**We Negate**

**Resolved:** The EU should join China’s belt and road initiative

**Our Sole Contention is Destroying Global Growth**

**Affirming does this in two ways**

**First, is Corroding China’s Economy**

**Schrader 18 finds[[1]](#endnote-1)** that academic critiques are often the channel of which Chinese elites communicate their dissatisfaction with the Chinese Communist Party and to telegraph important shifts in CCP policy. The public airing of such criticisms indicate an emerging consensus that China should scale back the belt and road. **He explains** that domestic critics of BRI categorize investment as “foreign aid” and BRI lending by major PRC banks has expectedly and subsequently dropped by 89%. ***Unfortunately, EU participation in the BRI could change everything*** as **Pogetti 19 indicates**[[2]](#endnote-2)that an endorsement by the Eurozone would show domestic audiences that his initiative enjoys a great reputation in Europe and the world instead of a political tool facing resistance. Overall, the EU joining would enable Chinese president Xi to garner elite support to fund the BRI to completion.

**Unfortunately, the BRI is the lifeline of China’s inefficient state-owned enterprises or SOEs.**

**Kenton 19 states[[3]](#endnote-3)** that a state-owned enterprise is a legal entity that is created by a government to partake in commercial activities on the government's behalf. **Li explains[[4]](#endnote-4)** that Chinese industrial state-owned enterprises pay less attention to costs which adversely affects their performance, they vanish, and empirically **Jonge[[5]](#endnote-5) 17** explains that China’s SOEs have shrunken in the presence of decades of market forces. However, **Perez[[6]](#endnote-6) 18** explains that BRI investments into developing countries are very risky; so, in order to alleviate risk, China uses SOEs in 95% of BRI projects because as state owned entities, they can’t go bankrupt.

Unfortunately, **Greer[[7]](#endnote-7)** explains that BRI investments are driven not by profit but China’s geopolitical interests. Furthermore, **Ansar[[8]](#endnote-8) 19** **of Oxford** finds that Chinese infrastructure investment has a success rate of less than 10% and rarely produces any of its proclaimed advantages. **Wharton[[9]](#endnote-9)** concludes that these low-quality investments have ballooned in costs, leaving Chinese banks with large amounts of debt.

**However, we know risky lending has its limits, and China is reaching it.**

**Gilchrist[[10]](#endnote-10) of CNBC** finds that expanding nonperforming loans and projects would lead to widespread loan defaults that could collapse China’s banking system and even if China tried to contain such a crisis, doing so would expand it budget constraints to the brink, threatening the stability of the global economy. Overall, **Ansar[[11]](#endnote-11) of Oxford** concludes that China’s SOE infrastructure investment is the main explanation of its economic and financial woes and unless China limits its infrastructure investments, it is heading for a financial crisis that would create a global disaster

**Second, is Igniting a Transatlantic Trade War**

**Barkin[[12]](#endnote-12) 19** explains that with diverging views on the majority of global issues, the EU’s hardline stance against China is the last thing holding the EU-US alliance together. Unfortunately, affirming would likely crush the alliance as **Cavanna[[13]](#endnote-13) 17** explains that the BRI represents China’s rise, as it threatens US hegemony and European countries are increasingly attracted to the initiative.

As such, European involvement in the BRI would trigger an overreaction from Trump and US officials because by aligning with China, the EU sides against the US and as a result, **Trigkas[[14]](#endnote-14) 18** writes that if an EU-Chinese infrastructure investment deal went through, it would push a trigger-happy Trump to place auto tariffs and launch an all-out trade war on the EU.

**Bown[[15]](#endnote-15) 19** writes that the EU would retaliate with their own auto tariffs, as they have with aluminum before. Overall, **Market Insider[[16]](#endnote-16) 19** finds that such a tit for tat trade war would risk the coming of a global recession that would inevitably spill over to China.

**The impact is Global Economic Development**

A Chinese crisis would go global and according to the **IMF[[17]](#endnote-17)** could push 900 million people into poverty.

Overall, **Huang[[18]](#endnote-18) 15** explains that as 1/3 of the global economic engine, China’s ability to maintain stability and rejuvenate growth will determine much of the worlds future economic outcomes, success would lift the living standards globally, while failure [will] lead to economic and social instability in China and the world could lose much of its economic steam. Crucially, the **OECD[[19]](#endnote-19)** finds that economic growth is the single most important factor in promoting global development and poverty reduction.

**Negate**

1. Matt **Schrader**, 8-10-**2018**, "Domestic Criticism May Signal Shrunken Belt and Road Ambitions," **Jamestown Research Foundation**, https://jamestown.org/program/domestic-criticism-may-signal-china-scaling-back-its-bri-ambitions/

   One of these criticisms is Xi’s excessive ‘foreign aid’ to countries in Africa and elsewhere. This is an obvious reference to Xi Jinping’s ambitious, globe-spanning Belt and Road Initiative (BRI). The BRI is the hallmark of Xi Jinping’s foreign policy—indeed, as the scope of the BRI has expanded, the two have become increasingly difficult to distinguish. Although a Western observer might dismiss a few professors’ unhappiness with the BRI as ivory tower grumbling, **PRC academic critiques** are worth noting, since outspoken academics are **often the channel through which other PRC societal elites communicate their dissatisfaction with the CCP. In the past, these channels have also served to telegraph important shifts in CCP policy. The public airing of such criticisms could indicate the existence of a emerging consensus that Beijing should scale back its BRI ambitions.** And in fact, BRI lending has already begun to shrink, decreasingly dramatically since 2015. Were it to decrease further, it would have important strategic repercussions throughout the Eurasian landmass and Africa.

