# Pro

**We Affirm**

**Resolved: The United States should join the Belt and Road Initiative.**

## Our Sole Contention is Shoot idk

### Subpoint A is Diverting Dumping

### Subpoint B is Keeping the Mills Going

**Landsberg reports in 2018** that the building boom caused several industries to dramatically increase their scale of production, creating serious overcapacity problems. **Griffiths reports in 2017** that as China’s runaway economic growth has slowed in recent years, China has suffered from widespread overcapacity.

**Fortunately, if the EU as a bloc joined the belt and road initiative Chinese overproduction would be put to use. This is for three reasons.**

**1) Promotion of projects.** **Landsberg reports in 2018** that to achieve its aims of solving Chinese overcapacity, the BRI has largely involved the promotion of projects that mandate the use of Chinese enterprises and workers. That is why the **Center for Strategic Studies** recently [calculated](https://www.merics.org/en/blog/dispute-settlement-chinas-terms-beijings-new-belt-and-road-courts) that approximately 90% of Belt and Road projects are being built by Chinese companies. That is why **Yafei reports in 2014** that expanding overseas would be able to turn the overcapacity crisis into an opportunity to spur growth. The **CSIS** finalizes that investing in large-scale overseas infrastructure projects enables China to export its excess savings and [put its SOEs to work](https://www.bloomberg.com/news/articles/2017-05-10/china-cement-giant-sees-big-opportunity-in-paving-new-silk-road).

**Sanderson** for the Financial Times reports in 2017 that the completion of the Belt and Road initiative could result in an additional 150 million tons of steel demand, enough to keep the country’s mills going at their current rate for the next decade; however, without Europe that demand is significantly mitigated.

**2) Expanding markets.** **Xinhen** reports that to solve overcapacity, China should look to expand market demand. The Belt and Road Initiative launched by China provides great opportunities for cutting overcapacity insofar as the initiative is designed to increase the host countries’ trade and ability to participate in the global economy. That is why the **World Bank** finds that if the BRI is completed it could increase trade by 9.7%, expanding demand for Chinese goods significantly.

**3) Foreign Production Centers. Lian** explains that there is capacity that we can shift abroad, to regions where demand for steel is huge but production capacity is very low. Unfortunately, **Inotai** reports for Cairn Info that significant trade barriers exist between the EU and China in the form of 52 antidumping measures that would prevent such shifts from happening. Fortunately, **Zhen** reports for the South China Morning Post that when European countries, like Spain, joined the Belt and Road Initiative they pursued plans to eliminate trade barriers. That is why **Goh** reports that the Belt and Road Initiative will allow China to expand its manufacturing well beyond its own borders as a method to export industrial overcapacity. In conclusion, **Cai** finds that moving factories with excess capacity to OBOR countries helps China reduce the supply glut at home.

**The impact of putting Chinese overproduction to use is two-fold.**

1) **Preventing Loan Defaults.** **Cheng** reports for the South China Morning Post that corrupt local governments help firms get cheap loans from state owned banks. Unfortunately, this has led companies to be unable repay loans recently. If SOEs cannot generate more profit than they are right now, they will default on these domestic bonds. This is empirically true as **S&P Global** explains in 2018 that while instances of state-owned companies defaulting on their bank loans have long existed, it was only in 2015 that one defaulted on a domestic bond. This, and subsequent domestic bond defaults by Chinese SOEs, was a clear indication that the central government intends to reduce the support for debt owed by SOEs. Without this historically prevalent support, Chinese SOEs have to generate significantly more profit or risk massive debt defaults.

Unfortunately, overcapacity is limiting the SOEs ability to generate profits. This is because **Bank** reports for Chron Financial that overcapacity hurts a company’s return on assets, because assets are sitting idle. By creating demand for Chinese goods, you increase the return on assets of SOEs and thus increase their profit margins.

The impact of widespread loan defaults is \_\_\_\_.

**2) Diverting Dumping. Cuirtin** reports for the European Institute of Romania in 2017 that the Belt and Road has a declarative – and obsessive – goal of reaching Europe.

**3) Mitigate the impacts of the 2020 recession.**

Thus, we affirm.

# Cards

## Chinese Overcapacity

**Zhen ‘18**

Zhen, Liu. November 29 2018. “China and Spain oppose protectionism as Xi Jinping touts belt and road plan.” South China Morning Post. https://www.scmp.com/news/china/diplomacy/article/2175669/china-and-spain-oppose-protectionism-xi-jinping-touts-belt-and

In a joint statement released after talks between Spanish Prime Minister Pedro Sanchez and Chinese President Xi Jinping in Madrid, China and Spain also said they would promote market opening, eliminate trade barriers, and support a “rules-based multilateral trading system”.

#### Inotai ‘13

Inotai, András. Winter 2013. “Economic Relations Between the European Union and China.” file:///Users/kendallcarll/Downloads/EUFOR\_370\_0047.pdf

Looking at the huge volume and multi-commodity structure of bilateral trade, let alone its very rapid increase in the last decade, EU-China trade frictions remained under the critical threshold of jeopardizing overall and mutually profitable trade developments. Of course, an obvious difference could be observed between the communication policy of the EU, and particularly that of some EU members in which some producers/sectors felt particularly hurt by Chinese competition, and the relevance of the dumping-suspicious Chinese commodities in total Chinese export to the EU. As of mid-October 2013 the EU had 52 antidumping measures and two anti-subsidy measures in force against imports from China.

#### Bank

Eric Bank. “Analysis fo Low Profit Margin and Low Return on Assets.” Chron. https://smallbusiness.chron.com/analysis-low-profit-margin-low-return-assets-76557.html

A company might have a low ROA for several reasons. Overcapacity hurts ROA, because assets are sitting idle part of the time. If your company has overcapacity but strong profit margins, a price cut might increase market share and capacity utilization. If instead your company has weak profit margins, cost cutting and asset sales might be in order. If overcapacity is not the problem, your fixed costs might be too high. One option is to outsource some of your operations to low-cost producers and sell off the assets you no longer need. This might boost your company’s ROA by increasing the numerator -- net income -- while reducing the denominator, average assets. If one of your divisions fails to cover its fixed costs, you might consider selling it to a company with a better cost structure.

#### S&P Global ‘18

S&P Global. “SOE Shake-Up: China’s Support for Its Ailing Enterprises Will Become More Selective.” October 17 2018. https://www.spratings.com/documents/20184/0/RatingsDirect\_SOEShakeUpChinasSupportForItsAilingEnterprisesWillBecomeMoreSelective\_39977233\_Oct-17-2018.pdf/ff96cfb9-589b-1813-76f5-7b96eff71023

Most domestic investors seem to share our view that an abrupt end to government support is unlikely. This may be why the credit spreads on China's most important SOEs have remained relatively stable. And it may also be why so few SOEs have defaulted despite weak financial metrics. The central government has been trying for some time to put greater distance between its finances and those of SOEs. While instances of state-owned companies defaulting on their bank loans have long existed, it was only in 2015 that one defaulted on a domestic bond. This, and subsequent domestic bond defaults by Chinese SOEs, was a clear indication that the central government intends to reduce the support for debt owed by SOEs. Strong government support for SOEs has long been a major credit consideration for lenders. The primary reason: China's history of central planning. In the early days of economic reform, most borrowers and almost all lenders were government-owned. Credit losses were simply accounting entries in public sector financial statements, and government support for borrowers was a given in most cases. The implicit safety net when lending to SOEs gave creditors few reasons to invest in credit assessments of smaller borrowers. The expectation of government support allowed many SOEs, especially the financing vehicles owned by local governments, to borrow well beyond their capacity to repay. Even as economic and financial reform progressed, change came only slowly. Government support for SOE borrowing facilitated the rapid development of the Chinese economy. In the early stages of reform, Chinese financial institutions had to learn to evaluate commercial credit. Meanwhile, modern corporate governance and accounting standards were just beginning to develop in China. Continued government support for SOEs helped to keep credit flowing to investment projects vital to upgrading Chinese infrastructure.

