# MZ SEPTOBER AFF

## CASE

*We affirm.*

**Contention One is Free Trade**

If the European Union were to join the Belt and Road Initiative, a multitude of trade opportunities would be opened up.

**Kohl ‘18 of the Cambridge Journal** writes that the BRI would establish trade between China and Eurasia, stimulating economic cooperation and international trade among participating countries.

Specifically, China uses the BRI to promote a multilateral trade system which would facilitate a liberalization of trade, as it reaffirms their desire to trade with the European Union.

Indeed, **Herrero ‘16 of Econstor** confirms that overall EU trade would rise by 6 percent as a result of joining the BRI and the EU has the most to gain from the program.

***The impact is global growth***

Because the EU’s economy is interconnected across the world through an array of bilateral and multilateral trade agreements, EU growth is inherently beneficial for most countries.

Indeed, **Arora ‘05 of the IMF** quantifies that a 1% increase in economic growth for developing nations’

trading partners leads to a .8% growth in the domestic economy.

Holistically, **Ruta ‘18 of the World Bank** writes that the Belt and Road Initiative could lift 32 million out of poverty.

**Contention Two is Overcapacity**

**Cai ‘17 of the Lowy Institute** explains that in order to stimulate the economy in response to the 2008 financial crisis, China prematurely planned numerous infrastructure projects, resulting in an overestimation of demand and thus an excess of steel and other industrial materials. However, the problem has not been alleviated, with many companies are at risk of defaulting on loans.

Even worse, **Reuters ‘18** writes that regional governments, independent of the central government, continue to invest in their own steel projects in order to boost growth.

Thus, **Seth ‘19 of Investopedia** writes that steel oversupply is uncontrollably increasing in China ***despite*** attempted reforms.

Critically, **The BRA ‘19** furthers that while China is trying to use the BRI to solve the overcapacity problem, the current BRI is not providing that. The bankable projects have been invested in already, and new markets can’t be reached because the BRI has expanded to its peak.

Indeed, **Cai** continues that while Chinese investors are forced to keep investing into the BRI, they invest as little as possible because of the political and financial instability that shrouds them.

However, the EU joining the BRI opens up their market to BRI expansion. **Le Corre ‘18 of the South China Morning Post** writes that China is uniquely interested in investment into Europe because they are the most stable and secure investments.

*The EU joining the Belt and Road is crucial to solve China’s problem of overcapacity of steel in two ways:*

***First, infrastructure development***

Currently, **Jones ‘17 of the Financial Times** finds that European countries chronically underinvest in infrastructure, with investment at a 20 year low.

The Belt and Road in the EU would bring new infrastructure projects, allowing China to reduce oversupply. **Freeman ‘17 of Brown University** explains thatthe infrastructure investment in BRI projects such as roads and railways is key to reducing China’s steel oversupply.

He quantifies that just a **5% increase in infrastructure assets would create 137 million tons of demand** for Chinese steel, which would thus reduce oversupply from 22 to 8 percent, a 63% decrease.

Thus, **The Straits Times ‘16** concludes that the BRI could help solve China's overcapacity problem by using overproduced materials in the construction of overseas infrastructure.

***Second, exporting production facilities***

**Cai ‘17 of the Lowy Institute** explains that China has a strong economic incentive to export their steel production facilities to countries where the demand is larger, solving the overcapacity problem and also promoting Chinese political clout.

**Kostecka ’18 of the University of Bialystok** confirms that the relocation of labor-intensive factories with excess capacity to the countries along the BRI would solve China’s oversupply of steel.

***The impact is a recession.***

**Yeung ‘19 for the SCMP** writes that when one steel company defaults on its debt, it also reneges the debt it has guaranteed for other companies, setting off a chain reaction of corporate debt defaults, aggravating market risks.

As a result, **Cheng ‘15 of the SCMP** concludes that such a massive wave of firm closures would reverberate through China’s economy, necessitating recession.

Problematically, **Rogoff ‘18 of the Boston Globe** explains that a Chinese recession will reverberate globally due to the nation’s vast economic linkages and **Blanchard ‘13 of the IMF** confirms that the next economic shock would push 900 million people into poverty, many of whom are already living on just one dollar a day.

