of debt entrapment, the Sri Lankan port fiasco is a story of the dangers of corruption and crony capitalism run amok.[51] Chinese officials used the

45. David Mwere, "China may take Mombasa port over Sh227bn SGR debt: Ouko," *Daily Nation* (Kenya), December 20, 2018. (https://mobile.nation.co.ke/news/Chinese-may-take-Mombasa-Port--Ouko/1950946-4902162-item-1-cv5rc2z/index.html); Joshua Miller, "Africa in the news: Election updates, Kenya's Mombasa Port, and troops withdrawn from Ethiopia-Eritrea border," *The Brookings Institution*, December 22, 2018. (https://www.brookings.edu/blog/africa-in-focus/2018/12/22/africa-in-the-news-election-updates-kenyas-mombasa-port-and-troops-withdrawn-from-ethiopia-eritrea-border/)
46. Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port," *The New York Times*, June 25, 2018. (https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html?module=inline)
47. Jonathan Hillman, "Game of Loans: How China Bought Hambantota," *Center for Strategic and International Studies*, April 2, 2018. (https://www.csis.org/analysis/game-loans-how-china-bought-hambantota)
48. Deborah Brautigam, "Misdiagnosing the Chinese Infrastructure Push," *The American Interest*, April 4, 2019. (https://www.the-american-interest.com/2019/04/04/misdiagnosing-the-chinese-infrastructure-push/)
49. Matt Ferchen and Anarkalee Perera, "Why Unsustainable Chinese Infrastructure Deals Are a Two-Way Street," *Carnegie-Tsinghua Center for Global Policy*, July 2019. (https://carnegieendowment.org/files/7-15-19_Ferchen_Debt_Trap.pdf); Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port," *The New York Times*, June 25, 2018. (https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html?module=inline); Jonathan Hillman, "Game of Loans: How China Bought Hambantota," *Center for Strategic and International Studies*, April 2, 2018 (https://www.csis.org/analysis/game-loans-how-china-bought-hambantota)
50. Deborah Brautigam, "Misdiagnosing the Chinese Infrastructure Push," *The American Interest*, April 4, 2019. (https://www.the-american-interest.com/2019/04/04/misdiagnosing-the-chinese-infrastructure-push/)
51. Matt Ferchen and Anarkalee Perera, "Why Unsustainable Chinese Infrastructure Deals Are a Two-Way Street," *Carnegie-Tsinghua Center for Global Policy*, July 2019. (https://carnegieendowment.org/files/7-15-19_Ferchen_Debt_Trap.pdf); Deborah Brautigam, "Misdiagnosing the Chinese Infrastructure Push," *The American Interest*, April 4, 2019. (https://www.the-american-interest.com/2019/04/04/misdiagnosing-the-chinese-infrastructure-push/)

project to funnel millions of dollars to former president Rajapaksa's 2015 election coffers, while Rajapaksa, in turn, championed the project for his rural home district despite a lack of economic justification. Indeed, the new port's primary competition was an existing facility in the Sri Lankan capital, Colombo. Rajapaksa, who along with his brothers controlled approximately 80 percent of Sri Lankan government spending, was quick to agree to China's opaque terms and its non-competitive builder of choice – China Harbor.[52] Meanwhile, China Harbor's parent company, China Communications Construction Company, was still under an eight-year debarment by the World Bank for engaging in corrupt practices.[53]

"Chinese officials used the project to funnel millions of dollars to former president Rajapaksa's 2015 election coffers, while Rajapaksa, in turn, championed the project for his rural home district despite a lack of economic justification."

Never mind that China's direct support for political campaigns – seen in Sri Lanka, Malaysia, and elsewhere under the BRI – runs counter to the claims of neutrality and non-interference that Beijing uses to justify its lack of conditionality.[54] China's experience in Sri Lanka now has other BRI countries concerned about meeting a similar financial fate. At its core, the Sri Lankan case also raises crucial questions about the economic viability of BRI projects and the ultimate purpose of BRI funds. Is China loaning massive amounts of money to build infrastructure or to buy allegiance, or perhaps both? What happens when loans cannot be repaid? What percentage of BRI projects have been poorly conceived or incompetently implemented? Is Sri Lanka an outlier or a harbinger? And perhaps mostly importantly, does China's particular brand of corruption and poor governance undermine BRI projects?

Case Study: Kenya

Kenya occupies a unique strategic position within Africa; the country is an essential trade corridor for several landlocked neighbors. It has the highest per capita income in East Africa. Nevertheless, Kenya is particularly vulnerable to Chinese corruption.[55] Transparency International's 2018 Corruption Perceptions Index ranks Kenya 144th out of 180 countries.

On both security and economic matters, Kenya has historically been closely allied with the United States, which cooperates with Nairobi on issues such as counterterrorism and is Kenya's largest export market. Still, China's influence has grown steadily in recent years, much of it through BRI. Over the past seven years, Kenya's debt to Beijing has grown tenfold, from $500 million in 2013 to over $5 billion in 2019. China now accounts for over 70 percent of Kenya's foreign bilateral debt and 21 percent of its total foreign debt.[56]

The BRI's flagship project in Kenya is the Mombasa-Nairobi Standard Gauge Railway (SGR). Kenya's SGR was the first phase of a line that was to eventually connect to similar railways in Uganda, Rwanda, and South Sudan. The overall project was intended to be integrated and multilateral. However, each country individually negotiated its own terms of financing for its respective section.

52. Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port," *The New York Times*, June 25, 2018. (https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html?module=inline)
53. Ibid.
54. While Rajapaksa was temporarily kicked out of office in 2015, the Rajapaksas returned to power in 2019 when Mahinda Rajapaksa was elected prime minister and his brother elected president. "The Rajapaksas are back in power in Sri Lanka," *The Economist* (UK), November 17, 2019. (https://www.economist.com/asia/2019/11/17/the-rajapaksas-are-back-in-power-in-sri-lanka)
55. Of course, that is true throughout much the BRI footprint. Indeed, the BRI, with its principles of non-conditionality and non-interference, has knowingly and consistently stepped into circumstances where the governance risks are already high.
56. Abdi Latif Dahir, "China now owns more than 70 percent of Kenya's bilateral debt," *Quartz Africa*, July 10, 2018. (https://qz.com/africa/1324618/china-is-kenyas-largest-creditor-with-72-of-total-bilateral-debt/)

The SGR in Kenya involved the construction of over 300 miles of fresh track to connect Nairobi to Mombasa, Kenya's second-largest city and the busiest port in East Africa. Mombasa serves as the entry-point for a large proportion of goods entering not only Kenya, but also large areas across Uganda, South Sudan, Rwanda, Burundi, and the Democratic Republic of Congo.[57]

The SGR was designed to cut travel time between these destinations, while at the same time reducing overall costs and increasing logistical efficiency. Economically, the success of the railway line depended upon robust uptake of its freight service by private sector importers and exporters.[58]

Prior to settling on the chosen SGR plan, Kenya rejected less expensive alternatives. A study by the World Bank,[59] for example, identified several viable options, including the rehabilitation or upgrading of the colonial-era railway networks in Eastern Africa. The most expensive option detailed in the study was the new SGR line along a new right-of-way. The price tag included the high costs of land acquisition and of building new railway stations and other structures from scratch. Undeterred, Kenya chose the most expensive track.

Kenya was the first East African country to secure funding from China. Construction commenced in 2014, making it an early BRI project. To optimize speed, China and Kenya utilized a "government-to-government" procurement model, which made SGR exempt from local procurement laws.[60] The terms and conditions of China's financing meant the project was not subject to competitive bidding or transparency reporting requirements for government tenders, as would otherwise be required.

