POLICY PAPER

Challenging the Belt and Road Initiative: The American and European alternatives

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Abstract
At the 47th G7 summit held in Cornwall in June 2021, President Biden announced a US-led multilateral plan to counter the Chinese Belt and Road Initiative (BRI). This plan was named “Build Back Better World” (B3W), mimicking the Build Back Better initiative adopted at home by the Biden Administration to revive the post-Covid American economy. A few months later on 1 December 2021 the European Union launched its own response to the Chinese BRI with a 300-billion-euro project called Global Gateway, seemingly coordinated with the American B3W. This paper locates the two Western initiatives in the context of a global quest for hegemony in which China has successfully challenged the existing geopolitical frameworks in Africa, Latin America and – even more importantly – in East and Southeast Asia.

The Belt and Road Initiative was announced by President Xi Jinping in 2013 as a modern Silk Road, making clear China’s ambition to return to its historical role as a world superpower. To improve infrastructure to facilitate world trade (and obviously trade with China) was the official aim of the ambitious plan. After almost a decade since its launch, however, it is evident that the project was not only about infrastructure. It responded to the needs of a rapidly expanding economy in transition from a global manufacturing hub to an industrially advanced country. The BRI simultaneously addressed three major challenges: finding profitable investment opportunities for the immense Chinese financial reserves of foreign currencies; securing strategic commodities; and opening new markets for Chinese exports. The BRI also was (and still is) a major international foreign policy initiative aimed at projecting China into a leadership role in a context of declining American hegemonic power. The American Build Back Better World (B3W) and the European Global Gateway will not only need to compete with China in terms of trade and infrastructure, but also with China’s quest for hegemony that sees its main leverage in its regional prominence in East Asia.

Keywords
Europe in the World
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Introduction
At the 47th G7 summit held in Cornwall in June 2021, President Biden announced a US-led multilateral plan to counter the Chinese Belt and Road Initiative (BRI). This plan was named “Build Back Better World” (B3W), mimicking the Build Back Better initiative adopted at home by the Biden Administration to revive the post-Covid American economy. A few months later on 1 December 2021 the European Union launched its own response to the Chinese BRI with a 300-billion-euro project called Global Gateway, seemingly coordinated with the American B3W. This paper locates the two Western initiatives in the context of a global quest for hegemony in which China has successfully challenged the existing geopolitical frameworks in Africa, Latin America and – even more importantly – in East and Southeast Asia.

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Thirty years that changed the world (or make it forty)
In the thirty years since the end of the Cold War China has powerfully emerged as a new contender for America’s hegemony. In a long historical perspective, the rise of China is closing an anomaly that lasted two centuries – the economy of the Middle Kingdom corresponded to about 20% of world GDP during the entire human history. The speed of this recovery, however, is quite remarkable. In 1991 Chinese GDP corresponded to 383 billion US dollars but in 2020 it had reached 14,723 billion. The size of this growth is more easily understood by calculating Chinese GDP as a percentage of US GDP: it grew from 6% in 1991 to 20% in 2006 and to 73% in 2020. This simple calculation reveals the magnitude of the power shift in the international system. During the same period, particularly due to the failure of self-imposed austerity measures adopted as a response to the 2007-2007 global crisis, the European Union failed to follow the growth path of the United States. Japan, which had become the world’s second largest economy but then lost this position to China in 2010, underwent a dramatic decline. It slightly grew from 58% of US GDP in 1991 to 73% in 1995, but then noticeably shrank to 24% in 2020. The relative decline of Japan further contributed to a shift in the Asia Pacific balance of power, with China (re)emerging as the dominant economic player.

