

The Economics of China's Outbound Programs

Brazil-China Innovation Dialogue 2017

Palácio do Itamaraty – Rio de Janeiro, Brazil

November 28, 2017

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Introduction – The Basic Story

- a. China's domestic economy is successful.
- b. China is now applying its strategy abroad -
- c. Especially One Belt One Road, or OBOR,
- d. Corridors to Europe, with intermediate stops.
- e. It's also called “Belt-Road Initiative” or BRI.
- f. China considers this its “regional” approach.
- g. It helps reduce China's strategic isolation.
- h. China's domestic strategy favors innovation.
- i. It also applies a successful financial model.
- j. It exemplifies government economic leadership.

China's Basic Economic Situation

Low CPI Leaves Room for More Growth

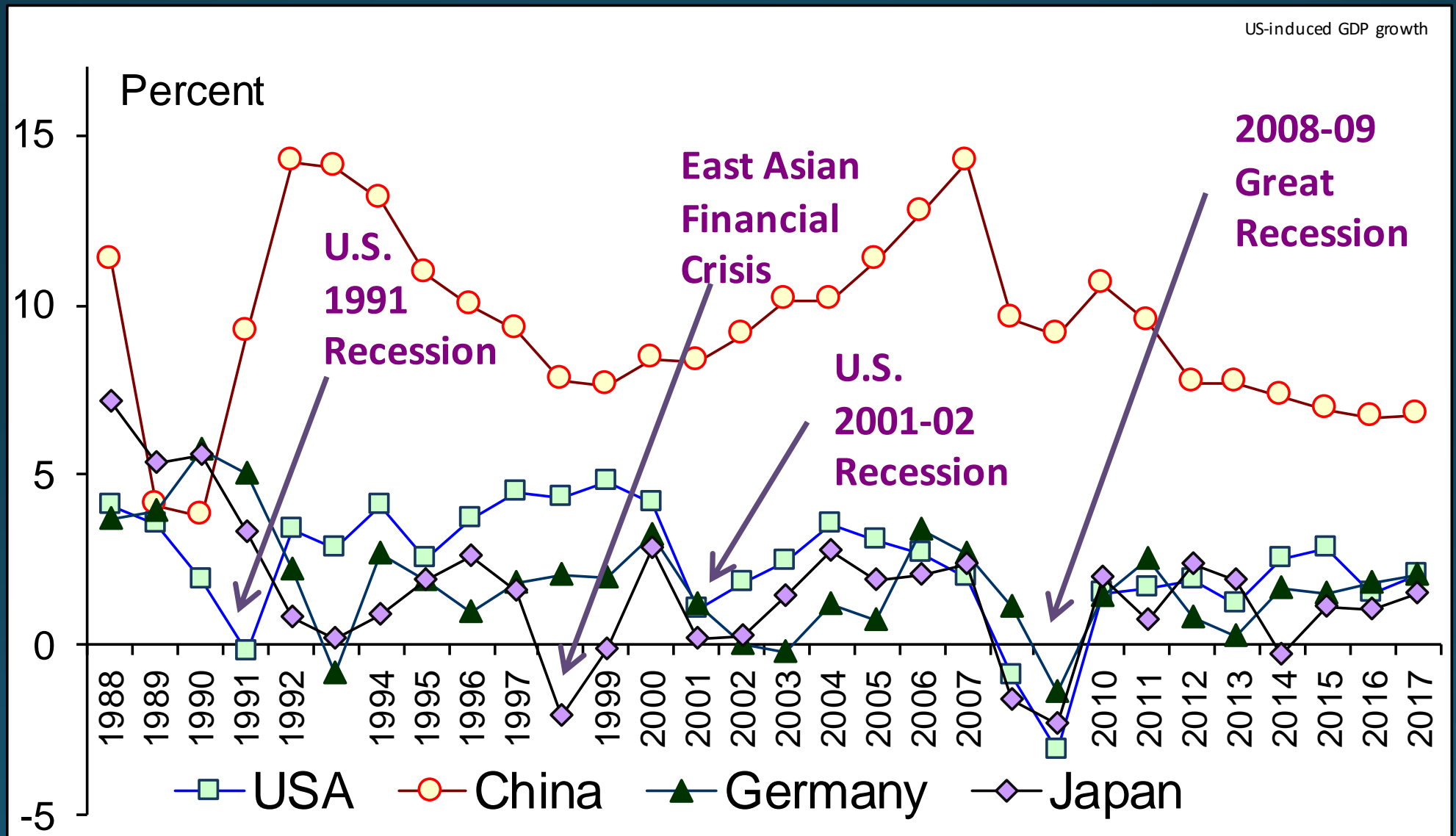
GDP growth and Inflation Indicators				
	GDP Growth	<u>Price Inflation</u>		Invest- ment
		Deflator	CPI	
2009	9.4	-0.1	-0.7	-2.4
2010	10.6	7.0	3.3	3.6
2011	9.5	8.2	5.4	6.6
2012	7.9	2.4	2.6	1.1
2013	7.8	2.2	2.6	0.3
2014	7.3	0.8	2.0	0.5
2015	6.9	-0.4	1.4	-1.8
2016	6.7	1.7	2.0	-0.6
2017 I-III	6.9	4.2	1.5	5.2