At a cost of $3.8 billion (excluding land acquisition), the first phase of the SGR was Kenya's most expensive individual infrastructure project in its post-independence history.[61] Costs were projected to double if the state pursued plans to extend the SGR to Kenya's border with Uganda.[62] Kenya's cost per kilometer for the Mombasa-Nairobi line, a standard metric for comparing rail infrastructure costs, was $5.6 million for the track alone – nearly three times the international standard and four times Kenya's initial estimates.[63]

The projected cost per kilometer was also unusually high compared to similar projects in other countries. For instance, Tanzania is building a railway of similar length, traversing similar terrain, at half the cost of the SGR (approximately $1.9 billion). In addition, the Tanzanian line is electric, giving it significant speed advantages over Kenya's diesel SGR.[64] Tellingly, Tanzania had cancelled an earlier contract with a Chinese contractor for that railway line after reports of

57. Joseph Akwiri, "Cargo handled by Kenya's Mombasa port up 6% in eleven months to May," *Reuters*, June 17, 2019. (https://af.reuters.com/article/drcNews/idAFL8N23O5AY)
58. Constant Munda, "SGR Sh10 billion revenues revealed," *Business Daily* (Kenya), March 11, 2019. (https://www.businessdailyafrica.com/economy/SGR-raked-in-Sh10bn-revenue-in-first-year/3946234-5020294-13c0x1lz/index.html)
59. World Bank, "The Economics of Rail Gauge in the East Africa Community," August 8, 2013. (https://africog.org/wp-content/uploads/2017/06/World-bank-Report-on-the-Standard-Gauge-Railway.pdf)
60. Cynthia Olotch, World Bank Group, "Kenya's new railway and the emergence of the "government-to-government procurement" method," *World Bank Blogs*, July 27, 2017. (https://blogs.worldbank.org/ppps/kenya-s-new-railway-and-emergence-government-government-procurement-method)
61. "8 quick facts about Kenya's Standard Gauge Railway," *Xinhua News Agency* (China), May 31, 2017. (http://www.xinhuanet.com//english/2017-05/31/c_136328584.htm)
62. "New Sh368bn loan to make Kenya's SGR the most costly," *Daily Nation* (Kenya), April 24, 2019. (https://www.nation.co.ke/news/Kenya-SGR-the-most-expensive/1056-5085040-iniobiz/index.html)
63. Nancy Kacungira, "Will Kenya get value for money from its new railway?" *BBC News* (UK), June 8, 2017. (https://www.bbc.com/news/world-africa-40171095)
64. Paul Wafula, "Tanzania building electric rail at half price of Kenya's diesel Standard Gauge Railway line," *Standard Digital* (Kenya), October 8, 2017. (https://www.standardmedia.co.ke/article/2001256729/tanzania-building-electric-rail-at-half-price-of-kenya-s-diesel-standard-gauge-railway-line)

corruption and irregularities surfaced.[65] Following the cancellation, Tanzania utilized a competitive bidding process in which 15 contractors submitted bids,[66] resulting in a Turkish firm undertaking the project at significant savings.

Looking back, the Kenyan government projections of the SGR's profitability were wildly optimistic – a point the government's own advisors made as early as 2009.[67] Moreover, a World Bank study showed that the SGR project would need to transport 20 to 55 million tons of cargo per year to break even – assuming a cost per kilometer around half of that which Kenya ultimately paid.[68] In 2015, annual cargo throughput at the Port of Mombasa amounted to just 26 million tons.[69] By 2018, that number rose to 31 million tons.[70] Even with a strong growth trajectory, however, the SGR would still need to handle *more than all* of the cargo flowing through Mombasa's port to avoid losing money.

As of 2018, the SGR was handling only 5 million tons of the freight shipped annually between Mombasa and Nairobi. This low number derives, in part, from the railroad's competitive disadvantages compared with trucking, which provides point-to-point mobility (in other words, from port to final destination).[71] SGR customers, by contrast, have to cover the additional cost of moving their cargo from an Inland Container Depot (ICD) along the railway line to its final destination. Shipping a container via the SGR costs roughly 50 percent more than over-road options.[72] In addition, the SGR is facing widespread congestion at the Nairobi ICD.[73] In its first year of operation, the SGR had losses of roughly $100 million.[74]

In addition to low freight uptake, the SGR suffered from significant governance failures and corruption. While many instances of corruption have likely gone undetected, there is concrete evidence of substantial corruption on both the Kenyan and Chinese sides. For example, the Kenyan public prosecutor indicted several high-level officials on corruption and fraud charges, including both the chairman of Kenya's National Lands Commission, a constitutional body overseeing the registration and transfer of land assets in the country, and the managing director of Kenya Railways Corporation, a government-owned company

65. Paul Wafula, "Tanzania building electric rail at half price of Kenya's diesel Standard Gauge Railway line," *Standard Digital* (Kenya), October 8, 2017. (https://www.standardmedia.co.ke/article/2001256729/tanzania-building-electric-rail-at-half-price-of-kenya-s-diesel-standard-gauge-railway-line); "Tanzania's turn to Turkey for SGR funds leaves China in limbo," *The East African* (Kenya), January 30, 2017. (https://www.theeastafrican.co.ke/business/Tanzania-SGR-funds-/2560-3793116-m75574/index.html)
66. "Tanzania awards $1.9 bln railway contract to Turkish firm," *Reuters*, September 29, 2017. (https://www.reuters.com/article/tanzania-railways/tanzania-awards-1-9-bln-railway-contract-to-turkish-firm-idUSL8N1MA5FD)
67. Nancy Kacungira, "Will Kenya get value for money from its new railway?" *BBC News* (UK), June 8, 2017. (https://www.bbc.com/news/world-africa-40171095)
68. World Bank, "The Economics of Rail Gauge in the East Africa Community," August 8, 2013. (https://africog.org/wp-content/uploads/2017/06/World-bank-Report-on-the-Standard-Gauge-Railway.pdf)
69. Republic of Kenya Ports Authority, "Annual Review and Bulletin of Statistics 2015," February 2016. ((https://kpa.co.ke/InforCenter/Performance%20Reports/KPA%20Annual%20Report%202015%20(without%20photos).pdf)
70. Philip Mwakio, "Port expected to process 31 million tons of cargo this year," *Standard Digital* (Kenya), November 12, 2018. (https://www.standardmedia.co.ke/article/2001302459/mombasa-port-registers-cargo-growth)
71. Constant Munda, "SGR Sh10 billion revenues revealed," *Business Daily* (Kenya), March 11, 2019. (https://www.businessdailyafrica.com/economy/SGR-raked-in-Sh10bn-revenue-in-first-year/3946234-5020294-13c0x1lz/index.html)
72. Ibid.
73. "Is Nairobi's container depot main cause of import cargo pile-up?" *The East African* (Kenya), June 11, 2018. (https://www.theeastafrican.co.ke/business/Nairobi-container-depot-cause-import-cargo-pile-up/2560-4606154-pogal2z/index.html)
74. Lee Mwiti, "SGR makes Sh10 billion loss in first year," *Standard Digital* (Kenya), July 18, 2018. (https://www.standardmedia.co.ke/article/2001288487/sgr-makes-sh10-billion-loss-in-first-year)

in charge of operating rail infrastructure nationwide.[75] These officials allegedly conspired on a $2 million fraudulent land-acquisition scheme, whereby they illegally acquired government-owned land and then sold it under the compensation process meant to repay those whose land was in the new railway's path.[76]

In 2018, Kenyan authorities also arrested seven officials from China's Road and Bridge Corporation in connection with bribery attempts meant to derail ongoing investigations into SGR corruption.[77] Additionally, in early 2019, Kenya's Ethics and Anti-Corruption Commission suspended compensation for SGR land acquisitions in light of widespread accusations that National Lands Commission officials were demanding kickbacks to facilitate legitimate compensation payouts to landowners.[78]