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1 “Build Back Better World”: G7 leaders back developing world spending plan to rival China,’ Euronews, 12 June 2021.
2 European Commission and High Representative of the Union for Foreign Affairs and Security Policy, Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: The Global Gateway, Brussels, 1 December 2021.
5 Author’s calculation based on World Bank, World Development Indicators, online database, GDP current US dollars.
6 Ibid.
The changes that started to become visible in the early 1990s had roots in parallel events in the late 1970s in the US/Western economies and in China. More precisely, the year 1979 can be seen as the watershed that marked a historical change. On the one hand, this year saw the launch of Chinese economic reforms under the leadership of Deng Xiaoping. During the following decade the Chinese economy moved from a planned economy to a market one, starting with a redistribution of land to farmers and the creation of township and village enterprises (TVEs). It was only starting from the 1990s that China gradually emerged as the factory of the world, eventually replacing Germany as the largest exporter and the US as the largest manufacturer. On the other hand, 1979 is the year in which President Carter named Paul Volcker as the new Fed Chair. In order to curb inflation, the new Chairman adopted monetarist policies which sharply increased interest rates and eventually produced what came to be named the Volcker Shock. This shock produced an economic recession and an increase in unemployment, which undermined the political power of the working-class in Western countries. Higher interest rates reduced the capitalist propensity to invest in manufacturing and led to an expansion of financing. Another result of the Volcker Shock was a revaluation of the dollar, which soon transformed the United States into the country with the largest trade deficit. The Plaza Agreement of 1985, which produced a strong revaluation of the yen and therefore reduced American imports from Japan, did not solve the fundamental problem: the United States had become dependent on massive imports of manufactured goods from Asia. The stronger yen strengthened Japanese investments in other countries (including the US) and eventually contributed to a further expansion of regional production networks in East Asia. The excessive revaluation of the yen produced by the Plaza Agreement, however, ultimately resulted in a financial crisis and then in a long-term stagnant Japanese economy.

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8 Respectively in 2009 and 2010.
In this context – growing dependence of the US and Western countries on imported manufactured goods from East Asia, an economic impasse in Japan and pro-market economic reforms in Beijing – the rise of China as the new global factory accelerated. As a consequence of the subprime mortgage crisis in 2007 in the United States and then the global Great Recession of 2007-2009, China adopted policies aimed at reducing its reliance on cheap export goods and at strengthening the national market. These policies were consolidated after the ascent to power of Xi Jinping, leading to the adoption of a Made in China 2025 agenda intended to increase the quality and technological level of Chinese production, preparing the ground to transform the country into a leading global technological superpower and a fully industrialised country by 2049. The launch of the Belt and Road Initiative in 2013 was instrumental in supporting Beijing’s ambitious growth strategy.

From the US-led TPP to the China-led RCEP

The War on Terror carried out by Bush Jr. in the early 2000s was seen by neocons as a coherent effort to rejuvenate American hegemony through the use of military power. Some observers even saw in it a failed attempt to transform the United States into a modern imperial power. However, by the time Barak Obama assumed power it was clear that if the US had become an empire it was affected by the curse of overstretching, with excessive expenditure in Afghanistan and in the Middle East distracting American attention from the ascending geopolitical contender.

The Obama Administration responded to this with a Pivot to Asia aimed at focusing US economic, political and military priorities on East Asia – and obviously China. This new initiative, which could have truly revived the US hegemonic strategy, was launched in 2013 – not coincidentally the same year in which China announced the Belt and Road Initiative. The strategy was directed at offering East and Southeast Asian countries a new partnership with the US to counterbalance the increasing power of China in the region. The Pivot to Asia was welcomed not only by traditional allies (Japan, South Korea, Taiwan, etc.) but also by Southeast Asian countries (particularly Vietnam) that feared Chinese regional hegemony.

A cornerstone of the new US focus on East Asia was a grand plan for economic integration named the Trans-Pacific Partnership (TPP). Negotiations on an ambitious trade pact bringing together countries on the two rims of the Pacific Ocean had started years earlier on the initiative of four smaller countries – Brunei, Chile, Singapore and New Zealand. However, from 2008 the United States joined a wider negotiation that eventually brought 12 countries (including Japan, South Korea, Australia, Canada, Mexico and Vietnam) to sign an agreement in 2016. In the vision promoted by the Obama administration the TPP was much more than a trade pact facilitating economic exchanges across the Pacific: it was meant to rewrite the rules of world trade. The TPP introduced rules on intellectual property, government procurement, sanitary standards, rules of origin, workers’ rights, etc. shaping production and trade on the basis of American interests and priorities. This pact – the largest in the world – would have also had a strong impact on countries not participating in it, notably China. The rules of origin were openly meant to dislocate existing supply chains, reducing Chinese exports of intermediate goods to Southeast Asia. On the other hand, if China had decided to enter the TPP it would have had to surrender to rules specifically designed to conflict with its economic model – the role of state-owned enterprises (SOEs), patenting and property rights, open access to the internet, freedom of association for industrial workers, etc. In other words, the TPP represented a severe challenge for China and a major opportunity for the United States to promote its leadership in a wider alliance with Asian and Pacific economies.