Source: NBS Statistical Yearbook, 2017; 2017-III
data from NBS monthly bulletin, October 2017.

China's GDP Growth versus America's

China's Basic Growth is not Export-Led

(Data source: IMF WEO)



An Economic Situation Similar to 20 years ago?

1. Low Inflation, State Enterprise Losses
2. Expensive Subsidies for Registered Urban Families
3. Crisis of Rural-Urban Inequality & Poverty in West

What happened?

1. Major State Enterprise Reforms and Layoffs
2. Banking Sector Reform mirrored State Sector reforms
3. Go West! Initiative and China's WTO Accession

And Now?

1. Rural-Urban Labor Force Integration? A Huge Task
2. Urbanization Push and Housing Finance Reform?
3. Is OBOR/BRI the new “Go West!”+WTO?

What is OBOR (Also called BRI)?

1. Traffic already runs on old Overland and Sea Routes
2. Infrastructure is Poor, but Shipping Times are Short
3. Xi Jinping announced OBOR in 2013

Why refer to a new “Silk Road”?

1. Chinese mention Archeological Evidence
2. In Practical Terms: These Routes can Work Well

What is Involved?

1. Many-Country Collaborations on Development Plans
2. Specific Construction Project MOUs
3. Financing Mechanisms – Public and For-Profit
4. Chinese Development Aid to Affected Countries

Many, Many Maps Show Likely OBOR

Simplified: By Land and By Sea

Potential Combinations are Numerous

(Map Source: Google Map Data)



Weekly Rail Link is Already in Place

Chengdu, Sichuan – to – Rotterdam

A Weekly Freight Service began in June 2016

(Map Source: Port of Rotterdam)



Simpler Maps Give a Good Overview

This Map Includes a Link to Papua New Guinea
But it Misses Africa and Multiple Continental Routes

(Map Source: China Daily)