*Thus, we affirm*

## CARDS

### Free Trade

#### [Kohl 18]

Tristan Kohl (Faculty of Economics and Business, University of Groningen), Cambridge Journal of Regions, Economy and Society, 2018, [“‘The Belt and Road Initiative’s effect on supply-chain trade: evidence from structural gravity equations”, [http://sci-hub.tw/https://doi.org/10.1093/cjres/rsy036]AM](http://sci-hub.tw/https%3A//doi.org/10.1093/cjres/rsy036%5DAM) In 2013, the People’s Republic of China (PRC) launched an ambitious project now known as the Belt and Road Initiative (BRI). Being President Xi’s signature foreign policy, its purpose is to establish modern trade routes spanning from China throughout Eurasia and the Indian Ocean akin to the ancient Silk Road. From an economic perspective, the BRI is grounded in China’s central role in the world’s economy as assembler-producer of manufactured goods. Combined with its domestic overcapacity, China seeks to use the BRI to provide both the labour and capital required to construct the necessary infrastructure, such as high-speed railroads, harbours, and oil and gas (Chen, 2018, 44–45). The BRI is envisioned to stimulate economic cooperation, foreign direct investment (FDI) and international trade among all the participating countries.

Tristan Kohl (Faculty of Economics and Business, University of Groningen), Cambridge Journal of Regions, Economy and Society, 2018, [“‘The Belt and Road Initiative’s effect on supply-chain trade: evidence from structural gravity equations”, [http://sci-hub.tw/https://doi.org/10.1093/cjres/rsy036]AM](http://sci-hub.tw/https%3A//doi.org/10.1093/cjres/rsy036%5DAM) Alternatively, BRI sets out to reduce trade costs through the creation of FTAs. In their simplest form, FTAs reduce tariffs. However, more recent FTAs tend to be much more extensive by design, covering a wide variety of policy domains unrelated to tariffs, which may still serve as impediments to trade (Baier et al., 2018; Kohl et al., 2016). Examples of such policies include mutual recognition of product standards or even complete harmonisation of legislation. Taken together, the key mechanisms through which we expect BRI to bring about a change in international trade is through either a change in geographic distance as a proxy for infrastructural investments, or the creation of FTAs as a substitute for such infrastructural developments.

#### [Herrero 16]

Herrero-Garcia, Econstor-Bruegel, 5-2016["" https://www.econstor.eu/bitstream/10419/173141/1/wp-2016-05.pdf]Accessed7-15-2019 // RZ

There is obviously no comprehensive information that we can gather because the improvements in infrastructure – or construction of new infrastructure – do not yet exist or are still under construction. However, **information on the few finalised projects can give a hint of the potential cost reduction in transportation. In the case of railway, the best example is the Yuxinou Railway (from Chongqing to Duisberg) because it is already functioning and data on the reduction in transportation time is available. More specifically, Chongqing’s mayor declared in 2015 that railway transportation costs on that route had been slashed by 50 percent.** This is in line with the reduction in transportation time that has been achieved by introducing this new railway line: from 17-18 days to 12-13 days according to the Yuxinou official website and Chinese national official media8. In the case of maritime transportation, the cost savings stem from efficiency improvements in ports, many of which have not even been finalised. However, some examples of improvements in efficiency already exist, in particular for the Qingdao port. After some improvements in the functioning of the port, Qingdao customs reported that transportation costs out of and into the port would be reduce by about 5 percent9. Smaller reductions in maritime costs compared to railway costs seems logical if one considers that ports are already very efficient in a number of Asian countries, so only more limited gains might be possible even if the infrastructure improves. In this exercise, we take this information and apply the reduction of transportation costs across the board within the Belt and Road area. It should be noted that we do not include the cost of such improvements in transport infrastructure because of lack of data. More specifically, **we reduce railway transportation costs by 50 percent and sea transportation costs by 5 percent, for the geographical area under the Belt and Road project.** Panel A of **Figure 5 reports the simulated top ten winners from the Belt and Road initiative, whose gains in trade range from 8 percent to 10 percent once transportation costs are reduced as previously stated. All of the top winners are located in Europe**, with eight of them within the EU. Panel B of Figure 5 shows the top ten losers, all of which are outside Europe and Asia. This looks like a very logical finding because the rest of the world will not benefit as much from the improvement in infrastructure. In any event, trade losses are rather minimal so the impact is more about not gaining trade rather than losing trade. In fact, the negative impact on trade is less than 0.2 percent even for the biggest losers. Asian countries are not found to be among either the biggest winners or losers. This is probably explained by the fact that the estimated reduction in maritime transportation costs is quite moderate. The impact on trade by region is shown in panel A. **The EU is the biggest winner from the Belt and Road initiative, with trade rising by more than 6 percent.**

#### [Arora 05]

**Arora 05** (Vivek Arora, IMF, "How Much Do Trading Partners Matter for Economic Growth", 2005, <https://www.jstor.org/stable/pdf/30035946.pdf?refreqid=excelsior%3A774cd0f8f8e029cb9ba8341fb2828055>) // AB

**An analysis using panel data for the period 1960-1999 for 101 industrial and developing economies suggests that a 1 percentage point increase in economic growth among a country's trading partners (keeping all else equal) is correlated with an increase in domestic growth of as much as 0.8 percentage points.** This pos- itive correlation is consistent with the conclusions of the trade and growth litera- ture, as well as with those of a few recent papers that have tried to quantify the impact of cross-country growth spillovers.3 However, the relationship is stronger than one might have expected. In addition, the level of foreign income relative to domestic income matters for growth, in the sense that the ratio of the average per capita GDP of trading partners relative to a country's own per capita GDP is pos- itively correlated with growth. One interpretation of this result is that the richer a country's trading partners, the stronger is conditional convergence.