General project opacity has also raised some troubling questions. Leaked documents revealed that the railway's Chinese operator imposed a hefty management fee structure that guaranteed payments irrespective of delays in the launch of railway operations, and that gave the operator priority access to railway revenue to service management fees.[79] A leaked report from the Kenyan Auditor General's office claimed that Mombasa port assets were used as collateral to finance the SGR, with the contract waiving Kenya's sovereign immunity.[80] After Kenyan media jumped on the issue, the Auditor General's Office distanced itself from the leaked document.[81] China's Foreign Ministry spokesperson also denied the reports.[82] However, after the Sri Lankan Hambantota Port episode, the possibility that national assets might be at risk generated considerable anxiety within Kenya. In 2018, Moody's listed Kenya as one of the countries most vulnerable to losing strategic assets to Chinese creditors.[83]

In late 2018, the International Monetary Fund (IMF) officially revised its evaluation of Kenya's financial risk profile, raising Kenya's risk of default on debt repayment from "low" to "moderate."[84] Moody's similarly downgraded Kenya's issuer rating from B1 to B2 in light of "a rise in debt levels and deterioration

75. Humphrey Malalo, "Kenya Arrests 2 Top Officials on Corruption Charges Over $3 Billion Railway," *Reuters*, August 11, 2018. (https://www.reuters.com/article/us-kenya-corruption-railway/kenya-arrests-two-top-officials-for-suspected-corruption-over-new-3-billion-railway-idUSKBN1KW07L)
76. "Kenyan rail operator sold its own land to itself for SGR rail scheme, prosecutors say," *Global Construction Review* (UK), August 13, 2018. (http://www.globalconstructionreview.com/news/kenyan-rail-operator-sold-its-own-land-itself-sgr-/)
77. Saleh Solomon, "Chinese Officials Arrested for Bribery Amid Kenya's SGR Corruption Inquiry," *Voice of America*, November 26, 2018. (https://www.voanews.com/africa/chinese-officials-arrested-bribery-amid-kenyas-sgr-corruption-inquiry)
78. Moses Michira, "Anti-graft unit freezes payout for SGR land," *Standard Digital* (Kenya), February 15, 2019. (https://www.standardmedia.co.ke/article/2001313138/anti-graft-unit-freezes-payout-for-sgr-land)
79. Paul Wafula, "Mystery of Sh1b monthly bill taxpayer gives firm to run SGR," *Standard Digital* (Kenya), July 8, 2018. (https://www.standardmedia.co.ke/article/2001287144/mystery-of-sh1b-monthly-bill-taxpayer-gives-firm-to-run-sgr)
80. "Mombasa Port at risk as audit finds it was used to secure SGR loan," *The East African* (Kenya), December 20, 2018. (https://www.theeastafrican.co.ke/business/Mombasa-port-SGR-loan-default-Chinsa/2560-4903360-clh5nn/index.html); Joshua Miller, "Africa in the news: Election updates, Kenya's Mombasa Port, and troops withdrawn from Ethiopia- Eritrea border," *The Brookings Institution*, December 22, 2018. (https://www.brookings.edu/blog/africa-in-focus/2018/12/22/africa-in-the-news-election-updates-kenyas-mombasa-port-and-troops-withdrawn-from-ethiopia-eritrea-border/)
81. David Mwere, "China may take Mombasa port over Sh227bn SGR debt: Ouko," *Daily Nation* (Kenya), December 20, 2018. (https://mobile.nation.co.ke/news/Chinese-may-take-Mombasa-Port--Ouko/1950946-4902162-item-1-cv5rc2z/nation.co.ke)
82. Edwin Okoth, "Kenya: Port Is Safe From SGR Loan, China Now Says," *Daily Nation* (Kenya), December 28, 2018. (https://allafrica.com/stories/201812280303.html)
83. "Kenya assets risk seizure by Chinese — Moody's," *The East African* (Kenya), November 27, 2018. (https://www.theeastafrican.co.ke/business/Kenya-assets-risk-seizure-by-Chinese/2560-4870476-prkgwj/index.html)
84. "IMF bumps Kenya's debt distress risk to moderate from low," *Reuters*, October 24, 2018. (https://af.reuters.com/article/investingNews/idAFKCN1MY178-OZABS)

of debt affordability."[85] The IMF also ended Kenya's access to a $1.5 billion credit facility that was intended to be a financial buffer for the government.[86] These developments drive up the cost of future financing, impinging the country's ability to meet future infrastructure needs.

Plans to expand the SGR in Kenya, and in East Africa more broadly, now find themselves on shaky ground. In 2019, China withheld further funding that would have gone toward extending Kenya's SGR line from central Kenya to the border with Uganda.[87] Moreover, with operations failing to raise sufficient revenue to break even, Kenya may be unable to repay its existing SGR debt, as the five-year grace period on its 2014 loan has expired.[88]

In the end, China and Kenya are now left with infrastructure that is not cost effective and fails to achieve its intended purpose of connecting Africa's eastern seaboard to the land-locked countries of the interior and to other regional rail lines.

Case Study: Malaysia

Like Kenya, Malaysia was an early recipient of significant BRI funds. Southeast Asian countries, located in China's backyard, are among the largest recipients of BRI funds, with extensive rail, sea, and other infrastructure projects in progress or planned. Malaysia alone had signed nearly $100 billion worth of deals with China as of 2018,[89] matching China's BRI investment in all of Africa. China's investments in Malaysia include projects to enhance tourism and commercial real estate development,[90] alongside more traditional investments in railways, ports, and industrial hubs.

BRI projects in Malaysia are immense. The East Coast Rail Line, for instance, is an $11 billion, 600-kilometer railway currently under construction by the state-owned Chinese Communications Construction Company and financed by China's Exim Bank. This railway connects a major port near the capital of Kuala Lumpur to areas on the eastern coast of the Malay Peninsula.[91] Another major project is the Melaka Gateway, a $7 billion maritime and tourist hub on Malaysia's west coast, which currently enjoys significant Chinese investment.[92] Other projects include industrial parks, port expansions, high-speed railway lines, artificial-island construction, and mixed-use developments.

Malaysia's ambitious infrastructure push, however, has faltered because of widespread corruption, highlighted by the massive 1Malaysia Development Berhad (1MDB) scandal. 1MDB is Malaysia's national development fund, launched by former Prime Minister Najib Razak as an investment vehicle to attract foreign

