

China and the US. Is the Belt and Road Initiative China's Marshall Plan?

What does China want?

What did Germany want in the 1930s? A little respect, a little less bullying, and a bit more space. Germans felt aggrieved at the terms of Versailles, that reparations had gone too far and that they had been unfairly treated. What did Russia want in the 1950s? Security. Russia was driven by fear, that it was being contained, constrained, outmanoeuvred and threatened by a new Germany supported by the USA.

In the aftermath of WWII, *America decided that the only way to avoid being drawn into another costly conflict, in money and lives, was a prosperous and united Europe.* Europe was in dire straits with regionwide depression and deprivation which animated the communist threat. Before the fall of Berlin, the trust between Russia and the allies had already broken down. America believed that the only way to prevent another war, this time with erstwhile ally Russia, was to strengthen Europe and to do it economically and financially through the European Recovery Program, a.k.a. the Marshall Plan, a 12 billion dollar aid program to rebuild Western Europe, and militarily, through NATO.

The Marshall Plan was neither charity nor ambition but a logical if unusual alignment of self-interest and compassion. America was motivated by fear of another costly war, and the impact of a weak Europe on the US economy. It also recognized the dire conditions in Europe after the war. The Marshall Plan was established to rebuild Europe and unite it under democratic, capitalist principles. The Russians, however, saw this as American expansionism and actively resisted it wherever possible. *American hopes that an economic solution would be enough were misplaced*

and, in the end, a military solution was established to support the Marshall Plan. The view that European economic union and NATO are part of American expansionism, or Russian containment, has survived the dissolution of the USSR and persist even today.

Since the fall of communism, America has not required a coherent and strategic foreign policy. Absent a competing ideology, capitalism has been allowed to evolve in suboptimal ways. America, facing a decline in global influence has turned towards isolationism and insularity. Today's America has turned away from global trade, threatening and imposing sanctions on friend and foe alike. Its trade war with China has escalated and is unlikely to find a significant or durable resolution. Progress is likely to be more cosmetic than material.

What America wants is to be left alone to prosper. It feels aggrieved that the world has prospered at its cost. It provides security yet pays more in military investment than its allies. It invests more in technology, yet others steal its technology. Its trade balances are evidence of massive freeloading by the likes of China and other partners. It feels unfairly treated and wants reparation. An industrial policy of cost containment through outsourcing has led to significant intellectual property transfer to China to aid the development of manufacturing capacity in China to suit US consumption needs. A weak USD and an increasing current account deficit are evidence of this policy and its efficacy.

The global financial crisis of 2008 led to lower economic growth and a beggar-thy-neighbour growth policy. Since then the world has been in a trade war, albeit a cold one, fought both in currency, in re-shoring and only latterly in open warfare characterized by tariffs and embargoes. Once an expedient, outsourcing and the concomitant IP transfer it necessitated were no longer convenient. The extent of American reliance on China was exposed leading to popular backlash. The narratives supporting this policy redirection included IP theft, unfair trade practices, and more incredibly, national security. What America wants is to be less reliant on China, and to contain China, to compete with China for

influence, prestige and power and to maintain its hegemony in the face of China's rising economic and political power.

Generally, what America wants is power, prestige and privilege. What it doesn't want is to pay the price associated with that hegemony. It definitely doesn't want China to supplant it as leader in the world and it is dismayed by China's willingness and ability to buy prestige, power and privilege.

Now China. What any country wants is a high and rising standard of living for its citizens, markets for its goods, resources for its economy, and security for its borders and interests. It also wants to be treated fairly and with respect and dignity in the international community. Often, in the pursuit of its interests, countries are happy to subordinate the interests of others to its own, leading to war and conquest. There are costs associated with every action.