   …

   This jaundiced view of official spending may be why **domestic critics of BRI** sometimes **categorize BRI investment**—which is supposed to be primarily of a commercial nature—**as “foreign aid”** (对外援助). In reality, the “dedicated reconstruction projects” Xu Zhangrun referenced in his diatribe are not aid; they will be probably be financed by concessional loans meant to “drive economies by reviving industry” (以产业振兴带动经济; FinanceWorld, July 11). BRI loans are intended to be paid back, and despite numerous articles in Western publications about BRI-induced ‘debt traps’, analysts who track the initiative’s progress have found that only about 14% of BRI projects to date have run into problems (RWR Advisory, July 9). This is not a point that domestic critics of BRI typically cite. Censorship may again be the culprit. Although an 86% success rate for BRI projects is certainly better than some Western observers might guess, the PRC government may not eager for it to be widely known at home that China’s banks have tens of billions of dollars tied up in problematic projects abroad. Indeed, the PRC’s policymaking apparatus appears to have already responded to concerns of BRI overreach by adjusting the scale of lending to limit possible financial risk. **BRI lending by major PRC banks has dropped by 89% since 2015**, and lending by commercial banks—who are dealing with their own financial issues domestically—has ceased almost entirely. **Policy banks have also scaled back, despite their status as arms of PRC government policy.** [↑](#endnote-ref-1)
2. Lucrezia **Poggetti**, 3-19-**2019**, “This could be a watershed moment for Italy's China policy", **Merics**, <https://www.merics.org/en/china-flash/xi-jinping-heads-to-Europe>

   **“**This could be a watershed moment for Italy's China policy” Xi Jinping heads to Europe 2019-03-19 Chinese President Xi Jinping is expected in Europe from March 21 to 26. He will first travel to Italy and then head to Monaco and France. His visit to Italy in particular (March 21 to 24) – the first Chinese state visit to that country in ten years – is causing a stir as the Italian government appears ready to make major concessions to China. According to media reports, the Italian government is set to endorse China’s Belt and Road Initiative (BRI), a move that would make Italy the first G7 state to join Xi Jinping’s key foreign policy project**.** Questions to Lucrezia Poggetti, research associate at the Mercator Institute for China Studies (MERICS). Lucrezia Poggetti Analyst The Italian government has sought closer ties with Beijing from the start. Do you consider it likely that Italy will join China’s Belt and Road Initiative (BRI) – and if so, what is Rome hoping to get out of such a move? The current Italian government has, indeed, adopted a very China-friendly line since it took office at the end of May 2018. This was spearheaded by the Undersecretary of State for Economic Development, Michele Geraci, who set up a “China Task Force” under the Ministry of Economic Development in August last year to seek closer political relations with China in the hope of getting economic opportunities in return. Geraci argues that the signature of a Memorandum of Understanding (MoU) on BRI would help Italian companies increase exports to the Chinese market. In 2018, Italy registered a USD 12.13 billion trade deficit with China. However, the MoU is unlikely to change that. European countries whose trade relations with the Asian giant are more balanced, such as France and Germany, have not signed any BRI endorsements. Those EU member states that have signed up to the BRI in the past, such as Poland and other Eastern European countries, have complained that Beijing’s promises of economic opportunities have largely failed to materialize. Yet despite heated debates within Italian politics, it is very likely that the Italian government will sign the controversial MoU. Prime Minister Giuseppe Conte confirmed on Friday March 15 the government’s plans to go ahead with the signature. How important would it be for Beijing if Italy were to sign the BRI MoU? Italy’s signature would give the BRI project a huge boost in legitimacy.Beyond the economics, an Italian endorsement would be politically symbolic for China. Italy would be the first G7 member state and the first EU founding country to sign up to BRI. **An endorsement by the** third largest economy in the **Eurozone would** allow Xi Jinping to **show domestic audiences that his initiative enjoys a great reputation in Europe and the world, while in fact the BRI faces criticism** that it has created debt traps, political dependencies and has failed to meet international standards. [↑](#endnote-ref-2)
3. Will **Kenton**, 10-7-**2019**, "State-Owned Enterprise (SOE)," **Investopedia**, https://www.investopedia.com/terms/s/soe.asp

   **A state-owned enterprise** (SOE) **is a legal entity that is created by a government** in order **to partake in commercial activities on the government's behalf**. It can be either wholly or partially owned by a government and is typically earmarked to participate in specific commercial activities. SOEs are common across the globe, including in the United States, where mortgage companies Freddie Mac and Fannie Mae are considered government-sponsored enterprises (GSEs). Understanding State-Owned Enterprises (SOE) Also known as government-owned corporations (GOC), state-owned entities should not be confused with listed companies with stocks that are owned in part by a government body, as these companies are truly public corporations that happen to have a government entity as one of their shareholders. The state-owned enterprise (SOE) is a global phenomenon, and such organizations exist in the United States, China, South Africa, Norway, and New Zealand. Legally, most SOEs qualify as business entities, providing them with all the rights and responsibilities associated with them. This means that they are normally required to follow any laws and regulations governing the operation of their business type, and they can also be held liable for their actions. Examples of State-Owned Enterprises Across the Globe Within the United States, mortgage companies Freddie Mac and Fannie Mae are some of the most recognized SOEs by its citizens, but SOEs are not limited to lending. In China, several companies have state backing, such as the Jin Jiang Hotel, which is owned and controlled by the government of Shanghai. The South Africa-based power utility Eskom is the 11th-largest company in the world in terms of electric-generating capacity, and it is an SOE of the South African government. Many public transportation systems and utilities are SOEs, as are postal services and some mining operations. SOEs and Corporatization At times, an SOE is created out of a government agency through a process called corporatization. This allows the agency to convert itself into a for-profit business. Often, the newly formed SOE still operates with government goals in mind, but officially it operates as a commercial enterprise. Sometimes, governments of developing countries will create a state-run business in a sector that it wishes to develop or exploit to boost their economic standing on the global stage, such as the oil industry in Brazil, or the telecom industry in Argentina. SOEs and Profit Even though an SOE is a for-profit business entity, there are some that do not produce a profit. For example, the U.S. postal system may be operating at a loss for long periods of time. While some SOEs may be permitted to fail, those of importance to the operation of the state may receive government funding to continue its operations — particularly those deemed as critical to a country's infrastructure. In these cases, the **SOEs actually cost the government money instead of generating revenue. In the case of China, this has led some to accuse the government of artificially propping up so-called zombie corporations that would otherwise go out of business.** [↑](#endnote-ref-3)
4. Shaomin **Li** & Ying **Lin** & David **Selover**, 1-29-**2015**, "Chinese State-Owned Enterprises: Are They Inefficient?," **Taylor & Francis (academic journals)**, <https://www.tandfonline.com/doi/abs/10.2753/CES1097-1475470504?journalCode=mces20>