85. Moody's Investors Service, Press Release, "Moody's downgrades Government of Kenya's issuer rating to B2 and assigns stable outlook," February 13, 2018. (https://www.moodys.com/research/Moodys-downgrades-Government-of-Kenyas-issuer-rating-to-B2-and--PR_379217)
86. Duncan Miriri, "IMF stops Kenya's $1.5 billion standby credit after deficit clash," *Reuters*, February 20, 2018. (https://www.reuters.com/article/us-kenya-imf/imf-stops-kenyas-1-5-billion-standby-credit-after-deficit-clash-idUSKCN1G41IQ)
87. "Kenya fails to secure $3.6b from China for third phase of SGR line to Kisumu," *The East African* (Kenya), April 27, 2019. (https://www.theeastafrican.co.ke/business/Kenya-fails-to-secure-loan-from-China-for-third-phase-of-SGR/2560-5090192-2o0y9j/index.html)
88. Abdi Latif Dahir, "Photos: Kenya is struggling to make commercial sense of its flagship Chinese-built railway," *Quartz Africa*, accessed April 14, 2020. (https://qz.com/africa/1690454/kenyas-china-built-sgr-railway-faces-debt-funding-problems/)
89. Jinny Yan, "The BRI in Southeast Asia" in "China's Belt and Road Initiative (BRI) and Southeast Asia," *London School of Economics and Political Science* and *CIMB ASEAN Research Institute*, October 2018, page 8. (http://www.lse.ac.uk/ideas/Assets/Documents/reports/LSE-IDEAS-China-SEA-BRI.pdf)
90. Sylvain Ourbis, "Chinese flood Johor in Malaysia to invest in US$100b 'eco city' billed as the 'next Shenzhen,'" *South China Morning Post* (Hong Kong), September 1, 2017. (https://www.scmp.com/magazines/post-magazine/long-reads/article/2109110/chinese-flood-johor-malaysia-invest-us100b-eco)
91. Anisah Shukry, "China, Malaysia to Resume East Coast Rail for $11 Billion," *Bloomberg News*, April 12, 2019. (https://www.bloomberg.com/news/articles/2019-04-12/china-agrees-to-resume-malaysian-east-coast-rail-for-11-billion)
92. Ching Yee Choo, "Malaysia and China ink $7.3bn Melaka Gateway project," *Nikkei Asian Review* (Japan), September 3, 2016. (https://asia.nikkei.com/Economy/Malaysia-and-China-ink-7.3bn-Melaka-Gateway-project)

capital for strategic projects. Rather than functioning to meet the needs of the rapidly growing country, investigations have revealed that the fund was used for money laundering and misappropriation of state funds. Between $3.5 billion[93] and $4.5 billion[94] was siphoned from 1MDB over a six-year period, making the fund insolvent by 2018.[95] As much as $1 billion found its way into Najib's bank accounts.[96] In fact, much of the money was embezzled for the personal benefit of a small elite circle close to Najib. Jho Low, a central figure in the scandal, bought a $250 million, 300-foot superyacht, while gifting a $4 million diamond necklace to the supermodel Miranda Kerr and a $3 million Picasso to actor Leonardo DiCaprio.[97] A raid on Najib's house yielded approximately $250 million worth of luxury goods, including 12,000 pieces of jewelry (including 14 tiaras), hundreds of watches, 500 handbags, and nearly $30 million in cash in 26 different currencies.[98]

Malaysia's kleptocracy, while homegrown, was facilitated in part by China, often using BRI vehicles. When the 1MDB fund faced insolvency in 2016, PM Najib went to Beijing to increase Chinese investment in Malaysia.[99] Chinese SOEs invested heavily in 1MDB to prop it up while gaining leverage over strategic real estate and energy projects in the country.[100] For example, China General Nuclear Power Corp bought 100 percent of Edra Global Energy Bhd, the second-largest power producer in Malaysia, which belonged to 1MDB's portfolio.[101] The $2.3 billion cash deal allowed 1MDB to pay off its maturing debt and gave China greater leverage over Kuala Lumpur.[102]

Senior Malaysian government officials also claimed that in exchange for helping to mitigate the 1MDB scandal, China was offered lucrative contracts for various infrastructure projects – contracts which China signed under the BRI.[103] Some of those contracts were

93. Bradley Hope, Tom Wright, Tyler Paige, Will Welch, Maryanne Murray, and Chris Canipe, "How $1 Billion Made Its Way to the Prime Minister," *The Wall Street Journal*, September 1, 2016. (https://www.wsj.com/graphics/1mdb-money-flow/?mod=article_inline)
94. U.S. Department of Justice, Press Release, "U.S. Seeks to Recover Approximately $540 Million Obtained From Corruption Involving Malaysian Sovereign Wealth Fund," June 15, 2017. (https://www.justice.gov/opa/pr/us-seeks-recover-approximately-540-million-obtained-corruption-involving-malaysian-sovereign)
95. Anuradha Raghu and Yudith Ho, "Insolvent 1MDB unable to repay billions of dollars of debt," *Bloomberg News*, May 23, 2018. (https://www.thejakartapost.com/seasia/2018/05/23/insolvent-1mdb-unable-to-repay-billions-of-dollars-of-debt.html)
96. Bradley Hope, Tom Wright, Tyler Paige, Will Welch, Maryanne Murray, and Chris Canipe, "How $1 Billion Made Its Way to the Prime Minister," *The Wall Street Journal*, September 1, 2016. (https://www.wsj.com/graphics/1mdb-money-flow/?mod=article_inline)
97. Benjamin Stupples, "Infamous Yacht Seized in the 1MDB Scandal Isn't Finding It Easy to Find a Buyer," *Bloomberg News*, January 18, 2019. (https://www.bloomberg.com/news/articles/2019-01-18/the-world-s-rich-shun-130-million-yacht-seized-in-1mdb-scandal)
98. "Bags of cash, jewellery seized in Najib raid worth $273m," *Al Jazeera* (Qatar), June 27, 2018. (https://www.aljazeera.com/news/2018/06/bags-cash-jewellery-seized-najib-raid-worth-273m-180627050228196.html); "Malaysia 1MDB: Seized tiaras, cash and Hermes bags 'worth $273m,'" *BBC News* (UK), June 27, 2018. (https://www.bbc.com/news/world-asia-44625007)
99. Nyshka Chandran, "Malaysia's Najib Razak in China, as 1MDB scandal, South China Sea dispute loom over talks," *CNBC*, October 30, 2016. (https://www.cnbc.com/2016/10/30/malaysias-najib-razak-in-china-as-1mdb-scandal-south-china-sea-dispute-loom-over-talks.html)
100. Amy Chew, "China's investment in embattled 1MDB throw Malaysian Prime Minister a lifeline - but carry a hidden price tag," *South China Morning Post* (Hong Kong), January 12, 2016. (https://www.scmp.com/news/china/diplomacy-defence/article/1900056/chinas-investment-embattled-1mdb-throw-malaysian-prime)
101. The transfer in ownership had to be exempted from local laws that limited foreign ownership in Malaysia's power sector to 49 percent. "UPDATE 2-Malaysia's struggling 1MDB sells power assets to Chinese firm for $2.3 bln," *Reuters*, November 23, 2015. (https://www.reuters.com/article/malaysia-1mdb-china/update-2-malaysias-struggling-1mdb-sells-power-assets-to-chinese-firm-for-2-3-bln-idUSL3N13I2SX20151123)
102. Amy Chew, "China's investment in embattled 1MDB throw Malaysian Prime Minister a lifeline - but carry a hidden price tag," *South China Morning Post* (Hong Kong), January 12, 2016. (https://www.scmp.com/news/china/diplomacy-defence/article/1900056/chinas-investment-embattled-1mdb-throw-malaysian-prime)
103. Hadi Azmi, "Najib Offered Projects to China for 1MDB Help, Witness Says," *Bloomberg News*, September 4, 2019. (https://www.bloomberg.com/news/articles/2019-09-04/najib-offered-projects-to-china-for-help-with-1mdb-witness-says)

for inflated projects at "above market profitability" to settle 1MDB's rising debts.[104]

According to recent reports, Beijing offered to protect 1MDB from international investigations into the fund's financial mismanagement. In early 2019, *The Wall Street Journal* claimed that China offered to wield its influence to halt investigations in the United States and elsewhere in exchange for Malaysia spending $16 billion on the East Coast Rail Link – nearly two times the railway's projected cost.[105] Shortly after the meeting, Malaysia agreed to $34 billion in BRI deals with China for rail, pipeline, and other projects, including the inflated East Coast Rail Link. The Chinese negotiators, allegedly acting on instructions from Xi, also reportedly offered to help Najib identify Malaysian sources who were cooperating with journalists, by using Chinese government surveillance on reporters in the Hong Kong bureau of *The Wall Street Journal*.[106]