#### Cuirtin ‘17

Cuirtin, Horia. “A pivot to Europe: China’s Belt-and-Road Balancing Act.” December 2017. European Institute of Romania. http://ier.gov.ro/wp-content/uploads/publicatii/Final\_Policy-Brief-5\_Horia-Ciurtin-A-Pivot-to-Europe\_web.pdf

Without a fixed configuration, without a strict “business plan” or implementation deadlines, the Belt-and-Road Initiative seems to be, at this moment, “a leadership vision and not a project”.32 It simply announces a declarative – and obsessive – goal of reaching Europe, while building up along the way and reviving the allegedly cooperative Silk Road “spirit”.

#### The Library of Economics and Liberty

. https://www.econlib.org/the-poverty-of-protectionism-and-the-impact-of-tariffs

According to Amiti *et al.*, the total annual cost to consumers of the tariffs imposed by the US government in 2018 (mainly on Chinese imports, but also on steel and aluminum) amounts to $414 per American household. This annual cost would double if the new envisioned tariffs on Chinese imports go ahead. For a “Deplorable”(the stylized supporter of President Trump) who earns the minimum wage, $414 more expenditure represents about one week of work.

#### State Export Report

. https://www.uschina.org/reports/us-exports/national

US goods exports to China continue to outpace export growth to the rest of the world. In 2017, the United States exported more goods to China than ever before—more than $127 billion. US exports of goods to China have grown by 86 percent over the last decade, while exports to the rest of the world grew by only 21 percent. China is the third-largest market for US goods and services exports.China was a top market for US goods exports in 2017, with only NAFTA partners Canada and Mexico buying more goods last year. It was also the third-largest market for US services exports, following the United Kingdom and Canada.

#### Brinkley ‘18

. https://www.forbes.com/sites/johnbrinkley/2018/10/26/trade-war-helps-steel-and-aluminum-industries-while-everyone-else-suffers/#5054556d6eca

Meanwhile, American farmers, particularly soybean farmers, have taken it on the chin from China’s tariffs imposed in retaliation for U.S. tariffs on $250 billion worth of Chinese imports. The United States was the world’s largest producer of soybeans and China was the largest export market for them until China imposed a 25% tariff on them. That market is effectively closed.

#### Rocca ‘19

. https://www.cfr.org/blog/trumps-tariffs-are-killing-american-steel

So why has the market soured on American steel? One reason is that Trump’s tariffs, overall, hurt the industry far more than they help. Here is how we know. For the first half of 2018, steel-producer stocks followed broad market performance, even after steel tariffs took effect. Then, while the S&P index kept rising, steel stocks took two dives—in mid-June and early August, as the graphic highlights—before re-tracking the market. What happened in June and August? Just before each drop, Trump released lists of imports covered by tranches of his first $50 billion in China tariffs. Since [95 percent](https://piie.com/system/files/documents/trump-trade-war-timeline.pdf) of these imports were intermediate goods, purchased by American firms, markets anticipated that the tariffs would push up their prices, reduce their output, and hurt their sales. Tariffs would, in turn, drive down their purchases of domestic inputs, like steel.

#### Xinzhen ‘16

November 22 2016. http://www.bjreview.com/Opinion/201609/t20160914\_800067656.html

As the second largest economy in the world, China has overcapacity issues. Since there was a large amount of resource-based investment during China's rapid economic expansion in the past few decades, the steel, coal and non-ferrous metal sectors have not only developed massive new capacities, but also high inventory levels. Overcapacity and high inventory levels have become a drag on the country's growth. China therefore introduced its supply-side reform policy at the end of 2015 in a bid to mend the problem. China is the first among the major world economies to cut excess capacity, and on multiple occasions, the Chinese Government has called on the international community to address economic issues through collaboration. On the other hand, countries can work together to expand market demand. Industrial overcapacity primarily exists in major economies. Many developing countries that would like to improve their people's livelihoods have large market potential but no capital, large demand but no products. Therefore, countries burdened with overcapacity can make use of the markets in these areas. The Belt and Road Initiative launched by China provides great opportunities for cutting overcapacity. The initiative is not designed to transfer excess stock, but to increase demand and promote prosperity in countries involved.

#### Beijing Review ‘16

<http://www.bjreview.com.cn/Nation/201603/t20160311_800051806.html>

The cutting of unneeded capacity in the steel sector might result in the sacking of about 500,000 workers. Added together with the large-scale layoffs in the coal and manufacturing sectors due to upgrading and restructuring, this issue must be appropriately addressed. Most of the workers in the coal, steel and manufacturing industries are middle-aged. They devoted their youth and energy to the work they have been doing so for decades and have made great contributions to China's industrialization and rapid economic growth. Today, the restructuring and upgrading of their enterprises will force them away from their posts, and they'll have to look for a new job at an awkward age. It is a real challenge for their future life.

#### Rueters ‘16

https://www.theguardian.com/business/2016/feb/29/china-to-cut-jobs-in-coal-and-steel-sectors

[China](https://www.theguardian.com/world/china) expects to lay off 1.8 million workers in the coal and steel industries, or about 15% of the workforce, as part of efforts to reduce industrial overcapacity. It was the first time China gave figures that underlining the magnitude of its task in [dealing with slowing growth](https://www.theguardian.com/world/2016/jan/19/china-economy-grows-at-slowest-pace-in-25-years-latest-gdp-figures-show) and bloated state enterprises.

#### Sharma ‘18

. https://www.bloomberg.com/opinion/articles/2018-07-10/china-s-belt-and-road-initiative-has-stalled

You may not have noticed, what with the outbreak of trade war with the U.S. and all, but China’s economic diplomacy has had a bad few weeks. The country’s flagship Belt and Road Initiative is dealing with ever-greater resistance, slowing a momentum that once seemed unstoppable. In fact, I’d argue that the BRI is stalled.

#### Bruno ‘19

Bruno Macaes, 2019, Belt and Road: A Chinese World Order

[https://books.google.com/books?id=NcmGDwAAQBAJ&pg=PA160&lpg=PA160&dq=As+the+Belt+and+Road+initiative+gains+speed,+China+is+increasingly+finding+that+it+cannot+provide+the+required+financial+resources+all+on+its+own.+To+attempt+to+fill+these+needs+at+home%E2%80%94using+Chinese+banks%E2%80%94at+a+time+when+its+economy+is+slowing+down+and+its+banks+are+saddled+with+bad+loans+would+expose+the+financial+system+to+unmanageable+risks.+Therefore,+it+is+essential+for+China+to+gain+access+to+global+financial+markets+to+complement+its+domestic+resources&source=bl&ots=8fTmTKh4YE&sig=ACfU3U0DYu1Zq\_KmMwF05vdm0ma8a6miWg&hl=en&sa=X&ved=2ahUKEwjYv7uzhqfjAhXUW80KHff8ARsQ6AEwCnoECAkQAQ#v=onepage&q=As%20the%20Belt%20and%20Road%20initiative%20gains%20speed%2C%20China%20is%20increasingly%20finding%20that%20it%20cannot%20provide%20the%20required%20financial%20resources%20all%20on%20its%20own.%20To%20attempt%20to%20fill%20these%20needs%20at%20home%E2%80%94using%20Chinese%20banks%E2%80%94at%20a%20time%20when%20its%20economy%20is%20slowing%20down%20and%20its%20banks%20are%20saddled%20with%20bad%20loans%20would%20expose%20the%20financial%20system%20to%20unmanageable%20risks.%20Therefore%2C%20it%20is%20essential%20for%20China%20to%20gain%20access%20to%20global%20financial%20markets%20to%20complement%20its%20domestic%20resources&f=false](https://books.google.com/books?id=NcmGDwAAQBAJ&pg=PA160&lpg=PA160&dq=As+the+Belt+and+Road+initiative+gains+speed,+China+is+increasingly+finding+that+it+cannot+provide+the+required+financial+resources+all+on+its+own.+To+attempt+to+fill+these+needs+at+home%E2%80%94using+Chinese+banks%E2%80%94at+a+time+when+its+economy+is+slowing+down+and+its+banks+are+saddled+with+bad+loans+would+expose+the+financial+system+to+unmanageable+risks.+Therefore,+it+is+essential+for+China+to+gain+access+to+global+financial+markets+to+complement+its+domestic+resources&source=bl&ots=8fTmTKh4YE&sig=ACfU3U0DYu1Zq_KmMwF05vdm0ma8a6miWg&hl=en&sa=X&ved=2ahUKEwjYv7uzhqfjAhXUW80KHff8ARsQ6AEwCnoECAkQAQ#v=onepage&q=As%20the%20Belt%20and%20Road%20initiative%20gains%20speed%2C%20China%20is%20increasingly%20finding%20that%20it%20cannot%20provide%20the%20required%20financial%20resources%20all%20on%20its%20own.%20To%20attempt%20to%20fill%20these%20needs%20at%)

