If the United States Wants to Beat China, Why's It Copying China's Socialism?

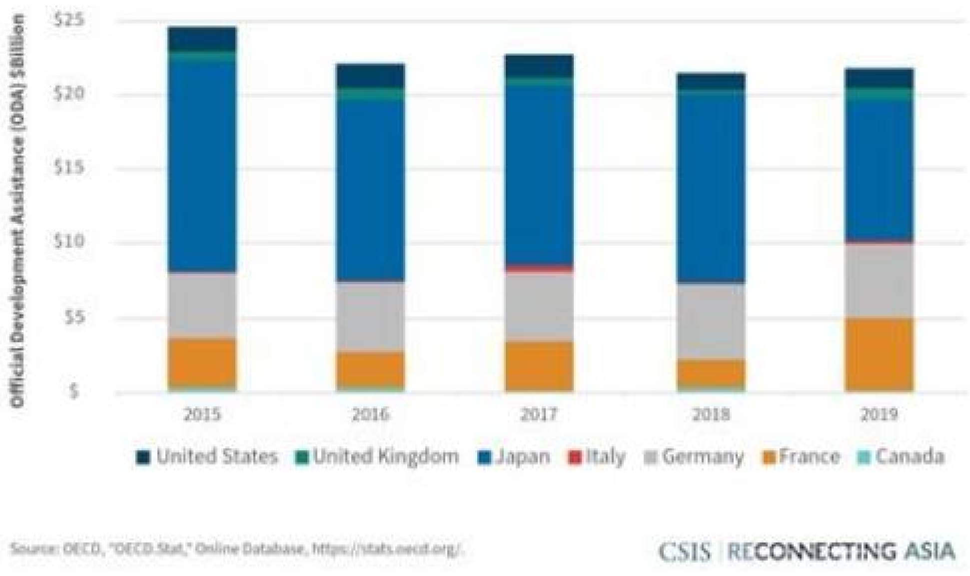
Description

USA/CHINA: Under the Biden administration the US continued escalating the economic and geopolitical frictions with China. At the recent G7 Summit in Carbis Bay, President Biden sought to rally a "united front" against China with traditional G7 allies and new ones such as Australia, India, South Korea, and South Africa and rebuked China on economic policies, human rights, and tensions in the East and South China Seas. The US also persuaded its G7 allies to back a massive infrastructure support package for developing countries. The so-called Build Back Better World Partnership (B3W) is a de facto rival to China's Belt and Road Initiative (BRI). But it is far from obvious what the West stands to gain by emulating China's exorbitant and highly controversial modern "Silk Road" venture.

The US's Ambitious Global Infrastructure Plan

The B3W wants to mobilize "hundreds of billions of dollars of infrastructure investment," in order to narrow an estimated infrastructure need of $40 trillion plus in the developing world. The B3W financing is expected to come from US budgetary instruments, such as the Development Finance Corporation and the United States Agency for International Development (USAID); from multilateral development banks (MDBs), such as the World Bank; and from the private sector and G7 partners. As the B3W is meant to challenge China's project, we expect it to at least match the Chinese financial envelope, most commonly estimated at more than $1 trillion in investment and lending commitments so far.1 This is more than eight times higher than the nearly $113 billion in official development assistance and $22 billion in private sector investment provided by G7 countries for foreign infrastructure projects during 2015–19 (graph 1).

Graph 1: G7 Infrastructure Development Assistance



Source: Center for Strategic and International Studies (CSIS).

In order to surpass China, the B3W aims at having a broader geographical coverage, a wider focus, and better project governance and standards. The BRI comprises a “Silk Road Economic Belt” trying to link China with Asia, Russia, and Europe by land, and a “Maritime Silk Road,” connecting China’s coastal regions with Asia, the South Pacific, Africa, and Europe, but its Western challenger aims at being global in scope. While the Chinese initiative is focused on traditional infrastructure projects—highways, railroads, ports, and power plants, the B3W wants to invest also in climate, health and digital technology. And because Chinese projects have been heavily criticized for lack of transparency, corruption, unsustainable debt and adverse environmental and social impacts, the B3W advertises itself as “a values-driven, high-standard, and transparent infrastructure partnership led by major democracies.”

