

Conference Draft

One Road, Many Dreams: The Impact Of China's Global Infrastructural Initiative On Poverty Eradication

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The New Silk Road China's Global Infrastructural Initiative

According to The World Economic Forum's Positive Infrastructure Report, the world faces a global infrastructure deficit of \$2 trillion USD per year over the next 20 years.² A further prediction is made by Norman Anderson, chief executive of Washington DC-based CG/LA Infrastructure. In it he forecast that OECD's estimated \$71 trillion of needed infrastructure spending thorough 2030 is likely to be met with only \$24 trillion spend by the world's leading economies – a shortfall falling somewhere between \$16 to \$47 trillion USD.³ This is where China enters the theoretical picture with its deep pockets and investment blitz of \$2 trillion and rising across the globe.

As social scientists, we have to try to ask ourselves, what does the One Belt One Road include? Only the two thousand plus infrastructural investment projects? China's more than sixty partners? The geopolitical shifts in power, with China at the center of the new world order? All of us have a bit of the story, or a large part of the story, but we need to think again, do we have the entire story – participants, projects, deep pockets, soft power, governance troubles, strategic targeting, winners and losers and China's leverage in a multipolar world?

¹ This paper is drawn from my forthcoming book, *One Road, Many Dreams: China's Bold Plan To Remake The Global Economy*, (with Adam Kingsmith., Duan Qi) London: Bloomsbury, forthcoming 2018.

² World Economic Forum, "The Global Competitiveness Report 2015-2016", available at: <http://reports.weforum.org/global-competitiveness-report-2015-2016/infrastructure-and-connectivity/> McKinsey Global Institute, "Southeast Asia at a Crossroads Report", McKinsey & Company, 2014, available at: <http://www.mckinsey.com/global-themes/asia-pacific/three-paths-to-sustained-economic-growth-in-southeast-asia>.

³ Anderson, Norman F., "A new vision for infrastructure will save doomed global economy", *The Hill Times*, available at: <http://thehill.com/blogs/pundits-blog/finance/239007-a-new-vision-for-infrastructure-will-save-doomed-global-economy>. For more on the global South's infrastructural deficit, see: the "Meeting Asia's Infrastructure Needs" report by the Asian Development Bank, available at: <https://www.adb.org/publications/asia-infrastructure-needs>.

The Story Until Now

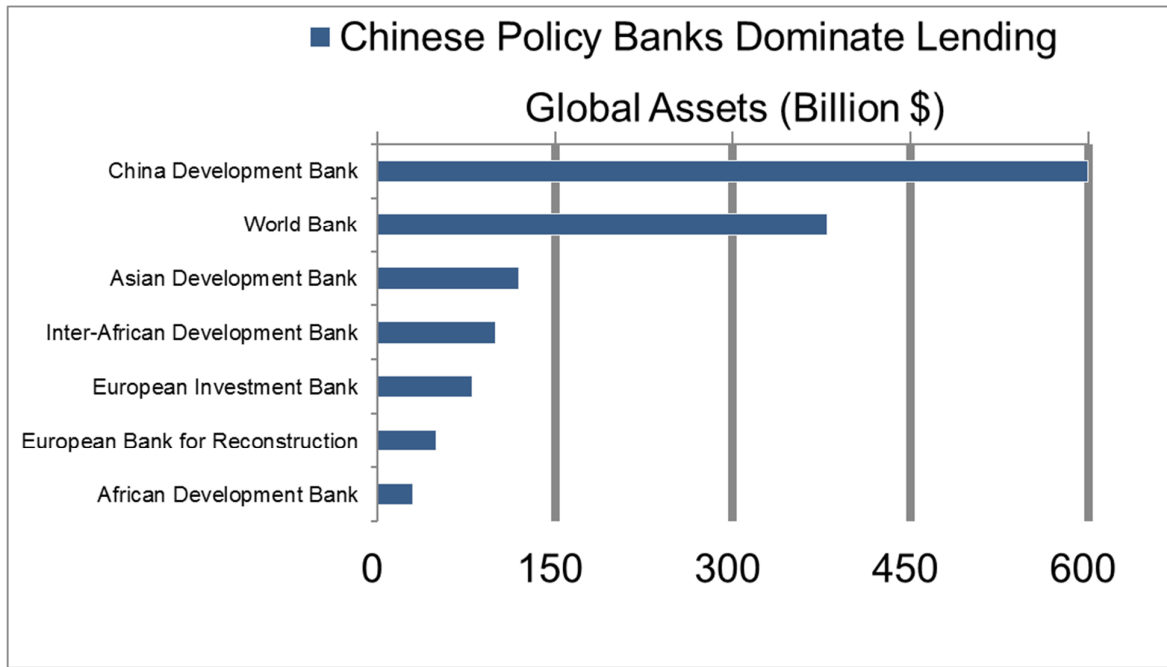
A smart place to begin is with our understanding about the structural/systemic forces responsible for poverty, marginalization and inequality as a global phenomenon. Certainly the way we view it has changed dramatically, the result of the path-breaking research published in the last decade. Thanks to *Why Nations Fail?* by Acemogulu and Robinson, there is now a consensus that institutions matter for catalytic development and occupy a critical space if the cycle of poverty traps and social instability that grip many countries is to be broken. We also have powerful evidence that wage inequality continues to grow decade by decade enriching the elite class of ‘one percenters’ thanks to Picketty’s *Capital In The 21st Century* and the causal reasons driving the polarization of income captured in his formula $R > G$. Another part of the emerging consensus is the proposition that the rich are getting richer and the poor poorer because globalization is the great unequalizer as demonstrated so powerfully by Milanovic in *Worlds Apart Measuring International and Global Inequality*. Paul Collier’s *The Bottom Billion* adds new understanding and depth when he analyzes the painful consequences for many countries facing resource, governance and landlocked traps.

