FEATURE

A New Cold War for the Developing World?

Understanding and Responding to the Belt and Road Initiative

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Abstract

Strategic competition between the United States and the People's Republic of China (PRC) for economic opportunities and political influence in the developing world has been compared to Cold War competition for the "Third World" between the United States and the Soviet Union, particularly since the launch of the PRC's Belt and Road Initiative (BRI) in 2013. This paper argues that while the nature and context of current strategic competition are vastly different than what existed in the second half of the twentieth century, many lessons from the US grand strategy of containment remain instructive. The sources of Chinese conduct are similar to those that motivated the Soviet Union (USSR)—the drive to maintain regime legitimacy domestically and mitigate against external threats. For the PRC, a major source of this legitimacy is the maintenance of growing living standards for the Chinese population. Yet, given growing demographic and economic constraints, the PRC does not believe that time is on its side. The strategic economic objectives of BRI are therefore to accept increased financial risk for the potential of higher and quicker returns before these constraints become binding. Understanding that profitability is the central objective of the BRI helps clarify common misconceptions surrounding PRC intentions. Looking to Cold War parallels and examples, the study concludes that the United States and its allies should (1) clearly define which PRC practices they are trying to contain; (2) respond not by attempting to match BRI spending symmetrically, but rather by offering foreign assistance to developing countries that links more strongly to US economic interests; and (3) more actively incentivize commitment to liberal democratic values and sound development practices.

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According to Hal Brands and John Lewis Gaddis, two of the foremost scholars on the Cold War and American grand strategy, "It's no longer debatable that the United States and China, tacit allies during the last half of the last Cold War, are entering their own new cold war.[1] The differences between the Cold War and the recent worsening diplomatic relations between the United States and the People's Republic of China (PRC) that began around 2013 seem indisputable.[2] The difference that stands out most starkly is the degree of economic integration between the two countries, each the other's largest trading partner with substantial bilateral direct investment. Even by 1990, trade between the United States and the Soviet Union was minimal compared to American trade with Western Europe and other non-communist bloc countries.

One clear parallel, however, with Cold War competition that has emerged is the PRC's and United States' growing interest in economic and political influence in the developing world. The United States and its allies competed for influence in the "Third World" and Non-Aligned Movement countries throughout the Cold War. Each side offered economic and military assistance, generally with political strings attached. The PRC has emerged as a major political and economic competitor to the United States in developing regions, particularly Africa, Asia, and to a lesser extent Latin America. This competition could evolve into a serious threat given that, excluding China, 65 percent of the world's population currently lives in these regions, and that almost all population growth over the next 30 years will be in these low- and middle-income countries, with the population of sub-Saharan Africa expected to almost double by 2050.[3]

Beijing views increased economic integration with Eurasia and Africa as a critical component of the PRC's larger strategy of maintaining development momentum and projecting political power through economic might. The PRC views itself as a "developmental state"[4] and "Beijing's political and economic goals are inseparable."[5] Continued economic development, rising Chinese living standards, and an ability to satisfy growing nationalist sentiment by projecting increasing power globally, in large part through the size of the Chinese market—are therefore critical to the legitimacy and survival of the Chinese Communist Party (CCP).

Yet the achievement of the PRC's development goals is increasingly constrained by emerging demographic and economic realities that do not put time on the side of the PRC. *The PRC's Belt and Road Initiative (BRI) must be understood as a strategy of accepting increased financial risk in the hope of realizing higher returns in the face of these constraints that will affect China's development and ultimately the CCP's legitimacy.*[6]

This article aims to draw lessons from the Cold War and apply them to the current strategic competition for economic and political influence in developing countries while recognizing the limits of historical parallels. It explores the economic and political-strategic motivations of Chinese state-led overseas investment through the BRI. Moreover, the study analyzes growing debt levels in developing countries, the Chinese model of development, and the expected returns from BRI investments given the general lack of state capacity and high risks that continue to deter private investment in many developing countries. Then, the article explores the proper US strategic response to BRI, arguing that specific lessons from the US Cold War strategy of containment apply, including the importance of defining what should be contained, focusing on strong points of strategic interest by not attempting to match Chinese foreign investment dollar for dollar, and being self-confident about the superiority of the US development model. Finally, with the principles underlying the Marshall Plan's objective of checking Soviet influence, the article examines what would make US foreign assistance more strategic and coherent.

Sources of Chinese Conduct

George Kennan, one of the founders of US Cold War strategy, argued the criticality of understanding the Soviet leadership and their underlying motivations in developing a US response to the emerging Soviet threats." "The Sources of Soviet Conduct" first appeared in the July 1947 edition of *Foreign Affairs* magazine and was published under the pseudonym "X" to conceal Kennan's identity since he was serving in the US Embassy in Moscow at the time.[7] Building on his confidential "long telegram" to Department of State leadership in Washington, the article introduced the term *containment* and laid the foundation of a strategy that would dominate US foreign policy for decades. The strength of the article was based on Kennan's recognition that before developing a response to the emerging threat posed by the Soviet Union, US policy makers first needed to understand how the Soviet leadership viewed the world. The starting point was understanding that the Communist Party regime's legitimacy and survival were the foundation of Soviet behavior. He then built on this understanding to formulate principles and make recommendations to US foreign policy makers, which were sometimes followed, but other times abandoned.

This article follows a similar approach and applies strategic empathy to examine the dynamics concerning the CCP and PRC's motivations for the BRI under five categories. It also reviews the key motivations behind the BRI, which constitutes just one part of the larger PRC strategy of maintaining fast-paced economic growth to avoid the middle-income trap as a critical source of CCP regime legitimacy.

Avoid the Middle-income Trap by Moving Chinese Firms to the Lead in Global Value Chains

The PRC views its continued economic development as central to its security, and the CCP considers growing standards of living as the source of its legitimacy.[8] China's recent history of poverty, famine, subjugation, and cultural humiliation by foreign powers shapes its collective identity.[9] In this context, parallels to the Soviets' great "sense of insecurity" described by Kennan can be drawn. Russia had undergone recent humiliation in the Sino-Japanese War, exited from World War I after devastating losses, and had experienced foreign invasion and great loss during World War II. The CCP believes that its condition remains fragile because if development through economic growth slows, it will lose the main source of its ability to project power and to maintain the legitimacy of its one-party state.

The central fear of the CCP regime is that it will enter a "middle-income trap."[10] This occurs when rising wages cause existing labor-intensive industries and exports to become increasingly less competitive over time, slowing growth if the country is unable to transition to more knowledge-intensive and higher-productivity industries. The CCP regime is acutely aware that such transition is difficult and rare.[11] The most reliable method of achieving the transition, particularly in East Asia, has been to become an active part of global value chains to export low value-added products and gradually increase the share of domestic technology and human capital in production to create lead firms.

To execute such a method, the PRC launched the Made in China 2025 plan in 2015. The plan was aimed specifically at moving Chinese firms into higher value-added manufacturing by reducing reliance on foreign intellectual property, improving human capital, and integrating more domestically produced science and technology into production.[12] Key sectors currently receiving targeted public investment include electric cars, information technology (IT), shipping, aerospace and aviation, pharmaceuticals and medical equipment, telecommunications, advanced robotics, and artificial intelligence (AI).[13]

Thus, the BRI is a critical component of Made in China 2025 and the CCP's larger ambitions to move Chinese firms to the lead in selected global value chains and avoid a middle-income trap. This is because China will become increasingly reliant on imports of raw materials and intermediate goods and services to enable its own production goals.[14] By increasing connectivity and lowering transportation and transaction costs through the BRI, China seeks to turn lower-income and lower-wage countries into a source of supply of the inputs needed to overcome such shortages and enable Chinese firms to direct more global value chains. If successful, the BRI would help enable China to increasingly play the role in the developing world that the firms of Western and other developed country have played in China for the past several decades.

Chinese Sector Overcapacity

The early Soviet economy achieved significant early successes through its communist ideological commitment to state-led public investment as a driver of industrialization and growth. Moscow relied mainly on its enormous supply and reserves of oil and gas as Soviet Union's main source of national revenue to finance that investment. The PRC, while being relatively much more open to the private sector and local policy experimentation than the USSR ever was, continues to rely heavily on state-led investment. Also, Beijing believes that heavy state intervention is necessary to correct market failures and sustain economic growth. In stark contrast, however, the PRC needed to raise domestic sources of saving necessary for carrying out China's public investment priorities given its relative lack of natural resources.

The central economic development policy pursued by Beijing targeting the PRC's high growth rates has therefore been the promotion of high rates of savings and investment.[15] High levels of savings enabled extensive investments in China's infrastructure, which in turn boosted productivity, the most important variable for economic growth.[16] Yet returns to further investments in China's infrastructure have diminished considerably, and consequently, opportunities for further state-led domestic spending have been shrinking. The PRC continues to try to increase consumption as a future driver of growth; however, its success has been limited so far. The PRC also found itself with a large stockpile of low-yielding US Treasury bonds that could be generating higher returns outside of China.