   Using a panel data set of 200,000+ Chinese firms constructed by merging the Chinese census of manufacturing firms for 2000–2005, we compare the performance of Chinese state-owned enterprises (SOEs) and private firms in terms of rates of return, productivity, growth, costs, and investment. Using panel regressions, we find that **Chinese industrial state-owned enterprises** are, indeed, less efficient than private firms and **pay less attention to costs, inventories, accounts receivables, investment, employee welfare, financing, and administration [which]**. We find that this **adversely affects their performance**. The findings are consistent with the soft-budget constraint hypothesis. [↑](#endnote-ref-4)
5. Alice De **Jonge**, 9-17-**2015**, "China's grip still tight on state-owned enterprises," **Conversation**, https://theconversation.com/chinas-grip-still-tight-on-state-owned-enterprises-47478

   The words typically used to describe **the SOE sector** in China are “inefficient”, “bloated”, and “bulky”. The sector **has been slimmed down a lot over the past decades**, but still comprises 110 conglomerates. SOEs accounting for around 60% of total revenue are overseen by the central government’s State Owned Assets Supervision and Administration Commission. And between 25,000 – 150,000 SOEs (depending on which definition of “state-ownership” is used) are controlled and managed by provincial, municipal and lower levels of government. The larger SOEs maintain monopolies over key sectors of the economy (energy, mining, infrastructure) and smaller SOEs are characterised by low productivity and high debt levels. **A lot of the problems and inefficiencies stem from the fact that the interests controlling SOE behaviour are not necessarily aligned with those of the wider economy or society.** Time for a clean out Authorities have been consolidating and “cleaning up” SOEs for better resource allocation for a while now. China’s two major bullet train makers completed consolidation in the first half of 2015, while China Railway Corporation recently announced an asset-reorganisation with one of its subsidiaries. Central authorities indicated earlier this year that Beijing would like mergers and acquisitions to result in a figure of around 40 conglomerates under the SASAC. The real challenge will be in getting the Provinces to cooperate in cross-border mergers of provincial and municipal SOE assets. The ambitious Beijing-Tianjin-Hebei regional integration blueprint provides an important testing ground for getting different localities to cooperate, share and consolidate economic and social planning and resources. Commercial vs ‘social’ Schools, universities, medical goods and service providers, and operators of public utilities (water, sanitation, energy, transport and communications) together form a huge and important part of the Chinese economy. It is important that they be run efficiently, but also important that they fulfil the social purposes for which they exist. Providing equitable access to essential public goods and services means these firms cannot be expected to run on purely commercial considerations. And so the SOE guidelines indicate that SOEs will be categorised as either “commercial” or “public goods and services”, and dealt with accordingly. Commercial SOEs will be encouraged to become leaner, more efficient, and more market-oriented, while “social” SOEs will be encouraged to focus more on the quality of service provision. [↑](#endnote-ref-5)
6. Cecilia Joy-Perez,, 3-28-2018, "The Chinese state funds Belt and Road but does not have trillions to spare," AEI, http://www.aei.org/publication/the-chinese-state-funds-belt-and-road-but-does-not-have-trillions-to-spare/

   The Belt and Road Initiative (BRI) has been primarily about construction rather than investment. **State-owned enterprises account for more than 95 percent of** the $208 billion in **construction projects** since 2014. With **the BRI focused on developing countries, there is considerable commercial risk. Private Chinese firms have thus been hesitant to take on BRI projects, including investments**. Much BRI construction and investment is ultimately financed by China’s foreign exchange reserves. China no longer has money to spare, and the BRI will not hit $1 trillion in value until well into the 2020s. Read the PDF. Introduction The Belt and Road Initiative (BRI) is characterized as an explosion of Chinese investment in Eurasian and African countries promising deals worth trillions of dollars. This is largely wrong. **The BRI is better understood as construction projects worth hundreds of billions of dollars taken on by state-owned enterprises (SOEs). Belief in endless Chinese money notwithstanding,** SOEs cannot by themselves deliver a multi-trillion-dollar BRI.1 China Belt and Road Initiative A cargo train is launched to operate on the Standard Gauge Railway (SGR) line constructed by the China Road and Bridge Corporation (CRBC) and financed by Chinese government in Kenya’s coastal city of Mombasa, May 30, 2017. Reuters **Is the private sector willing to help? Probably not. Private investment in the BRI is rising, but it is still outpaced by SOE investment. BRI construction activity by private Chinese firms is almost nonexistent. With the BRI focused on developing countries, there is considerable com­mercial risk. SOEs can ignore much of this risk because they do not go bankrupt and usually have access to cheap financing; private firms are not as fortunate**. The evidence to date indicates private firms are hesitant to participate, at least using their own funds. If that continues, the BRI will not be nearly as large as some anticipate.2 [↑](#endnote-ref-6)
7. Tanner Greer. "One Belt, One Road, One Big Mistake." Foreign Policy. 18. https://foreignpolicy.com/2018/12/06/bri-china-belt-road-initiative-blunder/.