#### [Ruta 19]

Michele Ruta, World Bank, 2019["" [https://openknowledge.worldbank.org/bitstream/handle/10986/31878/9781464813924.pdf]Accessed7-13-2019RZ](https://openknowledge.worldbank.org/bitstream/handle/10986/31878/9781464813924.pdf%5DAccessed7-13-2019RZ)

BRI transport projects are estimated to increase trade by between 2.8 and 9.7 percent for corridor economies and between 1.7 and 6.2 percent for the world. Not all countries in the world would see positive trade effects, but aggregate effects are positive since all countries would experience a decline in trade costs due to the BRI’s network effect. Sectors that are time-sensitive (such as fresh fruits and vegetables) or require time-sensitive inputs (such as electronics, chemicals and others integrated in global value chains) will be affected most, as countries specialize in new products. FDI inflows are expected to increase 7.6 percent for low-income corridor economies. Increased trade is expected to increase global real income by 0.7 to 2.9 percent, not including the cost of infrastructure investment. The largest gains are expected for corridor economies, with real income gains between 1.2 and 3.4 percent. Increases in FDI would further boost these effects. BRI transport projects could contribute to lifting 7.6 million people from extreme poverty (less than PPP$1.90 a day) and 32 million people from moderate poverty (less than PPP$3.20 a day), mostly in corridor economies. Reducing trade costs has the potential to reshape economic geography within and across countries, bringing gains from agglomeration. For instance, a spatial analysis of Central and South Asia finds that real incomes in Pakistan could benefit from urban clustering and increasing returns in manufacturing. Cities in western China such as Urumqi are also likely to experience large gains in incomes, as are Kyrgyz Republic cities including Osh and Bishkek, which account for more than 40 percent of national income. Income gains would be unevenly distributed across countries. Real income gains in countries like Kyrgyz Republic, Pakistan, and Thailand could be above 8 percent. But the analysis also finds that Azerbaijan, Mongolia, and Tajikistan could experience negative welfare effects because infrastructure costs would exceed gains from integration.

### Overcap

#### [Cai pt 1]

Peter Cai, March 2017, "Understanding China’s Belt and Road Initiative", The Lowy Institute, https://www.lowyinstitute.org/sites/default/files/documents/Understanding%20China%E2%80%99s%20Belt%20and%20Road%20Initiative\_WEB\_1.pdf // EJ
During the global financial crisis, the Chinese Government delivered one of the largest stimulus packages in recent economic history. It saved China (and arguably a host of other countries, including Australia) from recession by sending commodity prices sky-high. Though the stimulus program was effective, one of its lasting side effects was the creation of massive excess capacity in many industrial sectors from steel to cement. In the steel industry, for example, China’s annual steel production surged from 512 million tonnes in 2008 to 803 million tonnes in 2015. To put that into perspective, the extra 300 million tonnes is larger than the combined production of the United States and the European Union.39 Dealing with the country’s excess capacity has become one of the top economic priorities for the Chinese Government. Beijing has described this issue as the sword of Damocles hanging over its head. Excess capacity will squeeze corporate profits, increase debt levels, and make the country’s financial system more vulnerable.40 Many state-owned firms in sectors with excess capacity borrowed heavily during the financial crisis. The slowing economy, sluggish international demands, and the supply glut have reduced their profits. Many are struggling to keep their heads above water. These bad loans have put the Chinese banking system under a great deal of stress. The Chinese Government has announced a number of policy measures to address the issue of excess capacity. This has included laying off 1.8 million workers from the steel and coal mining industries.41 The authorities are also trying to shut down polluting steel mills and blast furnaces. OBOR is another way for Chinee policymakers to address the excess capacity problem, although not in the way that some observers believe. When Xi Jinping announced OBOR, a number of observers labelled it as an effort by China to export excess industrial products to neighbouring countries. The Financial Times reported in 2015 that the grand vision for a new Silk Road began its life modestly in the bowels of China’s commerce ministry as an export initiative.42 In terms of addressing the excess capacity problem, OBOR is less about boosting exports of products such as steel and more about moving the excess production capacity out of China. OBOR projects are currently too small to absorb China’s vast glut of steel and other products. Instead, Beijing wants to use OBOR to migrate whole production facilities. Chinese premier Li Keqiang made the point clear in his address to leaders of ASEAN countries in 2014 at Nay Pyi Taw, Myanmar: “We have a lot of surplus equipment for making steel, cement and pleat glass for the Chinese market. This equipment is of good quality. We want companies to move this excess production capacity through direct foreign investment to ASEAN countries who need to build their infrastructure. These goods should be produced locally where they are needed.”43 Hu Huaibang, Chairman of the China Development Bank and the most influential financier of OBOR projects, says one of the most important objectives of OBOR is to help China undergo economic structural reform and upgrade its industries, moving away from the cheap mass manufacturing model: “On the one hand, we should gradually migrate our low-end manufacturing to other countries and take pressure off industries that suffer from an excess capacity problem. At the same time, we should support competitive industries such as construction engineering, high-speed rail, electricity generation, machinery building and telecommunications moving abroad.”44 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.45

