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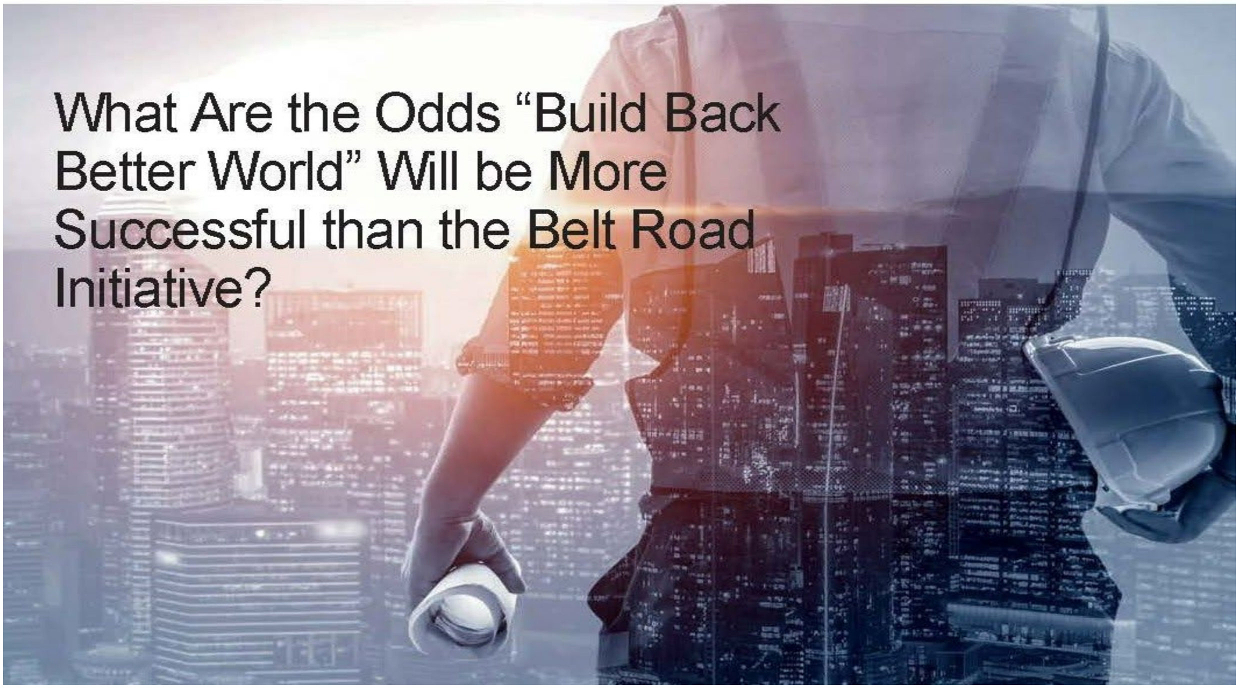

In 2022 the Biden administration will begin investing in five to ten of the world's largest infrastructure projects in a program called Build Back Better World), or B3W for short. The plan is an overseas infrastructure initiative led by the Group of Seven (G7) in response to China's Belt and Road Initiative (BRI).

Since 2013, China has invested in infrastructure such as railways, roads, energy, and ports in developing countries through BRI, but some critics from Western countries believe that these investments may saddle host countries with huge debts and ultimately constrain their economic development capabilities. BRI has thus been negatively labeled a "debt trap."

In order to further curb China's expanding global influence, in June 2021, Biden and the leaders of the Group of Seven countries jointly launched the B3W plan, declaring that this “The Democracy-Led, High-Standard, Value-Oriented, Transparent Infrastructure Partnership Investment Program” will help improve infrastructure worth more than $40 trillion in developing countries.

"The United States and some Western countries are obviously engaged in B3W, and they question the 'Belt and Road', but we are open and inclusive and welcome these countries in The 'Belt and Road' partner countries to carry out third-party cooperation,” said Zhang Jianping, deputy director of the Academic Committee of the Research Institute of the Ministry of Commerce, in an interview with Caijing reporters. “Of course, proceeding from the so-called ideological point of view, these countries could start from scratch and re-develop a new set of programs. That is why they propose the orientation of B3W.”