   **Investment decisions often seem to be driven by geopolitical needs instead of sound financial sense.** In South and Southeast Asia expensive port development is an excellent case study. **A** [**2016 CSIS report judged**](https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180717_FunaioleHillman_ChinaMaritimeSilkRoad.pdf?kdf7YyYgl03PljV8PHzZsiZt3_UxnBPo) **that none of the Indian Ocean port projects funded through the BRI have much hope of financial success. They were likely prioritized for their geopolitical utility. Projects less clearly connected to China’s security needs have more difficulty getting off the ground:** [**the research firm RWR Advisory Group notes**](https://www.ft.com/content/e7a08b54-9554-11e8-b747-fb1e803ee64e) **that 270 BRI infrastructure projects in the region (or 32 percent of the total value of the whole) have been put on hold because of problems with practicality or financial viability.** There is a vast gap between what the Chinese have declared they will spend and what they have actually spent. [↑](#endnote-ref-7)
8. Ansar 2019, Oxford University, <https://arxiv.org/ftp/arxiv/papers/1609/1609.00415.pdf>

   Generalizing from our sample, evidence suggests that over half the infrastructure investments in China made in the last three decades have been NPV negative. Far from being an engine of economic growth, a typical infrastructure investment has destroyed economic value in China due to poor management of risks that impact cost, time, and benefits.5 We advance: Hypothesis 1. Due to a propensity to cost overruns and benefit shortfalls, the typical infrastructure investment destroys economic value. Policy Proposition 1. Less is more. Policy-makers should only commit scarce public resources to infrastructure alternatives that, even after accounting for potential cost overruns and benefit shortfalls, produce positive economic value. Proponents of infrastructure investments often argue that, even if individual projects such as the YuanMo expressway yield negative NPVs, the benefits of a network will outweigh the cost of building the network. Although an appealing argument, this is unlikely to hold in the real world. First, the business cases of individual infrastructure projects are justified on the basis of their NPV being positive. When the NPV becomes negative in reality, planners go to some length to obfuscate the inconvenient truth—a persistent and insidious feature of infrastructure investments (Wachs, 1989). Second, construction cost or time and traffic volumes are tangible and quantifiable indicators. Given the systematic biases in these simple metrics, more complex Figure 6: Proportions of projects by ex post estimates of BCRs (n = 65) Source: Authors’ database. 5 **Only six out of 66 projects can be considered outright successes where benefits greatly exceeded costs— this suggests a composite success rate of less than 10 per cent. Venture capital investors, not governments, are meant to take on endeavours with such risky pay-offs**. Does infrastructure investment lead to economic growth or economic fragility? 377 by guest on July 29, 2016 http://oxrep.oxfordjournals.org/ Downloaded from metrics, such as network and spillover effects, will be prone to a greater degree of delusion and deception. How ought policy-makers then account for the benefits of infrastructure projects? In the case of transport infrastructure, benefits of projects are typically enumerated across many dimensions. Promoters claim that a new project will create new jobs, or cause the value of land adjacent to a project to appreciate, or provide value of time savings for potential end-users. **Our broader evidence from China and the deeper case studies, of which the YuanMo expressway is an example, suggest that the wider the net of benefits policy-makers attempt to cast, the weaker the business case of the proposed infrastructure. Benefits, such as value of time savings or increased land values, do not come about unless the forecast traffic volumes materialize.** Actual traffic is thus the most concrete and fool-proof gauge of the actual benefits of a transport project. If the basic traffic does not materialize, the rest of the benefits are also unlikely to emerge. Wider benefits are a poor guide to infrastructure investment decision-making. Vickerman (forthcoming, pp. 22–3) concludes that, (i) wide benefits where they exist, typically account for 10–20 per cent, in addition to direct benefits, (ii) often wider impacts do not exist or are negative, and (iii) where wider positive impacts exist in some regions they could be offset by negative impacts in other regions, reducing the aggregate effect. In formal terms: Hypothesis 2. Direct benefits, e.g. financial cash flows, at the project-level will be a more robust measure of the actual benefits of infrastructure investments than wider economic benefits or network effects. Policy Proposition 2: Instead of enumerating many, potentially obscure, dimensions of future benefits, policy-makers should focus on one simple metric—such as the actual Annual Average Daily Traffic (AADT) or revenues—for infrastructure investments. Does China’s high-octane investment programme in infrastructure explain its high economic growth rate? The conventional wisdom in economics has tended to present the seemingly obvious answer, which Röller and Waverman (2001, p. 909), using telecommunication networks as an example, neatly summarize: ‘investing in telecommunications infrastructure does itself lead to growth because its products—cable, switches, and so forth—lead to increases in the demand for the goods and services used in their production.’ In contrast, the implication of our research is that economists have tended to overstress the need for infrastructure in the economy by dwelling on the link between infrastructure investment and short-term economic growth. It is a given that increased physical capital accumulation (irrespective of whether the investment has a positive or negative NPV) will increase the GDP in the short run as a natural accounting consequence of piling investments (productive or not) into fixed capital. In fuelling economic growth today by excessive capital accumulation, policy-makers risk suffocating the possibility of steadier and more resilient future economic growth that comes from greater efficiency and productivity of using scarce factors of production. Banister and Berechman, (2000, pp. 149–50) corroborate our observation: ‘The nature of the causality between transport infrastructure development with economic growth is rather equivocal with respect to direction, functional relationships, and effect of intervening variables’. With respect to China, Huang and Khanna (2003) and Huang (2006, 2008) also stress the direction of this causality. Huang (2006) argues: 378 Atif Ansar, Bent Flyvbjerg, Alexander Budzier, and Daniel Lunn by guest on July 29, 2016 http://oxrep.oxfordjournals.org/ Downloaded from This is [a] ‘China myth’—that the country grew thanks largely to its heavy investment in infrastructure. This is a fundamentally flawed reading of its growth story. In the 1980s, China had poor infrastructure but turned in a superb economic performance. China built its infrastructure after—rather than before— many years of economic growth and accumulation of financial resources. The ‘China miracle’ happened not because it had glittering skyscrapers and modern highways but because bold economic liberalization and institutional reforms— especially agricultural reforms in the early 1980s—created competition and nurtured private entrepreneurship. China’s case carries generalizable policy lessons. **A massive infrastructure investment programme is not a viable development strategy in other developing countries such as Pakistan, Nigeria, or Brazil.** Policy-makers should place their attention on software and orgware issues (deep institutional reforms) and exercise far greater caution in diverting scare resources to new hardware (physical infrastructure) [↑](#endnote-ref-8)
9. Apr 30, 2019, 4-30-2019, "China’s Belt and Road Initiative: Why the Price Is Too High," Knowledge@Wharton, https://knowledge.wharton.upenn.edu/article/chinas-belt-and-road-initiative-why-the-price-is-too-high/