All these researchers and many others point to a powerful conclusion, namely, that the Least Developed Countries (LDC) in the world remain poor marginalized and excluded for many reasons, cultural, political and economic. Human development is at levels that have not changed substantially for these ‘leftovers’ in 40 years despite the UN Development Decade 70s, The 17-year-old inconclusive Doha Development Round, The Millennium Development Goals and the trillion of dollars spent in vain and often wasted by governments and global governance institutions such as the World Bank, many regional development banks and rich wealthy countries in the global North.

The bright spot in this gloomy universe of single instances is the high growth rates of China, India, BRIC countries until 2008 and other emerging market middle income countries. Tens of millions of people have been lifted out of poverty where the local state has rowed and steered the economy against the forces of deregulation and privatization. Infrastructure investment is also part of China’s extraordinary ascendancy in the world economy. Over the last 15 years China has become the world’s leading investor in global and local infrastructure. Strikingly, this is not by chance because infrastructure investment in building sophisticated transportation systems, dams, ports, communication systems, proper sanitation and clean water, roads, bridges, airports and hydroelectric plants has been a foundation stone of the Chinese model.

So, what is the lesson here for researchers and policy experts? So it is that high-powered GDP growth is still the optimum monster poverty eradicator along with other structural and systemic measures. The hypothesis worth testing is what is the evidence for believing that it is the best policy option on offer? Can other countries benefit from massive infrastructural led development as an essential part of the poverty eradication narrative? It is in this context that we need to think clearly and collectively about China’s global infrastructural initiative,

The Pivotal Role Of Infrastructural Investment in the Chinese Model



Source: Financial Times 2017

A New Chapter or a Continuation Of Keynesianism In A New Guise?

China’s global infrastructural project is in many aspects unique in history for its size, vision and complexity. In the process, Chinese banks have changed the rules of development aid. According to a prominent investment lawyer based in Singapore, “Chinese banks are prepared to change the basis on which these types of projects have been traditionally financed”.⁴ China is the first super power in recent time to understand the transformative impact of gigantic infrastructural projects on world history and its irreversible domestic impacts with close neighbors and far-flung governments.

⁴ Don Weinland, “Asia’s regional banks lend where their western rivals dare not”, *Financial Times*, 3 May 2017, available at: <https://www.ft.com/content/15c1b070-1884-11e7-9c35-0dd2cb31823a>.