#### [Le Corre 18]

Philippe Le Corre, South China Morning Post, 7-20-2018, ["Why China is investing heavily in Europe", https://www.scmp.com/comment/insight-opinion/article/1944491/why-china-investing-heavily-europe, accessed 7-21-2019]AM For long a laggard, Europe has become a preferred arena for China’s outbound investment in the West. Over the past few years, it has consistently attracted both state-run and private Chinese enterprises looking for investment opportunities, despite the historical, geographic, legal, linguistic, societal and cultural complexities of such a move. Unlike trade and tourism, investment is about a long-term commitment best associated with a stable and legally secure environment. Whereas during the first decade of the 21st century, there was little significant Chinese investment in Europe, the figures since 2010 show a real surge. According to a report published jointly by the law firm Baker & McKenzie and the New York-based Rhodium Group, the total stock of Chinese investments in Europe went from US$6 billion in 2010 to US$55 billion in 2014. Bruegel, a Brussels-based think tank, estimates the distribution of Chinese outbound foreign direct investment flows as follows: 19 per cent of total Chinese foreign direct investment took place in Europe ( stock: US$13.9 billion) and 13 per cent in North America (stock: US$11.4 billion), which has also become an important recipient. Chinese FDI in Europe increased by 44 per cent in 2015, and could jump dramatically this year, especially as top investor ChemChina is expected to acquire Syngenta, the Switzerland-based agri-business group, in a US$43 billion deal. In 2015, the same ChemChina purchased one of the world’s most famous tyre manufacturers, Italy’s Pirelli, for US$7.7 billion. Another major Chinese investor in Europe is Dalian Wanda, which acquired Britain’s yacht maker Sunseeker for £320 million (HK$3.6 billion) and is involved in massive property developments in Britain and France. Five key reasons can explain why Europe has become more attractive to Chinese investors. First, the debt crisis in 2008 was a crucial moment, when the Chinese government started buying eurobonds as well as investing in infrastructure companies at extremely competitive valuations – one good example being Greece’s Piraeus port. It is now almost entirely run by China’s Cosco Holding, after it acquired a 67 per cent stake from the Greek port authority. Second, countries like Germany, Italy, France and the UK offer a unique selection of small and medium-sized enterprises with some of the best technologies worldwide. For Chinese companies in fields such as autos, food, energy, transport, luxury brands, entertainment and travel, it represents a way to transfer know-how to their home country and build world-class enterprises. Third, one could certainly argue that relations between China and Europe are much less competitive and confrontational than the US-China relationship. Unlike the United States, where the Committee on Foreign Investment in the US looks at national security issues in certain areas and transactions, European countries do not have such a mechanism. Hong Kong billionaire Li Ka-shing’s Hutchison blocked by European Commission from buying British mobile operator O2 Fourth, though these FDIs are the result, in most cases, of individual business decisions, they have been clearly ramped up by Beijing’s political decision to deploy capital outside its borders from the late 1990s (the “going out” policy). In the case of Africa or Asia, it is primarily about natural resources; in the case of European countries, it is about acquiring brands, technology and expanding China’s footprint, with massive financial assistance from state-run and commercial banks, and sovereign funds. Fifth, the rise of Chinese transactions also had a lot to do with bilateral relations between China and individual European countries. The top recipients of Chinese FDI – the UK, France, Germany, Italy and Portugal – all have their own set of relationships with China. Sixteen countries now meet China on a yearly basis under a mechanism called “16+1” .There is no doubt that the Chinese government has been good at playing one country against the other, and using FDI as a tool. Once, European countries were fighting for a share of the Chinese consumer market; today, they are competing for a share of Chinese capital.