   **Along with the debt piling up at BRI beneficiary countries, China, too, is facing constraints in investing in the projects. China’s plan was to use at least $400 billion in funding from government-run banks, but the program has ballooned beyond infrastructure construction. “BRI lending by major [Chinese]banks has dropped by 89% since 2015, and lending by commercial banks — who are dealing with their own financial issues domestically — has ceased almost entirely,”** according to a report last August by The Jamestown Foundation. “Policy banks have also scaled back, despite their status as arms of government policy.” [↑](#endnote-ref-9)
10. Karen Gilchrist, xx-xx-xxxx, “China’s ‘Belt and Road’ initiative could be the next risk to the global financial system,” CNBC, https://www.cnbc.com/2017/08/24/chinas-belt-and-road-initiative-could-be-the-next-risk-to-the-global-financial-system.html

    China has pitched its mammoth, pan-Eurasian “Belt and Road” infrastructure initiative as a means of promoting economic prosperity and fostering diplomatic ties on a global scale. That rhetoric may win plaudits at a time when other global powers are voicing increasingly protectionist agendas, but it also comes with risks, and **increasing levels of state-backed funding have raised concerns about just how safe of a gamble it is.** Reports on Tuesday claimed that some of China’s biggest state-owned commercial banks will begin raising capital to fund investments into the initiative, also known as “One Belt, One Road,” which aims to connect more than 60 countries across Asia, Europe and Africa with physical and digital infrastructure. China Construction Bank, the country’s second-largest bank by assets, has been conducting roadshows to raise at least 100 billion yuan ($15 billion) from on- and offshore investors, sources familiar with the matter told Reuters. Bank of China, Industrial and Commercial Bank of China, and Agricultural Bank of China are also said to be raising tens of billions of dollars, though none of the banks responded to Reuters’ request for comment. The news highlights the risk that the state could amass hundreds of billions of dollars in nonperforming loans if the projects fail. For Xu Chenggang, professor of economics at Cheung Kong Graduate School of Business in Beijing, it was not a surprise. A risk to China’s banking system is, by default, a risk to the global banking system “It supports my concerns,” Xu told CNBC over the phone. **“The impact could be damaging not just for China, but for the global financial system.” “These loans are being extended to governments in risky countries to fund risky infrastructure projects**. If the projects were launched by private firms we wouldn’t have to worry because they would know they had to bear the consequences. But here we are talking about government-to-government lending and, ultimately, intergovernmental relations.” Xu attributed that issue to a phenomenon known as soft budget constraints. Soft budget constraints refer to the idea that state-owned firms will not be allowed to go bankrupt if they go insolvent because the state has vested interests in keeping them afloat**. A country with high soft budget constraints and a large number of insolvent firms may then struggle for financing, which could have global financial implications. For a country like China, where state-ownership has historically been high, this is a matter of particular concern.** It took decades of economic reforms and loss-making firms before it succeeded in what Xu termed a process of “quiet privatization” at the turn of the 21st century. However, the process has lost momentum over the past 10 years, and the state remains burdened with issues of overcapacity and myriad “zombie firms,” especially within the metals and construction and materials sectors. Xu said that has partially been the motivation for the “Belt and Road” initiative: “Instead of solving the overcapacity problems, they are expanding the problem to projects overseas.” “They (China) are proposing lending money to foreign governments, who will then use the Chinese funds to pay the Chinese companies,” he explained. China’s debt to gross domestic product (GDP) ratio surpassed 300 percent in June, according to the Institute for International Finance. And that’s before the extension of further loans. “**Expansion of these soft budget constraints at such an unprecedented rate and in such a large scale is going to generate unprecedented consequences,**” Xu noted. Crucially, the countries tied to the “Belt and Road” initiative are some of the riskiest developing countries in the world. A number of research bodies are now risk assessing the political, economic and business landscapes of the involved nations. **“There is no doubt in my mind that there will be a large number of projects that will have unforeseen problems,”** Bjorn Conrad, vice president at the Mercator Institute for China Studies, told CNBC. “**There are considerable risks of nonperforming credit in many of these projects and high risks of default.” “A risk to China’s banking system is, by default, a risk to the global banking system**,” he continued. However, he noted that the government would be working hard to assess risks after it was badly burned by lending to volatile countries such as Venezuela. China’s National Development and Reform Commission announced last week that it would strengthen regulation to reduce risk for domestic firms investing overseas and prevent “irrational” investment in the “Belt and Road” initiative. “**There will be an enormous amount of loans to give out, on a different scale to ever before**, but also an awareness that they (the Chinese government) have to keep these at a manageable scale,” Conrad said. “There will still be risks, but an understanding that they have to be managed with more scrutiny.” [↑](#endnote-ref-10)
11. **Chinese infra doesn't lead to growth, actually financial instability**

    Atif Ansar, Oxford Review of Economic Policy, "Sci-Hub | Does infrastructure investment lead to economic growth or economic fragility? Evidence from China. Oxford Review of Economic Policy, 32(3), 360–390 | 10.1093/oxrep/grw022", July 2016, [http://sci-hub.tw/https://doi.org/10.1093/oxrep/grw022](http://sci-hub.tw/https:/doi.org/10.1093/oxrep/grw022)

    **Because many corporations and financial institutions in China are state-owned, our revised calculation of China’s implicit government debt as a proportion of GDP suggests that China’s is the second-most indebted government in the world. Extraordinary monetary expansion has accompanied China’s piling debts**: China’s M2 broad money grew by US$12.9 trillion in 2007–13, greater than the rest of the world combined. **The result is increased financial and economic fragility. We conclude that, contrary to the conventional wisdom, infrastructure investments do not typically lead to economic growth. Overinvesting in underperforming projects instead leads to economic and financial fragility. For China, we find that poorly managed infrastructure investments are a main explanation of surfacing economic and financial problems. We predict that, unless China shifts to a lower level of higher-quality infrastructure investments, the country is headed for an infrastructure-led national financial and economic crisis, which—due to China’s prominent role in the world economy—is likely to also become a crisis internationally. China is not a model to follow for other economies—emerging or developed—as regards infrastructure investing, but a model to avoid.** [↑](#endnote-ref-11)
12. #### Barkin ‘19// hardline EU stance is holding together US-EU alliance, and US hegemony competition with China hinges on “what happens in Europe”