* This article was published in Mandarin and has been translated into English

Details of B3W Are Not Evident

The B3W is not the first to attempt to replace the Belt and Road Initiative. A number of similar proposals have been introduced by European and American countries in recent years.

For example, in 2018, the Trump administration created the International Development Finance Corporation (IDFC) from the Overseas Private Investment Corporation to finance development projects in low- and middle-income countries.

In 2019, the U.S. in collaboration with Japan and Australia, launched the Blue Dot Network to set standards for the evaluation and certification of overseas infrastructure projects as compared against established by China.

Although these programs have received great attention, they have made little progress in the actual delivery of projects, according to the U.S. think tank the Center for Strategic and International Studies. It noted the "Blue Dot Network" remains a mechanism for setting standards. This underscored the urgency of the announcement of the B3W.

Although the promotion of B3W has been the focus of the U.S. diplomatic agenda over the past few months, the details of the projects have been delayed. The projects include the COVID-19 Vaccine Center in Senegal, as well as projects on climate change, where the United States will fund renewable energy projects such as solar, hydropower and wind. In addition, there are projects aimed at reducing the rate of deforestation, thereby creating carbon sinks that will help these developing countries meet their emission reduction targets.

But the lack of project details has raised questions about whether theB3W can be a substitute for the Belt and Road Initiative, as it claims. Some argue that B3W is not a viable solution, but a "propaganda tool" to contain China by creating a trap of public opinion.

In fact, there are really few details about B3W.

“Based on my previous experience as a government official in the G7 and G20 summits, it is rare to issue new items in summit communiques without preparing and clarifying the details of the proposals in advance,” Harry Broadman told Caijing. “The way the B3W was announced reinforces the idea it might have been put together at the last minute.”

Broadman is a professor at Johns Hopkins University, a former Chief of Staff of the President’s Council of Economic Advisers and U.S. trade negotiator and a World Bank official in China. He is also the author of the book *Africa's Silk Road: China and India’s New Economic Frontier*. He has a deep understanding of the business and investment environment in emerging markets.

The propaganda effect cannot be underestimated, and the "debt trap" is a lesson for the past. This concept was originally proposed by Indians, and then widely adopted by European and American countries and formed a negative narrative, which led to the "Belt and Road" initiative proposed by China

The BRI proposal was criticized and questioned, even though many later research reports pointed out that there was insufficient evidence for this claim. For example, the Royal Institute of International Affairs, in its report "Refuting the Misconceptions of Debt Trap Diplomacy," argues that even in the widely cited cases of Sri Lanka and Malaysia, the projects at issue were initiated by the recipient governments themselves. Their debts are caused by misconduct by local elites and Western-dominated financial markets, not by China.

Still, these studies have not completely offset negative effects that might come from B3W. Former Liberian Minister of Public Works, Gude M. Gyude Moore pointed out to Caijing that such criticism may apply to B3W.

A researcher at a Chinese state-owned enterprise who has been working on overseas infrastructure construction for many years worries: "The propaganda around B3W is trying to create a narrative that it is the product of the fight against the 'Belt and Road', which is not good for Chinese companies."

A battle between two infrastructure concepts

B3W reflects the different philosophies of China and the United States in the field of national governance and infrastructure development. While China has adopted an approach to infrastructure that favors state-owned enterprises and policy banks, the United States prefers to let private companies and markets dominate business development, focusing on capacity building and governance.

There are likely to be other significant differences between B3W and the Belt and Road Initiative in terms of project scope, funding and governance. The former will focus on human infrastructure and on four areas: climate change, health and safety, digital technology, and gender equality. It would try to achieve these goals through the mobilization of private sector capital and catalytic investments by development finance institutions. These characteristics are roughly similar to previous U.S. overseas development projects.

Financing schemes for development finance companies

Many U.S. politicians agree on the superiority of the private model, said Mark A. Thompson, administrator of the U.S. Agency for International Development in the Trump administration. He said the participation of the private sector and private enterprises in the development policy of the US government is where the strength of the United States lies by leveraging public sector spending to entice the private sector, perhaps by a ratio of $1 to $50 or $100.