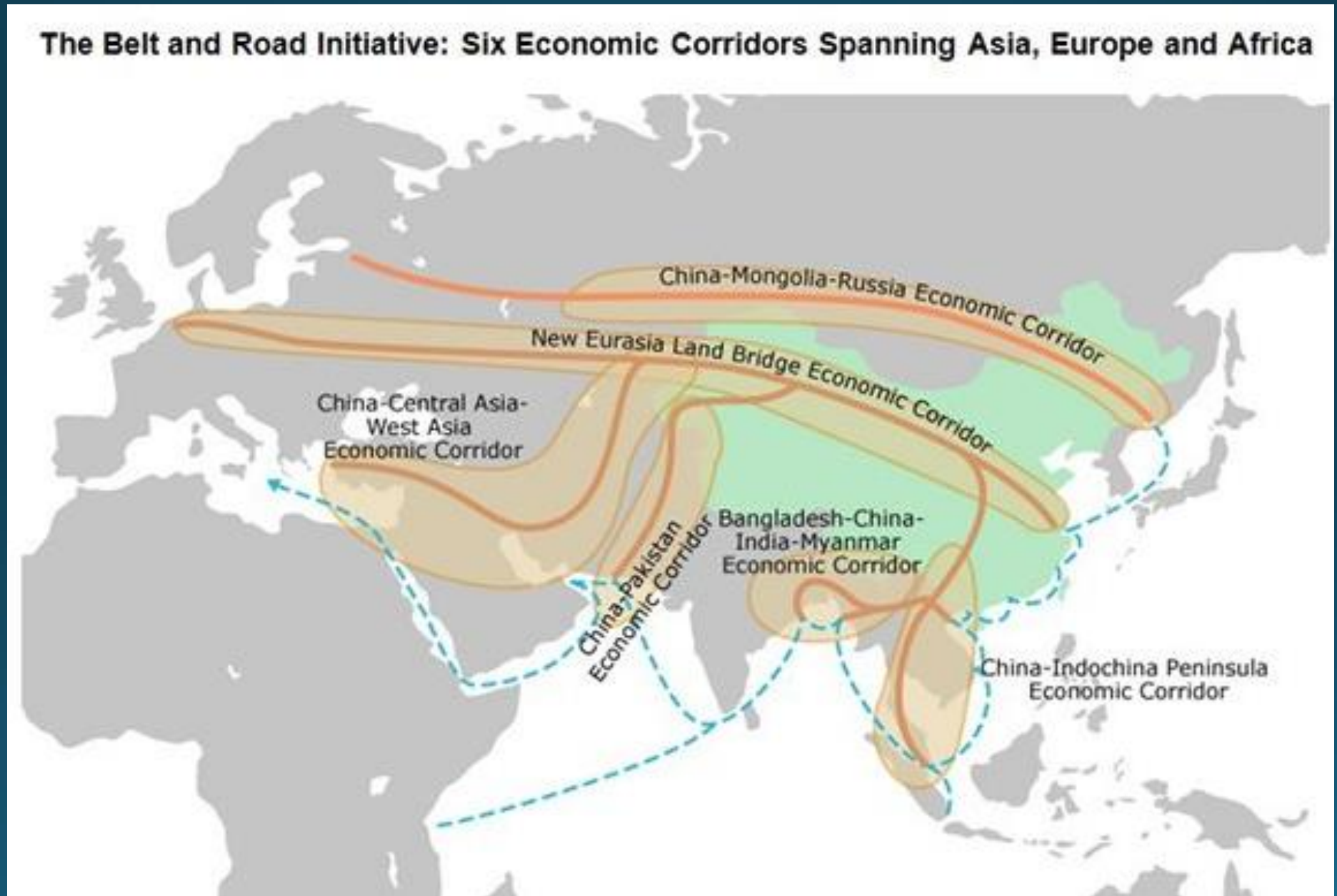
Routes of the China-proposed Belt and Road Initiative