    Noah Barkin, 6-4-2019, "The U.S. Is Losing Europe in Its Battle With China," Atlantic, https://www.theatlantic.com/international/archive/2019/06/united-states-needs-europe-against-china/590887/, accessed 9-11-2019 //TP

    At the meeting in **Washington**, D.C., they **pressed their allies to sign on to a joint statement condemning the Chinese plan. But it soon became clear that neither the Europeans nor a small group of other countries from Asia and Latin America were ready to fall in line**. “No one was willing to go along with it,” one European diplomat familiar with the details of the meeting, who requested anonymity to discuss sensitive negotiations, told me. “We may agree that China is a strategic threat, but you can’t just put them in a corner.” For the Europeans, the meeting at the State Department was another sign of what they see as the White House’s misguided zero-sum approach to dealing with China, and its mistaken belief that it can employ an à la carte approach with its partners, denouncing them publicly on some issues while expecting cooperation on others. For the Americans, **the talks were the latest sign of Europe’s reluctance to stand up to China**. **“Europe,” one person close to the Trump administration who declined to be named told me, “is almost on a different planet.”** **After two years of escalating tensions between the United States and Europe over issues ranging from trade and Iran to defense spending** and Russian gas pipelines, **China should be the issue that unites the[m] two sides**, or at least eases some of the transatlantic strain. **The European Union**—with Germany and France leading the way—**has adopted a much tougher stance on China over the past year, introducing new rules allowing for closer scrutiny of Chinese investments in European countries**, exploring changes to the EU’s industrial, competition, and procurement policies to ensure Beijing is not unfairly advantaged, and, after years of avoiding clashes with Beijing, declaring China a “strategic rival.” This shift mirrors the harder line adopted by Washington under President Donald **Trump, who has dialed up his two-year confrontation with Beijing** several notches over the past month **by raising tariffs on Chinese goods and putting the Chinese telecommunications group Huawei** and scores of its affiliates **on an export blacklist that could severely restrict their access to vital U.S. tech**nology. But conversations I had with dozens of officials on both sides of the Atlantic—many of whom requested anonymity to talk about **[on] diploma**tic**[cy] and intelligence** issues—suggest that **instead of coming together, Europe and the U.S. might be in the early stages of a damaging divergence on the China challenge**. **Trump’s latest moves, which raise the specter of a prolonged economic Cold War between Washington and Beijing, are likely to deepen the divide, taking the U.S. down a path that is unpalatable for even the hardest of European hard-liners. “If you listen to the people in the Trump administration, who view China as an existential threat, they are not in a place most Europeans can get to**,” says Evan Feigenbaum, who held senior Asia-focused roles in the State Department during George W. Bush’s presidency and is now at the Carnegie Endowment for International Peace. **The dissonance raises the prospect of a Western split on what both sides agree is likely to be the biggest geopolitical challenge of the 21st century—responding to the rise of an authoritarian China.** A series of meetings in recent months, and the disparate ways in which they were interpreted by either side, illustrate the widening chasm. The European diplomat who discussed the April meeting likened **Washington’s uncompromising stance on Belt and Road** to its position on the Asian Infrastructure Investment Bank (AIIB) a few years prior. Back then, the United States, under President Barack Obama, **failed to convince allies** to join a boycott of the new China-led development bank, leaving the Americans embarrassed and isolated.U.S. officials, by contrast, point to talks months before the meeting in Foggy Bottom, when Washington was pushing for a joint declaration denouncing human-rights abuses in Xinjiang, the western Chinese region where more than a million members of the Muslim minority have been detained in reeducation camps. That effort was also abandoned after what **U.S. officials described as an exasperating back-and-forth with the European Union and individual member states**. **Among the American officials I spoke with, there was an air of what felt like panic—over what they saw as the global spread of Chinese influence through Xi’s Belt and Road initiative**, the lack of an American alternative to Huawei, and the persistent failure of the World Trade Organization to tackle China’s unfair trade practices. One senior administration official **likened discussions of China policy to the period after the 9/11 attacks. Inevitably, this person said, there will be an “overreaction” from Washington, with “collateral damage” for other countries, before U.S. policy settles down**. In Brussels, senior officials are comparing the Trump administration’s China policy to Brexit. Both, they say, are based on the deluded notion that a fading great power can reverse the course of history and return to its glorious past. The **irony is that senior U.S. administration officials acknowledge in private that American success in its competition with China might ultimately hinge on what happens in Europe.** Yet many **U.S. officials have no patience, at least in the highest ranks of the Trump administration, when it comes to working with European allies.** Nor do they have much appreciation for the steps Europe has taken over the past year to push back against China. Several U.S. officials described the EU’s recent measures as baby steps that fall far short of what is needed. “The Americans are out to beat, contain, confront China,” a senior EU official who asked not to be identified told me. “They have a much more belligerent attitude. We believe they will waste a lot of energy and not be successful.” This does not mean that transatlantic channels of communication on China have broken down. A group of hawkish pragmatists including Matt Pottinger, who oversees Asia policy at the National Security Council, and Randall Schriver, a senior Pentagon official, have been trying to reach out to Europe for months, U.S. and European officials confirm. Last year, discussions focused on measures to protect against Chinese acquisitions. More recently, they have shifted to talks on next-generation 5G mobile networks, as well as joint responses to Belt and Road, an issue about which Washington and Brussels agreed last month to hold quarterly coordination meetings, according to EU officials. And last month, an American delegation traveled to Berlin for talks with German officials on China as part of a biannual get-together that began under the Obama administration and has continued, without a hitch, under Trump. Other changes are under way too: Last year, according to U.S. and European officials, the State Department appointed China point people in many of their European embassies, with **officials estimating that roughly 150 U.S. diplomats on both sides of the Atlantic now spend at least part of their time focusing on China in Europe**; at a meeting of NATO foreign ministers in Washington in late March, China was on the agenda for the first time; and Belt and Road could be a discussion point when France hosts a G7 summit in Biarritz in August, European officials have suggested.