Broadman shares this view because he believes “prudent private investors demand transparency from co-financiers in order to rigorously assess risk-adjusted returns.” China's official FDI through the Belt and Road Initiative or other mechanisms largely "lacks transparency" he said, “although third-party external pressures are beginning to emerge to help offset this to some extent.”

However, Moore pointed out that although this model uses development finance to induce private investment into developing countries, the actual effect could be significantly less than promised. Thus, it is not clear what the difference is with the B3W and how it will provide better results. But it is clear that it will provide the US government with more policy tools.

While it is unclear how the B3W will be implemented, there is evidence from past experiences. The Power Africa initiative began during the Obama administration and has been using the U.S. government for mobilizing private sector resources. The United States Agency for International Development plays a leading role in this, providing technical assistance and management support to promote the implementation of projects in African countries. The U.S. Department of State is responsible for building dialogue, seeking support from African governments through diplomatic means, and building partnership networks.

U.S. private firms provide capital and risk mitigation tools to support their investments in African power. The Export-Import Bank of the United States also assists, by financing the supply of U.S. goods and services into the African markets. The U.S. Treasury Department, for its part, works directly with the finance ministries of the countries involved to advise on macro policies, financing options to improve the investment climate and infrastructure investment.

"The 'electricity Africa' model is not using U.S. money, but reinsurance as leverage to attract private companies to join," said Professor Tang Xiao of the Department of International Relations of Tsinghua University. He pointed out to Caijing reporters its model of propaganda and symbolism is more important than the actual number of projects that are already in operation. It is only the label "Power Africa" that it has relevance.

The B3W private capital-based model has certain advantages, but it also limits its ability to invest in hard infrastructure on a large scale, because hardware usually has a long return cycle, especially in most developing countries because of the risk of political instability. This is because private capital must consider the risk-return ratio. Private capital is mainly in the role of general contractor and it subcontracts through public-private partnerships.

In addition, the cost of European or American infrastructure construction is significantly higher than that of Chinese companies. That is why they are not dominant in the bidding for infrastructure construction projects in emerging markets. In 2020, 74 Chinese companies were listed in the "Engineering News Record" list of "250 Of the World's Largest International Contractors". In Africa, the market share of Chinese enterprises exceeds 40%, and that market share itself can translated into a cost advantage.

As a developing country, China has experienced significant development in infrastructure construction applied in other developing countries, often with strong connections. European and American countries not only have high total costs, but also lack the resources needed for rapid deployment of equipment, experience, technology, or manpower, Zhang Jianping pointed out.

It will be difficult to compete with Chinese companies in terms of hard infrastructure investment; thus B3W should start with softer investments as in "Power Africa." B3W is also being positioned to do health care, new energy development, and environmental protection.

Given that this model is not fundamentally different from past practice, Woodrow Robert Daly, director of the Henry Kissinger Institute for The Center for Sino-American Studies, asked "Whether this model of infrastructure construction will be investing new money and expanding new ones in the region or reusing and repackaging existing resources?"

Infrastructure with values

The B3W does not give a clear answer to the above questions, but only proposes to implement specific projects with "good governance" and "high standards". In order to demonstrate its superiority, the B3W proposes to maintain a high degree of transparency, inclusiveness and cooperation with host countries so the benefits flow to all sectors, without attaching any conditions to sustainability. However, the implementation of such high standards necessarily involves how to deal with the issues of efficiency and democracy, which are difficult problems faced by many international development projects.

"I went to Laos to see an Asian Development Bank project, which claims to create the most transparent, fair and community-friendly infrastructure project, and has a lot of interaction with the local population, said Zhang Jianping. While its transparency is very high, its costs are also relatively high. Many projects are inefficient or even fail in developing countries. The use of over-idealized democratic practices in the process will be extremely counterproductive.