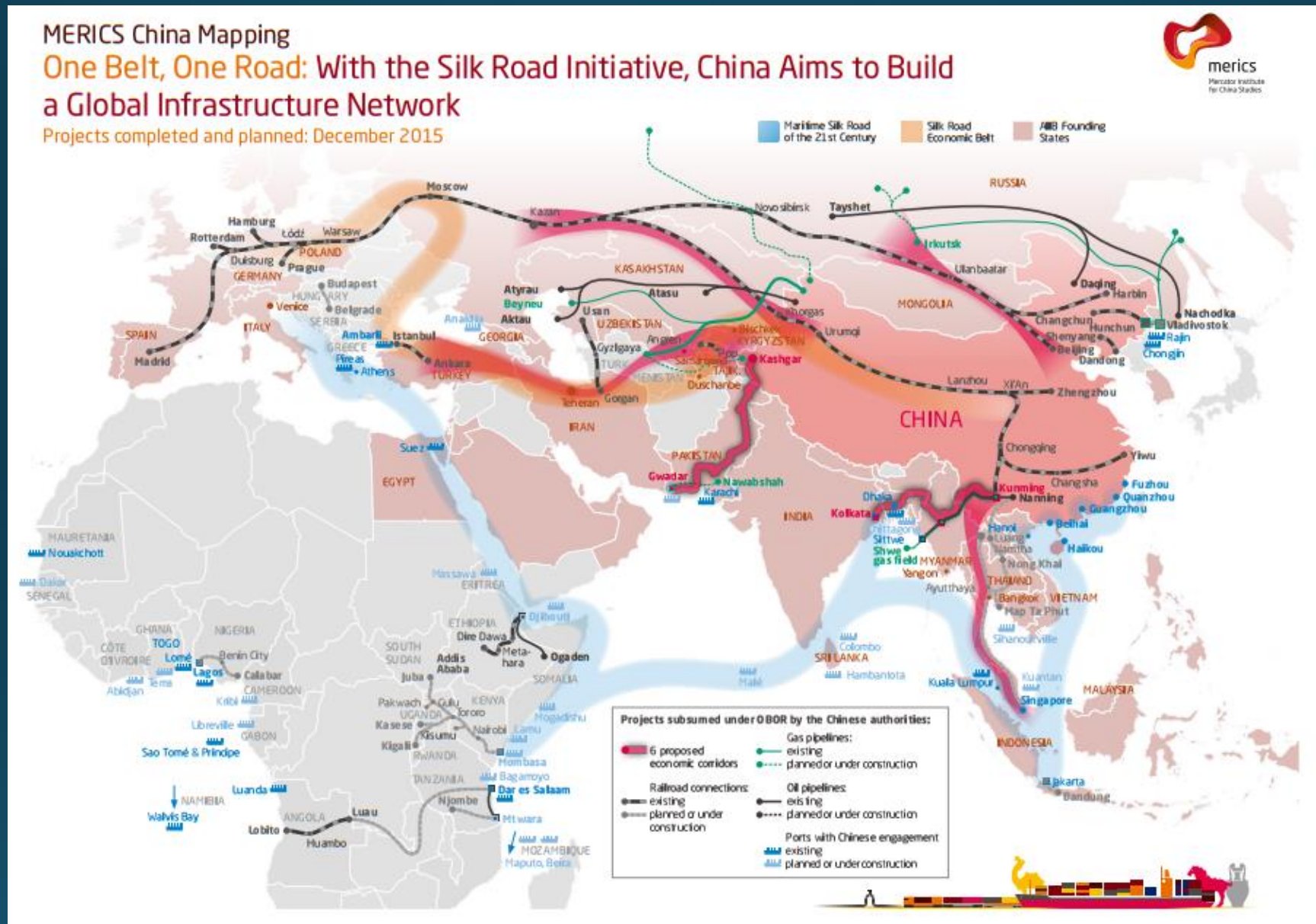
Combination Land-to-Sea Routes

Provide the Most Flexible Transport Routes out of Western China

(Map Source: Hong Kong Trade and Development Council)



And Finally ... Some Maps are Beautifully Detailed



Source: Map by MERICS (Mercator Institute for China Studies), in Frans-Paul van der Putten, Mikko Huotari, John Seaman, Alice Ekman and Miguel Otero-Iglesias. "The Role of OBOR in Europe–China Relations," in Frans-Paul van der Putten, John Seaman, Mikko Huotari, Alice Ekman, and Miguel Otero-Iglesias, eds., *Europe and China's New Silk Roads*, A Report by the European Think-tank Network on China (ETNC) December 2016

A Major Political Event
The Communist Party Congress
October 2017

Top Leaders are the Same
New Other National Leaders Chosen
A New Ideological Direction Outlined
International Direction: OBOR
No Dramatic Market Liberalization Signs

Communist Party (A Corporate Structure)

90 Million Members

Delegates Elected to Party Congress (PC) Every 5 Years

PC selects Central Committee (204 Members)

CC selects Politburo (24), Standing Committee (7)

Party Secretary chairs the Standing Committee

Government (Nominal Democracy)