Another result of this development approach is the misallocation of investment that leads to overcapacity and falling returns in several sectors of the Chinese economy. Beijing provided significant subsidies to China's steel, paper, auto parts, and solar panel sectors through the 2000s and at least through the late 2010s, before publicly announcing the government would reduce such support to address overcapacity. More recently, China has been accused of aggressively subsidizing high-technology sectors such as semiconductors, electric batteries and vehicles, and robotics.[17]

While the subsidies provided to these industries can and have created some competitive advantages for China, they are increasingly criticized as a source of low productivity, and the profitability they bring—such as the case of return on equity in Chinese state-owned enterprises (SOE)—fell by half in the 2010s.[18] Institutional weaknesses, protections for SOEs against competitive forces, and entrenched bureaucratic interests have contributed to the relative slowness to adopt reform.[19] According to the International Monetary Fund (IMF), "While exceptional financial support measures [in response to the COVID-19 pandemic] have helped avoid a potential credit crunch, they also contributed to a further increase in already very high corporate debt and exacerbated existing structural problems by prolonging the economic life of non-viable and low-productivity firms, including SOEs, particularly in capital-intensive sectors with overcapacity."[20]

Kennan spoke of "certain branches of economic life, such as the metallurgical and machine industries, [that] have been pushed out of all proportion to other sectors of the economy" when describing the Soviet state-led economy. The BRI is widely viewed as a way to help address the issue of PRC capital misallocation. According to the US Department of Defense, "(The BRI) also helps China's state-owned enterprises (SOEs) find productive uses for their excess capacity in the cement, steel and construction sectors, as well as creating investment opportunities for China's large reserve of savings."[21][22] Reflecting the PRC's over-accumulation of dollar reserves, most all BRI loans are denominated in dollars, with just more than 10 percent in Euros and renminbi.[23]

Diversification of Access to Markets

During the Cold War, US grand strategy toward the Soviet Union was containment, first outlined by Kennan and then transformed into formal policy in National Security Council (NSC)-68 in 1950 by the Truman administration. The PRC complains that it is now the target of a containment policy by the United States and its allies, one with the potential to limit China's access to international markets. In 2016, 80 percent of China's imported oil passed through the Indian Ocean and Strait of Malacca into the South China Sea.[24] If US-Chinese relations deteriorated and a conflict was to occur, the US Navy and its allies could blockade the Strait of Malacca and impose enormous damage on the Chinese economy.

China's vulnerability to a naval blockade has been called the "Malacca dilemma." However, Beijing's access to markets is also threatened by the PRC's neighbors, particularly India, with which China has a continuing poor relationship. The willingness of the United States to increase tariffs on Chinese imports over a range of grievances, such as the Trump administration did in January 2018, also creates a perceived threat to the Chinese economy.

These fears drove much of the PRC's overseas investment in energy resources.[25] Often, loans for infrastructure construction are securitized against the value of a future revenue stream from oil or mineral extraction.[26] Projects associated with reducing reliance on transporting energy resources through the Strait of Malacca include pipelines and port construction in Pakistan, the Kazakhstan–China oil pipeline completed in 2009, and the Russia–China oil and gas pipeline that was expanded in 2015.[27] Of a total of 29 countries classified as "oil resource-rich," 11 are along the PRC's Maritime Silk Road and five countries are along the Silk Road Economic Belt.[28] Physical infrastructure and Chinese-managed port operations in Gwadar in Pakistan and Kyaukpyu in Myanmar are designed in large part to open Chinese access to the Indian Ocean, allowing more trade to bypass Malacca. The BRI presents the PRC with an opportunity to mitigate its vulnerability to intentional or incidental supply disruptions, diversify China's access routes to energy and other critical natural resources, and increase the Chinese economy's resiliency to international price shocks.

Building Alliances That Support the PRC's Policy Priorities

During the Cold War, the United States and the Soviet Union had established competing blocs of formal alliances (e.g., NATO and the Warsaw Pact) and fiercely competed for political influence in Non-Aligned Movement countries, mostly in the developing world. For most developing countries, given the already high degree of economic interdependence they have with both the PRC and the United States, local leaders do not want to choose between one or the other, rather they generally wish to maintain good relations with both countries.

However, the PRC is using its economic influence to project economic power in large part through the BRI. Beijing's objective is to augment ties with the PRC's growing network of friendly states, most notably Pakistan, increasingly Iran and Russia, and many African and developing Asian countries. The PRC maintained "strategic partnerships" with 67 states as of 2020 that were mostly based on financial incentives and economic cooperation.[29] On top of the BRI and economic engagement, through increased diplomatic engagement, student and professional exchanges, and the creation of official event platforms such as the Forum on China–Africa Cooperation, Beijing has improved China's international image.[30]

By increasing its share of value-added in production and positioning more Chinese multinational corporations as the lead firms in global value chains through the BRI, the PRC seeks to make China the undisputed economic hub of the larger Eurasian continent. Such a setup could be seen as reflecting the East Asian "tribute system" that existed 1368–1841. The tribute system was a political, economic, and cultural hierarchy whereby China was recognized as the regional hegemon, and other smaller surrounding countries had to pay tribute or *kowtow* to Chinese imperial leadership to, among other benefits, gain access to the large Chinese market.[31] Regaining what many Chinese perceive as their rightful historical place at the top of the regional, perhaps even international, hierarchy would bolster the CCP regime's legitimacy by responding to the existing and growing nationalist sentiments in Chinese society.[32] It would also succeed in magnifying China's diplomatic, political, and military influence.

What the PRC ultimately seeks from this enhanced influence is increased support for its domestic practices and foreign policy goals. A key objective of the PRC and other developing countries, particularly nondemocracies, is to strengthen norms of "non-interference" in domestic affairs shared by the international community. Support for the "One China" policy and the diplomatic isolation of Taiwan is also at the top of the list. Beijing seeks to silence criticism of the PRC's domestic practices such as censorship, suppression of dissent, crackdowns on democracy in Hong Kong, and China's actions in the Xinjiang region, where it has been accused of human rights violations. Ultimately, the PRC seeks for its strategic partners to support Beijing's efforts to reshape international institutions such as the United Nations so that these organizations are more favorable to Chinese interests. The PRC believes that international institutions were created by and mostly serve the interests of Western, developed countries. By getting other developing countries to accept this narrative, Beijing is building the PRC's own network to reshape international norms.

The Issue of Time

According to Kennan, at the beginning of the Cold War, the Soviet leadership believed time was on their side—that the spread of communist ideas and the collapse of the capitalist system were inevitable.[33] This belief allowed the Soviet regime the luxury of some strategic complacence. General Secretary Xi stated in January 2021 that "time and the situation are in our favor."[34] Chen Yixin, Secretary-General of the Central Political and Legal Affairs Commission, reached a similar conclusion: "The rise of the East and the decline of the West has become [a global] trend, and changes of the international landscape are in our favor."[35]

Despite these statements, the reality is that the CCP likely understands that due to demographic and economic realities, the Chinese economy will inevitably slow down unless prompt and aggressive investments are made. The foremost issue confronting China is demographics. China's old-age dependency ratio[36] in 2020 was about 17 percent, which is considered low globally. Yet that dependency ratio will exceed 75 percent by 2055, much higher than the global average.[37] Regional comparator countries that avoided the middle-income trap—Japan, Korea, and Taiwan—were each demographically much younger when they made the transition to high-income status.[38] One World Bank report bluntly averred "Simply put, China will grow old before it grows rich."[39] The PRC ended its one-child policy in 2016 and has since offered financial incentives to increase fertility rates, yet in 2021 the birth rate plummeted to just 1.1–1.2 per woman, far below the 1.7 forecasted by the UN.[40]

The other emerging constraint to the PRC's grand strategy is the shrinking fiscal space available to continue its aggressive public investments. At $2.4 trillion, the country's total stock of corporate, household, and government debt was estimated to have exceeded 300 percent of GDP by the middle of 2019, before the COVID-19 pandemic.[41] This debt level was growing at a rate of around 11 percent per year. Since China's average GDP growth over 2010–2020 was just more than 7 percent, and its projected GDP growth over 2021–2026 is projected at about 5.5 percent,[42] China's debt has grown faster, and will likely continue to outpace its GDP growth. As public and private Chinese debt continue to increase, it will become increasingly more difficult for the PRC to continue to pursue growth through state-led investment and SOEs that enjoy implicit guarantees against default and preferential access to credit.

The BRI can therefore be seen as a part of a more aggressive grand strategy by the PRC to overcome these likely impending demographic and economic constraints before they become binding. At least through 2019, it appeared that the PRC was willing to accept increased risk for the potential for higher returns to beat what could be viewed as a race against time.