Whether developing countries with very different cultural values than the United States can afford and be willing to accept such high standards is unknown, said Mark A. Thompson, Senior Vice President of Policy Affairs at the US-ASEAN Business Association. Marc Mealy worries that if the United States is the only democratic country qualified to participate, then the B3W will hardly be a viable alternative that can provide broad financing support。

As a former official in the country where the project is located, Moore also has doubts about this values-driven approach, because no one makes infrastructure decisions based on values. "We make choices based on price and quality, rather than between 'democratic national railways' and 'authoritarian national railways,' Moore said.

In this regard, Broadman does not fully agree because the G7 countries, through institutions such as the World Bank, are providing financing in countries that do not wholly meet Western democratic standards.

But Broadman also pointed out that whether the B3W can truly compete with China depends largely on the reaction of the potential recipient government leaders. He notes some recipients of loans from China are the elites who do not care about domestic "good governance practices" and have fewer concerns about domestic debt levels compared to media coverage.

Broadman's argues this could be embarrassing for the United States. When U.S. Secretary of State Blinken was in Nigeria in November 2021, he called on African countries not to be left with "huge debts that cannot be repaid". But Nigeria’s leaders responded that Nigeria saw a huge opportunity for taking investment from China to address the severe infrastructure deficit. They argued the debt they’re taking on was sustainable.

Such a response is obviously not what Blinken expected. In the view of many Westerners the "Belt and Road" will inevitably bring about a "debt trap." But research by Deborah Brautigam, director of the Institute for Central Africa at Hopkins University, argues this view lacks factual basis. A database of Chinese overseas loans that she and researchers at Boston University have co-buil, show that Chinese loans are playing a role in funding Africa's deep infrastructure gap, and that China is not selectively lending for its own interests.

As we all know, it is difficult for developing countries to build infrastructure without borrowing, and the US model will also generate debt. For example, Tang Xiaoyang said that Power Africa has generated private debt, and private banks have higher interest rates and shorter repayment periods than government banks. Most of China’s banks are state-owned, although we regard them as commercial institutions and that their debts with developing countries are also commercial. But the United States does not see them this way, arguing China's state behavior is increasing the debt of the host countries.

Developing countries must borrow in advance in order to develop their productive capacity, and the problem is not that they have a lot of debt, because these developing countries have a large funding gap in the field of infrastructure construction, and the World Bank says that 90 billion US dollars can meet the infrastructure construction needs of Africa, and the current debt scale is far from reaching this figure.

Tang Xiaoyang explained that the problem is that the new crown pneumonia epidemic has caused a lack of economic development, affecting the ability to repay debts, and some early projects are insufficient to consider changes in the political and economic situation, so the project income is less than expected. To sum up, the key is not to reduce debt, but to make the project vigorous, generate more income, and borrow new debt to build new facilities, so that a virtuous circle of national economic development will be formed.

Can China and the United States Cooperate with Each Other?

Whether from the perspective of debt or the financing model, there are many differences between the B3W and the Belt and Road Initiative, but this does not mean that these two options must exist in a dichotomous way, because this narrative method of creating opposites is given to the ground Regional development and global governance bring about factors of conflict and instability.

Jonathan A. Thompson, a senior fellow at the Brookings Institution has said that China and the United States are simultaneously striving to surpass each other, which may lead to "a long-term intensification of polarization and serious consequences for regional stability and development." 。

On this issue, Chinese Foreign Ministry spokesman Wang Wenbin has made clear China's position that there is a vast space for cooperation in the field of global infrastructure, and there is no problem of competing or replacing each other with various related initiatives. What the world needs is to build bridges rather than tear down bridges, interconnection rather than decoupling from each other, mutual benefit and win-win results rather than closed and exclusive.

The global infrastructure market is very broad and has a large gap, according to the "Global Infrastructure Development Exhibition" report released by the G20 Global Infrastructure Center (GIH), from 2016 to 2016 Global infrastructure investment demand will increase to $94 trillion in 2040, an average annual increase of about $3.7 trillion.

This is a gap that no one country can fill alone, and the great powers have an obligation to take the lead in building these helps to boost regional recovery and divert global capital to the public. Products, in view of the complementarity of industrial structure and capabilities, countries should resort to cooperation to achieve win-win results. This global infrastructure deficit also raises the question of whether the B3W and the Belt and Road Initiative can cooperate on this issue.