National People's Congress & its Standing Committee

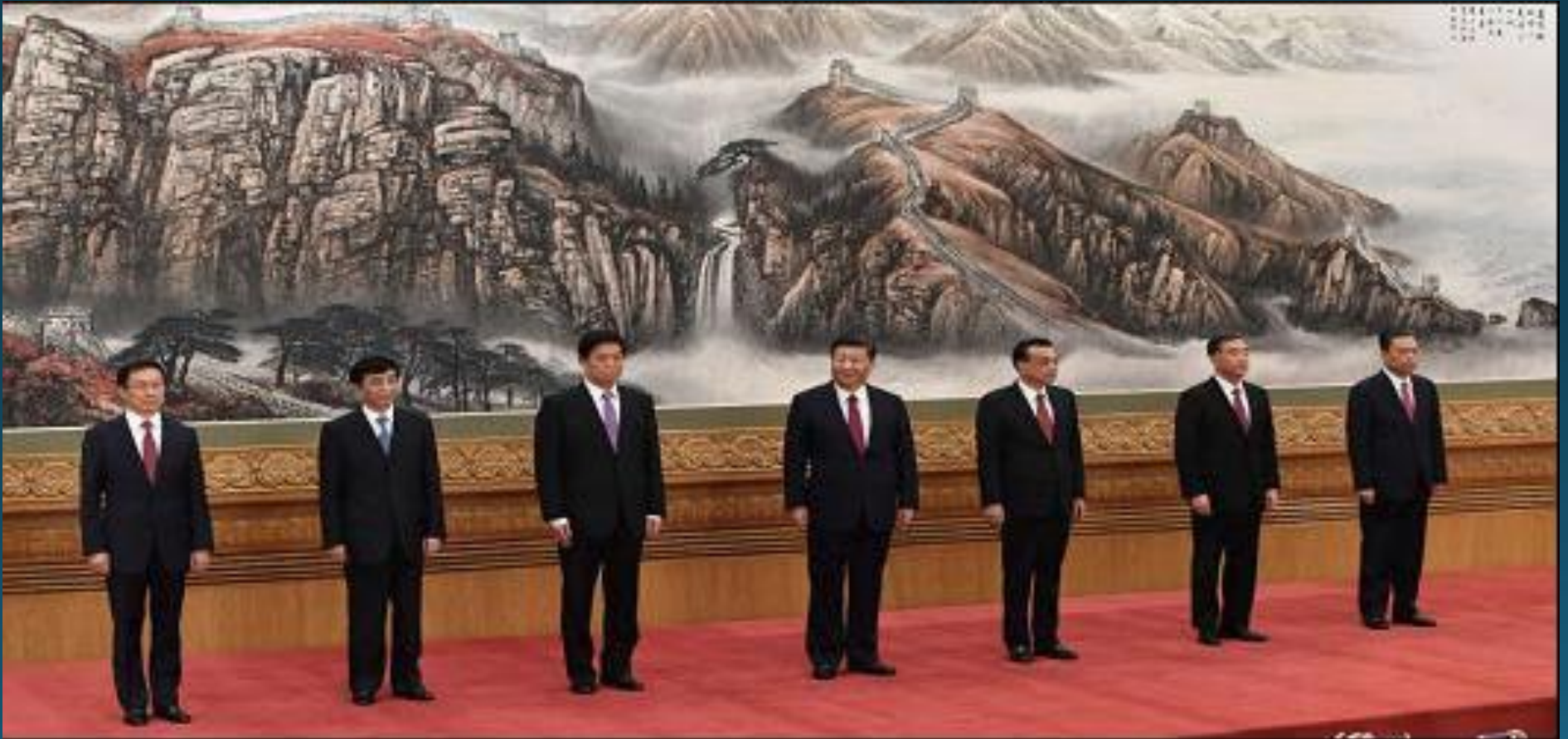
Non-executive President of China

Executive: State Council (SC) has Ministries, &c.