What the Belt and Road Initiative Is and Is Not

During the Cold War, the United States and its allies were deeply suspicious about the economic assistance given to developing countries by the Soviet Union. Many Western observers believed that such assistance was driven by political motivations and was ultimately a disruptive and corrupting force in these countries.[43] The Soviet Union believed the same of, for example, the US Agency for International Development (USAID), which did have strong ties with the Central Intelligence Agency (CIA) at the time.[44] As described above, Chinese motivations behind the BRI are primarily economic but also involve security and political considerations. This section extends the previous analysis for understanding what the BRI intends to accomplish and what it can be expected to accomplish toward those grand strategic motivations in three parts around common claims about the BRI: (1) that it is intentionally creating unsustainable levels of debt for developing countries, (2) that it aims to export Chinese development ideology, and (3) that it is an example of a successful grand strategy that thinks in terms of the long game. This section argues that there is some truth to each claim but that the reality is more nuanced.

BRI Lending Is Creating Lots of Debt, but Is Not "Debt-trap Diplomacy"

During the Cold War, the United States and the Soviet Union fought for influence over the developing countries, and the West offered subsidized loans as part of a system of carrots for keeping these states from drifting into the Communist bloc. Moscow also provided lending but was considerably more resource-constrained. The early 1970s through the late 1980s was the first major debt wave experienced by the developing world that resulted in the Latin American debt crisis of the early 1980s and later led to the Heavily Indebted Poor Countries (HIPC) Initiative for debt relief, particularly in Africa, launched in 1996 by the World Bank and IMF.[45]

There was a consensus that Western donors and institutions, led by the World Bank, overstepped during this period. Similarly, there is growing concern that the PRC is committing similar mistakes, in large part through the BRI.

Beginning at the turn of the century, China has emerged as the largest bilateral creditor to the developing world, accounting for approximately 65 percent of total official bilateral lending by 2018.[46] According to the World Bank, "Low- and middle-income countries' combined debt to China was $170 billion at end-2020, more than three times the comparable level in 2011."[47] Much of this debt is difficult to measure and not reported because about 70 percent is not lent directly to governments but rather through local SOEs and to some private-sector entities. According to one estimate, 42 countries now have levels of public debt exposure to China amounting to more than 10 percent of their GDP.[48] This level of indebtedness was comparable to developing country multilateral debt to the World Bank.[49] However, while most of the PRC's lending has a concessional grant element that averaged 28.4 percent over 2000–2017, this was significantly lower than the average grant element of OECD–DAC lending institutions at the 64 percent level.[50]

Growing debt distress in the developing world[51] and the significant role that the PRC and the BRI have played have led to accusations that China is pursuing "debt-trap diplomacy" whereby "the creditor country is said to extend excessive credit to a debtor country to extract economic or political concessions once the debtor country becomes unable to meet its repayment obligations."[52] The case in point most often cited in defense of this idea is the Sri Lankan Port f Hambantota (see box below). The Hambantota Port, however, appears to be the only such incidence that could be considered a Chinese quasi-seizure of a distressed asset in a debt-for-equity swap. More than 60 percent of PRC lending is collateralized by liquid assets, insurance, or government credit guarantees; very few are backed by physical infrastructure. PRC state institutions also demonstrate strong sensitivity to risk. In addition, PRC lending was much more likely to be collateralized in countries with higher fiduciary risks and corruption.[53]

Understanding the Case of the Hambantota Port

Under then-president Mahinda Rajapaksa, Sri Lanka borrowed over $1 billion from the China ExIm Bank beginning in 2007 to build a commercial port that private companies had previously turned down. In 2015, Rajapaksa lost the presidential re-election bid to challenger Maithripala Sirisena, who vowed to reduce the country's massive overall level of debt. Of the total debt service owed by Sri Lanka in 2017, five percent was related to Hambantota. The port was losing money, and the Sri Lankan government took IMF advice to sell it and hand over management to an experienced operator. "The only two bids came from China Merchants and China Harbor; Sri Lanka chose China Merchants, making it the majority shareholder with a 99-year lease, and used the $1.12 billion cash infusion to bolster its foreign reserves, not to pay off China Exim bank." The Hambantota Port was only expected to become fully operational by 2022, and it is far from clear if the massive Chinese investment in the port will generate returns given its history of poor performance. Overall, it is highly doubtful that this was part of a strategic maneuver by the PRC as it would have almost certainly been more cost-effective for China simply to have negotiated a build-own-operate (BOO) contract directly with the Sri Lankan government if it wanted to own the port. There is no evidence that such a discussion ever occurred.

As detailed above, the primary motivation behind the BRI is economic profitability. Predatory lending has never proven to be a successful strategy because it is difficult to make money by lending money to entities with a high risk of not paying it back. Thus, while the BRI is indeed contributing significantly to the growing debt issues in the developing world, it is not intended to create debt traps.

BRI Offers a Competing Model of Development Finance, but It Is Not Attempting to Export Chinese Ideology

The competition for influence in the "third world" during the Cold War was described as a "competition between two social systems, for the U.S.S.R. and the United States of America represent alternative models of social and economic development."[54] Today, the PRC is often accused of attempting to export its development philosophy through the BRI. Like the response to such accusations by the PRC today, defenders of Soviet interventions countered that "Soviet aid has no neocolonialist strings attached, as is usually the case with the economic assistance of industrialized Western states."[55]

The term "Beijing Consensus" began to gain attention in the mid-2000s to contrast it to the "Washington Consensus," coined in 1989 by John Williamson of the World Bank. The Washington Consensus was the predominant set of development and stabilization recommendations advocated by World Bank and IMF officials headquartered in the District of Columbia.[56] By the early 2000s, however, there was growing doubt about the ability of such reforms to produce economic growth, as highlighted perhaps most famously by William Easterly's scathing critique of the program[57] and Williamson's admission of disappointment.[58] It was only later in the 2010s that evidence of the effectiveness of Washington Consensus reforms for economic growth began to emerge, including by one of its original critics, Easterly.[59]

Yet the impression remains that liberal reforms if they work at all, take a long time to bear fruit.[60] Most developing countries want to emulate the rapid economic transformation that China accomplished and have been open to the PRC's advice on the matter. The meaning of a Beijing Consensus continues to be debated, but the overall focus is on the central role of the state in directing public investment, focused heavily on infrastructure development and industrial policy. Also attractive to nondemocratic developing countries is the emphasis on strong central leadership by the ruling political party. Ultimately, what most developing countries will continue is the high propensity for quick money for infrastructure, rather than governance advice, which makes the PRC an attractive partner.

The PRC believes that its economic development model was successful and is popular among nondemocracies with strong leadership. Yet the PRC appears to be mostly uninterested in advancing any specific economic ideology and is mostly indifferent as to how countries pursue their development objectives, so long as Chinese firms are not disadvantaged.[61] As demonstrated above, the primary purpose of the BRI is economic profitability. BRI commitments across countries are uncorrelated with measures of democracy, and major borrowers are countries that are more closely allied to the United States and have limited interest in the Chinese development model.[62] Most importantly, the PRC's development approach was not based on a strict set of rules or ideology.[63] Rather, it focused on policy *experimentation*, offering incentives to local government units to identify what worked and what did not, and then scaling up.[64]

For the foreseeable future, developing countries will continue to look to both Washington and Beijing for development models and direction. What results will likely be a hybrid type approach for most, with developing countries continuing to accept Chinese finance and incorporating parts of the PRC development model, while also picking and choosing which types of advice and assistance to accept from the United States and its allies. Such an outcome could be similar to Pres. John F. Kennedy's vision of "a world safe for diversity," where the differing ideologies of the Cold War could compete peacefully.

While BRI Investments Offer the PRC Some Strategic Economic Advantages, Many Projects Will Likely Fail

Throughout the Cold War, both the Soviets and the Chinese believed that there existed a universal desire of "third world" countries to be liberated from Western influences and move toward communism, creating a natural alignment. Citing Alvin Z. Rubinstein (1990),[65] Stephen Walt claims "This theory of cooperation was flawed on both counts, which helps explain why Soviet efforts to build influence in the developing world[66] were costly and disappointing." [67] The PRC views itself to be very much a part of the developing world, the leader among developing nations, and an advocate for their interests.[68] Given this assumed confluence of interests, it is likely that Beijing believes that the PRC can better manage financial and political risks involved in BRI projects, offering higher returns.

BRI investments are intended to offer the PRC strategic economic advantages, and these investments are indeed paying off across several sectors. The Asian Development Bank (ADB) estimated that the developing countries of Asia collectively will require $26 trillion in infrastructure investment over 2016–2030 to sustain growth.[69] The BRI corridor region has suffered from years of underinvestment, and natural barriers greatly increase trade and investment costs. China's lower-income western provinces would stand to gain comparatively more through increased connectivity with Central Asia, consistent with PRC's announced priorities to eliminate poverty and "backwardness" in these areas. Beijing also likely believes that growing incomes in Xinjiang and Tibet could mollify antiregime sentiment in these areas, which have been a continuing source of international criticism of the PRC.