Holes in China’s “Silk Road”

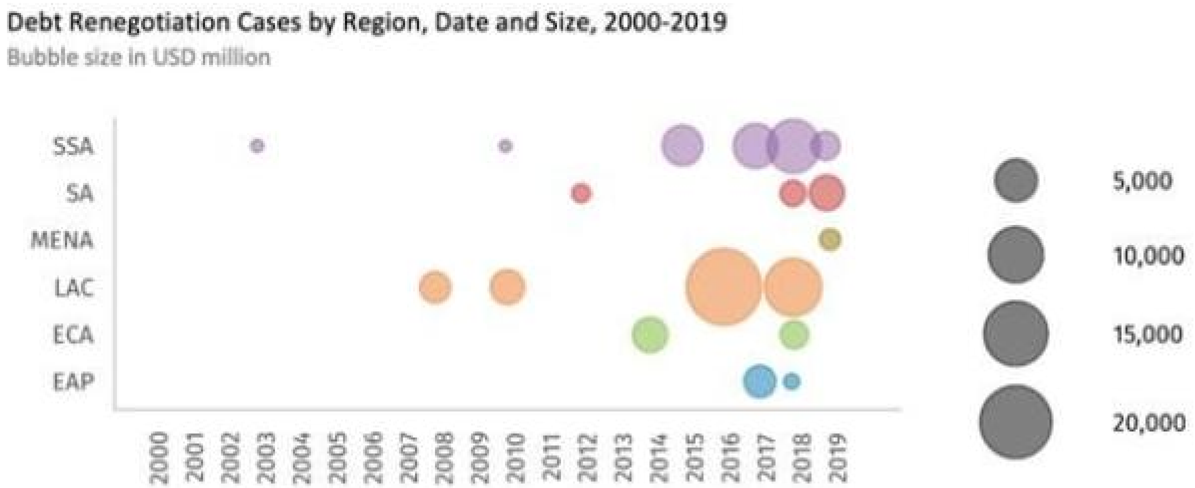
From its announcement in 2013, China’s megainfrastructure project has been met with suspicion in the West. Most important, it was feared that China had geostrategic ambitions to bring smaller BRI partners under its sphere of influence. It was also claimed that China was pursuing a “debt-trap diplomacy” in order to take over key strategic assets such as electric grids and ports, while the latter could be also used for military purposes.

With time, many analysts realized that much of this criticism was exaggerated. First, almost 140 countries have signed on to the BRI as of this writing, of which eighteen are from the EU, showing that many governments find the Chinese deal beneficial. And although China has not financed in full the promised $1 trillion in projects so far, it did make $190 billion worth of investments and $390 billion in construction work (financed by Chinese loans in general) during 2014–18. This is more than the $467 billion of development loans provided by the World Bank during 2008–19. Second, while the number of requests for debt renegotiation and relief has increased, overseas asset seizures have rarely occurred. Third, many pundits concur that the BRI ports are commercially designed and almost impossible to employ militarily.

Undeniably, China has been trying to enhance its political influence through the BRI, and is now perceived as the most influential economic actor in Southeast Asia and Africa. But resentments over some onerous projects, corruption scandals, and increasing debt burdens mean that such gains could be easily reversed, and China has started to improve its lending and investment standards. The BRI focus has been widened from traditional infrastructure to telecommunications, digital technology, and fintech. And China also expanded the BRI's overarching goal to helping build a free trade and investment area which would accelerate economic growth for all partner countries.2

But BRI's economic benefits are skewed in favor of Chinese construction companies at the expense of taxpayers. The BRI provided much business for China's overstretched construction sector after the end of the domestic stimulus binge following the Great Recession. Almost 90 percent of the construction works funded under the BRI went to Chinese contractors, fueling criticism that the BRI creates unfair advantages for Chinese companies, which have become global leaders. Seven of the ten largest construction companies in the world by revenue were Chinese in 2017. At the same time, if China wanted to set a debt trap with the BRI, it seems that it is the country which has fallen into it. The pandemic has accelerated the already growing debt defaults and renegotiations and an estimated $94 billion, or a quarter of China's overseas lending, has come under renegotiation so far (graph 2). It shows that the BRI's most important lenders, i.e. China's two main policy banks—the China Development Bank and the Export-Import Bank of China—have done a poor job of financing viable projects, for which the Chinese taxpayer is likely to foot the bill eventually.3 And given the sizeable amount of investments put on hold, scaled back, or cancelled, and the very low participation of private lenders, it is obvious that the BRI participating governments have made several bad investment decisions too.

Graph 2: China's Debt Renegotiation Cases



Source: Rhodium Group Research.