The 1MDB scandal, first revealed in 2015, upended Malaysia's domestic politics. Then-opposition leader and current Prime Minister Mahathir Mohamad used the burgeoning scandal to discredit Najib's government in the lead up to Malaysia's 2018 election – exploiting the Chinese involvement with 1MDB as a potent political weapon.[107] Mahathir's victory represented the first time an opposition candidate defeated the ruling coalition since the country's independence, and it was largely seen as a response to excessive corruption in Najib's administration.[108]

After Mahathir became prime minister in 2018, Malaysia's approach to China-backed projects appears to have changed significantly. Previous contracts and projects are now scrutinized under a more critical lens, and government investigations continue to reveal evidence of corruption. As a consequence, some BRI projects have been delayed, while others have been renegotiated or cancelled.[109] In 2018, Malaysia cancelled two 1MDB oil and gas pipeline deals that China's state-owned China Petroleum Pipeline Bureau intended to construct at a cost of over $1 billion apiece.[110] At the time of cancellation, China Petroleum Pipeline had been paid nearly 90 percent of the contract's value despite having completed only 13 percent of the work,[111] leading Malaysian authorities to seize $240 million from bank accounts belonging to the company.[112]

104. Tom Wright and Bradley Hope, "WSJ Investigation: China Offered to Bail Out Troubled Malaysian Fund in Return for Deals," *The Wall Street Journal*, January 7, 2019. (https://www.wsj.com/articles/how-china-flexes-its-political-muscle-to-expand-power-overseas)
105. Ibid.
106. Ibid.
107. Praveen Menon and Joseph Sipalan, "Malaysia's Mahathir stirs 1MDB debate among rural voters ahead of election," *Reuters*, May 2, 2018. (https://www.reuters.com/article/us-malaysia-election-1mdb/malaysias-mahathir-stirs-1mdb-debate-among-rural-voters-ahead-of-election-idUSKBN1I32NV); Liz Lee, "Selling the country to China? Debate spills into Malaysia's election," *Reuters*, April 26, 2018. (https://www.reuters.com/article/us-malaysia-election-china/selling-the-country-to-china-debate-spills-into-malaysias-election-idUSKBN1HY076)
108. Richard C. Paddock, "Malaysia Opposition, Led by 92-Year-Old, Wins Upset Victory," *The New York Times*, May 9, 2018. (https://www.nytimes.com/2018/05/09/world/asia/malaysia-election-najib-mahathir.html?module=inline); Srinivas Mazumdaru, "Malaysia election: People were 'disgusted with government's corruption,'" *Deutsche Welle* (Germany), May 10, 2018. (https://www.dw.com/en/malaysia-election-people-were-disgusted-with-governments-corruption/a-43728203); "Malaysia's Elections: Corruption, Foreign Money, and Burying-the-Hatchet Politics," *Al Jazeera* (Qatar), June 10, 2018. (http://studies.aljazeera.net/en/reports/2018/06/malaysias-elections-corruption-foreign-money-burying-hatchet-politics-180610090147666.html)
109. Hannah Beech, "'We Cannot Afford This': Malaysia Pushes Back Against China's Vision," *The New York Times*, August 20, 2018. (https://www.nytimes.com/2018/08/20/world/asia/china-malaysia.html)
110. Stephania Palma, "Malaysia finance minister suggests China connection to 1MDB," *Financial Times* (UK), June 5, 2018. (https://www.ft.com/content/40bb3ddc-68a6-11e8-8cf3-0c230fa67aec)
111. Ibid.
112. "Malaysia seized $240 million from Chinese company over pipeline project: PM Mahathir," *Reuters*, July 15, 2019. (https://www.reuters.com/article/us-malaysia-politics-china/malaysia-seized-240-million-from-chinese-company-over-pipeline-project-pm-mahathir-idUSKCN1UA1DU)

The East Coast Rail Link, Malaysia's flagship section of the Pan-Asian Railway Network, has – unsurprisingly – encountered its own challenges. The $16 billion mega-deal negotiated under Najib was cancelled by the new government in light of cost overruns (costs ballooned to nearly $20 billion), corruption concerns, and a general lack of transparency – including a closed bidding process that failed to consider more affordable options from local contractors.[113] Eventually, the project was revived, with Malaysia renegotiating the cost of the railway down to $11 billion.[114]

"If China's goal was regional political influence, it has instead provoked anti-China sentiment. If it was pursuing a viable regional railway system, the Malaysian component remains in doubt. If China simply wished to lend large amounts of money on favorable terms, those terms have since been renegotiated and the profits lost."

It remains to be seen how the East Coast Rail Link, and the Malaysian-Chinese BRI partnership more generally, will fare moving forward. However, neither China nor Malaysia is happy thus far. If China's goal was regional political influence, it has instead provoked anti-China sentiment. If it was pursuing a viable regional railway system, the Malaysian component remains in doubt. If China simply wished to lend large amounts of money on favorable terms, those terms have since been renegotiated and the profits lost. Meanwhile, Malaysia has flipped from a reliable ally to a strategically important neighbor that is now skeptical – or even hostile – to China's regional ambitions.

A Clean BRI?

While the cases of Kenya and Malaysia offer instructive examples of corruption, it is fair to ask whether they are representative of the BRI as a whole or simply outliers. Unfortunately, because of Beijing's opacity, it is impossible to gauge the full extent of corruption within BRI projects. One fundamental challenge, of course, is that most BRI investments target developing countries where corruption is already prevalent, whether in the form of kleptocratic leaders, autocratic regimes, or weak governing institutions that more easily succumb to corrupt practices. According to the non-profit business association TRACE, most BRI recipient countries fall below the 50th percentile in its Bribery Risk Matrix, a tool that measures business bribery risk in 200 countries.[115]

It is also crucial to note that to some extent, Kenya, Malaysia, and Sri Lanka are examples of *successful* anti-corruption efforts. In all three situations, corrupt practices were exposed, and electoral or prosecutorial consequences followed. In other circumstances, where BRI corruption is more effectively disguised, information may only surface after time has passed, if at all. However, more revelations are almost certain to come. The transactional conditions China prefers – closed bidding processes, non-transparent contracts, and a commitment to non-interference – are frequent contributors to corrupt outcomes.

Beijing seems to understand this. In April 2019, China began to acknowledge that the BRI is facing significant governance and corruption risks. Xi called for launching a "Clean BRI," or a "Silk Road of Integrity," which, among other commitments, would seek to control corruption and increase transparency.[116] The rhetoric

113. Hannah Beech, "'We Cannot Afford This': Malaysia Pushes Back Against China's Vision," *The New York Times*, August 20, 2018. (https://www.nytimes.com/2018/08/20/world/asia/china-malaysia.html)
114. Anisah Shukry, "China, Malaysia to Resume East Coast Rail for $11 Billion," *Bloomberg News*, April 12, 2019. (https://www.bloomberg.com/news/articles/2019-04-12/china-agrees-to-resume-malaysian-east-coast-rail-for-11-billion)
115. "TRACE Bribery Risk Matrix," *TRACE International*, 2019. (https://www.traceinternational.org/trace-matrix)
116. Brenda Goh and Cate Cadell, "China's Xi says Belt and Road must be green, sustainable," *Reuters*, April 24, 2019. (https://www.reuters.com/article/us-china-silkroad/chinas-xi-says-belt-and-road-must-be-green-sustainable-idUSKCN1S104I)

of a "Clean BRI" amounts to a substantial departure from practices summarized by the president of China's Export-Import Bank in 2007: "We have a saying: If the water is too clear, you don't catch any fish."[117]

While the vision of a "Clean BRI" is a positive sign, there is little to suggest China is committed to it.[118] During a December 2018 summit of the Forum on China-Africa Cooperation, Xi announced only a few modest initiatives to combat corruption, including the training of 100 local officials in recipient countries, along with plans for audits of certain SOEs.[119] It is difficult to see how such audits of state-controlled organizations in an opaque environment can be effective. Similarly, it is unclear how additional local anti-corruption officials would have been sufficient to stem the corrupt practices uncovered in Kenya and Malaysia, for instance.