According to the Center for Strategic and International Studies, "If successfully implemented, the BRI could help re-orient a large part of the world economy toward China. This may empower China to more readily shape the rules and norms that govern the economic affairs of the region."[70] Indeed, the PRC currently exerts disproportionate influence over several critical supply chains, particularly for essential minerals. The PRC now controls, for example, significant port operations, IT infrastructure, and satellites across several BRI countries, offering significant commercial advantages. Contracts to Chinese firms to operate port facilities might evolve into naval access agreements that could limit outside access to these ports, creating barriers to markets.[71]

A significant competitive advantage resulting from the BRI is the increasing adoption of Chinese technical standards, particularly in telecommunications, through the Digital Silk Road component of the BRI. On top of Made in China 2025, there is the less discussed but perhaps more important "China Standards 2035" initiative, through which Beijing seeks to use the PRC's influence through BRI investments to create IT networks that rely on Chinese digital infrastructure.[72] The growth in demand for bandwidth will be highest in Africa and developing Asia through 2050, due to a lower baseline of the population with access to the Internet together with fast-growing populations. Chinese technology giant Huawei had built 70 percent of the 4G networks in Africa by 2021.[73] The greater China's market share in these regions, the greater ability Beijing will have to lock these countries into a single supplier dependency. On top of telecommunications, standards underpin Internet-connected appliances, modern physical infrastructure such as high-speed rail, AI, and cloud computing.[74] Unlike traditional physical infrastructure through the BRI, digital infrastructure is disciplined by the market to a much greater extent, relying on internationally competitive suppliers.

While there is widespread agreement that countries within the BRI corridor require substantial additional resources to upgrade infrastructure, relatively poor infrastructure is more a symptom rather than a cause of larger regional connectivity issues. Most of the constraints to increased private investment fall on the project supply side, not from a lack of demand or available capital.[75] Despite trillions of dollars in private capital and sovereign wealth funds seeking higher rates of return in the recent era of low interest rates, "regulation, risks and cross-border investment rules often limit investor appetite for infrastructure projects" in developing countries.[76] Ethnic tensions, poor governance, and endemic corruption remain pervasive in most lower-income countries, magnifying financial risks and deterring investment. Of BRI member countries, 60 percent have sovereign debt ratings that are classified as "junk" or are not rated at all.[77]

Foreign direct investment (FDI) in developing regions by the private sector has been in decline since the global financial crisis (2007–2008) and dropped a further 42 percent following the COVID-19 pandemic. Private FDI will likely remain low in developing countries largely because returns continue to be lower than investment in high-income countries.[78] A rough estimate of the rate of return to the overall stock of Chinese outward FDI was just 3.4 percent between 2016 and 2018, comparatively much lower than the 5.9 percent rate realized by foreign investors in China, leading to one conclusion that "On balance, China still borrows expensive money and loans it out cheaply."[79]

The estimates for the global benefits to the BRI specifically are also not very promising. The World Bank estimated that for BRI corridor economies, the reduction in trade costs from full BRI implementation would increase corridor trade in a range between just 2.8 and 9.7 percent. The same report found that much larger gains (2–4 times the value of reduced transport times) could be achieved through improvements in soft infrastructure, such as implementing reforms to reduce border delays and liberalizing trade.[80] This finding is consistent with the experience of multilateral development efforts since the founding of the World Bank in the 1940s, where initially it was believed that if poor countries could simply increase their stock of capital, in large part by investing in infrastructure, faster growth would result. This idea was abandoned decades ago, as research has pointed to the more critical role of human capital, good policies, and sound governance institutions as the fundamental cause of long-run economic growth. [81]

The PRC's state-owned development banks face increasing exposure to their current liabilities, particularly since a majority of BRI countries in Africa are now in debt distress or at a high risk of debt distress.[82] On top of officially reported debt to sovereign borrowers, liabilities to foreign SOEs and the private sector are generally unreported but were estimated at $385 billion through 2019, equivalent to 45 percent of the PRC's total official financial commitments under the BRI.[83] The same study estimated that "35% of the BRI infrastructure project portfolio has encountered major implementation problems, such as corruption scandals, labor violations, environmental hazards, and public protests."[84] The time to implement an infrastructure project under the BRI compared to similar non-BRI projects was estimated to be 36 percent higher, also indicating higher costs and risks.[85] Another estimate finds 185 "troubled transactions" estimated at $82 billion, or one-quarter of China's total BRI investments over 2013–June 2021.[86] In June 2020, PRC officials estimated that 20 percent of BRI projects were "seriously affected" by the COVID-19 pandemic, while another 30–40 percent were "somewhat affected."[87]

Early Chinese successes at supporting its domestic development relied much on public investment through SOEs. The process was successful in large part due to its decentralization and the incentives provided by the regime for local governments to experiment and scale up what worked. The BRI, however, is completely central government–led and driven by the interests of large, politically powerful SOE construction companies such as China National Machinery Industry Corporation (Sinomach) with implicit central government guarantees against losses, undoubtedly creating moral hazard problems. The IMF estimates that Chinese SOEs are on average 20 percent less productive than Chinese private-sector firms in the same sector. [88] According to US Department of Defense analysis, "the

(PRC) party-state lacks the expertise necessary to assess comprehensive risks in most (BRI) participating countries."[89]

On top of financial risks, there are increasing political risks. In numerous BRI participating countries—including Myanmar, Malaysia, Sri Lanka, Cambodia, and even Pakistan[90]—the PRC's opaque investments have been used as a political weapon against incumbent governments, often with considerable success. The terms of several BRI projects have been revised in response to such pressures, and the PRC was taking part in the Debt Service Suspension Initiative of the G20.

These compounding risks—together with lower realization of returns—must explain a significant part of the collapse of lending by the China Development Bank (CDB) and the Export-Import Bank (China Ex-IM) for the BRI from $75 billion in 2016 to just $4 billion in 2019, before the onset of the COVID-19 pandemic.[91] At peak lending in 2016, the combined loan portfolio of CDB and China Ex-Im was $700 billion, larger than the balance sheet of all six major multilateral development banks.[92] New BRI investment projects in 2020 fell to just $20 billion from the 2016–2019 average of more than $40 billion per year, and over January–June 2021 were estimated at just $8.5 billion.[93]

The idea that the PRC is playing "the long game"[94] and making patient strategic investments seems farfetched. Rather, through the BRI, Beijing appears to be willing to accept higher risks in the shorter run in the hope of corresponding outsized returns to maintain China's economic growth momentum, which underpins CCP regime legitimacy. John Lewis Gadis and Hal Brands suggest caution in historical context: "While China is trying, through the BRI, to create a system that maximizes its power, it may end up building, through its relationships with insecure and unstable regimes, just the sort of inverse dependency that vexed the Cold War superpowers. That can be a formula for volatility: history is full of instances in which local actors embroiled larger powers."[95] The next section incorporates this understanding of the status of the BRI and offers recommendations for a well-defined US strategic response.

Recommendations: Toward and Effective US Response to the BRI

During the Cold War, Pres. Richard Nixon's strategy of détente was effective at increasing diplomatic dialogue and reducing the number of strategic nuclear arms—in part by convincing the Soviets that such limitations were in each nation's mutual self-interest. Containing the number of low-quality, environmentally and socially destructive projects must start with diplomatic efforts to convince Beijing that it is in the PRC's interest to reduce these types of projects. Just as they did during the Cold War, international institutions continue to play a pivotal role in mitigating competing state interests in international relations by creating forums for discussion and rules that can be mutually beneficial for individual states and the larger global community.[96]

If the BRI proves to be mostly successful, China will have gained strategic economic advantages in the world's fastest-growing markets, which could greatly affect the ability of the United States to compete in these regions, particularly for technology standards. The BRI could also lead to the emergence of competing trading blocs, with one group of countries more closely integrated with Western markets and others with China, creating regional barriers to entry and economic balkanization. The proliferation of free trade areas within or across regions over the past several decades has been a mostly positive development that has not overly prejudiced market access from countries outside of these regional agreements. However, if political tensions continue to mount between the United States and the PRC, regional free trade areas could devolve into competing protectionist camps.

If the BRI proves to be mostly unsuccessful, growth will slow down more sharply in the PRC, and the CCP would be incentivized to search for other sources of legitimacy. The result could be an increasing emphasis on Chinese nationalism, international aggression, and perhaps an attempt to annex Taiwan. A major Chinese recession would also likely produce global spillovers and contagion, particularly given the current degree of integration between the Chinese and American economies.

The United States has a strong strategic interest in preventing long-run disadvantages to American firms from evolving in Asia and Africa. Washington also has a strategic interest in helping to ensure not only that the BRI does not continue to contribute to debt distress and other problems in developing countries but also that it does not become a factor in a significant economic slowdown in the PRC that creates global economic and political externalities.