As the Belt and Road initiative gains speed, China is increasingly finding that it cannot provide the required financial resources all on its own. To attempt to fill these needs at home—using Chinese banks—at a time when its economy is slowing down and its banks are saddled with bad loans would expose the financial system to unmanageable risks. Therefore, it is essential for China to gain access to global financial markets to complement its domestic resources. World financial hubs such as Dubai, Singapore, Zurich or even London could play a role.

#### Horia ‘17

Horia Curtin, 2017, A PIVOT TO EUROPE: CHINA’S BELT-AND-ROAD BALANCING ACT, <http://ier.gov.ro/wp-content/uploads/publicatii/Final_Policy-Brief-5_Horia-Ciurtin-A-Pivot-to-Europe_web.pdf>

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However impressive the sums might appear at a first glance, they fall short of the needed amount. The first stages of developing the Belt-and-Road require no less than $3 trillion(according to some accounts, even more). And this is a task that China – despite its constant growth and increasing economic power – cannot accomplish alone.36 It really needs co-interested parties. And that is where the European Union (with its unbearable economic force) comes into the spotlight: it is not supposed to be just a “passive” destination at the end of the road, but also a co-owner in this joint venture. Without European cash – from public and private sources – it is highly improbable that other actors could feasibly join China in funding the initiative. Russia, Iran, Turkey or Kazakhstan (or even Japan and India37) are in an entirely different economic league than what is needed for such a massive project. For a path to Europe to emerge, Europe itself is needed along the way. In reality, EU-based institutions already are the largest lenders in the region (see Figure 3 below). And Europe is highly interested in developing infrastructure and connectivity with its marginal areas.

However, as shown before, China cannot financially and logistically manage such an ambitious project on its own. And, this time, prominent regional actors such as Russia, Iran and Turkey (who are unable) or India and Japan (who are unwilling) cannot be counted upon to build the Belt and Road. The only possible – and the truly necessary – partner is the European Union. The path to Europe can open up only with Europe’s support and financial participation

1. **China can’t fund the whole BRI on its own**

#### Bruno ‘19

Bruno Macaes, 2019, Belt and Road: A Chinese World Order

[https://books.google.com/books?id=NcmGDwAAQBAJ&pg=PA160&lpg=PA160&dq=As+the+Belt+and+Road+initiative+gains+speed,+China+is+increasingly+finding+that+it+cannot+provide+the+required+financial+resources+all+on+its+own.+To+attempt+to+fill+these+needs+at+home%E2%80%94using+Chinese+banks%E2%80%94at+a+time+when+its+economy+is+slowing+down+and+its+banks+are+saddled+with+bad+loans+would+expose+the+financial+system+to+unmanageable+risks.+Therefore,+it+is+essential+for+China+to+gain+access+to+global+financial+markets+to+complement+its+domestic+resources&source=bl&ots=8fTmTKh4YE&sig=ACfU3U0DYu1Zq\_KmMwF05vdm0ma8a6miWg&hl=en&sa=X&ved=2ahUKEwjYv7uzhqfjAhXUW80KHff8ARsQ6AEwCnoECAkQAQ#v=onepage&q=As%20the%20Belt%20and%20Road%20initiative%20gains%20speed%2C%20China%20is%20increasingly%20finding%20that%20it%20cannot%20provide%20the%20required%20financial%20resources%20all%20on%20its%20own.%20To%20attempt%20to%20fill%20these%20needs%20at%20home%E2%80%94using%20Chinese%20banks%E2%80%94at%20a%20time%20when%20its%20economy%20is%20slowing%20down%20and%20its%20banks%20are%20saddled%20with%20bad%20loans%20would%20expose%20the%20financial%20system%20to%20unmanageable%20risks.%20Therefore%2C%20it%20is%20essential%20for%20China%20to%20gain%20access%20to%20global%20financial%20markets%20to%20complement%20its%20domestic%20resources&f=false](https://books.google.com/books?id=NcmGDwAAQBAJ&pg=PA160&lpg=PA160&dq=As+the+Belt+and+Road+initiative+gains+speed,+China+is+increasingly+finding+that+it+cannot+provide+the+required+financial+resources+all+on+its+own.+To+attempt+to+fill+these+needs+at+home%E2%80%94using+Chinese+banks%E2%80%94at+a+time+when+its+economy+is+slowing+down+and+its+banks+are+saddled+with+bad+loans+would+expose+the+financial+system+to+unmanageable+risks.+Therefore,+it+is+essential+for+China+to+gain+access+to+global+financial+markets+to+complement+its+domestic+resources&source=bl&ots=8fTmTKh4YE&sig=ACfU3U0DYu1Zq_KmMwF05vdm0ma8a6miWg&hl=en&sa=X&ved=2ahUKEwjYv7uzhqfjAhXUW80KHff8ARsQ6AEwCnoECAkQAQ#v=onepage&q=As%20the%20Belt%20and%20Road%20initiative%20gains%20speed%2C%20China%20is%20increasingly%20finding%20that%20it%20cannot%20provide%20the%20required%20financial%20resources%20all%20on%20its%20own.%20To%20attempt%20to%20fill%20these%20needs%20at%)

As the Belt and Road initiative gains speed, China is increasingly finding that it cannot provide the required financial resources all on its own. To attempt to fill these needs at home—using Chinese banks—at a time when its economy is slowing down and its banks are saddled with bad loans would expose the financial system to unmanageable risks. Therefore, it is essential for China to gain access to global financial markets to complement its domestic resources. World financial hubs such as Dubai, Singapore, Zurich or even London could play a role.

#### Rosenfeld ‘19

Everett Rosenfeld, April 25, 2019

<https://www.cnbc.com/2019/04/25/eu-official-china-needs-to-reform-belt-and-road-for-many-to-sign-up.html>

European companies, he told CNBC, are first and foremost looking for information China is reportedly seeking more outside involvementin its bid to invest in and support that infrastructure development, and Sefcovic is part of a lengthy list of global officials attending this week’s Belt and Road Forum. European companies, he told CNBC, are first and foremost looking for information.

#### Fardella ‘19

Enrico Fardella, Tenured Associate Professor and Executive Director, Centre for Mediterranean Area Studies, History Department, Peking University, China. <http://en.iwep.org.cn/papers/papers_papers/201711/W020171109393879132046.pdf>,

Although Europe and the Mediterraneanseem like the terminal point of the BRI, they will certainly be a key factor for the success of the project. Europe is China’s largest trading partner (bilateral trade reached €515bn in 2016 [source: Eurostat EU28 data]) and this makes the investments in infrastructure along the Belt and Road, especially those in the Mediterranean, economically viable and complementary with the investments made in Asia.