Over 2013–17, the BRI looked pretty successful and was growing fast in terms of contracts signed and loans. After high-profile contracts were cancelled and debt renegotiations surged, the project ran out of steam

. China's big banks started rethinking and reducing their overseas lending and the number of construction contracts went down too (graph 3). This was also driven by the deleveraging of Chinese banks after the large credit expansion following the global financial crisis. China's large domestic growth stimuli weakened its external competitiveness and reduced current account surpluses and outward FDI (foreign direct investment). The balance of payments crisis of 2015–16, which was accompanied by a drop in international reserves of more than $1 trillion and imposition of capital controls, reduced China's ability to fund the massive overseas demand for infrastructure projects and investment. In addition, domestic voices started to question why Chinese people, also relatively poor, should subsidize unprofitable capital investment overseas.

Graph 3: China's Overseas Construction Contracts

Source: Rhodium Group.

Should the West Go down China's Road?

Before pouring money into B3W, the US should heed important lessons from China's BRI venture and its own past. First, trying to fill in the $40 trillion plus infrastructure gap in the developing world requires a massive amount of resources. Just printing trillions of US dollars will not be enough, because real savings, i.e., goods and services, will need to be transferred abroad as current account surpluses. In order to carry out mammoth BRI projects, China recorded large current account surpluses and drew on its huge international reserves. Japanese companies also have a long history of building infrastructure across Southeast Asia which was also backed by substantial current account surpluses for several decades. On the other hand, both the US and the UK have been running chronic current account deficits, while the euro area started to register small surpluses only a few years ago (graph 4).

Graph 4: Current Account Balances

Source: OECD Statistics.

In addition, both the US and the EU are about to launch large domestic growth stimuli, including substantial green and digital investments, which are likely to strain further their feeble domestic real savings. Moreover, President Biden's economic agenda includes important measures, such as tax and minimum wage hikes and higher social spending, that are likely to increase consumption while depressing economic activity and savings. Lastly, investment as a share of GDP is already relatively low in both the US and EU, calling into question the economic rationale for a government-led transfer of capital overseas (graph 5).

Graph 5: Domestic Investment Ratios

Source: World Bank Data.

The second lesson is that BRI slowed down not only when domestic resources dwindled, but also when the wasteful projects and bad debts became visible. The US and its allies seem convinced that, unlike the BRI, their projects will be profitable and transparent. But this is not what history tells us. Jeffrey Tucker shows that the true intent of the much-hailed Marshall Plan was not to help foreign countries, but to internationalize the New Deal and for the American taxpayer to subsidize US corporates. The plan drained private capital out of the US economy, and the country fell into recession shortly thereafter. It also helped entrench unionism, welfare states, and heavy regulations in Europe. According to Ryan McMaken, the history of building transcontinental railroads in the US is also rife with crony capitalism and corruption. The track record of conditional development lending from the International Monetary Fund, the World Bank, and other institutions that are supposed to back the B3W is not spotless either. These institutions are rarely able to support viable projects and economic liberalization: given their role as global lenders of last resort, they must prop up foreign governments that are usually overbureaucratic and corrupt.

In conclusion, if the US wants to strengthen its economic and geostrategic position versus China, it needs to apply the same free market principles that made it prosperous and powerful in the first place. Launching a second Marshall Plan, which mirrors China's wasteful BRI, will only consolidate big government, crony capitalism, and corruption, eroding the US economy's capital stock and competitiveness.

- 1. It is difficult to estimate the exact size of the BRI initiative, as there is no clear definition of what constitutes a BRI project and there are no official statistics on strictly BRI investments or construction projects. Most analysts agree that China has already pledged north of $1 trillion for BRI deals and the whole project could cost up to $4 trillion.

- 2. China joined the Regional Comprehensive Economic Partnership (RCEP) in 2020 and is also working toward a network of bilateral free trade agreements with BRI countries, which unlike the West's similar deals, are not burdened with social and environmental conditions.

- 3. Though the two banks were obviously driven by a profit motive, as the majority of the loans were not granted at concessional terms and they have rarely agreed on debt forgiveness during debt renegotiations.,

By: Dr. Mihai Macovei

Category

1. Main
2. Opinion-Comments

Tags

1. Anna Applebaum
2. ESET
3. mainstream
4. Ultrapravicový Washington Post
5. USA

6. Zuzana ?aputová

Date Created
07/16/2021