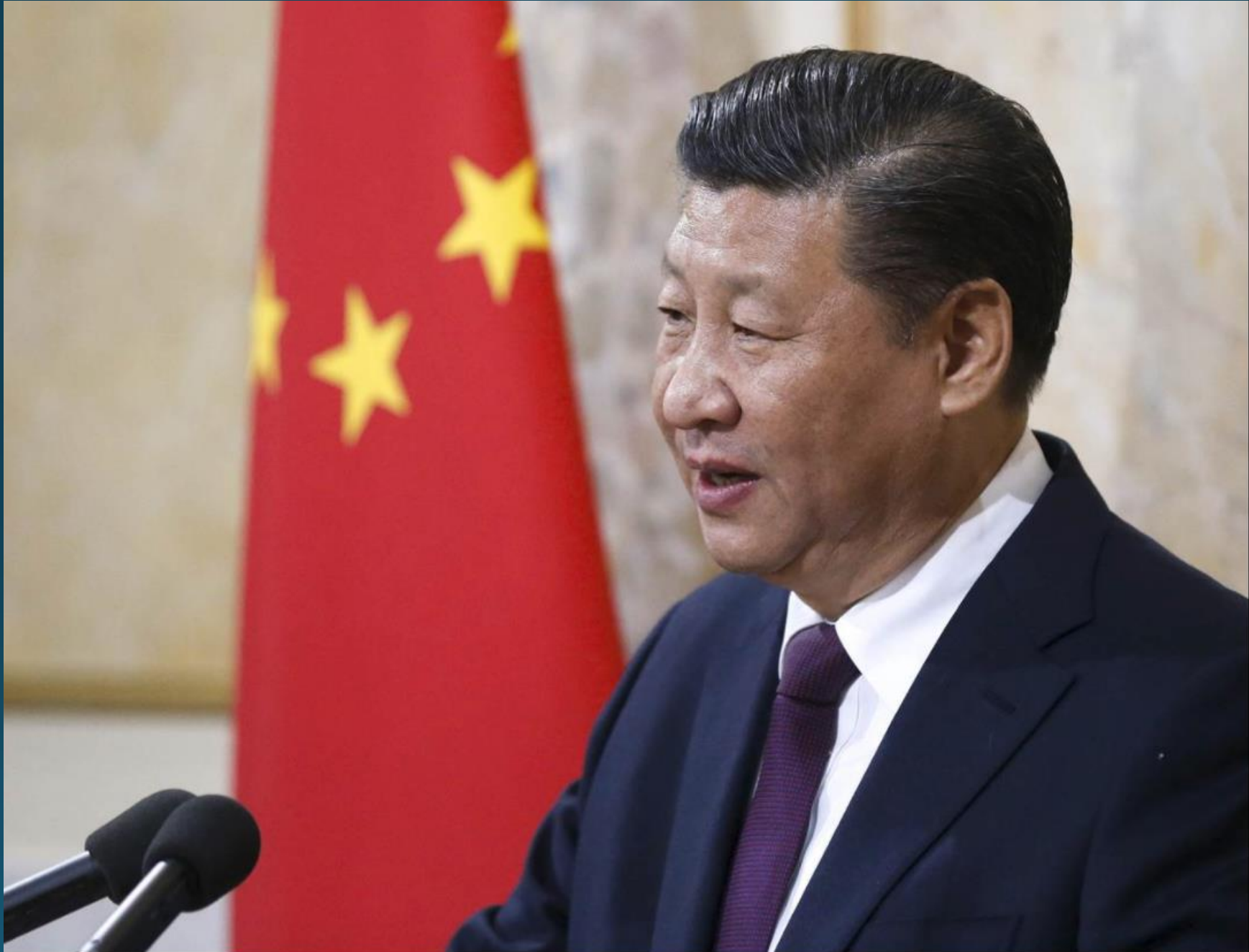
Standing Committee of SC has 10 members

Premier chairs the SC Standing Committee

Party Secretary Xi Jinping in the center of:
China's new Politburo Standing Committee
October 25, 2017 – after
The First Plenum of the 19th Party Congress



President Xi is the “Core” of China’s leadership.



Chinese President Xi Jinping © Peter Klauzer / Pool via EPA, file

Xi Jinping's Speech

Socialism with Chinese Characteristics In a New Era

What does it Mean?

1. Emphasis is on “Chinese Characteristics”
2. “New Era” means China will do whatever works best
3. For Economic Development in a Domestic New Era.

The Belt-Road Initiative?

1. BRI is the overwhelmingly Major Foreign Initiative.
2. International New Era? – The World Order is in Flux.
3. China thinks it can make a Difference its Own Way.