50% are low income countries and many of these relationships are often uneasy and difficult, particularly geopolitically, economically, culturally. Development aid is always a troubled affair according to World Bank studies with a completion rate of about 40% or so. It is important to consider the consequential role that the One Belt, One Road may play and should occupy as part of a long-term global strategy of poverty eradication. Formidable barriers of different kinds continue to impede poverty eradication, job growth, inequality reduction and building strong institutions to support social inclusion.

Beijing's global investment strategic policy is premised on the powerful benefits of trade, technology, locational theory and economic geography working in tandem. It relies on altering the relationship between the centre and the periphery by linking regional manufacturing hubs and their proximity to urban centres in new ways to lower transportation costs, generate jobs and employment and stimulate demand in local markets.⁵ Many experts have identified the absence of infrastructure as a key structural factor holding back the economic development of many countries that do not have adequate, continuous and round-the-clock electricity, fully functioning roads, clean water, modern airports, effective and safe railroads, not to mention global reaching telecommunications systems.⁶

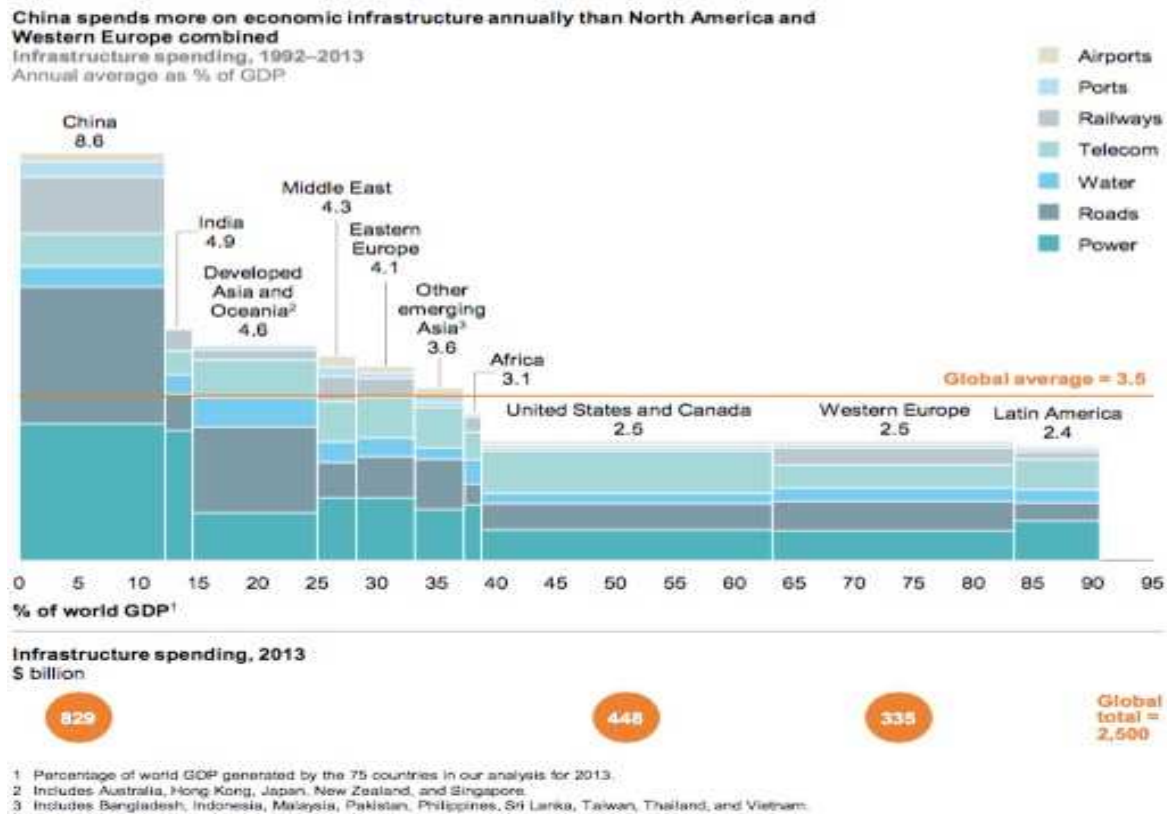
It is apparent that Chinese authorities have learned the basic lesson history teaches about the complex ways free trade and infrastructures are inextricably linked. Mind-boggling projects such as the 9,800-mile-long Trans-Siberian railway and the North American 19th century railway building golden age changed the dynamics of space and time in their historical era and had vast economic impacts, irreversibly altering the lives of people, communities, markets and entire regions. For instance, the building of the Suez Canal in 1869 “brought India nearly 6,000 miles closer to western Europe vitally altering the pattern of trade relations which had previously existed to the great benefit of the United Kingdom”.⁷ It is China's ambition to bring modern China and Europe thousands of kilometers closer by building land and sea routes to shrink the once bounded forces of space and time by investing in time-saving superhighways of commerce for the transshipment of goods and the movement of peoples.