#### [Reuters 18]

Zhang, Reuters Editorial, U.S., 4-28-2019, ["China's iron and steel association warns on over-capacity,...", https://www.reuters.com/article/us-china-steel/chinas-iron-and-steel-association-warns-on-over-capacity-shrinking-profits-idUSKCN1S404D, accessed 7-21-2019]AM China’s Iron and Steel Association said on Sunday the industry faces ongoing risks from excess capacity, as well as sluggish demand and increased raw material costs that could squeeze profits. The country’s sprawling steel sector, which has cut 150 million tonnes of steel production over the past three years, was “far from achieving it tasks” amid Beijing’s supply-side reforms, the association said in an online statement. Some companies were looking to boost output, turn out low-grade steel and use cheaper but more polluting induction furnaces, it said, adding that fixed asset investment in the ferrous metal refinery and processing industry rose 30.6 percent in the first quarter. The industry should work to avoid any illicit increase in new capacity, reduce leverage and push forward with the restructuring of “zombie firms”, the association said. “Keeping the balance between demand and supply is a key premise for maintaining the stabilization of the steel market,” it said. It forecast weaker demand for iron and steel due to structural changes in the world’s second-largest economy, and said the industry would not be able to sustain high production growth, which saw crude steel output jump 9.9 percent in the first quarter. A sharp rise in the price of raw materials in the first quarter, when imported iron ore rose from $60 a tonne to $90 a tonne, had also significantly squeezed industry profitability. The sector is also at the center of the government’s efforts to curb pollution, although complying with stricter standards could raise production costs and hurt profitability, it said. The association also urged banks to remove restrictions on lending to the industry to help companies obtain financing and lower their costs.

#### [BRA 19]

Belt and Road Advisory, 3-3-2019, ["Belt and Road is not dead, it is changing ", https://beltandroad.ventures/beltandroadblog/belt-and-road-not-dead-changing, accessed 7-25-2019]AM Since the second half of 2018, China’s The countries that have up to now refrained from signing up to BRI are the ones who have more structural reservations, and it will be difficult to convince them to change their minds. Additionally, the most bankable BRI projects have already been invested in. The developing world might need infrastructure, but it does a poor job at putting together truly bankable projects. Low-hanging fruit have already been picked, and designing bankable projects is a slow and time-consuming process. 6) Capital controls Since the start of 2017, China has put in place tightened restrictions on capital being used for investment abroad. The State Administration of Foreign Exchange (SAFE) has said it will scrutinize investments in what it has called, “irrational” sectors including real estate, sports complexes, cinemas and other areas it deems unrelated to firms’ core businesses. Conclusio

#### [Jones 17]

Claire Jones, Financial Times, 11-22-2017 ["Europe’s spending on infrastructure at ‘chronic’ low level" https://www.ft.com/content/51524ab4-cf77-11e7-9dbb-291a884dd8c6]Accessed9-9-2019 // RZ

Europe’s spending on infrastructure at ‘chronic’ low level. Spending at 20-year low threatens region’s prosperity, EIB report warns The EIB says government investment remains at a 20-year low of 2.7% of EU gross domestic product © Bloomberg Share on Twitter (opens new window) Share on Facebook (opens new window) Share on LinkedIn (opens new window) Save Claire Jones in Frankfurt NOVEMBER 22, 2017Print this page14 EU countries are putting their prosperity at risk by spending too little on digital and transport infrastructure after years of chronic under-investment, the European Investment Bank has said in its annual investment report. The bank said that, although business investment was recovering, government investment remained at a 20-year low of 2.7 per cent of EU gross domestic product. Overall investment has grown by an annual average of 3.2 per cent since 2013, well above the 1995-2005 average of 2.8 per cent. “We see a recovery, we see strengthening investment. But that is exactly the moment where you have to look at the long-term challenges,” said Debora Revoltella, chief economist at the EIB. “Much more needs to be done to put the issue of infrastructure spending into the political narrative, to explain that it’s for the good of the long-term health of the economy.” Creaking infrastructure limits growth by preventing businesses and people from making the most of economic opportunities. Without investment to maintain and improve facilities, the capacity to produce goods shrinks, making growth slower in the longer term.

#### [Seth 19]

Shobhit Seth, Investopedia, 7-5-2019, ["How China Impacts the Global Steel Industry", https://www.investopedia.com/articles/investing/021716/how-china-impacts-global-steel-industry.asp, accessed 7-22-2019]AM More recently, global steel output has been increasing, investors fear a slow down in the Chinese economy and the prospect of trade wars initiated by the Trump administration. However, steel prices are on the increase. The World Steel Association reported that in July 2018, global steel output rose by 5.8% in a month, an increase that follows growth of almost 13% in the same quarter one year ago. Although China has attempted to cut steel production to mitigate pollution, some plants are ramping up capacity, and China’s steel output is on the rise. This increase in output has also maintained the demand for high-grade iron ore, a raw material for steel and a determinant of the cost of steel, and has propped up prices. In the United States, encouraged by robust domestic demand, domestic steel producers are increasing their steel prices because of increasing input costs and a depreciation in the rupee.