#### Landsberg ‘18

<http://www.cadtm.org/A-critical-look-at-China-s-One-Belt-One-Road-initiative>

This building boom was financed by a rapid increase in debt, creating repayment concerns. Corporate debt in particular soared, as shown below, but local government and household debt also grew substantially. The boom also caused several industries to dramatically increase their scale of production, creating serious overcapacity problems. As the researcher Xin Zhang [points out](https://www.tandfonline.com/doi/abs/10.1080/14650045.2017.1289371): Over the past decade, scholars and government officials have held a stable consensus that “nine traditional industries” in China are most severely exposed to the excess capacity problem: steel, cement, plate glass, electrolytic aluminium, coal, ship-building, solar energy, wind energy and petrochemical. All of these nine sectors are related to energy, infrastructural construction and real estate development, reflecting the nature of a heavily investment-driven economy for China.

#### Landsberg ‘18

<http://www.cadtm.org/A-critical-look-at-China-s-One-Belt-One-Road-initiative>

To achieve its aims, the BRI has largely involved the promotion of projects that mandate the use of Chinese enterprises and workers, are financed by loans that host countries must repay, and either by necessity or design lead to direct Chinese ownership of strategic infrastructure. For example, the Center for Strategic Studies recently [calculated](https://www.merics.org/en/blog/dispute-settlement-chinas-terms-beijings-new-belt-and-road-courts) that approximately 90% of Belt and Road projects are being built by Chinese companies.

Yafei ‘14

. https://www.scmp.com/comment/insight-opinion/article/1399681/chinas-overcapacity-crisis-can-spur-growth-through-overseas

China's overcapacity crisis can spur growth through overseas expansion He Yafei suggests how to turn China's problem of excess capacity in manufacturing into an opportunity for growth- by encouraging its firms to 'go out' in search of foreign customers The Communist Party's recent third plenum outlined the strategy and road map for comprehensive reforms to meet China's pressing challenges. One such challenge is to resolve industrial overcapacity and implement the "going out" strategy for Chinese enterprises. The solution is to combine the two elements to create a new thrust in the metamorphosis of China's economic development. The excess capacity has been caused by China's fundamental economic readjustments against the global economy. With the ensuing knock-on effects of the global financial crisis manifesting in the economic stagnation of advanced nations, coupled with the slowdown in China's domestic demand, industrial overcapacity, accumulated over several decades, has been brought into sharp relief. The Chinese government, guided by the principles laid out at the third plenum, has put forward guidelines for its resolution. The most important thing is to turn the challenge into an opportunity by "moving out" this overcapacity on the basis of its development strategy abroad and foreign policy. In so doing, China will share her developmental dividends with other developing nations for common prosperity.

#### Romulo ‘18

Romulo, Roberto R. “China's Peaceful Rise Revisited.” Philstar.com, The Philippine Star, 22 Nov. 2018, www.philstar.com/business/2018/11/23/1870825/chinas-peaceful-rise-revisited.

China has a lot to offer the world. First as a consumer market, McKinsey estimates that by 2022, about 76 percent of China’s urban population of 765 million (2015) will be considered middle class. That’s 550 million , which makes China’s middle class alone the third most populous country in the world. Making that accessible to emerging economies like the Philippines will generate a virtuous cycle of trade and investments.

#### Ku ‘19

Kuo, Lily. “Chinese Middle-Class Buyers Turn Cautious as Slow Growth and Trade Dispute Dent Trust.” Taipei Times, 21 Jan. 2019, www.taipeitimes.com/News/editorials/archives/2019/01/21/2003708328.

For the many businesses that depend on the spending power of China’s middle class, winter has already arrived. After decades of breakneck growth, the world’s second-largest economy is slowing down and Chinese consumers are feeling the pinch. As their country goes into what could be its slowest year of growth in decades, at just more than 6 percent, Chinese residents face rising living costs and debt, stagnating wages and worries about job security. Many have seen their savings wiped out in peer-to-peer lending scams as Chinese stocks reached new lows last year and as the property market, the largest store of household wealth in China, declined.

#### Shepard ‘17

Shepard, Wade. “What I Learned From Two Years Traveling China's Belt And Road.” Forbes, Forbes Magazine, 23 May 2017, www.forbes.com/sites/wadeshepard/2017/05/22/what-i-learned-from-two-years-traveling-chinas-belt-and-road-part-2/#1791246f2484.

While the BRI does increasingly open the gates of Europe to Chinese products and M&A, it also opens the gates of China for European producers. It is a mistake to think of the BRI as a one way street. As China’s [middle class continues exploding](http://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class), [disposable income continues rising](http://www.chinadaily.com.cn/business/2017-04/17/content_28961863.htm), and [buying power goes through the roof](http://www.scmp.com/news/china/money-wealth/article/2042441/chinas-middle-class-rise-more-third-population-2030-research), China has become one of the most targeted markets on the planet. The fact that the BRI opens up enhanced ways for companies to get their products to China is a potential that Europe is [finally waking up to](https://www.forbes.com/sites/wadeshepard/2016/11/10/europe-finally-wakes-up-to-the-new-silk-road/#2325ad8670a4). There are currently 39 rail lines which directly link 15 cities in Europe with upwards of 20 cities in China. The type of goods that these trains are best suited for are precisely what Europe produces and are just what the rising middle class in China is hungry to buy. European pharmaceutical, automotive, luxury, agriculture, and high-end food industries are starting to leverage these new transport routes. BMW, for example, is already shipping cars to China by rail from Duisburg and Land Rover has shown interest in potentially using the newly established [London to Yiwu train](https://www.forbes.com/sites/wadeshepard/2017/04/13/london-links-deeper-into-the-new-silk-road-with-new-direct-train-to-china/#7288e2545263).

#### HSBC ‘18

HSBC. “The Belt and Road Initiative: A Catalyst for Growth.” CNBC, CNBC, 19 Feb. 2018, www.cnbc.com/advertorial/2018/02/19/what-will-the-belt-and-road-initiative-change.html.

"Although this is a Chinese initiative, it is actually a global initiative, linking developed economies with the emerging economies," explained Peter Wong of HSBC. "Now I think the most important thing is actually when these countries link then trade will flow; when trade flows then there will be human capital and cultural exchanges, and this will help the overall peace of the world in the long term." Thirty-five of the countries of the BRI are located in the Asia-Pacific region — a large swath of the planet that is slated for transformative economic growth in the coming decades. HSBC estimates that two-thirds of the world's middle class will be located in Asia by 2030, with China's middle class headcount alone expected to double from 300 to 600 million people. The McKinsey Institute report [Mapping China's middle class](https://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class), supports those findings, predicting that by 2022, 76 percent of China's urbanites will be middle class — a rise of 72 percentage points since 2000.