⁵ Michael Piore and Charles F. Sabel. *The Second Industrial Divide*, New York: Basic Books, 1984.

⁶ Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, New York: Crown Publishers, 2012.; Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What can be Done about it*, Oxford: Oxford University Press, 2007; Thomas Piketty, *Capitalism in the Twenty-first Century*, Cambridge MA: Harvard University Press, 2014.

⁷ Jules Hugot and Camilo Umana Dajud, “Trade Costs and the Suez and Panama Canals”, CPEII Working Paper No 2016-29, 5 December 2016.

Focus on the dynamic importance of infrastructure has never been off the agenda of states around the world particularly in the global South or in many industrial metropolises in the global North. Economic geographers such as Paul Krugman have provided the key insight in his highly provocative book, *Geography and Trade*. What he observed is that once regional economies are established and become sufficiently strong with economies of scale such as China has accomplished in record time, local demand will keep the majority of manufacturers inside their manufacturing belt. So, the challenge, in Krugman’s terms, is to figure out how national and regional markets can use locational theory to create new opportunities with sufficiently low transportation costs in order to share in what he calls “footloose” production that is not tied down by natural resources.⁸



China’s Core Achievement

⁸ Paul Krugman, *Geography and Trade*, Cambridge, Mass.:MIT Press1993,p. 22.

At 2.4% lending rate, numerous countries are lining up to build infrastructure for which they do not have the resources. If our analysis had to be reduced to a single element, we might say this: China's global infrastructural initiative is a case study of an ascendant political and economic world power mastering the systemic timing and sequencing of its investments across continents without the guarantee of immediate success. Its ability to conceive, plan, execute, and after service is in no small part explained by its planning and sequencing mechanism. If we added a second: the Chinese authorities are intent on developing their own parallel institutions to the World Bank (WB), the International Monetary Fund (IMF) and others as long as Beijing has leadership unity and maintains a stable political system. Importantly, this stability has been all but guaranteed into the mid 2020s with the Chinese authorities' recent decision to remove the constitutional restriction on the maximum number of terms a president can serve, clearing the way for Xi Jinping (chief architect of the OBOR initiative) to stay in power indefinitely.⁹

A third feature of this grand strategy is China's narrow ledge concession-bargaining, which uses the law of contracts as a powerful lever to set the terms and conditions it negotiates. As we will come to learn, concession-bargaining serves to build friendly "relationships" (*guanxi*) for political and solidaristic purposes by offering large-scale financing of infrastructural deals at discount rates. Global-based finance and multinational construction firms are struggling to match China dollar for dollar.

Many countries are committed to addressing the global infrastructure deficit. But global infrastructure is not simply an economic corridor, or a beachhead, but they are tangible projects frequently leading edge, but not always such as the world's largest wind farm, the world's largest solar park, transcontinental railways in Africa and Asia, joining countries together in ways never seen and pipelines more than 10,000 km long. They are about projects that are environmentally green, projects that improve public health, projects that deliver round the clock electricity, projects that supply China with natural gas and oil, projects that catalyze economic growth. So, many of these projects will have a very strong impact on local communities, economic future creating new opportunities locally, regionally and possibly even globally.