#### [Cai pt 2]

Peter Cai, Lowy Institute, 3-22-2017, ["Understanding China’s Belt and Road Initiative", https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative, accessed 8-7-2019]

“It is pretty clear that everyone is struggling to find decent projects. They know it’s going to be a waste and don’t want to get involved, but they have to do something.”[[58]](https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative%22%20%5Cl%20%22_edn58%22%20%5Co%20%22) Collier gave an example of one Beijing bank that he said had stopped lending to rail projects in risky places such as Baluchistan in Pakistan. A chief investment officer from one of China’s largest state-owned financial institutions also told the author about his own reservations: “I prefer to invest in places like Canada and Australia, where I can get safe and decent returns. However, where I have been ordered to invest in OBOR countries, I will only allocate the minimum amount.”[[59]](https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative%22%20%5Cl%20%22_edn59%22%20%5Co%20%22) The reservations of Chinese financiers and businesspeople about OBOR also need to be seen in the context of the worsening debt problem within China’s financial system, especially the number of non-performing loans on banks’ balance sheets. This rapid pile-up of debts took place after the country’s massive stimulus package of 2008. China’s leading business magazine, Caixin, has suggested that OBOR could produce a repeat of 2008.[[60]](https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative%22%20%5Cl%20%22_edn60%22%20%5Co%20%22) Influential economic policymakers in China are also concerned that the political impetus behind OBOR could drive China into investing in white elephant projects abroad. They are worried that some countries will take advantage of OBOR and sign up to Chinese projects with no intention of repaying the loans.[[61]](https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative%22%20%5Cl%20%22_edn61%22%20%5Co%20%22) Yiping Huang, an influential economist who sits on the Chinese central bank’s monetary policy committee and a former investment banker, has argued that China needs to proceed cautiously on OBOR projects: “The most effective way to promote the initiative is by getting one or two projects done. If they turn out to be effective, it will be easier to take the next step. If early projects are disastrous, the future path will be hard.”[[62]](https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative%22%20%5Cl%20%22_edn62%22%20%5Co%20%22) Huang has also noted the efforts to develop the country’s western region largely failed because the state ignored the fundamental economic issue of ensuring a return on assets.[[63]](https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative%22%20%5Cl%20%22_edn63%22%20%5Co%20%22)

#### [Freeman 17]

Ambassador Chas W. Freeman, Jr. (USFS, Ret.) | Senior Fellow, the Watson Institute for International and Public Affairs, Brown University San Francisco, California, Feb 9, 2017 ["The Geoeconomic Implications of China’s Belt and Road Initiative" https://www.mepc.org/speeches/geoeconomic-implications-chinas-belt-and-road-initiative 8-9-2019] // EJ

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.

#### [Strait Times 16]

**The Straits Times 2016,** one of the most widely circulated newspapers in Singapore. March 3, 2016. The Straits Times. “Silk Road: A way out of overcapacity woes?”,<https://www.straitstimes.com/asia/east-asia/silk-road-a-way-out-of-overcapacity-woes>. DOA: 07/11/2019

BEIJING • China's Silk Road programme was announced by President Xi Jinping more than two years ago and has been cast as a solution to several of China's most vexing challenges, from reducing reliance on oil shipped through Pacific ports to converting economic strength into geopolitical might. The project, also known as the One Belt, One Road initiative, is aimed at diversifying the country's trade options and exporting the excess industrial capacity that is dragging down its own economy. **China's glut of industrial materials such as steel and cement is fuelling deflation at the nation's factory gates and contributing to the country's economic slowdown**. Hong Kong-based brokerage CLSA and China's Citic Securities said in a report published last year that **the One Belt, One Road project could "help solve China's over-investment problem by exporting production of materials such as steel, cement and aluminium in the construction of overseas infrastructure such as roads, railways, seaports and airports". With the One Belt, One Road plan still being ramped up, Chinese steelmakers, who produce about half the world's steel, are already exporting at record levels.** Outbound cargoes soared 20 per cent to more than 112 million tonnes last year, an all-time high. But it remains to be seen whether exports could make up for the shortfall in domestic demand. Chinese steel now sells for about a third of the price at the 2008 peak.