#### McBride ‘19

May 21 2019. https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative

Such a network would expand the [international use](https://tribune.com.pk/story/1587046/1-pakistan-mulls-using-chinese-currency-bilateral-trade/) of Chinese currency, the renminbi, while new infrastructure could “[break the bottleneck in Asian connectivity](https://www.fmprc.gov.cn/ce/ceindo/eng/jrzg/t1211795.htm),” according to Xi. (The Asian Development Bank estimates that the region faces a yearly infrastructure financing shortfall of nearly $800 billion.) In addition to physical infrastructure, China plans to [build fifty special economic zones](https://www.nytimes.com/interactive/2019/01/29/magazine/china-globalization-kazakhstan.html), modeled after the Shenzhen Special Economic Zone, which China launched in 1980 during its economic reforms under leader Deng Xiaoping. Experts see the BRI as one of the main planks of Chinese statecraft under Xi, alongside the [Made in China 2025](https://www.cfr.org/backgrounder/made-china-2025-threat-global-trade) economic development strategy. For Xi, the BRI serves as pushback against the much-touted U.S. “[pivot to Asia](https://foreignpolicy.com/2011/10/11/americas-pacific-century/),” as well as a way for China to develop new investment opportunities, cultivate export markets, and boost Chinese incomes and domestic consumption. At the same time, China was motivated to boost global economic links to its western regions, which historically have been neglected. Promoting economic development in the [western province of Xinjiang](https://www.cfr.org/event/chinas-police-state-human-rights-crisis-xinjiang-0), where separatist violence has been on the upswing, is a major priority, as is securing long-term energy supplies [from Central Asia and the Middle East](https://chinapower.csis.org/energy-footprint/), especially via routes the U.S. military [cannot disrupt](https://thediplomat.com/2017/01/deconstructing-chinas-energy-security-strategy/). More broadly, Chinese leaders are determined to restructure the economy to avoid the so-called middle-income trap. In this scenario, which has plagued [close to 90 percent](https://www.cfr.org/blog/politics-latin-americas-middle-income-trap) of middle-income countries since 1960, wages go up and quality of life improves as low-skilled manufacturing rises, but countries struggle to then shift to producing higher-value goods and services. Zhang Yunling of the Chinese Academy of Social Sciences, a state-backed think tank, [argues that the BRI](https://www.globalasia.org/v10no3/cover/one-belt-one-road-a-chinese-view_zhang-yunling) will offer new import and export options, creating new production chains that will spur the development of the Chinese economy.

#### Griffiths ‘17

May 11 2017. <https://www.cnn.com/2017/05/11/asia/china-one-belt-one-road-explainer/index.html>

As its runaway economic growth has slowed in recent years, China has suffered from widespread overcapacity in heavy industries such as steel, cement and aluminum. Ways of dealing with declining domestic demand include cutting jobs -- [more than 1.2 million in 2016 and 2017](http://money.cnn.com/2017/03/01/news/china-trump-coal-steel-jobs/) -- and expanding demand overseas.

#### Nagraj

. https://etn-socrates.eu/understanding-overcapacity-supply-vs-demand/

To protect the domestic companies, safeguard tariffs are imposed on the goods which are being imported. Which means, the buyers cannot import more than the allowed number of products in an area in a certain period of time.

#### European Chamber

http://static1.squarespace.com/static/5537b2fbe4b0e49a1e30c01c/t/56cc3017cf80a1fc057c84e4/1456222242257/Overcapacity\_in\_China\_An\_Impedim.pdf

The global impact of China’s overcapacity can also be seen in the form of growing trade tensions, particularly in the Department of Commerce against a range of Chinese steel products. Most recently, the US Department of Commerce made a preliminary decision at the end of December 2015, to enact additional tariffs of 255.8 per cent on Chinese corrosion-resistant steel. Since trade frictions hamper supply chains, this poses a major threat to the positive effects globalization.

#### Alden ‘16

. https://www.cfr.org/blog/how-solve-global-steel-glut

One of the reasons free trade is under such attack in the United States and some other countries is that the classic free trade argument—that the market will sort this mess out to everyone's benefit -- simply does not hold true in such a distorted sector. If nothing is done, some of the most efficient steel plants in the world will go under and the heavily subsidized, unprofitable ones in China and elsewhere will survive. But the classic U.S. and European response—to throw up trade barriers in the form of anti-dumping tariffs—is not terribly helpful either. Temporary tariffs can give some breathing room to their steel industries. But they come too late, often when the companies are teetering on the verge of bankruptcy. And breathing room for what? If there is no big reduction in steel capacity worldwide, the problem will either be shuffled off to other countries or will re-emerge when the tariffs expire. In the meantime, big steel-using industries like automobiles and shipbuilders will face higher costs than their competitors in countries where steel markets are less protected. Yet there seems little choice but to try again to craft such a deal, despite the failure of Monday's OECD meeting. The alternative—an escalating global trade war in a vital industrial sector—would be harmful to every country involved.

#### Tobin

Katherine Tobin, Hearing Co-Chair, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION, January 15, 2018, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION HOLDS A HEARING TO ASSESS THE STATUS OF CHINA'S BELT AND ROAD INITIATIVE FIVE YEARS ON, <https://www.uscc.gov/sites/default/files/transcripts/Hearing%20Transcript%20-%20January%2025%2C%202018_0.pdf>

Thank you all for joining us and those It is difficult to overstate the potential risk and rewards of the Belt and Road Initiative both for China and for partnering countries. Chinese infrastructure projects have the potential to offload some of the excess industrial capacity currently weighing down China's economy.

#### Macaes ‘16

Bruno Macaes, China’s Belt and Road: Destination Europe, 2016, https://carnegieeurope.eu/2016/11/09/china-s-belt-and-road-destination-europe-pub-65075

Given how important services have become to the integrity of global value chains, increasing service exports will also be a strategic goal for the Belt and Road.

Take the case of the steel industry. Hit by falling steel prices, the performance of China’s steel industry has been sharply decreasing. The industry generated a sales revenue of 7.2 trillion yuan ($1.1 trillion) in 2015, down 13.9 percent on the previous year, and a total profit of 97.2 billion yuan ($14.3 billion), down 60 percent. Chinese policymakers are aware that some of the industry will have to move abroad, and they have started looking at Central Asia, with its lower production costs, as a possible destination. As governments and the private sector in the region invest in energy development, transportation infrastructure, and residential construction, the demand for steel products in Central Asia is expected to boom in coming years, but Chinese producers have to compete with Russian, Turkish, and Ukrainian steel enterprises that benefit from easier trade regimes. These competitors would lose that advantage if Chinese companies established steel production units in Central Asian countries, which are rich in mineral resources and have low labor costs. In the integrated framework of the Silk Road Economic Belt, new transportation infrastructure could both boost demand for steel and prepare the ground for China to import steel from Central Asia as it moves into higher-value products and value-chain segments. Put simply, transportation infrastructure plays an ancillary role to financial, trade, and industrial policy integration. This notion comes across in almost every paragraph of the Vision and Actions document as well as in many technical papers published since 2014 by different Chinese ministries.

#### Freeman

Ambassador Chas W. Freeman, Jr. (USFS, Ret.), China and the Economic Integration of Europe and Asia, https://www.mepc.org/speeches/china-and-economic-integration-europe-and-asia

In the short term, on the macro level, even under conservative assumptions, investment in Asian and European infrastructure looks like a good bet. Chinese state-owned enterprises have more money for infrastructure build-out than they can profitably deploy in China, where returns on such projects are very low at present. Investing in roads, railways, fiber optic cable, and power generation and distribution assets outside China could enable the productive use of China's industrial overcapacity, stabilizing employment and the Chinese economy. One study estimates, for example, that a relatively modest five percent growth rate in such assets from their current base could create 137 million tons of demand for Chinese steel. This would reduce oversupply in the Chinese steel industry from 22 percent to 8 percent. It would expand access to markets and natural resources to China's West, while linking both to the Chinese economy. It would also offer a new outlet for the investment of China's huge foreign exchange reserves, which have been concentrated in U.S. Treasury bonds and other instruments with very low yields.

#### IBT ‘16

. https://www.ibtimes.com/overcapacity-chinas-industry-ever-more-destructive-domestic-global-economy-report-2317045

The report adds that local governments have frequently sought to avoid attempts to close unprofitable smaller companies in such industries, by encouraging them to expand or merge. It says fear of job losses and the costs of dealing with bankruptcies have fueled this trend -- with companies often staying open simply in order to obtain more subsidies. However, the report says this has led to damaging competition that has “seriously influenced the profitability of China’s industrial producers.” It notes that China’s producer price index has been declining for 45 straight months, suggesting shrinking profits for manufacturers. According to the report, this is damaging the economy by leading to slower wage growth, along with increasing disregard of environmental and labor standards, in order to save costs. It is also preventing many Chinese businesses from putting money into research and development and moving up value chain, as the government has called on them to do, the report says.