In the "X Article," Kennan outlined several core strategic recommendations to US policy makers that became the basis for the nearly four decades–long strategy of containment.[97] With the various iterations of the US Cold War strategy, US policy makers strayed from these recommendations, which arguably led to numerous experienced setbacks and major failures. The lessons of the Cold War have applicability for strategists today in the development of a successful US response to the BRI. This section applies the strategic logic outlined by Kennan to offer recommendations for how the United States should respond to the BRI in a way that maximizes economic and political benefits while minimizing risks of overreaction leading to overextension.

Defining What Should Be Contained

First, Kennan believed that the US focus should be on containing the Soviet Union specifically and not to view communism as a monolithic threat. Yet the United States often lost sight of what exactly it was trying to contain. The Kennedy and Johnson administrations, for example, wanted to employ increasing US resources toward containment of the spread of communism as an ideology, leading to the strategy of "flexible response."[98] Yet the growing number of communist political movements globally created increasing commitments, allowing means to drive ends, ultimately leading to the overextension epitomized by the Vietnam War.

Therefore, American strategists must clearly define what exactly the United States is attempting to contain and deter with respect to the PRC's state-led overseas lending in developing countries. Foreign affairs agencies in the federal government refer to "countering malign influencers," which generally means the PRC, Russia, and sometimes other states and antihegemonic coalitions. Yet, the specific types of malign influence that the United States seeks to counter is often not well defined, which could create problems like those faced during the Cold War. Concerning the PRC's influence in the developing world, the United States should focus on containing investment and lending practices that are detrimental to the long-term development objectives of low- and middle-income nations. The three main areas where the United States should focus are countering projects with poor financial viability, negative environmental impacts, and adverse social consequences.

BRI projects generally operate outside of international standards and are instead mostly conducted through bilateral negotiations that are not transparent, which has led to accusations of poor project quality and outright corruption.[99] BRI projects have been criticized as environmentally destructive and lacking environmental quality standards and safeguards, as infrastructure construction is negatively affecting biodiversity, creating air and water pollution, and generating excessive carbon emissions.[100] Socially, BRI projects are also accused of a lack of local inclusion and weak or nonexistent labor standards and safeguards for African and other developing country workers.[101] These factors combined not only mean poor development results for growing debt for developing countries but also mounting risks for the PRC that could further exacerbate Beijing's own troubled debt position, potentially sparking a regional or perhaps global financial contagion given the high level of integration between the US and Chinese economies.

What is needed is more systematic and best-practice financial, environmental, and social impact assessments, evaluations, and standards for all BRI projects, which are now mostly absent. The United States and its allies should increase diplomatic pressure on BRI countries to mandate such analysis and standards for all bilateral investment projects. The Blue Dot Network, launched by the United States, Japan, and Australia, certifies infrastructure projects that meet international standards and could play an important role. The United States could emphasize providing grants and technical assistance to help pay for international expertise that could perform needed project analysis, evaluation, and certification. The goal would be to help partner countries to institutionalize such analysis and regulatory procedures through their own agencies.

Focusing on Strong Points and Responding Asymmetrically

Kennan argued that the United States should focus on containing and deterring the Soviet Union in predefined strategic global "strong points," rather than attempting to counter Soviet influence along every front where it attempted to expand its influence.[102] Kennan also argued for US response to be "asymmetric," emphasizing a tailored approach that the United States should pick and choose among a range of well-targeted economic and political interventions with specific objectives rather than trying to counter efforts at Soviet expansion with equivalent military and/or economic resources.

Some commentators have argued for a more balanced US response to the BRI, accusing the United States and its allies of placing too much focus on "neoliberal" policy reforms rather than offering developing countries what they want and need—increased financing for physical infrastructure.[103] Chinese construction companies, however, won almost half of all engineering, procurement, and construction contracts across Africa—including from international sources like the World Bank where bidding is transparent and competitive, meaning Chinese firms have a demonstrated comparative advantage in this sector.[104] It would be foolish for the United States to compete with the PRC in terms of infrastructure financing in developing countries. More importantly, as described above, it is unlikely that the BRI will offer the PRC the strategic advantages and economic returns that Beijing hopes to secure, so trying to match these investments would be unwise.

The United States is responding to the BRI and the PRC's growing influence in the developing world by placing a greater emphasis on project finance. The US Development Finance Corporation (DFC) was created out of the BUILD Act in 2019, transforming its predecessor, the Overseas Private Investment Corporation, by granting it the authority to make equity investments on top of debt and guarantee instruments. The United States also launched the interagency "Prosper Africa Initiative" in the same year, which "seeks to empower businesses with market insights, deal support, and solutions to strengthen business climates." Then in June 2021, the Biden administration launch the Build Back Better World (B3W)

Initiative to "collectively catalyze hundreds of billions of dollars of infrastructure investment for low- and middle-income countries in the coming years."[105]

Each of these measures is flexible and more limited in comparison to the magnitude of Chinese commitments. The DFC has an authorized global liability limit of $60 billion (doubling OPIC's $29 billion maximum), but current rules make direct equity investments difficult. The DFC should have the ability to offer US businesses more of the financial tools they need to reduce the risks of entering developing country markets while resisting the temptation to respond dollar for dollar to counter Chinese influence. Rather than providing direct financing to counter the BRI, US foreign assistance should offer tools and solutions that more directly address the binding constraint to increased investment in developing countries—improving governance and the business environment while facilitating access to markets through private-sector partnerships. Such flexible and diplomatically focused mechanisms are critical since the PRC's commercial service attachés in Africa are estimated to outnumber US Foreign Commercial Service Officers on the continent by 15 to 1.[106]

The United States should not be afraid to use USAID, DFC, and other foreign-assistance agencies to pursue strategic economic objectives that may not offer immediately clear development objectives. Such interventions should be limited and focused on countries and industries where the United States has a compelling strategic economic interest to increase its commercial involvement (i.e., strong points). To achieve this, US development assistance must become more integrated with foreign policy objectives to better serve American strategic geoeconomic interests, such as preventing the widespread adoption of Chinese technical standards.[107]

A key objective of US assistance must be reducing the real financial and political risks that continue to limit private investment in the developing world; risks that also present headaches for the PRC.[108]

Set an Example and Demonstrate the Benefits of Openness

Finally, Kennan argued that the Soviet system was inherently economically inefficient and politically rotten from the inside, and that given time and well-measured pressure from the United States, it would collapse of its own accord. Rather than focus on the inherent advantages of the American economic and political system, US strategy was often driven by diffidence, leading to over-estimation of the actual risks that communism posed to the global order. To succeed, "the United States need only measure up to its own best traditions and prove itself worthy of preservation as a great nation."[109]

During the Cold War, the globe was broken into competing political alliances where each bloc offered security and economic benefits to other members. To be offered such "club goods," aligned countries were required to share the norms of the other states. For NATO countries, this generally required a commitment to democracy as well as economic and political openness, while for Warsaw Pact nations it required a commitment to a communist ideology and state-led development.

At the end of the Cold War and the fall of the Soviet regime, it was widely assumed that the democratic model had won and would naturally spread globally. Yet according to Freedom House, "Democracy has never been the only game in town, but for more than two decades after the transitions that ended the Cold War, leaders and politicians continued to pay lip service to the democratic model. Over the past decade, however, amid the erosion of the liberal democratic order and the rise of authoritarian powers, the idea of democracy as an aspirational endpoint has started to lose currency in many capitals."[110]

The source of the confusion as to why history did not end following the Cold War is that the collapse of the Soviet Union demonstrated that the communist economic model did not work, not that authoritarianism could not be effective in promoting economic development. Developing countries are now asking themselves what the benefits are of moving toward greater liberal democratic norms in a world marked by an emerging East–West bi-polarity, where democracy and economic development have seemingly become uncoupled. Leaders no longer believe that political openness promotes development, and this is the underlying cause of the global democratic recession.

The United States and its allies have observed the recent economic success of the PRC and become diffident about the value of liberal democratic norms. As this article has argued, many BRI projects are currently at risk of failure or at least major cost overruns. It is also very possible that the PRC will not succeed in its race against time to avoid the middle-income trap as Chinese economic growth projections continue to decline. The reason for the current Chinese growth slowdown includes policy-induced over-investment (particularly in real estate)[111] and must also be related to the growing political repression led by General Secretary Xi.

While state-led investment can be beneficial in coordinating investments, providing critical infrastructure, and reducing market failures such as first-mover disadvantages, these returns diminish as an economy develops and creates other problems such as were being seen in Ethiopia beginning in 2021. According to economist Tyler Cowen, "The problems with the Beijing Consensus are larger yet. For much of the last decade, Ethiopia had been following a version of the Chinese model, relying on industrial policy and growth in manufacturing. For a while, this worked, and Ethiopia had double-digit rates of economic growth […] But the growth of state power fractured any political equilibrium that might have held Ethiopia together. The state became such a locus of control that various ethnic groups felt threatened and made a bid to seize power, and Ethiopia collapsed into civil war."[112]

The PRC will also find it increasingly difficult to move into higher value-added industries that rely on the free flow of information and human capital with growing censorship and repression of free speech and civil society. The United States and its allies should recognize the growing weaknesses of the Chinese economic model and advertise this message diplomatically.