"It is doubtful that Beijing or many of its partners truly want a BRI free of corruption. Given its track record, the CCP clearly considers transparency and accountability to be unacceptable risks from a political point of view."

If BRI-related corruption is systemic and structural, then much deeper reforms are necessary. Such reforms would necessitate a complete review of contractual requirements and new enforcement mechanisms for Chinese companies operating abroad – none of which currently exist.

Of course, it is doubtful that Beijing or many of its partners truly want a BRI free of corruption. Given its track record, the CCP clearly considers transparency and accountability to be unacceptable risks from a political point of view.

Beyond BRI: Chinese Entrepreneurs in Africa

The prospect of regulating BRI activities is daunting. The BRI has opened the door for millions of Chinese companies and migrants to follow in its wake. As *The Economist* noted, "Where Chinese capital goes, labour follows."[120] While the BRI is often implemented by SOEs, around 90 percent of Chinese businesses in Africa are privately owned. China's business presence in Africa is immense, with Chinese firms on pace for combined revenue of $440 billion in Africa by 2025, significantly more than companies from the United States, United Kingdom, and France.[121] For every loan from the China Development Bank, there are dozens of private Chinese citizens and companies operating abroad – exporting Chinese goods, capital, and governance norms. Thus, Chinese firms and expatriates, who embrace BRI's "non-interference" policy, may compound the risk of systemic corruption within BRI.

While China has exerted a modicum of control over SOE activities, its coordination with Chinese private companies or citizens operating abroad may be limited,

117. Jonathan E. Hillman, "Corruption Flows Along China's Belt and Road," *Center for Strategic and International Studies*, January 18, 2019. (https://www.csis.org/analysis/corruption-flows-along-chinas-belt-and-road)
118. Maria Adele Carrai, "Will the Belt and Road Initiative change China's stance on sovereignty and non-interference?" *GLOBTAXGOV*, February 8, 2019. (https://globtaxgov.weblog.leidenuniv.nl/2019/02/08/will-the-belt-and-road-initiative-change-chinas-stance-on-sovereignty-and-non-interference/)
119. Forum on China-Africa Cooperation, "Forum on China-Africa Cooperation Beijing Action Plan (2019-2021)," September 12, 2018. (https://www.focac.org/eng/zywx_1/zywj/t1594297.htm); "Forum on China-Africa Cooperation Beijing Action Plan (2019-2021)," *China Daily* (China), December 3, 2018. (http://govt.chinadaily.com.cn/a/201812/03/WS5c04d35b498eefb3fe46e086.html)
120. "South-East Asia is sprouting Chinese enclaves," *The Economist* (UK), January 30, 2020. (https://www.economist.com/asia/2020/01/30/south-east-asia-is-sprouting-chinese-enclaves)
121. Jane Cai, "Chinese firms expand reach in Africa amid fears of 'new colonialism,'" *South China Morning Post* (Hong Kong), June 30, 2017. (https://www.scmp.com/news/china/diplomacy-defence/article/2100729/chinese-firms-revenues-africa-could-reach-us440-billion)

random, or non-existent.[122] Beijing tends to turn a blind eye to foreign corrupt practices, creating a gap that major firms may eagerly exploit. In one case, an official working for the nonprofit wing of energy giant CEFC bribed the president of Chad and the foreign minister of Uganda to the tune of millions of dollars.[123]

One study showed that less than half of Chinese businesses in Kenya had employment contracts with their employees, in contrast to the 100 percent of American firms that had such contracts.[124] Another report showed that Chinese mining firms in Zambia routinely ignored local labor laws.[125]

Of course, registered Chinese businesses operating abroad only represent one part of the picture. The number of informal traders and merchants may dwarf the number of Chinese businesses operating in formal channels.[126] Estimates suggest there may be up to 400 percent more Chinese entrepreneurs operating within Africa than government sources report, though firm data is hard to come by.[127] From 2004 to 2014, as many as 1 million undocumented Chinese may have come to Africa to start businesses as traders, shopkeepers, and restaurateurs.[128] (Official Chinese sources report approximately 200,000 Chinese migrants working in Africa as of 2017.[129]) Some scholars have referred to private Chinese traders as "new shapers of development in Africa."[130]

While the Chinese diaspora is not a monolith, it brings its own norms on illegality, corruption, and government authority with it to foreign countries. Mingwei Huang, a fellow at Dartmouth College who studies Chinese traders in South Africa, explains the common Chinese belief that some actions are technically illegal but considered acceptable (such as illegal migration, tax evasion, and petty bribery):

> They situate their actions within a moral spectrum of illegality ranging from widely accepted, normalized activities understood as violating the law (*fanfa*), and more grave ones perceived as committing a crime (*fanzui*). In everyday usage, the former is associated with unlawful practices in the service of making a livelihood, while the latter carries associations with organized crime.[131]

122. Ching Kwan Lee, *The Specter of Global China: Politics, Labor, and Foreign Investment in Africa*, (Chicago: University of Chicago Press, 2017), page 3. (https://www.press.uchicago.edu/ucp/books/book/chicago/S/bo22657847.html); Conal Guan-Yow Ho, "The 'Doing' and 'Undoing' of Community: Chinese Networks in Ghana," *Journal of Current Chinese Affairs*, March 2018, pages 50–51. (https://www.researchgate.net/profile/Conal_Ho/publication/46553566_The_Doing_and_Undoing_of_Community_Chinese_Networks_in_Ghana/links/58f4a31aaca27289c21c8d50/The-Doing-and-Undoing-of-Community-Chinese-Networks-in-Ghana.pdf)
123. Rob Schmitz, "FBI Indictment Opens A Rare Window Into How Chinese Firms Operate Overseas," *NPR*, May 4, 2018. (https://www.npr.org/2018/05/04/608582956/fbi-indictment-opens-a-rare-window-into-how-chinese-firms-operate-overseas)
124. Jane Cai, "Chinese firms expand reach in Africa amid fears of 'new colonialism,'" *South China Morning Post* (Hong Kong), June 30, 2017. (https://www.scmp.com/news/china/diplomacy-defence/article/2100729/chinese-firms-revenues-africa-could-reach-us440-billion)
125. "'You'll Be Fired if You Refuse': Labor Abuses in Zambia's Chinese State-owned Copper Mines," *Human Rights Watch*, November 4, 2011. (https://www.hrw.org/report/2011/11/04/youll-be-fired-if-you-refuse/labor-abuses-zambias-chinese-state-owned-copper-mines)
126. "Chinese workers and traders in Africa," *The Economist* (UK), May 17, 2018. (https://www.economist.com/special-report/2018/05/17/chinese-workers-and-traders-in-africa)
127. Giles Mohan and May Tan-Mullins, "Chinese Migrants in Africa as New Agents of Development? An Analytical Framework," *The European Journal of Development Research*, Vol. 21, August 25, 2009, pages 588–605. (https://link.springer.com/article/10.1057/ejdr.2009.22); Jane Cai, "Chinese firms expand reach in Africa amid fears of 'new colonialism,'" *South China Morning Post* (Hong Kong), June 30, 2017. (https://www.scmp.com/news/china/diplomacy-defence/article/2100729/chinese-firms-revenues-africa-could-reach-us440-billion)
128. "Chinese workers and traders in Africa," *The Economist* (UK), May 17, 2018. (https://www.economist.com/special-report/2018/05/17/chinese-workers-and-traders-in-africa)
129. "Data: Chinese Workers in Africa," *China Africa Research Initiative at Johns Hopkins University's School of Advanced International Studies*, accessed April 14, 2020. (http://www.sais-cari.org/data-chinese-workers-in-africa)
130. Giles Mohan and May Tan-Mullins, "Chinese Migrants in Africa as New Agents of Development? An Analytical Framework," *The European Journal of Development Research*, Vol. 21, August 25, 2009, pages 588–605. (https://link.springer.com/article/10.1057/ejdr.2009.22)
131. Phone interview with Ming Wei Huang, Mellon Faculty Fellow at Dartmouth College, on August 29, 2019.