It is all these aspects of the uniqueness of the One Belt One Road, which have not been captured adequately by many researchers and in news reporting. When China has two thousand projects, and

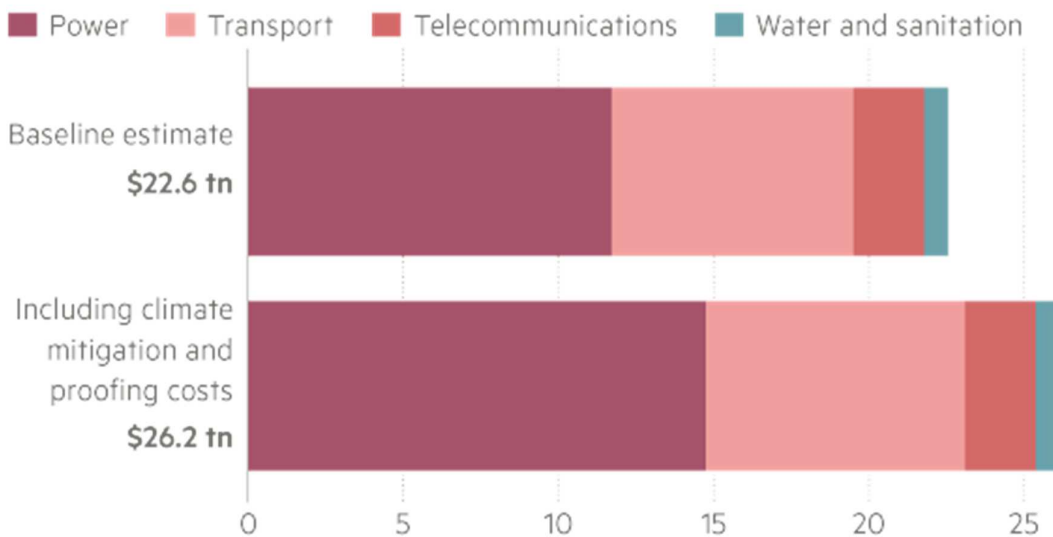
⁹ Chris Buckley and Keith Bradsher, "China Moves to Let Xi Stay in Power by Abolishing Term Limit", *The New York Times*, 25 February 2018, available at: <https://www.nytimes.com/2018/02/25/world/asia/china-xi-jinping.html>.

a price tag, which actually, if you look at all the competing estimates in the literature, it's about 2 trillion dollars, and maybe, because it is open-ended, it will be 5 trillion dollars, when the final reckoning is made. Now, if you consider the total value of the world economy, 5 trillion dollars spread over 5 or 10 years, the New Silk Road economic stimulus is not sufficiently large enough to galvanize the global economy and support higher growth rates globally.

Many more policy instruments are needed to eradicate poverty, create jobs and combat inequality. Regionally and for individual countries the economic impacts are likely to be much more significant and already in Southeast Asia, Central Asia, the Balkans, East Africa among others, the value-added of new infrastructural initiatives is already having significant consequences, domestically on local growth and regional integration prospects. Transportation, and particularly creates new efficiencies and shrinking time and space reduces transportation costs regional wide. Soft infrastructure, such as clean water and 24 7 electricity are essential for building inclusive societies and China's investment initiative addresses the infrastructural deficit blocking many countries pathway for development.

Infrastructure investment needs by sector, 2016–2030

In \$tn



Source: Asian Development Bank

What Could Go Right?

There are many macro factors that have worked in China's favor.

First, the money loaned to China's partners is a very good deal at about 2.4%, and by developmental standards a low interest rate lower than anything on offer by the private sector. Secondly, there are a lot of problems for countries to borrow money from China, even at 2.4%. Why? Because half of China's partners are the poorest countries in the world, with few revenue sources and room to maneuver. So, it is attractive for them to partner with China, but still, these megaprojects and investments increase their debt burden. And of course, the third point about this is that China's policy banks are 'flexible', to a surprising degree about repayment. We have enough evidence to show that when the LDC's of Global South countries run into financial problems for one reason or another, many of the investment debts they have with China are reduced or renegotiated over longer periods of payment.