With a large population, albeit an ageing one, China has sufficient domestic demand to sustain its economy. It needs to ensure that growth can provide gainful employment to the labour force and that labour costs do not rise out of control. The macro prudential policy levers that the central bank and government have decided to activate are adequate for this type of control, given the increase in quantity and quality of data that China is now collecting. On the manufacturing front, China needs to ensure that it has access to resources at reasonable rates. To this end it is investing heavily abroad to secure such access. The Belt and Road Initiative (BRI) involving financial institutions such as the Asian Infrastructure Investment Bank and the Silk Road Fund is a broad program of investment in infrastructure and development stretching from Europe to East Asia.

Just as the Marshall Plan was interpreted as partially a martial plan, so the BRI has come to be viewed by some, not least America, as being China's weapon of mass influence, a device for extending China's economic power and ambition abroad.

Note that the Marshall Plan would not have stood on its own. The reaction of the Russians almost guaranteed that a military plan was necessary, hence NATO. The BRI is a laudable plan which will bring investment, growth and development to its members. Given current geopolitical sentiment, *the question is, can the BRI stand alone as an economic program without a concomitant martial plan?* This will depend on America's response, generally, to China's rise. Already the BRI has come under criticism for its environment, social and governance (ESG) credentials. Critics warn that the BRI is an instrument of Chinese oppression, and that the large-scale infrastructural investments will have adverse impact on the environment and society along its path. Yet China has shown leadership in many respects. It has made significant improvements in the environment. Air quality around the country has improved in the last five years to the extent that Beijing will drop out of the top 200 most polluted cities by the end of 2019. China and the City of London Corporation's Green Finance Initiative have worked together to create the Green Investment Principles (GIP) for the Belt and Road.

Resistance to China's rise will likely result in mutual escalation. Whereas the Chinese are unlikely to have territorial ambitions outside of the South China Sea, they may be forced into more robust military expansion if they feel their interests are generally threatened. It is unlikely the Chinese feel threatened by her Central Asian neighbours to the west. These Central Asian states are unlikely to find much strategic support from America; proximity to Russia complicates any American plan of support. A greater risk is China's treatment of Muslim minorities in Xinjiang which could trigger sympathy from her Muslim dominated neighbours. America's efforts could at best extend to agitating anti-Chinese sentiment by throwing a spotlight on Beijing's treatment of its own Muslim population. This will likely be of limited effect given America's own relationship with Islam. Russia and China have a marriage of convenience which is unlikely to be upset by current geopolitical conditions. If anything, America's rivalrous engagement is likely to strengthen Sino-Russian ties. This leaves

the South China Sea where China is staking a robust claim. Taiwan, Japan, Vietnam and Korea are potential locations for a US proxy war, but Hong Kong and Macau make better targets because they are part of Chinese territory. The cold war between the US and China is likely to be waged in more than geographical dimensions. Weapons in cyberspace have infinite range, depth and scale. Rivalry for dominance in global financial infrastructure will have more impact in an increasingly electronic world. In payment systems, the all-important underlying plumbing of the financial system, China, Russia and India are cooperating on an alternative to SWIFT, linking Russia's SPFS with China's CIPS. The Asian Infrastructure Investment Bank (AIIB) is a Chinese sponsored development bank rivalling World Bank and the IMF and has to date attracted 75 members including India, Russia, Germany, Korea and France. The USA is not a member.

The rise of China presents challenges and opportunities. America, as the incumbent hegemon, can resist China by trying to contain it, or it can engage it constructively. President Trump has so far adopted a strategy of confrontation. In a zero-sum game, this may be a suitable strategy. However, the odds of a poor outcome are high. A world split between a China bloc and an America bloc may even flourish, but the missed opportunity of cooperation will be a pity. The risk of confrontation leading to victory for one and defeat for the other is high, with serious costs to both sides. Equally risky is if the cost of hostility is high enough that the global aggregate standard of living is impaired, a loss to all. Far better for America, in her current state of strength, prosperity and wisdom, to engage constructively with China, a country equally strong, prosperous and wise, for mutual understanding and benefit. Wise, empathic and strategic leaders are necessary for engagement.