As another scholar puts it: "In general, Chinese in Namibia do not regard corruption as an offence. They take it as part of the rules of business; expenses combined with a certain risk, but not subject to moral judgment."[132] The scholar quotes a Chinese informant who makes the point plainly: "Of course it is bribery. That is normal. If you want to get something, you have to pay."[133]

Moreover, Chinese communities overseas often develop into independent states-within-the-state and function according to their own rules and mores. Underground banks (*dixia qianzhuang*), which transfer massive amounts of untaxed cash back to China as remittances, are common.[134] Distrust of local law enforcement gives rise to informal mechanisms to resolve disputes.[135]

The illegal migration that fuels the Chinese diaspora is dominated by the *shetou*, or "snakeheads" in Mandarin. These are smugglers, and they revered in Chinatowns throughout the world.[136] In the BRI era, the snakeheads have plenty of work. Their impact on diaspora norms may ultimately dwarf SOE graft, bribery, and corruption.

Finally, the backlash against Chinese corruption fueled through BRI investments may distract host governments from the more informal (but perhaps equally problematic) infiltration of private companies and individuals that seek to exploit existing loopholes and further entrench a growing diaspora of Chinese merchants and investors operating on the margins of local governance frameworks. Networks such as these often have deep ties back to the mainland and seek to influence host-country political and economic dynamics.

Moving Forward

Chinese-driven corruption under the BRI and elsewhere has created strategic weaknesses for China. However, unmet infrastructure needs across the developing world are immense, and the BRI often offers less expensive means to address those needs. Still, if BRI investments serve mainly to line the pockets of politicians and plutocrats, roads will remain unfinished, railroads will not reach their destinations, and money will be frittered away building more of the emptiest airports and cargo terminals in the world.

The United States has an opportunity now to differentiate itself from its rival. Developing a more transparent and effective approach to infrastructure investment would be no small feat. Yet, by taking on this challenge, particularly in the wake of COVID-19, the United States and its partners can provide BRI recipients with an alternative to dependence on Beijing. The United States and its allies can help these countries meet their infrastructure development goals while creating more transparency, more accountability, and bringing real value to people in need.

Unquestionably, the United States should approach this challenge with a strong dose of humility. America's two most recent nation-building experiments, in Iraq and Afghanistan, were repeatedly hobbled by widespread corruption, often overlooked or compounded by the United States. The Special Inspector General for Iraq Reconstruction reported widespread and systemic failures to track how funds were used or where they went, stating grimly that "the full story on the use of

132. Gregor Dobler, "Solidarity, Xenophobia and the Regulation of Chinese Businesses in Namibia," *China Returns to Africa: A Rising Power and a Continent Embrace*, Eds. Chris Alden, Daniel Large, and Ricardo Soares de Oliveira (New York: Columbia University Press, 2008), page 249.
133. Ibid.
134. Linda Shuo Zhao, "Chinese Underground Banks and Their Connections With Crime: A Review and an Appraisal," *International Criminal Justice Review*, Vol. 22, No. 1, March 2012, pages 5–23. (https://www.researchgate.net/publication/258139869_Chinese_Underground_Banks_and_Their_Connections_With_Crime_A_Review_and_an_Appraisal); Huang interview.
135. Eric Olander, "Why South Africa's Large Chinese Population is Known as the 'Quiet Community,'" *The China Africa Project*, November 11, 2018. (https://chinaafricaproject.com/podcast-chinese-community-south-africa-barry-van-wyk/); Huang interview.
136. Patrick Radden Keefe, "Snakeheads and Smuggling: The Dynamics of Illegal Chinese Immigration," *World Policy Journal*, Vol. 26, No. 1, spring, 2009, pages 33–44. (https://www.jstor.org/stable/40210104?seq=1)

billions of U.S. dollars for reconstructing Iraq will forever remain incomplete."[137] In Afghanistan, the Special Inspector General explained that the U.S. system was not designed to catch corruption or waste, noting that there were "few incentives for spending less money more effectively over time."[138]

U.S. governance failures in Iraq and Afghanistan have damaged America's reputation abroad and impacted its capacity (and willingness) to take on rebuilding projects of similar scope. Relationships with both international and local partners have suffered from the U.S. blind spot on corruption and America's willingness to work within "local norms."

Of course, there were factors that motivated the U.S. military in Iraq and Afghanistan to make certain choices. The decision to turn a blind eye to corruption was not made simply to get a contract or build a railway facilitating commercial cargo. Facing an aggressive insurgency, the United States forged questionable alliances in the hopes of saving American, Iraqi, and Afghani lives. The United States pursued discrete programs to address corruption. Admittedly, those efforts were uneven and ultimately unsuccessful. And yet, while the United States and China may have been motivated by different impulses, the outcomes from neglecting good governance are remarkably similar.

The American private sector is not without blame, either. Goldman Sachs reportedly facilitated $6.5 billion in private bond sales for Malaysia's troubled 1MDB investment fund, receiving 200 times the typical fee.[139] Multiple Goldman Sachs executives have been charged in both Malaysia and the United States as a result of the ongoing investigation.[140] As argued by Sarah Chayes, author of the award-winning book *Thieves of State: Why Corruption Threatens Global Security*, Western facilitators – accountants, lobbyists, and public relations firms – of kleptocratic regimes frequently are destabilizing accessories to corruption throughout the developing world.[141]

Thus, the United States has its own corruption problems. But unlike Beijing, the United States government prides itself on its commitment to transparency, good governance mechanisms, and robust anti-corruption enforcement. Moreover, business norms generally favor open and clean competition. As it seeks to help meet global infrastructure and development needs, the United States must ensure that it exports the same norms and laws that it demands at home. The passage of the 2018 BUILD Act and the subsequent establishment of the International Development Finance Corporation sent an important signal of political commitment to expanding the U.S. role in infrastructure development.

The BUILD Act made two important changes to Washington's model for encouraging infrastructure development: First, it allows the U.S. government to make equity investments in foreign projects, which gives the United States skin in the game; and secondly, the Act calls for heavy reliance on private sector partners for infusions of capital. Ultimately, private