What is also unique about these bilateral agreements is that each one is negotiated without a one-size-fits all template. Essentially, we can describe it as a bilateral agreement between China and State-Owned Enterprises and the partner in question. In legal terms, each country is party to a bilateral agreement, and strictly speaking, they are not partners in the larger sense of the term with China with rights and obligations outside of narrow-ledge contractualism that shields China and projects its investment partner.

So, this flexibility is unlike the WTO with its precise rules and rigid legal codes. OBOR is also unlike the culture of global governance institutions such as the World Bank. China's One Belt, One Road Partners negotiate their own terms and conditions as best as they are able. This diplomatic model of soft power is counter-intuitive to a social scientist. One asks, how can a 'shrimp of a country' negotiate with China because the asymmetry of power is so pronounced?

I am very interested in these contracts and what is actually negotiated. They are narrowly focused with the minimum of political buy-in or a larger ideological loyalty test. This flexibility of infrastructural negotiation on a world scale with many of the poorest countries creates a dynamic, or a soft power space, that many researchers regard is an alternative to Bretton-Woods institutions.

So, the critical problem is, as always, in the about power and money, or money and power. China's OBOR, which is fascinating for a social scientist, is to think about its impact on world politics. Is the One Belt One Road the beginning of the Asian Century? When Germany burst on the scene at the end of the 19th century, it was a rival to Britain and to the United States. There are certain parallels geopolitically between China's world status as a rising hegemon and the ascendancy of Germany at the end of the 19th century and its impact geopolitically. Germany catalyzed great power rivalry in

Europe, Africa and Asia. United States and China nervously face each other on the high beam of world politics, bumping and jostling each other. The possibility of a misstep is rising with Trump in the driver's seat ill-prepared and dangerous.

We can see that China's ascendancy to the center of the world economy in one of my slides. China moved from position 17 in world ranking among global exporters to number one as the world's primary exporter. It knocked off the United States that, for more than 100 years, was the world's leader! This is why it is important notionally to engage with China's exceptionalism and it is no coincidence that China has the deep pockets to fund more than 2000 global infrastructural projects. It has the resources and leverage to devote this amount of money to invest in infrastructural development. For the global South, investment in infrastructure, and poverty eradication are two of the most pressing public policy issues and they are linked in multiple ways. China is the logical partner to turn to for infrastructural assistance and investment. China's policy banks have \$ 1 trillion or 4 times the assets of the World Bank, IMF, European Bank of Reconstruction combined.

In 2017, the Chinese banking system broke another record, by surpassing all Eurozone banks in size. It is now larger than the entire Eurozone financial banking system. According to the latest information, Chinese bank assets hit \$33 trillion USD at the end of 2016, versus \$31 trillion USD for the Eurozone, \$16 trillion USD for the US and \$7 trillion USD for Japan. The value of China's banking system is more than 3.1 times the size of the country's annual economic output, compared with 2.8 times for the Eurozone and its banks.¹⁰

Such an unprecedented gap in sales, profits, assets and market value between these top four financial titans and their most substantive Western competitors can be attributed to the uniqueness of China's banking system. It has a lot going for it. Top on the list is the unparalleled size and concentration of its banks, multiple, bottomless pools of capital and revenue streams for the state to draw on, relatively small transfer payments and safety nets to individuals and sufficient top-down regulation effective enough to impose order on its many financial actors and competing Ministry and Party interests.

Seen from this perspective, China has deep pockets, deeper than any Western country to finance more than 2000 infrastructural projects with dozens of countries for the next decade, provided that

¹⁰ Gabriel Wildau, "China Overtakes Eurozone as World's Biggest Bank System", *Financial Times*, 5 March 2017, available at: <https://www.ft.com/content/14f929de-ffc5-11e6-96f8-3700c5664d30>

China does not face any threats to its domestic stability. Like any concentrated system, distortions and mistakes arise from over-centralisation. Each year, Chinese banks invest billions of dollars in bonds, stocks, hedge funds, corporate acquisitions and pension plans. They finance international mergers and acquisitions worth billions from Boston to Berlin to Bangkok to Beijing.