During the Obama administration, China and the United States explored infrastructure cooperation at the government level. In 2015, when the two leaders met in Washington, D.C., they agreed to expand mutually beneficial cooperation in areas such as infrastructure development. The two sides signed a memorandum of understanding on Sino-US development cooperation and agreed to expand trilateral cooperation in the construction of public health systems in Africa, Asia and other places. It was also reported that the Obama administration considered working with China in the Power Africa initiative in 2014.

China and the United States have cooperated in the field of infrastructure, and China has always maintained an open attitude in development cooperation, but the United States has maintained hostility toward China during Trump's presidency, and the wind direction has changed accordingly, and the third-party cooperation agreements that were once signed have no longer been fulfilled.

Tang Xiaoyang believes that in the current political atmosphere in Washington, it is unlikely that China will talk about cooperation in the field of infrastructure.

In Broadman's view "confronting China" is not the main goal of the B3W but a side goal. He argues that in light of the many "governance gaps" between the G7 and China, large-scale cooperation, such as joint ventures in infrastructure, is unlikely at the sovereign level for the two sides.

While the political climate makes cooperation at the government level unlikely, companies from both countries have already cooperated in infrastructure, with many U.S. companies working with Chinese companies to develop large-scale projects in third countries within the framework of the Belt and Road Initiative or other infrastructure cooperation projects.

GE's partnership with China Power Construction corporation is seen as an evolution and expansion of the well-known EPC(Engineering, Procurement, and Construction) project model for Chinese infrastructure companies, where Chinese and U.S. companies are moving beyond traditional EPC roles to enter the realm of joint market development, joint financing, and joint operations.

The two companies are building power plants and power grids in African countries such as Nigeria, and are also conducting roadshows in Nigeria, Ethiopia and Kenya to present in-depth market reports on the Nigerian grid system in response to the two companies' efforts to do so.

Caterpillar, a heavy industry company, is also one of the representative companies, which regards the "Belt and Road" as a key growth area for its construction machinery sales, and has built a factory in Xuzhou, China, and published a white paper entitled "The Belt and Road: A Vision and Commitment for Win-Win" to explain how to participate in a variety of innovative ways , including business model innovation, technology innovation, collaborative development of infrastructure, sharing of global experience and risk management tools.

Not only does it produce equipment to supply China's infrastructure projects in Africa, Caterpillar has also organized a large team of Chinese contractors to visit Africa and the Middle East, using its network of local agents and service providers to promote interaction and exchanges between Chinese enterprises and "Belt and Road" participants.

Regardless of the preferences of the US government, US enterprises have been extensively involved in exploring feasible space for the "Belt and Road" to cooperate in the construction of infrastructure facilities between the two countries. Not only US enterprises, but also China is actively seeking extensive cooperation with other Western countries in the field of infrastructure, signing third-party cooperation agreements with many Western countries, including Australia and Canada, giving full play to their technological, standard, and financial advantages, complementing China's advantages, and going to third-party countries to do infrastructure projects.

In the process of implementing the "Belt and Road" project, China's state-owned enterprises have become more and more internationalized, and they are also participating in more market competition to obtain financing from multilateral financial institutions and commercial banks, and directly participating in the projects of many international multilateral development institutions such as the World Bank. In this process, it has also gradually integrated with international standards, promoting rules including ESG standards (environmental, social and governance), from attaching importance to hard connectivity to making efforts in soft connectivity.

As long as we don't use some so-called high standards to set the threshold to exclude China, why don't we welcome the new concept, we all want to pursue a high-quality model in the field of infrastructure, and we are willing to discuss with Europe and the United States on the issues involved, including rules, design, systems, evaluation standards and economic feasibility, and the project is not sustainable and not in our interests. The above-mentioned state-owned enterprise researchers believe that Chinese enterprises have not sought to confront such standards, but have viewed them with an open mind, but this kind of docking takes time and cannot be achieved overnight.