    [↑](#endnote-ref-12)
13. #### Cavanna ‘17// the BRI poses a challenge to US hegemony

    #### Thomas P. Cavanna, The Diplomat, 4-28-2017, "What Does China’s Belt and Road Initiative Mean for US Grand Strategy?," Diplomat, https://thediplomat.com/2018/06/what-does-chinas-belt-and-road-initiative-mean-for-us-grand-strategy/, accessed 9-11-2019 //TP

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    #### The United States’ response to a rising China has largely focused on bolstering military capabilities, doctrines, and partnerships in the [Asia-Pacific](http://ndupress.ndu.edu/Media/News/Article/1038867/joint-concept-for-access-and-maneuver-in-the-global-commons-a-new-joint-operati/) (or, more recently, the [Indo-Pacific](https://www.npr.org/sections/thetwo-way/2018/05/31/615722120/in-military-name-change-u-s-pacific-command-becomes-u-s-indo-pacific-command)). This approach misconstrues the problem: it overstates the security threat and understates (or ignores) the economic challenge. To maintain its dominant position globally in the long-term, the United States must reckon with the ambitious geoeconomic endeavor Beijing has launched to project strategic influence across the Eurasian continent, which hosts most of the world’s economic centers and natural resources. The nascent Belt and Road Initiative (BRI) illustrates the transformative geopolitical implications of China’s rise. Despite its changing contours and the fact that it partly recycles preexisting plans, this series of major infrastructure and development projects designed to connect Eurasian regions together is a coherent enterprise of unprecedented scale: $4 trillion of promised investments in 65 countries representing 70 percent of the world’s population, 55 percent of its GNP, and 75 percent of its energy [reserves](https://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586608/EPRS_BRI(2016)586608_EN.pdf). The BRI aims to stabilize China’s western peripheries, rekindle its economy, propel non-Western international economic institutions, gain influence in other countries, and diversify trade suppliers/routes while circumventing the U.S. pivot to Asia. Of course, the BRI’s prospects of success are subject to many unknowns, including the possibility of foreign resistance, China’s domestic economic travails, political turbulence, aging population, and environmental [problems](https://www.amazon.com/China-Challenge-Shaping-Choices-Rising/dp/0393352994/ref=sr_1_1?s=books&ie=UTF8&qid=1525375283&sr=1-1&keywords=china+challenge+christensen). On the other hand, the U.S. still possesses [enormous assets](https://www.mitpressjournals.org/doi/abs/10.1162/ISEC_a_00225) to maintain its [predominance](https://www.amazon.com/Unrivaled-America-Superpower-Cornell-Security/dp/1501724789/ref=sr_1_1?s=books&ie=UTF8&qid=1525375629&sr=1-1&keywords=michael+beckley), including military primacy, multiple alliances, powerful Western-led international organizations, and an unmatched soft power. Yetover time the BRI could threaten the very foundations of Washington’s post-WWII hegemony. A similar phenomenon is visible in Europe. For all of the United States’ efforts NATO’s post-Cold War expansion to former countries of the Soviet bloc and the launching of the global war on terror did not substitute for the foundational Soviet security threat that once undergirded the transatlantic alliance. The European states’ reluctance to increase military budgets and to participate in misguided U.S.-led interventions caused tensions, especially following the invasion of [Iraq](https://onlinelibrary.wiley.com/doi/abs/10.1111/1758-5899.12427). Meanwhile China made important strides. Its regional trade and investments skyrocketed. Beijing acquired strategic assets to amass local advanced technologies and know-how, using Europe’s economic distress in the wake of the 2008 financial crisis, the EU’s political divisions and lack of an investment vetting process, and the mesmerizing appeal of China’s national [market](https://www.researchgate.net/publication/315870586_China's_economic_statecraft_in_Europe). Chinese leaders use their growing geoeconomic leverage to discipline their new partners and cultivate local [proxies](https://www.washingtonpost.com/news/worldviews/wp/2018/02/05/with-everyone-focused-on-russia-china-is-quietly-expanding-its-influence-across-europe/?noredirect=on&utm_term=.416fefd47ae7). The United States has tried to counter these efforts, as illustrated by the unsuccessful negotiation of the Transatlantic Trade and Investment Partnership (TTIP) and continuous attempts to harness European militaries and defense industries to U.S. strategic [goals](https://www.foreignaffairs.com/articles/2018-02-13/rise-illiberal-hegemony). Yet Beijing’s rise has started to corrode the depth and scope of transatlantic relations*.* Despite frustrations with its economic practices, European countries have been willing to develop bilateral ties further and further. Moreover, they have only very timidly endorsed the U.S. position that China’s growing assertiveness in the Asia-Pacific poses a major [threat](https://ideas.repec.org/a/kap/asiaeu/v15y2017i2d10.1007_s10308-017-0470-9.html) to the international order. Trump’s rejection of the Iran nuclear deal, economic multilateralism, and the Paris climate agreement make things worse, but the problems are deeper.