Beijing game plan is a complex exercise in soft power diplomacy and like everything about China's goals and ambition resembles a five-level chess game. Why? At its core Xi's strategy is both diverse and open-ended. A large part of the One Belt One Road also deals with the diversity of middle income market economies such as Iran, Turkey, or Brazil, the latter which is not included on the list of OBOR members. And even India, its geopolitical rival is a recipient of China's investment dollars. So, we have a very big issue of trying to figure out who's in and who's out. So, there's a lot of work that still needs to be done.

When we think of bilateralism as one alternative to the WTO's liberal internationalism, the amount of money which China is investing compared to the Marshall Plan, (the Marshall Plan in today's dollars amounts to \$150 billion and was only for Western European capitalist countries) is, by any measure, massive. By contrast, China's project of the New Silk Road – I prefer the original more iconic name -- is so much bigger with a global vision that infrastructural investment is a pre-existing condition for higher GDP growth and job creation. For many economists, without an adequate infrastructure to reduce overhead costs and increase efficiencies countries cannot grow their way out of poverty, eradicate poverty or build inclusive societies. In the 19th and 20th centuries the infrastructural revolution, the rise of mass production, mass production, new global competitive technologies all are linked. The Asian Tigers, Japan, South Korea, and now China have utilized infrastructural investment to row and steer the economy for social, economic and cultural leverage.

Beijing's Highly Pragmatic, Yet Flexible, Bilateralism



What Could Go Wrong?

So, if you think that the transformative political potential may not happen, let's list some key reasons why the OBOR may not live up to expectations. First, there is the problem of the cost. Ultimately, China's tax payers, the middle class of China, is going to have to pay for this project. I was in China doing interviews two months ago, and people kept complaining about the enormous cost. At first, wrongly, I couldn't believe it. I thought this is a criticism I made have heard in Canada, where in Toronto we are building a smallish extension to an existing subway line. People are worried that their taxes might go up and that public investment in infrastructure was a low priority or no priority. I said to myself Chinese people pay taxes, and this is a very expensive project. Will people support this initiative over the next 3, 5, 10 years? Because it's an initiative without a fixed end date for this investment program, at least up until now, many Chinese are legitimately worried. Beijing has a big job ahead of it to win popular support for spending billions of dollars on foreign infrastructure.

The second issue is the question of public tendering. This is a very important concern. In many countries the public tendering is opaque, captured by insiders and anything but transparent. So, of course, the people of Pakistan benefit less than they should from China's massive investment in electricity generating plants, or the people in Kenya will pay a high price from having an interrupted supply of electricity, clean water or a new transnational railway to name several, typical kinds of projects. The issue of the need for better governance practices and high standards of transparency are crucial elements if public culture is to change among China's bilateral partners.

A third problem is that many development projects typically fail to be completed, and/or poorly managed. I was surprised looking at completion rates of World Bank and IMF statistics when it comes to development projects. Only 40% of funded projects are completed. I was shocked. Shocked! So, the question is, is China going to do better than a 40% completion rate by any standard a very low score. So, what will be the rate of success of China's bilateral projects? Will they be properly managed? Will the countries be able to pay back their loans? Will their economies be stronger and communities more prosperous? This is the story that needs documentation and further study to learn why certain projects succeed and others go off the rails and flounder.

The Transfer Of Knowledge and China's Management Expertise of Megaprojects

I want to close on a different note based on another part my research. First, China has developed deep expertise in the management of projects and modern China's engineering capacity is second to none, which is very interesting. So, why is this? Why did the Chinese develop so much experience in mega-

projects? Not small projects, but history-making engineering feats like the diversion of Yangtze and Yellow rivers, the 450 km south – north water transfer across the Bayankala Mountains to northwest China that is currently underway; the massive hydro-electric Three Gorges dam; the underwater optic cable to Africa part of China’s connectivity internet project; and all the hundreds and hundreds of complex engineering projects underway.

One place to begin is to understand that China teaches management of engineering in engineering schools, so that when Chinese engineers manage projects throughout Africa and Asia, they come with an in-depth skill set not only with advanced technical expertise and, but most importantly about the transfer of knowledge to local conditions that is an essential part of the Chinese model. Infrastructure development is the cornerstone of Chinese developmental experience of the last 40 years domestically. The OBOR relies heavily on it, and Beijing supplies the technology, the hardware, software, all the machines and equipment needed for building railways, dams, water purification plants, oil and gas pipelines.