#### Walker ‘18

Rupert Walker. March 11 2018. South China Morning Post. https://www.scmp.com/business/companies/article/2136372/chinas-ambitious-belt-and-road-initiative-risk-worth-taking

This activity will drive demand for raw materials, including iron ore. BHP Billiton said it looked at 400 core projects that will require US$1.3 trillion of spending. Those projects could lead to an additional 15 million tonnes per year of steel, an additional 3 to 4 per cent demand growth, as reported by the Financial Times in September 2017. That demand will be met by Chinese steel mills, because only 10 of the 68 countries covered by the BRI are net steel exporters. About 80 per cent of the steel will be used in structures and reinforced concrete, and 20 per cent in machinery and other equipment, BHP said. Clearly, China’s state-owned enterprises are likely to benefit; but overseas investors can also hope for rewards by taking a positive view on commodity prices.

#### Sanderson ‘17

Sanderson, Henry. September 26 2017. “BHP says China’s Belt and Road Plan could require 150m tones of steel.” Financial Times. https://www.ft.com/content/5ec23b24-4f0c-3729-b1b0-41aef3427e1b

China’s ambitious Belt and Road initiative could result in an additional 150m tonnes of steel demand, enough to keep the country’s mills going at their current rate for the next decade, according to the world’s largest mining company.

#### Goh ‘19

Branda Goh. Jan 30 2019. Reuters. https://www.reuters.com/article/us-china-silkroad-cement-insight/shuttered-at-home-cement-plants-bloom-along-chinas-new-silk-road-idUSKCN1PO35T

Built jointly by Gezhouba Group and Kazakh firm Corporation DANAKE, the plant is an illustration of how China is using its “Belt and Road” initiative to redraw its manufacturing footprint well beyond its own borders, reshaping industries in the process. But amid increased scrutiny of Belt and Road - a sprawling infrastructure plan meant to foster trade along a new “Silk Road” linking Asia with Europe, the Middle East and beyond - others say China is using the initiative to export industrial overcapacity, especially in heavy polluting industries.

#### Lian ‘15

Ruby Lian. March 25 2015. https://www.reuters.com/article/us-china-steel-investment/china-steel-firms-turn-overseas-as-domestic-woes-mount-idUSKBN0MJ0SY20150325

“There is capacity that we can shift abroad, to regions that need it like Southeast Asia and Eastern Europe, as well as places like Indonesia and Africa where demand for steel is huge but production capacity is very low,” said Deng Qilin, Chairman of Wuhan Iron and Steel Group, China’s No.4 producer. Some are already making the leap, with Hebei Steel Group, China’s largest steelmaker, looking to build a 5-million-tonne-per-year steel project under a joint venture in Africa. Others have found moving more tricky, with the Baosteel Group and Wuhan Iron and Steel both dropping plans to build plants in Brazil, blaming high costs. “It will depend on how much capital is eventually engaged in helping Chinese firms go abroad, but generally speaking, the overseas expansion strategy will have a positive impact on Chinese steelmakers in seeking new growth,” said Lawrence Lu, analyst at Standard & Poor’s Ratings Services in Hong Kong.

#### Cai ‘17

. Peter Cai. March 22 2017. Lowy Institute. https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative

Moving factories with excess capacity to OBOR countries helps China reduce the supply glut at home while helping less developed countries to build up their industrial bases. In essence, domestic economic liabilities become foreign economic and diplomatic assets. Jin Qi, the Chairman of the Silk Road Fund, a sovereign wealth fund set up in 2014 specifically to provide seed capital for OBOR projects, made this clear during one of her rare public speeches on OBOR.

# F/L

## Case

### A2 China Solving Now

**Hao reports that while the problem may look to be heading towards a resolution, that is simply isn’t true. This is for three reasons**

**1) Reductions made so far in these industries may not be as impressive as they appear. Caixin, recently** [**reported**](http://opinion.caixin.com/2016-10-22/100999616.html) **that many steelmaking factories that were targeted as part of the government’s capacity reduction plan in 2016 had, in fact, been “idle” for years. This will make reductions in 2017 and beyond much harder as the low-hanging fruit has been picked.**

**2) Closure of plants has been supported by significant funding from central government, partly through a 100 billion yuan (US$14.5 billion) special fund, inaccessible to other industries such as cement or steel.**

**3) The cuts aren’t being stuck to. For example, the Chinese government issued a policy early this year requiring coal mines to operate less than 275 days per year, effectively reduced coal mining capacity by 16%. Unfortunately, the government relaxed the limit in November.**

**But overall, realize that even if they win that the SQUO is solving, we still get offense from our case. This is because the current solutions to overcapacity are job cuts and factory shut downs. The aff gains offense regardless of whether or not the SQUO solves insofar as we offer a better alternative in the form of expanding demand and opening up new markets.**

### A2 Will End Soon/No More in Future

**This isn’t true, overproduction doesn’t just go away you actually have to solve it; don’t let them get away with this lazy response. Cheng warrants in saying that production has run rampant because of vicious competition between local governments. In order to achieve high GDP growth, local governments attract new manufacturing facilities by offering all kinds of financial subsidies such as tax holidays and rent-free use of government. Insofar as the SQUO does not solve for local government corruption, do not evaluate this lazy SQUO solves response make them do some work on the warrants.**

### A2 China/International Community Will Solve

**Alden reports that the only other effective solution is a hugely difficult one. Negotiating an international agreement in which steel producing nations agree to an orderly, shared reduction in capacity to balance supply and demand better. But such a deal is almost impossibly difficult to reach. It had been tried before in the 1990s. But the politics were simply too hard. "Reducing capacity" is a lovely euphemism for shutting factories and firing steelworkers, and few countries wanted to sign on.**

### (OLD) A2 Hurts Domestic Industries

**The fact is, these countries do not depend on the steel exports and thus will see more gain than harm from the BRI. This is for three reasons.**

**1) The domestic industries of these countries see more demand for their products when the BRI enters an area and thus are helped rather than harmed by the BRI. The projects will lead to an additional 15 million tons of demand for steel that will have to be met in these countries. This will be filled, to an extent, by domestic industries. The only reason this demand cannot be solely met by domestic industries and why china has to play such a large role, is because the industries in these areas are small or nonexistent. Which leads into our second response…**

**2) You can’t hurt a domestic industry that doesn’t exist. Walker finds that 10 out of the 68 BRI countries are net exporters of steel, and even then, they aren’t huge, export driven economies. There more to be gained than lost in solving overcapacity.**

**3) There is no economic incentive for China attempt to out compete these specific markets. Insofar as more than 85% of countries in the BRI are not net exporters, it makes much more sense for China to export to the markets in which they will see least competition, thus not harming domestic industries.**

### A2 No Brightline

**China’s overcapacity has existed for a long time yes, but Wuttke reports for the European Chamber of Commerce in China that it was not until the 2008 financial collapse, when export demand dropped, that Chinese overcapacity was thrust into the spotlight. Cheng reports for the South China Morning Post that overcapacity has recently passed 30%, a crucial threshold regarding loan defaults. In conclusion, Wuttke reports that the effects of overcapacity can be expected to emerge by 2025.**

### A2 Not Enough

**The South China Morning Post reports that it is estimated by the Ministry of Industry and Information Industry that China has 200 million tonnes of overcapacity. [Evidence about how we have enough increased demand to solve]**

### A2 SOE DEbt Has Existed

**Sure, but they have been able to pay it off because of mass governmental support. The Chinese government is not pulling that support and these companies much be able to generate profit to repay the loans.**

#### S&P Global ‘18

S&P Global. “SOE Shake-Up: China’s Support for Its Ailing Enterprises Will Become More Selective.” October 17 2018. https://www.spratings.com/documents/20184/0/RatingsDirect\_SOEShakeUpChinasSupportForItsAilingEnterprisesWillBecomeMoreSelective\_39977233\_Oct-17-2018.pdf/ff96cfb9-589b-1813-76f5-7b96eff71023