A Troubled Global Economy

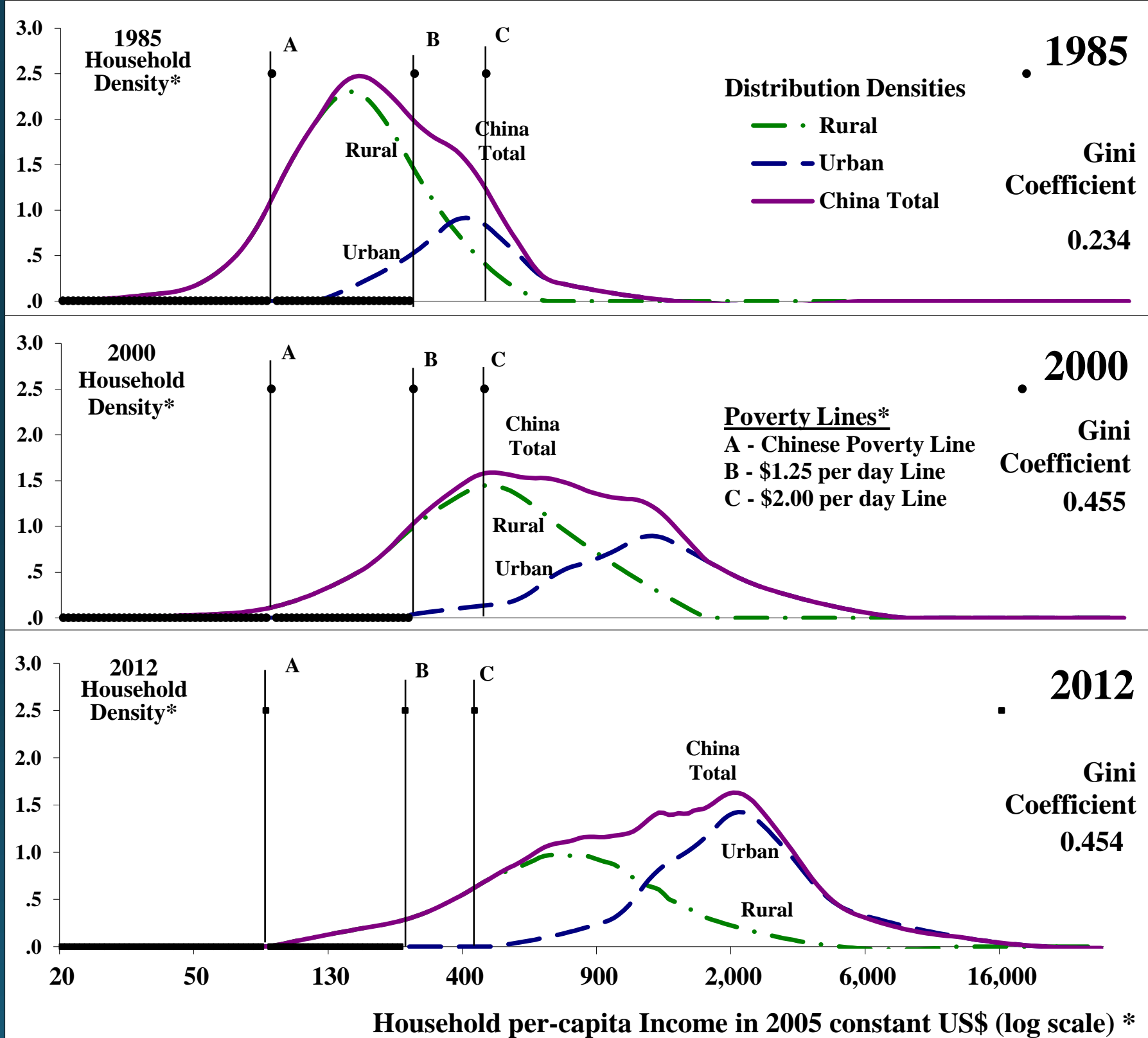
Can China Supply World Economic Leadership?

Decades of Worsening Global Leadership?

1. 2007-09 Financial Crisis was the clearest evidence
2. Huge capital-flow surges washed over countries
3. Fear of terrorism has preoccupied Europe and the US.

Could China's "New Era" fill the gap?

1. The potential Size of OBOR is new.
2. China's Development Strategy as New Leadership



China's Domestic Methods

Is OBOR China's Development Approach?

China's Emphasis is Investment and Markets.

1. Public Investments and Education Spending
2. Public Funds Leveraged larger For-profit Capital
3. Funding was Domestic – not Foreign.

Off-Budget Financially Responsible Agents

1. Added for-profit financial oversight to projects
2. China's Planning Commission Runs the Show

These are China's Likely Methods for OBOR

OBOR Financing

AIIB and Others Mirror Domestic Approach

China has already promoted Core Institutions

1. AIIB, NDB and Silk Road Fund – Roughly \$170 bil.
2. But the CDB is still potentially the biggest
3. The Global Financial Industry will provide most

Disciplining Loan Repayment à la CDB?

1. No New Projects for Delinquent Countries?
2. The role of Public Investment Catalyst is central

This, again, is Domestic China going Abroad

The End

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Discussion