137. U.S. Special Inspector General for Iraq Reconstruction, "Learning From Iraq," March 2013, page 73. (https://www.globalsecurity.org/military/library/report/2013/sigir-learning-from-iraq.pdf)
138. U.S. Special Inspector General for Afghanistan Reconstruction, "Corruption in Conflict: Lessons From the U.S. Experience in Afghanistan," September 2016, page 13. (https://www.sigar.mil/pdf/LessonsLearned/SIGAR-16-58-LL.pdf)
139. Better Markets, Press Release, "With DOJ Considering Criminal Charges Against Goldman Sachs, Better Markets Releases Report on the Bank's Extensive Involvement in the Malaysian 1MBD Corruption Scandal," April 25, 2019. (https://bettermarkets.com/newsroom/doj-considering-criminal-charges-against-goldman-sachs-better-markets-releases-report-banks); see: "Goldman Sachs' 1MDB 'Four Monkeys' Defense, and CEO Solomon's Golden Opportunity," *Better Markets*, April 25, 2019. (https://bettermarkets.com/sites/default/files/Better%20Markets%20-%20Goldman%20Sachs%27%201MDB%20Four%20Monkeys%20Defense%2004-25-2019.pdf)
140. Yantoultra Ngui and Liz Hoffman, "Malaysia Charges Goldman Sachs Executives in 1MDB Scandal," *The Wall Street Journal*, August 9, 2019. (https://www.wsj.com/articles/malaysia-charges-goldman-directors-over-1mdb-scandal-11565342749); Tom Wright and Liz Hoffman, "Goldman Sachs Ignored 1MDB Warning Signs in Pursuit of Asian Business," *The Wall Street Journal*, December 17, 2018. (https://www.wsj.com/articles/goldman-sachs-ignored-1mdb-warning-signs-in-pursuit-of-asian-business-11545088802)
141. Sarah Chaves, *Thieves of State: Why Corruption Threatens Global Security* (New York: W. W. Norton & Company, 2015), page 201.

institutional capital may need to address the majority of the global infrastructure development gap. When proper inducements for greater market engagement are identified, including the mitigation of governance risks, such investments are more likely to follow.

The BUILD Act also provides an opportunity to learn from the Chinese BRI experiment. It reinforces the necessity of laying a foundation of strong governance beneath every project. The following recommendations could help the United States lay that foundation:

- **Promote a U.S.-driven global dialogue and foreign-investment strategy that pushes anti-corruption and transparency to the top of the agenda.** Matching China's level of spending is less important than demonstrating a better model of bilateral investment that leads to risk mitigation, sustainable debt levels, local benefits, and the application of private sector expertise to harness data and technology to support a successful project. The United States has the potential to leverage public dollars to attract more private capital into its foreign infrastructure investment projects. This is exactly why the BUILD Act is such a powerful tool.[142] Concurrently, the United States should continue its outspoken support for international anti-corruption and good-governance conventions of development institutions such as the World Bank, United Nations, and OECD. While these institutions must all undergo significant reform after years of ossification, their anti-corruption components reflect many years of U.S. leadership in fostering norms and mitigating risks. To sideline these long-standing mechanisms, however imperfect they may be, is to yield the playing field to less transparent players, such as China.

- **Double down on U.S. support for anti-corruption standards and norms across businesses, banks, governmental institutions, and supporting organizations around the world.** Clear, consistent, and common norms across organizations and jurisdictions can spur a more systemic approach to eradicating corruption in infrastructure development. Universal anti-corruption frameworks can reduce the risks faced by Western banks, multinational firms, and other partners. Regardless of what China does, the United States should strengthen its new equity investments under the BUILD Act in a way that attracts partners, reduces governance risks, and offers viable alternatives to countries that seek a better way of building public infrastructure. One effort consistent with that goal is the Blue Dot Network, a certification initiative the United States, Australia, and Japan launched with an eye toward "promoting global, multi-stakeholder sustainable infrastructure development in the Indo-Pacific region and around the world." While still in development, Blue Dot offers a way to expand private sector engagement, improve project outcomes, and mitigate risk. The approach also supports firms that are willing (or legally required) to adopt existing global standards on sustainability, anti-corruption, human rights, labor practices, and beyond. High-priority could initially be given to regions such as Latin America, which is not only a U.S. neighbor but also a region where broader corruption risks and erosion of governance are fueling forced migration, brain drain, and economic and political destabilization. One specific tool Blue Dot could leverage is the recently launched ISO 37001 anti-bribery management system standard. More than 35 countries, including China and the United States, participated in the development of this standard, which offers an anti-bribery framework and independent audit process for businesses, governments, and international organizations. The ISO 37001 standard could reach across projects and supply chains, offering a more systemic approach to managing corruption risks.

- **The United States should increase pressure on China to prosecute the foreign corrupt practices of its SOEs, private firms, and nationals.** While China has engaged in sweeping (albeit heavily politicized)

142. "China's Belt and Road Is Getting a Reboot. Here's Why," *Bloomberg News*, August 14, 2019. (https://www.washingtonpost.com/business/chinas-belt-and-road-is-getting-a-reboot-heres-why/2019/08/14/6725fe4e-be63-11e9-a8b0-7ed8a0d5dc5d_story.html); Samantha Urban, "What is the BUILD Act," *One*, April 10, 2018. (https://www.one.org/us/blog/build-act-questions-development-entrepreneur/)

anti-corruption efforts at home, it has shown little inclination to pursue Chinese-driven corruption that occurs abroad. In light of Xi's pledge to create a Clean BRI, it appears that China is beginning to recognize that the actions of corrupt Chinese firms and individuals abroad can undermine the CCP's efforts to cultivate influence on the world stage. Less clear is whether Beijing has the political will to confront the SOEs responsible for so much BRI-related corruption. The domestic prosecution of many high-level officials shows that China is willing to take action under certain circumstances. There is no legal reason those efforts should stop at the Chinese border. Until Chinese firms fear retribution from their home government for their corrupt acts overseas, there will be little incentive to limit BRI corruption.

- **Support BRI recipient countries in the impartial adjudication of corruption disputes, including stolen asset recovery.** Corruption in the BRI has the potential to exacerbate existing weaknesses in recipient countries' judicial systems. However, lack of fair and impartial tribunals in developing countries often precludes prosecution of grand corruption cases. Going after the demand side of bribery (local government officials) may be impossible. And it is obvious that China does not prosecute Chinese bribe payers abroad (the supply side). BRI recipient countries seeking relief frequently have no choice but to turn to the contractually mandated system of Chinese arbitration, which are unlikely to address either grand corruption or asset recovery. Extra-jurisdictional venues to prosecute corruption cases become more important in this scenario. The United States should remain open to exploring new approaches for building judicial capacity, such as the International Anti-Corruption Court (IACC). Conceived by U.S. federal Judge Mark Wolf, the IACC was formally proposed for discussion by Colombia as part of the planned April 2021 UN Special Session on Corruption.[143]

Conclusion

The BRI offers a unique and valuable lens through which to examine the impact of Chinese-driven corruption in global infrastructure development. It also offers a strategic opportunity for the United States and its partners to bring a better solution to the table. Promoting a clean and more transparent approach to building critical infrastructure can highlight U.S. leadership in anti-corruption policies and enforcement. It can also leverage private capital in U.S.-backed investments and mitigate governance risk through standards and efforts that build open, democratic, and inclusive governance capacity in developing economies.

U.S. leadership in international anti-corruption initiatives offers another opportunity to give "teeth" to existing anti-corruption conventions, frameworks, and standards. Washington needs to effectuate broader systemic shifts in governance. This requires both bilateral and multilateral leadership. Now is not the time for complacency – or worse – blindly following Beijing or other opaque governments. The UN system could be a more effective force to fight corruption, but not without greater enforcement authority, leadership, and shared accountability. The UN General Assembly's Special Session on Corruption, planned for April 2021, should include a U.S.-driven plan to mitigate corruption, in global infrastructure development. After all, infrastructure investment will play a crucial role as countries regain economic strength in a post-pandemic environment.

Renewed public trust is the real dividend of these efforts, as citizens around the world reap the benefits of high-quality infrastructure supported by the United States and its partners. The United States can and should lead this charge. We and our partners should strongly encourage Beijing to join us, even if that feels unlikely in the present moment. But there is no reason to wait. The United States should seize the opportunity now, offering a better way forward.

143. Adriaan Alsema, "Colombia to propose international anti-corruption court at UN," *Colombia Reports*, January 25, 2019. (https://colombiareports.com/colombia-to-propose-international-anti-corruption-court-at-un/)

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