    [↑](#endnote-ref-13)
14. #### Trigkas ‘18// if China-EU make a bilateral investment deal the US will launch a trade war against the EU

    Vasilis Trigkas, July 6, 2018, "Nato, China summits a chance for Europe to assert itself," South China Morning Post, https://www.scmp.com/comment/insight-opinion/united-states/article/2153948/nato-and-china-summits-give-europe-chance, accessed 9-11-2019 //TP

    In Beijing, EU leaders may have a seemingly easier task negotiating with the Chinese on [trade](http://www.scmp.com/topics/trade) but caution is always a wise counsellor*.* ***According to reports from the meeting of the*** vice-president of the ***European Commission***, Jyrki Katainen*,* **and Chinese Vice-Premier** Liu He in June, ***the two sides are ready to*** present their detailed market access conditions by mid-July and **reboot the dormant discussions on a bilateral investment treaty. If negotiations accelerate and China and the EU reach a final accord** by the end of the year or early 2019, this would complicate US efforts to rebalance its economic relations with China*.* **It could push trigger-happy Trump to unleash tariffs against European exporters at a moment when the EU has just found its economic pace. Any benefits from a bilateral investment treaty with China may be undone by a full-scale transatlantic trade war and an utterly divided West.** [↑](#endnote-ref-14)
15. **Bown ‘19// auto tariffs from the US would definitively cause a European retaliation**

    More From, 6-26-2019, "Transatlantic Policy Impacts of the US-EU Trade Conflict," PIIE, <https://www.piie.com/commentary/testimonies/transatlantic-policy-impacts-us-eu-trade-conflict>

    Three reasons demonstrate why i**mposing trade restrictions on European automobiles and parts would disrupt the American economy**. First, American consumers would be hit by price hikes. Fiats, Volkswagens, and Volvos, among other brands, would become more expensive. The reduced competition would inevitably raise prices of all cars, regardless of the make and model. Second, the American manufacturing base would lose access to imported auto parts it needs to produce cars for both domestic consumption and export. Imported parts are vital for American-based auto plants to keep costs low for high-quality cars made in states like Alabama, Tennessee, and South Carolina. The facilities in these and other states make some of America's most successful exports. Restricting trade in parts would hurt these factories and their workers. Third, **Europe will retaliate. The European Union has announced it would impose counter tariffs on US exports—a credible threat because it did so last year when President Trump imposed tariffs on their exports of steel and aluminum, also under Section 232 of the Trade Expansion Act of 1962.** [↑](#endnote-ref-15)
16. Heeb, Gina. “Trump's proposed car tariffs could trigger a global growth recession, BAML says.” Markets Insider. 2/21/19//SSK

    While that could benefit some American automakers and reduce bilateral trade deficits, it would also risk adding thousands of dollars to the price of vehicles, and raises the threat of retaliatory duties that could worsen global trade tensions. "In a worst case scenario, **full­blown tit­for­tat auto tariffs could trigger a global recession," analysts at Bank of America Merrill Lynch wrote in a research note out this week, adding they would expect growth in the world economy to fall nearly a percentage point to 1.2%. By increasing the price of vehicles and imported materials, they could threaten jobs, consumer spending, and investment.** The analysts estimated that they would add $2,000 to $7,000 to price tags of both imported and American-made vehicles, posing even greater risks than the global trade tensions that emerged last year. [↑](#endnote-ref-16)
17. Harry Bradford, 4-5-2013, "Three Times The Population Of The U.S. Is At Risk Of Falling Into Poverty," HuffPost, <span class="skimlinks-unlinked">https://www.huffpost.com/entry/global-poverty-900-million-economic-shock\_n\_3022420</span>

    Hundreds of millions of people worldwide are on the brink of poverty. **A recent study by the International Monetary Fund warns that as many as 900 million people could fall back into poverty in the event of an economic shock like the Great Recession**. That figure is three times the size of the U.S. population. According to the World Bank, 1.2 billion people are currently living on less than $1.25 a day. While the report acknowledges that progress has been to made to reduce global poverty and strengthen the world economy following the financial crisis, the world is still in a vulnerable situation. Global unemployment, for example, is the highest it’s been in two decades with 40 percent of the world’s population out of work, according to the report. And things could get much worse in the event of a macroeconomic shock, of which the Europe and U.S. are dangerously close. The recent bailout of Cyprus threw the eurozone into chaos, igniting fears that the situation could lead to the next financial crisis. Here in the U.S., a series of automatic spending cuts know as the sequester could cost the economy hundreds of thousands of jobs. The cuts have already threatened the stability of safety nets designed to aid the nation’s poorest.. [↑](#endnote-ref-17)
18. **Hunag 15// success in solving middle-income can lift the living standards of 1.4 billion people**

    Huang, Yiping. “The Questions About China’s Steady Climb Towards High Income.” East Asia Forum. Oct. 2015.<https://www.eastasiaforum.org/2015/10/11/the-questions-about-chinas-steady-climb-towards-high-income/> //RJ

    When its GDP per capita hit almost US$7500 in 2014, China entered the middle income stage of economic development. **Relatively few countries that have made middle income status in the past three or four decades have graduated to high-income status, or achieved per capita incomes over US$16,000. Now the Chinese economic slowdown has raised questions about whether China will be able to continue its steady economic growth to avoid this middle income trap in the coming decade. Whether China makes the transition to high income status is probably one of the most important economic questions facing the world today. Success can lift the living standards of 1.4 billion people. Failure may lead to economic and social instability in China and the world could lose one-third of its global economic growth engine.** [↑](#endnote-ref-18)
19. **Economic growth key to effective poverty reduction**

    No Author, xx-xx-**2007**, " BUILDING JOBS AND PROSPERITY IN DEVELOPING COUNTRIES," **Department for International Development (OECD),** <https://www.oecd.org/derec/unitedkingdom/40700982.pd>

    ‘**Historically nothing has worked better than economic growth in enabling societies to improve the life chances of their members, including those at the very bottom.**’ Dani Rodrik, Harvard University One Economics, Many Recipes: Globalization, Institutions and Economic Growth (2007) The central lesson from the past 50 years of development research and policy is that **economic growth is the most effective way to pull people out of poverty and deliver on their wider objectives for a better life.** Growth helps people move out of poverty Research that compares the experiences of a wide range of developing countries finds consistently strong evidence that **rapid and sustained growth is the single most important way to reduce poverty. A typical estimate from these cross-country studies is that a 10 per cent increase in a country’s average income will reduce the poverty rate by between 20 and 30 per cent**.1 [↑](#endnote-ref-19)