Most domestic investors seem to share our view that an abrupt end to government support is unlikely. This may be why the credit spreads on China's most important SOEs have remained relatively stable. And it may also be why so few SOEs have defaulted despite weak financial metrics. The central government has been trying for some time to put greater distance between its finances and those of SOEs. While instances of state-owned companies defaulting on their bank loans have long existed, it was only in 2015 that one defaulted on a domestic bond. This, and subsequent domestic bond defaults by Chinese SOEs, was a clear indication that the central government intends to reduce the support for debt owed by SOEs. Strong government support for SOEs has long been a major credit consideration for lenders. The primary reason: China's history of central planning. In the early days of economic reform, most borrowers and almost all lenders were government-owned. Credit losses were simply accounting entries in public sector financial statements, and government support for borrowers was a given in most cases. The implicit safety net when lending to SOEs gave creditors few reasons to invest in credit assessments of smaller borrowers. The expectation of government support allowed many SOEs, especially the financing vehicles owned by local governments, to borrow well beyond their capacity to repay. Even as economic and financial reform progressed, change came only slowly. Government support for SOE borrowing facilitated the rapid development of the Chinese economy. In the early stages of reform, Chinese financial institutions had to learn to evaluate commercial credit. Meanwhile, modern corporate governance and accounting standards were just beginning to develop in China. Continued government support for SOEs helped to keep credit flowing to investment projects vital to upgrading Chinese infrastructure.

#### South China Morning Post

South China Morning Post. “China’s steel industry burdened by overcapacity, workers baulk at shutting plants.” https://www.scmp.com/business/commodities/article/1570891/chinas-steel-industry-burdened-overcapacity-workers-baulk

"China is still many years away from addressing overcapacity … the government is closing excess capacity in order to tackle environmental problems, rather than trying to help the economics of the steel sector," Sanford Bernstein analyst Vanessa Lau said in a research report.

#### South China Morning Post

South China Morning Post. “China’s steel industry burdened by overcapacity, workers baulk at shutting plants.” https://www.scmp.com/business/commodities/article/1570891/chinas-steel-industry-burdened-overcapacity-workers-baulk

The industry is estimated by the Ministry of Industry and Information Industry to have 200 million tonnes of excess capacity, or a fifth of the total.

#### Cheng ‘15

Cheng, Shuaihua Wallace. “Overcapacity a time bomb for China’s economy.” South China Morning Post. https://www.scmp.com/comment/insight-opinion/article/1862024/overcapacity-time-bomb-chinas-economy

One major reason is industrial overcapacity. Overcapacity is not new in China, but in sectors such as iron and steel, glass, cement, aluminium, solar panel, and power generation equipment, the overcapacity rate has recently surpassed 30 per cent, the threshold at which overproduction may trigger loan defaults by companies that have borrowed and then watched their profits fall.

#### Wuttke ‘17

Wuttke, Jörg. September 4 2017. “The Dark Side of China’s Economic Rise.” European Union Chamber of Commerce in China. https://onlinelibrary.wiley.com/doi/epdf/10.1111/1758-5899.12439

While China’s industrial overcapacity is a longstanding problem, in the 1990s it went largely unnoticed abroad due to the fact that at that time the country was not fully integrated into the global economy. As such, its over-capacity did not translate into a huge trade surplus. While this was already changing in the 2000s, the 2008 global financial crisis pushed the issue firmly into the spotlight. Before 2008 when domestic consumption was not sufficient to absorb production, Chinese producers could export their subsidized goods. Exports acted like a ‘safety valve’ on a pressure cooker. When global demand col-lapsed in late 2008 as a result of the dramatic retrenchment of the economies of the EU and the US, this safety valve ceased to work effectively, and China’s overcapacity became impossible to ignore. Even more worrying, while global demand decreased, China’s production capacity actually continued to expand (European Union Chamber of Commerce in China, 2016.

Due to the amount of state support that has been offered by the central and local governments, CM2025 may be put-ting China’s international trade partners on alert regarding areas where additional overcapacity can be expected to emerge by 2025.

#### Hao ‘16

<https://www.chinadialogue.net/article/show/single/en/9510-There-s-another-way-to-solve-China-s-industrial-overcapacity>

Firstly, reductions made so far in these industries may not be as impressive as they appear. The Chinese business paper, Caixin, recently [reported](http://opinion.caixin.com/2016-10-22/100999616.html) that many steelmaking factories that were targeted as part of the government’s capacity reduction plan in 2016 had, in fact, been “idle” for years. This will make reductions in 2017 and beyond much harder as the low-hanging fruit has been picked. Furthermore, closure of coal plants has been supported by significant funding from central government, partly through a 100 billion yuan (US$14.5 billion) special fund, inaccessible to other industries such as cement. But perhaps more importantly, the two approaches to cutting excess capacity in the coal and steel industries have some important limitations. The first approach consists of administrative measures that critics say are arbitrary and unsustainable. For example, the Chinese government issued a policy early this year requiring coal mines to operate less than 275 days per year, effectively reduced coal mining capacity by 16%. Unfortunately, the government had to relax the limit in November due to a shortage of coal. In the steel industry, small steelworks that produce poor quality products have [escaped scrutiny](http://finance.sina.com.cn/roll/2016-11-24/doc-ifxyawxa2592271.shtml) because they are not covered by an official list of registered steelworks.

#### Cheng ‘15

. https://www.weforum.org/agenda/2015/09/4-ways-to-tackle-chinas-overcapacity-problem/

One major reason is industrial overcapacity. Overcapacity is not new in China, but in sectors such as iron and steel, glass, cement, aluminum, solar panel, and power generation equipment, the overcapacity rate has recently surpassed 30 percent, the threshold at which overproduction may trigger loan defaults by companies that have borrowed and then watched their profits fall. According to [the China Iron and Steel Association](http://news.xinhuanet.com/2013-08/18/c_125190784.htm), oversupply has depressed steel prices so much that the profit from producing one ton of steel cannot even pay for an ice cream cone. Production has run rampant because of vicious competition between local governments. In order to achieve high GDP growth, local governments attract new manufacturing facilities by offering all kinds of financial subsidies such as tax holidays and rent-free use of government land. Further, local governments help firms to get cheap loans from state-owned banks. These favors unnaturally decrease production costs. Industrial overcapacity has become a time bomb that threatens the Chinese economy because it has led companies to take on debt to repay loans. As of 2014, Chinese iron and steel companies collectively have [$489 billion in debt](http://www.ibtimes.com.cn/articles/37045/20140520/gangqi-gangtie.htm). The publicly-listed solar panel manufacturing companies collectively have as much as [$19 billion in debt](http://solar.ofweek.com/2014-04/ART-8440-2600-28802093.html). The combination of economic slowdown, excess production in manufacturing and rising debts at the macroeconomic level may cause a massive wave of firm closures and bad loans.

#### Alden ‘16

. https://www.cfr.org/blog/how-solve-global-steel-glut

One of the reasons free trade is under such attack in the United States and some other countries is that the classic free trade argument—that the market will sort this mess out to everyone's benefit -- simply does not hold true in such a distorted sector. If nothing is done, some of the most efficient steel plants in the world will go under and the heavily subsidized, unprofitable ones in China and elsewhere will survive. But the classic U.S. and European response—to throw up trade barriers in the form of anti-dumping tariffs—is not terribly helpful either. Temporary tariffs can give some breathing room to their steel industries. But they come too late, often when the companies are teetering on the verge of bankruptcy. And breathing room for what? If there is no big reduction in steel capacity worldwide, the problem will either be shuffled off to other countries or will re-emerge when the tariffs expire. In the meantime, big steel-using industries like automobiles and shipbuilders will face higher costs than their competitors in countries where steel markets are less protected. Yet there seems little choice but to try again to craft such a deal, despite the failure of Monday's OECD meeting. The alternative—an escalating global trade war in a vital industrial sector—would be harmful to every.