The highly centralized model seems to make a lot of these projects viable, because the materials come from China, the expertise comes from China, the technology comes from China, the finance comes from China, and in some projects, but not all or that many, the workers can be supplied from China, and then they leave once the project is completed. There are positive and negative things about this model. If all the material and inputs are imported, including labour, how does local business benefit and where are the new jobs? The downside is that the Chinese model of development creates ill feelings locally and nurtures the rise of anti-Chinese sentiment. This is another part of the story about One Road, Many Dreams that requires more investigation and critique.

So, China if it expects its global initiative to be a positive force for poverty eradication and development throughout the global South, it must remember that the history of development investment is a high-risk enterprise. The Soviets spent billions of dollars and were often unsuccessful in reaching their goals and fulfilling their promise to be an agency of transformation. The Americans were unsuccessful in being a ‘white knight’ of development as were the French in many parts of Africa and Asia. The World Bank invested billions of dollars in Latin America and other regions with substandard results and many failures. The question this raises again is, when the stakes are very high, will China escape the developmental quagmire that trapped so many other powerful actors? Or is it the beginning of a new chapter of poverty eradication, backed by China’s deep financial pockets, soft power diplomacy and bilateral cooperation?

The final challenge can be stated bluntly: the dark passenger is that the more that China invests in many countries which are often high-risk and politically unstable, it raises the question of what happens when these investments are in jeopardy or in some kind of danger? What will China's response be? Beijing always has said, "We are not going to become entangled in your domestic affairs." Easy to say but when Chinese authorities are spending hundreds of billions of dollars, what happens if its investments are expropriated and nationalized or confiscated? Because thousands of people are being displaced, environmental problems are not addressed, local people are not hired, some of the projects will be deemed 'not viable' when a newly elected government decides to cancel the mega 'dream' project. In these circumstances what does China do when it has billions of dollars at risk?

Entanglement in the internal affairs of its bilateral partner is the great challenge for China. We don't know what Beijing's response will be. Will Beijing renegotiate these projects? Will they offer better terms? Will they forgive the debts? Will they be forced to send in Chinese security forces or mercenaries to protect their investments? There are many scenarios possible. What I want to emphasize is that in the complex world of the One Belt One Road we are just at the beginning of this global infrastructure initiative. Before we can be definitive about success or failure, we need to understand where these projects are headed in the next two, five or ten years time. Will China achieve its ultimate goal of catalytic transformation, building 'a community of common destiny'? The costs and risks are great but so is the goal of redrawing the grooves of global commerce for development goals in Africa, Asia and Latin America.

Some Policy Implications

What are the policy implications of the OBOR for the United States, Canada, and other Western countries? How should other states and stakeholders align their interests in response?

For most countries, the choices can be reduced to the following: avoiding a major commitment to reducing the global infrastructural deficit. Some countries will support the US effort to build a counter China global infrastructural coalition. Another option is to give more money to the World Bank to invest in all kinds of infrastructural projects in the Global South. A 3rd option is to get behind the OBOR project directly or indirectly through the Asian Investment Infrastructural Bank and other newly emergent institutions. These questions need to be thought about carefully and weighed on their individual merits. It is also critical to take account of the daunting obstacles China faces if it is to reach its different goals foremost among them are new rules for the international order which

advantages Beijing and the global South with. China's signature goal to build a "community of destiny" beyond liberal internationalism.¹¹

Whether or not China's successful remains in the future. Communities of destiny are always fragile because the core domestic interests of countries belonging to them are frequently so diverse in practice, have so few common goals, and often do not confront a unifying common enemy. In such difficult circumstances, how do they acquire shared institutions and values faced with a lack of traction? How will they ever acquire the political power of grip and grit to address systematically the structural roots of inequality, marginalization and poverty? Many of us are searching for an answer and China's global infrastructural initiative is a smart place to look.

¹¹ Xi's address to UN General Assembly, Jan. 17, 2017, available at: http://www.xinhuanet.com/english/2017-01/15/c_135983586.htm.