#### [Cai pt.3]

Peter Cai, Lowy Institute, 3-22-2017, ["Understanding China’s Belt and Road Initiative", https://www.lowyinstitute.org/publications/understanding-belt-and-road-initiative, accessed 8-7-2019]AM]

Hu Huaibang, Chairman of the China Development Bank and the most influential financier of OBOR projects, says one of the most important objectives of OBOR is to help China undergo economic structural reform and upgrade its industries, moving away from the cheap mass manufacturing model: “On the one hand, we should gradually migrate our low-end manufacturing to other countries and take pressure off industries that suffer from an excess capacity problem. At the same time, we should support competitive industries such as construction engineering, high-speed rail, electricity generation, machinery building and telecommunications moving abroad.”[44] 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.[45] Jin said China currently sits in the middle of the global production chain and it can help countries at an early stage of development to industrialise: “China possesses high-quality industrial production capacity, equipment, technology, ample supply of funds and 30 years of development experience.” She also noted that Chinese capital can “help facilitate international production cooperation, and reorganise global production chain. For China, it means helping the country to export high-quality production capacity, equipment, technical know-how and developmental experience.”[46] Part of this thinking is informed by China’s own experience of industrialisation in the 1980s and 1990s. One senior provincial economic planning official said China imported second-hand production lines from Germany, Taiwan, and Japan in the 1980s; essentially unwanted surplus industrial capacity.[47] Beijing thinks China’s experience could be replicated in neighbouring, less-developed countries. One clear example of this is the plan to migrate part of Hebei province’s massive surplus steel production facilities. The province, China’s largest producer of steel, wants to relocate 20 million tonnes of production capacity abroad by 2023. The plan calls for companies to move their excess steel (but also cement and pleat glass production) facilities to Southeast Asia, Africa, and West Asia. For example, Delong Steel from Xintai is building a steel mill in Thailand that is capable of producing 600 000 tonnes of hot rolled coil a year in partnership with a local Thai operator, Permsin Steel Works.[48] Some Chinese researchers and officials are sceptical of how successful this aspect of OBOR is likely to be. It is questionable whether OBOR countries can actually absorb China’s vast surplus production line. More importantly, will it be politically palatable for other countries to simply accept China’s unwanted industrial capacity?

#### [Kosteka 18]

Kostecka-Tomaszewska, Luiza. “Economic security of China: the implications of the belt and road initiative.” University of Bialystok. Nov. 2018. [https://www.researchgate.net/publication/330876292\_Economic\_security\_of\_China\_the\_implications\_of\_the\_belt\_and\_road\_initiative //](https://www.researchgate.net/publication/330876292_Economic_security_of_China_the_implications_of_the_belt_and_road_initiative%20//) EJ

The Belt and Road Initiative also gives an opportunity to partially absorb China’s massive excess industrial capacity in steel, cement and other industrial inputs because the construction of new transport facilities in Asia will stimulate demand for the Chinese construction material, construction company services and highvalue manufactured goods [European Parliament, 2016]. However, the BRI does not entirely solve the problem of overcapacity. China continues to rely on the existing investment-led growth model but is now investing abroad instead of in the domestic market [Shepard, 2017; Yu, 2018]. In order to solve the problem of overcapacity China’s authorities want to move the excess production capacity out of country. China has a lot of surplus equipment for making steel, cement and pleat glass for the Chinese market and wants companies to move the whole production facilities outside country through direct foreign investment to countries that need building equipment and materials to build their infrastructure. These goods should be produced locally where they are needed [Cai, 2017]. Moreover, the Chinese companies which decide to move production out of China can take advantage of lower labour costs elsewhere in neighbouring countries and next use the newly built infrastructure to facilitate exports back to China. China has to move up the global value chain and at the same time relocate its labour-intensive industries to countries with cheaper wages. The BRI opens up such opportunities as many countries in the belt-road region have the abundant labour supply. Moving factories with excess capacity to the countries along the belt and road helps China reduce its overcapacity while helping less developed countries to build up their industrial bases [Cai, 2017]. Thanks to this China helps countries at an early stage of development to industrialise and simultaneously China undergoes industrial upgrading and structural transformation of its economy.

#### [Yeung 19]

Karen Yeung, South China Morning Post, 4-25-19, ["High profile ‘cross default’ raises fears over China’s indebted companies", https://www.scmp.com/economy/china-economy/article/3007516/china-economy-faces-threat-obscure-financial-tool-could, accessed 8-7-2019]AM When one company defaults on a repayment, it also reneges on the debt it has guaranteed for other companies, setting off a chain reaction of corporate defaults, and subsequently aggravating market risks. Moreover, when the cross default clause is triggered, it also puts short-term repayment pressure on the borrower, meaning it has less capacity to refinance its debt. Thus, cross default clauses can create a domino effect in which an insolvent borrower may be in default on loans from multiple contracts, if all lenders include cross defaults in their loan documents.