The United States and its allies no longer offer clearly defined club goods as they did during the Cold War for commitment to political and economic openness. Good ideas already exist but are either underutilized or are flawed in design. For example, the Millennium Challenge Corporation (MCC) was created in 2004 to reward good behavior in developing countries.[113] To qualify for grant-based project assistance through MCC, countries must pass a "scorecard" of third-party indicators that measure economic and political freedom and good governance. The intent is to create incentives for reform and commitment to liberal democratic norms—what they term the "MCC effect."

The MCC is a great example of the type of club goods that the United States and its allies should be offering the developing world. Yet the FY18 budget of MCC was a meager $800 million, not nearly sufficient to generate an MCC effect. The MCC also makes commitments based on one-off "compacts," which are voted on by a board of directors and are subject to heavy political scrutiny. Rather than all-or-nothing compacts for specific projects, the MCC should pay out fixed amounts directly to developing country governments for incremental improvements in the scorecard indicators. This would more directly link payments to performance, enhancing the incentive effect. USAID and other development agencies would provide needed technical assistance to partner governments to help them improve their scores and secure the rewards.

Through a combination of continued reassurance that liberal democracy offers the best development model, together with clear incentives to adhere to the policies and practices that make development more effective, the United States and its allies can regain their influence in the developing world while countering the threat posed by the practices of the PRC through the BRI.

Conclusion

The fundamental cause of the fall of great powers is economic mismanagement.[114] The Soviet Union fell because it essentially went bankrupt.[115] Deng Xiaoping studied the fall of communism at the end of the Cold War intently and concluded that the CCP's legitimacy and survival were tied inextricably to economic management. He believed that Mikhail Gorbachev's mistake had been to open the Soviet Union politically before enacting needed economic reforms.[116] Drawing these lessons from the collapse of the Soviet Union further constructed the identity of the PRC as a developmental state dependent on maintaining rising living standards for the Chinese people—yet without the need for undertaking any unnecessary political liberalization.

The BRI must be understood in this light. Imminent demographic pressures, rising public and private debt, and the inherent difficulty of making a transition out of middle-income to upper-income status drive the PRC to accept riskier investments in search of higher returns needed to help preserve the economic growth that underpins CCP legitimacy. As of early 2022, the BRI appeared to be in considerable danger as initial political and financial risks compounded with risks generated by global economic events. The COVID-19 pandemic was still ongoing, and it appeared that the PRC's borders would remain closed for the remainder of the year, making continued investments more problematic and placing existing ones at increased risk. Inflationary pressures in the United States will result in US Federal Reserve interest rate hikes that will raise the cost of financing developing country debt burdens, including BRI projects that are almost completely denominated in dollars.[117]

The Marshall Plan was the first nonmilitary strategic response targeted at countering the communist threat facing Western Europe in the initial phase of the Cold War. George Kennan played a key role in the design of the Marshall Plan because he felt it would be an effective strategic response to the dire Western European fiscal situation since "economic maladjustment . . . makes European society vulnerable to exploitation by any totalitarian movements."[118] Poor economic management continues to create strategic vulnerabilities for the United States in the developing world today, as demonstrated by the BRI. The Marshall Plan is widely considered to have been successful at helping prevent a regional economic collapse that would have undermined US foreign policy objectives in the early postwar era. It was successful precisely because it was strategically aimed at furthering US foreign policy objectives through clear guiding principles.

Will Clayton, then Undersecretary of State for Economic Affairs working on the development of the Marshall Plan, stated "Let us admit right off that our objective has as its background the needs and interests of the people of the United States. We need markets—big markets—in which to buy and sell,"[119] meaning the Marshall Plan was a "foreign policy for the middle-class" decades ahead of its time. The initiative for assistance "must come from Europe, the program must be evolved in Europe, and the Europeans must bear the basic responsibility for it" and assistance must "come as a joint request . . . not as a series of isolated and individual appeals," meaning local ownership must exist and assistance must not be ad-hoc. Ultimately, the Marshall Plan had to enable the "principal European countries to exist without charity,"[120] meaning there had to be a clear exit strategy for all foreign assistance under the plan.

Such clear strategic objectives frequently do not exist in present-day US foreign assistance programs. All too often, such programs are not well integrated with larger foreign policy objectives, do not link strongly to US economic interests, lack local ownership, are ad-hoc, and do not have clear graduation plans. These issues raise serious questions as to how these programs contribute to larger US grand strategy.

While reconstruction is a vastly different undertaking than development, correctly applied lessons from history can offer valuable insights for adaptation. US foreign assistance that is more strategically targeted, rewards partner government commitment to policies that are proven to deliver beneficial outcomes, increases commercial ties with American businesses while benefiting US consumers, and is consistent with American values is the best response to the PRC's BRI.

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Notes

1. Hal Brands and John Lewis Gaddis, "The New Cold War America, China, and the Echoes of History," Foreign Affairs, 100, no. 6, (November/December 2021), https://www.foreignaffairs.com/.

2. Throughout this article, the "PRC" refers more specifically to the current government of China, while "China" and "Chinese" connotes the nation-state or the whole of the people that constitute it and their shared history.

3. UN Population Projections, https://population.un.org/.

4. William A. Joseph, ed. Politics in China: An Introduction, 3rd edition (New York: Oxford University Press, 2019), 16.

5. Joshua Eisenman and Eric Heginbotham, "China's Relations with Africa, Latin America, and the Middle East," in China and the World, ed. David Shambaugh (New York: Oxford University Press, 2020), 295.

6. While global power projection through its military will also continue to influence Chinese foreign policy objectives, this article limits analysis mainly to economic and, to a lesser extent, political issues that link back to the PRC's program of state-led overseas investments. Such an approach is consistent with the central thesis of this article; that it is economic development issues that dominate PRC strategy and are most central to CCP legitimacy and survival.

7. X (George Kennan), "The Sources of Soviet Conduct," Foreign Affairs 25, no. 4 (July 1947), 566–82.

8. Joseph, Politics in China," page 24

9. Mark Metcalf, "The National Humiliation Narrative: Dealing with the Present by Fixating on the Past," Education About Asia 25, no. 2 (Fall 2020).

10. Bruno Maçães, Belt, and Road: A Chinese World Order (London: Hurst, 2020).

11. According to a World Bank report, "Growing up is hard to do. In the postwar era, many countries have developed rapidly into middle-income status, but far fewer have gone on to high-income status. . . . Of 101 middle-income countries in 1960, only 13 became high-income by 2008"; and World Bank and Development Research Center of the State Council, the People's Republic of China, China 2030: Building a Modern, Harmonious, and Creative Society (Washington, DC: World Bank, 2013), 24.

12. In 2014, Xi Jinping described three transformations that will be required to achieve the objectives of Made in China 2025: "From China speed to China quality; from China's products to China's brands; and from 'Made in China' to 'Created in China'"; and Lower productivity manufacturing remains an important part of the Chinese economy. Processing trade still accounted for 32 percent of China's total exports in 2018, but this was down from about 50 percent in 2010. About 40 percent of China's exports were directed by foreign-owned enterprises in 2018, also down from about 50 percent in 2010.

13. James McBride and Andrew Chatzky, "Is 'Made in China 2025' a Threat to Global Trade?," Council on Foreign Relations, May 2019.

14. For example, China accounts for about 60 percent of global demand for semiconductors but only produces some 13 percent of global supply. China also wants to lead in the production of electric cars. Cobalt is an essential material to produce lithium-ion batteries, and about 54 percent of the global cobalt supply comes from the Democratic Republic of the Congo, where the PRC is investing heavily through BRI; McBride and Chatzky, "Is 'Made in China 2025' a Threat to Global Trade?,"; and Maçães, Belt and Road.

15. For example, the PRC has frequently been accused of manipulating its currency to achieve cost advantages in international trade. The PRC manages the value of its currency at a fixed level by purchasing dollars as needed to maintain its target exchange rate. An independent monetary authority and a fixed exchange rate are possible only by limiting capital flows into and out of China, a policy that the PRC maintains, also in part to limit the appreciation of the Yuan. The effect of this policy has almost certainly been a systematically undervalued Yuan, making Chinese exports relatively less expensive and imports more expensive, thus incentivizing domestic saving.

16. In 2010, Chinese savings rates hit the extraordinary rate of more than 50 percent of GDP, declining only slightly to 44 percent of GDP in 2019. This coincided with a massive buildup of foreign reserves stemming from large trade surpluses.

17. Stephen Ezell, "China-Induced Global Overcapacity an Increasing Threat to High-Tech Industries." Information Technology and Innovation Foundation, 27 February 2018.