#### Alden ‘16

. https://www.cfr.org/blog/how-solve-global-steel-glut

The only effective solution is a hugely difficult one—following the OECD prescription and negotiating an international agreement in which steel producing nations agree to an orderly, shared reduction in capacity to balance supply and demand better. But such a deal is almost impossibly difficult to reach. Steel-producing nations tried this seriously once before, in the early 1990s, when the OECD hosted talks on a "Multilateral Steel Agreement" (MSA). The U.S. steel industry had hoped that an MSA would "end government subsidies, cartels and cartel-like behavior and other anti-competitive practices in steel trade and open up all steel markets worldwide to full, market-based competition." But the politics were simply too hard. "Reducing capacity" is a lovely euphemism for shutting factories and firing steelworkers, and few countries wanted to sign on. And the scale of the problem was much smaller in the 1990s. Today, China has said it might be willing to cut steel capacity by 10 percent or so. Its behavior suggests otherwise, as capacity has continued to grow. And even if Beijing did trim output, it would be a token gesture given the scale of the problem

#### Walker ‘18

Rupert Walker. March 11 2018. South China Morning Post. https://www.scmp.com/business/companies/article/2136372/chinas-ambitious-belt-and-road-initiative-risk-worth-taking

This activity will drive demand for raw materials, including iron ore. BHP Billiton said it looked at 400 core projects that will require US$1.3 trillion of spending. Those projects could lead to an additional 15 million tonnes per year of steel, an additional 3 to 4 per cent demand growth, as reported by the Financial Times in September 2017. That demand will be met by Chinese steel mills, because only 10 of the 68 countries covered by the BRI are net steel exporters. About 80 per cent of the steel will be used in structures and reinforced concrete, and 20 per cent in machinery and other equipment, BHP said. Clearly, China’s state-owned enterprises are likely to benefit; but overseas investors can also hope for rewards by taking a positive view on commodity prices.

# A2 These Args

#### CSI ‘18

https://www.csis.org/analysis/chinas-belt-and-road-initiative-five-years-later-0

Infrastructure projects have short and long-term implications for Chinese exports. In the short term, these projects are aiding Chinese exports of construction-related goods. Chinese exports to Pakistan, for example, increased 77 percent between 2012 and 2015.10 Chinese producers of steel, concrete, and other construction materials stand to benefit from projects that use them, as do Chinese engineering and construction firms. These activities provide important but modest relief for Chinese overcapacity, a problem that will still need to be addressed even if the BRI’s ambitious spending targets are reached. Despite the BRI’s scale, it is too small to solve China’s overcapacity challenges.11

#### Landsberg ‘18

<http://www.cadtm.org/A-critical-look-at-China-s-One-Belt-One-Road-initiative>

To achieve its aims, the BRI has largely involved the promotion of projects that mandate the use of Chinese enterprises and workers, are financed by loans that host countries must repay, and either by necessity or design lead to direct Chinese ownership of strategic infrastructure. For example, the Center for Strategic Studies recently [calculated](https://www.merics.org/en/blog/dispute-settlement-chinas-terms-beijings-new-belt-and-road-courts) that approximately 90% of Belt and Road projects are being built by Chinese companies. While BRI investments might temporarily help sustain key Chinese industries suffering from overcapacity, absorb surplus capital, and boost enterprise profit margins, they are unlikely to serve as a permanent fix for China’s growing economic challenges; they will only push off the day of reckoning.

#### Beijing Review ‘16

http://www.bjreview.com.cn/Nation/201603/t20160311\_800051806.html

Nowadays, China's labor market is still short of sufficient laborers, which promises many job opportunities for laid-off workers. With the development of Internet-based businesses, there is a bright prospect for reemployment, particularly because most redundant workers from SOEs are equipped with relatively high professional skills. Zhu Haibin (Finance.sina.com.cn): Worries about the forthcoming massive layoffs are overstated. The situation is far better than in the late 1990s, when tens of millions of workers were laid off over just a few years. Besides, at that time, workers laid off from SOEs had almost no opportunities for reemployment, mostly because cheap labor forces from rural areas kept swarming into the cities for jobs. However, China's working-age population started falling in 2011, which means some sectors are experiencing a labor shortage. The government may also encourage reemployment by increasing financial inputs in skill training for laid-off workers.

**Li and Zeng ‘19**

Li, Xiaojun. Zeng, Ka. May 14 2019. “Beijing is countin on its massive Balt and Road Initiative. But are Chinese firms on board?” Washngton Post. https://www.washingtonpost.com/politics/2019/05/14/beijing-is-counting-its-massive-bridge-road-initiative-are-chinese-firms-board/

Here’s why: State ownership facilitates government control in these companies. This means that SOEs cannot focus solely on whether an investment is a profit-maximizing activity. Instead, they may come under pressure to make economic decisions that reflect Beijing’s broader political, social or economic objectives, such as promoting domestic economic development or fostering the growth of strategic industries.

# Cut

**2) Chinese job loss**. **Griffiths** reports that unfortunately, there are only 2 ways with dealing with this declining domestic demand or overcapacity. Expanding demand overseas orhard cuts of jobs**.** Without the BRI, the latter will continueto occur. **Griffiths** quantifies that more than 1.2 million jobs were cut between 2016 and 2017 and that was only the tip of the iceberg. **Reuters** projects that in the long run, upwards of 2 million jobs will be cut if overcapacity isn’t solved.

Over the past decade, scholars and government officials have held a stable consensus that “nine traditional industries” in China are most severely exposed to the excess capacity problem. All of these nine sectors are related to energy and infrastructural construction reflecting the nature of a heavily investment-driven economy for China.

***The impact of solving Chinese Overcapacity is* two-fold.**

**1) Global job loss**. They only other way to solve for overcapacity is to shut down factories. That’s net bad insofar as it results in the job loss of thousands of blue-collar workers that can’t get other jobs.

**2) Trade Tariffs.** **Alden** reports that the classic U.S. and European response to dumping by foreign companies is to throw up trade barriers in the form of anti-dumping tariffs. This is empirically true as the European Chamber reports that the US Department of Commerce made a preliminary decision at the end of December 2015, to enact additional tariffs of 255.8 per cent on Chinese corrosion-resistant steel. Nagraj explains that countries do this an attempt to protect domestic companies. While good in nature, these tariffs end up harming the industry’s they are meant to protect. This is for two reasons.

*a) Market Speculation.* Rocca reports that for the first half of 2018, steel stocks took two dives—in mid-June and early August —before re-tracking the market. These drops were caused by the release of tariffs. As markets anticipated that the tariffs would push up their prices, reduce their output, and hurt their sales investors acted as such. Thus, tariffs would, in turn, drive down their purchases of domestic inputs, like steel.

*b) Tariff Retaliation.* When China gets hits with tariffs, they waste no time in firing back. This is empirically true as Brinkley reports that American farmers have taken it on the chin from China’s tariffs imposed in retaliation for U.S. tariffs on $250 billion worth of Chinese imports. The United States was the world’s largest producer of soybeans and China was the largest export market for them until China imposed a 25% tariff on them. That market is effectively closed. The ramifications are huge as the state export report showed that US goods exports to China continue to outpace export growth to the rest of the world. China is the third-largest market for US goods and services exports and losing that market, even partially, would cripple the US economy.

To contextualize, the Library of Economics and Liberty reports that the current­­­­ tariffs on China cost the average American household $414. For reference, that’s one week of work for the minimum wage worker. This rising cost of goods will continue to force people into a perpetual cycle of poverty until they are solved.

In conclusion, **Freeman** reports that investing assets outside China could enable the productive use of China's overcapacity. One study estimates that a modest five percent growth in such assets would create 137 million tons of demand for Chinese steel. This would reduce oversupply from 22 percent to 8 percent.

~~He furthers that many developing countries that would like to improve their people's livelihoods have large market potential but no capital, large demand but no products. Therefore, countries burdened with overcapacity can make use of the markets in these areas.~~