#### [Cheng 15]

Cheng, Shuaihua Wallace Cheng, 9-28-19, “Overcapacity a time bomb for China’s economy” <https://www.scmp.com/comment/insight-opinion/article/1862024/overcapacity-time-bomb-chinas-economy> (SJ)

Further, local governments help firms to get cheap loans from state-owned banks. These favours 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. **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.** **If this bomb detonates, the repercussions could be extraordinary.** Because China does not have the mature social safety net of a country like Japan, and also lacks the political stability of the United States, it could face not only an economic blow-up but also serious social and political upheaval.

#### [Rogoff 18]

Rogoff 18 11-8-18 “The global impact of a recession in China” <https://www.bostonglobe.com/opinion/2018/11/08/the-global-impact-recession-china/9kGmtn9ktWv5TIyMHu6v4M/story.html> (SJ)

**Typical estimates suggest that an economic slowdown in China will hurt everyone. First, the effect on international capital markets could be vastly greater than Chinese capital market linkages would suggest.** However jittery global investors may be about prospects for profit growth, a hit to Chinese growth would make things a lot worse. Although it is true that the United States is still by far the biggest importer of final consumption goods, foreign firms nonetheless still enjoy huge profits on sales in China.

#### [Taplin 19]

Nathaniel Taplin, WSJ, 7-21-2019, ["Chinese Overcapacity Returns to Haunt Global Industry", https://www.wsj.com/articles/chinese-overcapacity-returns-to-haunt-global-industry-11547118946, accessed 7-21-2019]AM In contrast to 2015, there were no new steel company bond defaults in 2018 excluding previous delinquents, according to data from Wind. Capacity utilization in Chinese steel mills was holding up as of the third quarter of 2018. By contrast, sectors such as autos and chemicals logged steep falls. Iron and steel profits year to date were still up 50% in November compared with the same period in 2017. Still, matters are likely to get worse in 2019—meaning China debt worries could soon start spooking markets again. And global industrial companies are in for a rough ride: Chinese capacity utilization tends to move tightly both with metals prices and purchasing managers indexes globally.

#### [Blanchard 13]

Oliver Blanchard, IMF, 3-14-2013 ["" https://www.imf.org/external/np/pp/eng/2013/031413.pdf]Accessed7-24-2019 // RZ

Income inequality has increased in past decades in many Organisation for Economic Cooperation and Development (OECD) countries (OECD, Going for Growth, 2012) and is also on the rise in many 1 When countries go through phases where the number of workers are growing more rapidly than the number of dependents, the resources saved from having fewer dependents can provide a “demographic dividend,” which can be reaped through the creation of jobs to absorb the new labor force entrants. Figure 1. Developments in World Employment and Growth, 2007-2014 ‐1 0 1 2 3 4 5 6 2007 2008 2009 2010 2011 2012 2013 2014 Real GDP (Change in Percent per Year) Global growth remains subdued, ... Source: WEO 5 6 7 8 9 10 11 12 2007 2008 2009 2010 2011 2012 2013 2014 Europe Middle East Rest of the World Unemployment (in Percent of the Labor Force) ... unemployment very high, particularly in Europe and the Middle East, ... Source: ILO and IMF staff calculations 11.4 11.6 11.8 12 12.2 12.4 12.6 12.8 13 2007 2008 2009 2010 2011 2012 2013 2014 Youth Unemployment (in Percent of the Youth Labor Force) ... youth unemployment alarmingly high, ... Source: ILO and IMF staff calculations 60.0 60.2 60.4 60.6 60.8 61.0 61.2 61.4 2007 2008 2009 2010 2011 2012 2013 2014 Employment (in Percent of Population Age 15 or Above) ... and employment at its lowest level in two decades. Source: ILO JOBS AND GROWTH INTERNATIONAL MONETARY FUND 5 others. Across OECD countries, the gender wage gap is estimated at 16 percent (OECD 2012). Although we are on track to meet the Millennium Development Goal (MDG) of halving the proportion of people living in extreme poverty (on less than $1 a day) by 2015 relative to 1990 levels, over 900 million people are expected to remain vulnerable to being pushed back into poverty in the face of adverse shocks (UN, World Economic Situation and Prospects, 2013). 3. In addition to the current conjuncture of weak aggregate demand, there are global megatrends that are influencing developments in jobs and growth. Globalization (the process by which countries open up to trade and financial flows) and technological change, along with the doubling of the global work force as China, India, and the transition economies opened up in the 1980s and 1990s, have undoubtedly helped raise overall global growth and welfare, but have also posed many challenges.