18. Maçães, Belt and Road, 153.

19. Ping Li, Feitao Jiang, and Jianhai Cao, Industrial Overcapacity and Duplicate Construction in China: Reasons and Solutions (New York: World Scientific, 2019).

20. International Monetary Fund, People's Republic of China Article IV Consultation, Staff Report. IMF Country Report No. 21/6, January 2021, 9.

21. "Soon after the launch of the Belt and Road, Hebei Province announced plans to move capacity for 5.2 million tons of steel, 5 million tons of cement and 3 million units of glass abroad by 2018. The targets for 2023 are even more ambitious, with capacity for 20 million tons of steel,

30 million tons of cement and 10 million units of glass waiting to be relocated abroad." - Maçães. Belt and Road, 83.

22. Department of Defense, Military and Security Developments Involving the People's Republic of China, 2020, Annual Report to Congress from the United States Department of Defense, 9 September 2020, 15.

23. Ammar A. Malik, et al., Banking on the Belt and Road: Insights from a new global dataset of 13,427 Chinese development projects (Williamsburg, VA: AidData at William & Mary, 2021).

24. Maçães. Belt and Road, 21

25. China Global Investment Tracker, American Enterprise Institute, https://www.aei.org/.

26. Håvard Halland, et al.. Resource Financed Infrastructure: A Discussion on a New Form of Infrastructure Financing (Washington, DC: World Bank Publications, 2014); and Kevin Acker and Deborah Brautigam, Twenty Years of Data on China's Africa Lending, China Africa Research Initiative, Briefing Paper no. 4, 2021.

27. Loon Ching Tang and Joyce M.W. Low, "Strategic Intent of OBOR: Enhancing Energy Supply Resilience," Journal of Shipping and Trade 5, no. 1 (17 February 2020), https://jshippingandtrade.springeropen.com/.

28. The BRI consists of three separate yet integrated parts: the overland Silk Road Economic Belt, the Maritime Silk Road, and the Digital Silk Road. The Silk Road Economic Belt is envisioned as a vast network of infrastructure focused on energy pipelines, highways, and railways that lead either directly to China or ports. The Maritime Silk Road, the connecting network of ports, would allow China to access economic inputs westward toward Europe and Central Asia, and southward, mainly to Pakistan, Southeast Asia, and, ideally for China if relations improve, India. The BRI is also about reducing tariff and non-tariff barriers by creating special economic zones across participating countries. The PRC's Digital Silk Road initiative, announced in 2015, is the third leg of BRI and focuses on building the digital infrastructure that will allow Chinese Information Technology (IT) firms to set technical standards and enhance market access through fifth-generation (5G) networks, satellite navigation, artificial intelligence (AI), and other technologies for domestic use and export.

29. Joshua Eisenman and Eric Heginbotham, "China's Relations with Africa, Latin America, and the Middle East," in China and the World, ed. David Shambaugh (New York: Oxford University Press, 2020), 295.

30. A recent survey found 63 percent of Africans polled viewed China's engagement with the continent as having a "very positive" or "somewhat positive" influence. See Lina Benabdallah, "China's Soft-Power Advantage in Africa: Beijing Isn't Just Building Roads—It's Making Friends," Foreign Affairs, 23 December 2021, https://www.foreignaffairs.com/.

31. David Kang, "Hierarchy and Legitimacy in International Systems: The Tribute System in Early Modern East Asia," Security Studies 19, no. 4 (2010): 591–622.

32. Peter Gries, "Nationalism, Social Influences, and Chinese Foreign Policy", in China and the World, ed. David Shambaugh (New York: Oxford University Press, 2020), 63–84.

33. X (George Kennan), "A final push was needed from a revolutionary proletariat movement in order to tip over the tottering (Capitalist) structure. But it was regarded as inevitable that sooner or later that push be given."

34. "Upbeat Xi Says Time on China's Side as Turmoil Grips U.S.," Bloomberg News, 11 January 2021.

35. Ryan Hass, "How China Is Responding to Escalating Strategic Competition with the US," Brookings (blog), 1 March 2021, https://www.brookings.edu/.

36. Defined as the ratio of the population aged 65 years or over (retired, not-working) to the population aged 15–64 (working age). This lower this ratio, the greater ability of an economy to produce economic growth, since the share of the population that is retired is not working and is dependent in part on public transfers of resources.

37. United Nations, Department of Economic and Social Affairs, Population Division, "World Population Prospects: The 2017 Revision," 2017, Figure 1.15 Dependency ratio, 1950–2100.

38. Stephen G. Brooks and William C. Wohlforth, America Abroad: Why the Sole Superpower Should Not Pull Back from the World (New York: Oxford University Press, 2018), 35.

39. World Bank and Development Research Center of the State Council, the People's Republic of China, China 2030: Building a Modern, Harmonious, and Creative Society (Washington, DC: World Bank, 2013), 16.

40. Nectar Gan, "China's Birth Rate Drops for a Fifth Straight Year to Record Low," CNN, 17 January 2022, https://www.cnn.com/.

41. "China's Debt Ratio Is Growing as Its Economy Loses Steam," Bloomberg News, 16 July 2019, https://www.bloomberg.com/.

42. IMF, "Recovery During a Pandemic", World Economic Outlook, October 2021.

43. Henry Trofimenko, "The Third World and U.S.-Soviet Competition," Foreign Affairs 59, no. 5 (June 1981): 1021–40.

44. "When Is Foreign Aid Meddling?," New York Times, 15 April 2014, https://www.nytimes.com/.

45. M. Ayhan Kose, et al., Global Waves of Debt: Causes and Consequences (Washington, DC: World Bank, 2021).

46. Malik, et al., Banking on the Belt and Road.

47. World Bank, International Debt Statistics 2022, 2021 World Bank.

48. Malik, et al., Banking on the Belt and Road.

49. $204 billion for the International Bank for Reconstruction and Development (IBRD) and $177 billion for International Development Association (IDA).

50. The China Development Bank offers fewer concessional terms (18.1 percent average grant element) than state-owned commercial banks (22.1 percent average grant element), while China Ex-Im offers more concessional terms (41.5 percent average grant element). PRC lending is slightly progressive, with grant elements for low-income countries averaging (41 percent), lower-middle income countries (37 percent), and upper-middle income countries (21 percent). Malik, et al., Banking on the Belt and Road.

51. In the aftermath of the first wave of the COVID-19 pandemic, the ratio of debt to gross national income (GNI) rose to an average of 42 percent in 2020 (37 percent in 2019) in low- and middle-income countries excluding China, and the debt-to-export ratio increased to an average of 154 percent (126 percent in 2019).

52. This definition is from the Wikipedia entry on the term, indicating how widespread the idea has become. In 2018, Vice President Mike Pence used the term. https://en.wikipedia.org/.

53. Malik, et al., Banking on the Belt and Road.

54. Trofimenko, "The Third World and U.S.-Soviet Competition."

55. Trofimenko, "The Third World and U.S.-Soviet Competition."

56. These recommendations were mostly "liberal" economic reforms focused on liberalizing trade, reducing unnecessary regulatory burdens, privatizing SOEs, and improving macroeconomic stability through budgetary priorities.

57. William Easterly, *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics* (Cambridge, MA: The MIT Press, 2002).

58. John Williamson, "Did the Washington Consensus Fail?" *Peterson Institute for International Economics*, 6 November 2002.

59. William Easterly, "In Search of Reforms for Growth: New Stylized Facts on Policy and Growth Outcomes" (working paper, National Bureau of Economic Research, September 2019); and Kevin B. Grier and Robin M. Grier, "The Washington Consensus Works: Causal Effects of Reform, 1970-2015," *Journal of Comparative Economics* 49, no. 1 (1 March 2021): 59–72.

60. Recent research concluded, "Countries that had sustained reform were 16% richer 10 years later." *See* Grier and Grier, "The Washington Consensus Works."

61. Xi Jingping stated in May 2017 that "All countries should . . . respect each other's development path and its social systems." From full text of speech at Opening of Belt and Road Forum, *Xinhuanet*.

62. David Dollar, "Seven Years into China's Belt and Road." *Order from Chaos* (blog), 1 October 2020, https://www.brookings.edu/.

63. As noted by John Williamson, "The interesting thing is that most people who are simply talking about (the "Beijing Consensus") seem to be non-Chinese . . . and they've tried to suggest that there is this consensus . . . (but) there's no list of propositions comparable to those that I suggest constituted the Washington Consensus." Interview with John Williamson, "Beijing Consensus versus Washington Consensus?" *Peterson Perspectives*, 2 November 2010.

64. According to an IMF report, "China is the most decentralized country in the world in terms of expenditures shares, with subnational governments responsible for 85 percent of government spending." Philippe Wingender, "Intergovernmental Fiscal Reform in China, *IMF Working Paper*, April 2018.

65. Alvin Z. Rubinstein A, *Moscow's Third World Strategy* (Princeton, NJ: Princeton University Press, 1990).

66. Including China.

67. Steven Walt, "The Relationship between Theory and Policy in International Relations," *Annual Review of Political Science* 8, no. 1 (15 June 2005): 23–48.

68. Joseph, *Politics in China*.

69. Asian Development Bank. *Meeting Asia's Infrastructure Needs*, 2017.

70. Center for Strategic and International Studies, "How Will the Belt and Road Initiative Advance China's Interests?," *ChinaPower*, 2022, https://chinapower.csis.org/.

71. However, PRC leadership wants to avoid costly overseas commitments whereby a Chinese military presence causes tensions with the local population. "Most analysts advocate a more cautious approach that places greater emphasis on private security forces and efforts to improve the capacity of the host governments to maintain stability and project Chinese interests." *See* Phillip Saunders, "China's Global Military-Security Interactions," in *China and the World*, ed. David L. Shambaugh (New York: Oxford University Press, 2020), 181–209.

72. "The PRC makes diplomatic agreements—such as memorandums of understanding—incorporating PRC technical standards extensively within the BRI realm as a major policy component of its action plans," Ray Bowen, senior analyst at Pointe Bello, said in a written testimony

in March 2020 to the U.S.-China Economic and Security Review Commission. Source: https://www.cnbc.com/.

73. Jonathan E. Hillman, *The Digital Silk Road: China's Quest to Wire the World and Win the Future* (New York: Harper Business, 2021), 13.

74. General Secretary Xi has stressed "first-mover advantages" in technology, particularly due to their link to standards dependency.

75. Charles Kenny, "Marginal, Not Transformational: Development Finance Institutions and the Sustainable Development Goals," *Center for Global Development*, September 2019.

76. Jonathan Woetzel, et al., "Bridging Global Infrastructure Gaps," *McKinsey Global Institute*, June 2016, 24.

77. "China's Silk Road Cuts Through Some of the World's Riskiest Countries," *Bloomberg News*, 25 October 2017.

78. Simon J. Evenett and Johannes Fritz, "Declining Foreign Direct Investment Can't Contribute Much to Sustainable Development," *Brookings* (blog), 3 June 2021, https://www.brookings.edu/.

79. David L. Shambaugh, ed., *China and the World* (New York: Oxford University Press, 2020), 132.

80. *Belt and Road Economics: Opportunities and Risks of Transport Corridors* (Washington, DC: World Bank Group, 2019), https://www.worldbank.org/.

81. William M. Butterfield, "Prizes for Development: The Political Economy of Subsidizing Good Institutional Outcomes" (dissertation, George Mason University, August 2008), http://mars.gmu.edu/; Joshua C. Hall, Russell S. Sobel, and George R. Crowley, "Institutions, Capital, and Growth," *Southern Economic Journal* 77, no. 2 (2010): 385–405; Edward Glaeser, et al., "Do Institutions Cause Growth?," *Journal of Economic Growth* 9, no. 3 (1 September 2004): 271–303; and Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Currency, 2012).

82. Dollar, David. "Seven Years into China's Belt and Road." *Brookings* (blog), October 1, 2020. https://www.brookings.edu/blog/order-from-chaos/2020/10/01/seven-years-into-chinas-belt-and-road/.

83. Malik, et al., *Banking on the Belt and Road*.

84. Malik, et al., *Banking on the Belt and Road*., 1.

85. According to Department of Defense analysis: "The growth of China's global economic footprint also makes its interests increasingly vulnerable to domestic political transitions in participating countries, international and regional turmoil, terrorism, piracy, and serious natural disasters and epidemics, which places new requirements on China to address these threats."

86. Derek Scissors, "China's Overseas Investment Starts the Long Climb Back," American Enterprise Institute, July 2021.

87. "China Says One-Fifth of Belt and Road Projects 'seriously Affected' by Pandemic," *Reuters*, 19 June 2020, https://www.reuters.com/.

88. International Monetary Fund, People's Republic of China Article IV Consultation, Staff Report. *IMF Country Report No. 21/6*, January 2021.

89. Department of Defense, *Military and Security Developments Involving the People's Republic of China, 2020*, Annual Report to Congress from the United States Department of Defense, 9 September 2020, 123

90. For example, the China-Pakistan Economic Corridor (CPEC) is a central part of the BRI that began in 2013, currently involving $62 billion worth of projects. Since the 1950s, the United

States has provided Pakistan with more than $80 billion in mostly concessional loans and grants, yet in 2019 the Pakistan received its 22nd IMF bailout package. Source: Jonathan E. Hillman, "The Imperial Overreach of China's Belt and Road Initiative," *Wall Street Journal*, 1 October 2020, https://www.wsj.com/.

91. Jonathan Wheatley, and James Kynge. "China Curtails Overseas Lending in Face of Geopolitical Backlash," *Financial Times*, 8 December 2020.

92. Eisenman and Heginbotham, "China's Relations with Africa . . .," 299.

93. China Global Investment Tracker, *American Enterprise Institute*, https://www.aei.org/.

94. Rush Doshi, *The Long Game: China's Grand Strategy to Displace American Order* (New York: Oxford University Press, 2021).

95. Brands and Gaddis, "The New Cold War America."

96. G. John Ikenberry, *A World Safe for Democracy* (New Haven, CT: Yale University Press, 2020).

97. X (George Kennan), "The Sources of Soviet Conduct," *Foreign Affairs* 25, no. 4 (July 1947), 566–82.

98. The strategy of "Flexible Response" was introduced by the Kennedy administration and largely abandoned the "New Look" approach of the Eisenhower administration, which relied heavily on nuclear deterrence alone to contain the Soviet Union, limiting both American ends and means. "In Gaddis's analysis, Kennedy's strategy of flexible response marked a return to the philosophy of NSC 68: America's means must be expanded to match America's interests, and the economy would not only not suffer, but actually gain from the effort." Source: Stanley Hoffmann, "Review of Varieties of Containment, by John Lewis Gaddis," *Reviews in American History* 11, no. 2 (1983): 279–81. https://doi.org/10.2307/2702156.

99. Jonathan E. Hillman, "Corruption Flows Along China's Belt and Road," Center for Strategic and International Studies, 18 January 2019.

100. Fernando Ascensão, et al., "Environmental Challenges for the Belt and Road Initiative," *Nature Sustainability* 1, no. 5 (May 2018): 206–09.

101. Socrates Mbamalu, "Plight of African Workers under Chinese Employers," *African Liberty*, 27 September 2018, https://www.africanliberty.org/.

102. John Lewis Gaddis, *Strategies of Containment: A Critical Appraisal of Postwar American National Security Policy* (New York: Oxford: Oxford University Press, 2005), 57–60.

103. Branko Milanovic, "Competition Can Be Good for the Developing World," Foreign Affairs, 21 May 2021, https://www.foreignaffairs.com/.

104. Frangton Chiyemura, "Chinese Firms—and African Labor—Are Building Africa's Infrastructure," *Washington Post*, 2 April 2021.

105. The White House, "Fact Sheet: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership," 12 June 2021.

106. Eisenman and Heginbotham, "China's Relations with Africa . . .," 296.

107. The current administration is continuing the strategic shift of the previous administration toward a foreign policy with clearer benefits for the United States (i.e., From "America First" to "Foreign Policy for the Middle Class"). Demonstrating benefits to Americans should continue as a priority for development assistance.

108. Robyn Broughton and William Butterfield, *USAID Economic Growth Policy* (Washington, DC: USAID, 2021), https://www.usaid.gov/.

109. X (George Kennan), "The Sources of Soviet Conduct," *Foreign Affairs* 25, no. 4 (July 1947), 566–82.

110. Zselyke Csaky, "Nations in Transit 2021: The Antidemocratic Turn," *Freedom House*, https://freedomhouse.org/.

111. James Palmer, "Property Crisis Underpins China's Economic Slowdown," *Foreign Policy* (blog), 20 October 2021, https://foreignpolicy.com/.

112. Tyler Cowen, "China's Economic Development Model Shows Some Cracks," *Bloomberg*, 3 January 2022, https://www.bloomberg.com/.

113. According to their website, "MCC forms partnerships with developing countries that are committed to good governance, economic freedom and investing in their citizens." *See* https://www.mcc.gov/about.

114. Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Vintage Books, 1989).

115. This was due to the collapse in the price of oil in the 1980s on which it was overly dependent for its exports, years of poor polices that ultimately lowered economic growth rates and caused inflation to surge, together with unsustainable military expenditures.

116. Joseph, *Politics in China*, 278.

117. On 16 January 2022, General Secretary Xi Jinping publicly warned against interest rate increases that could "slam the breaks" on the global economy at the World Economic Forum's Davos Agenda.

118. Diane Kunz, "The Marshall Plan Reconsidered: A Complex of Motives," *Foreign Affairs* 76, no. 3 (May/June 1997): 162–70.

119. Kunz, "The Marshall Plan Reconsidered."

120. David Roll, *George C Marshall: Defender of the Republic* (New York: Dutton Caliber, 2019), 464–72.