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However, opposition to multilateralism became a prominent factor in the US presidential election in 2016. Both Hillary Clinton and Donald Trump announced their opposition to the TPP and promised not to ratify it if elected. In fact, the US withdrawal from the TPP was one of the first acts by President Trump. The new Administration completely abandoned multilateralism and sought to contrast the Chinese rise with trade wars. These trade wars were able to produce some decoupling, but they were not able to successfully disengage the US from China either in terms of trade or in terms of interconnected production networks. At the same time, the Trump Administration threatened to wage trade wars against US allies and potential partners in a geopolitical competition with China. This had major consequences as East and Southeast Asian countries saw no alternatives to closer economic integration with China.

The US retreat did not completely derail the TPP as the other negotiating partners decided to proceed with the project, with Japan in the lead. The new pact was named a Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and largely incorporated the TPP rules with only a few marginal changes. The new agreement was signed on 8 March 2018 and entered into force at the end of 2018. While in regulatory terms the new agreement mimicked the TPP, the absence of the United States drastically reduced its economic and geopolitical relevance.

With the end of the US-led TPP, the new grand project for trade liberalisation in East Asia was the China-led Regional and Comprehensive Economic Partnership (RCEP), which includes Japan, South Korea, Australia, New Zealand and the ten ASEAN countries – and China. Negotiations on this trade agreement had already started in 2012 as an ASEAN initiative but they became more intense once the US abandoned the TPP and started to engage in trade wars. The agreement was eventually signed on 15 November 2020 and the pact became effective on 1 January 2022. Although the project is much less ambitious than the TPP in terms of its regulatory framework and it simply aims at reducing tariffs and facilitating trade, it is highly relevant for at least three reasons. First, it is the largest trade bloc in history, as the 15 member countries account for about 30% of the world's population and 30% of global GDP. Second, it is the only regional trade framework grouping together China, Japan and South Korea. Third, it is an East Asian agreement in which China is at the forefront of a multilateral trade liberalisation project in response to an American retreat. India, which had been a negotiating partner, abandoned the RCEP negotiations because of fear that its local industries could not compete with cheaper manufactured goods from China and agricultural and dairy products from Australia and New Zealand. India’s absence reduced the economic dimension of the pact but increased Chinese leverage within it.

The RCEP is a new challenge for the Biden Administration, which was left with a difficult heritage after the four years of Donald Trump at the White House. The war in Ukraine cannot conceal the fact that the United States’ global contender is China and not Russia. In the strategic region of Southeast Asia, where many countries are or were American allies, China is now the largest trading partner and the second investor after Japan. While most Southeast Asian countries fear the Chinese expansionism in the South China Sea, their economies are increasingly integrated with that of the northern giant.

19 Grace Ho, ‘A trade pact nearly 10 years in the making: 5 things to know about RCEP,’ The Straits Times, 15 November 2020.
20 Keith Johnson, ‘While Trump Builds Tariff Walls, Asia Bets on Free Trade,’ Foreign Policy, 1 November 2019.
The Belt and Road Initiative – China’s global projection

The Belt and Road Initiative was launched by Xi Jinping in 2013 during a speech on China’s Central Asia strategy at Nazarbayev University in Astana, in Kazakhstan.22 The initiative was presented as a new Silk Road – the most important trade route in the past. The symbolism was clear: it announced to the world the return of China to the position of prominence it had historically occupied in East Asia and globally. Officially, the plan was about huge infrastructure investments to facilitate trade between China on the one hand and Europe, Africa and the rest of Asia on the other hand. Initially called (as it still is in Chinese) One Belt One Road (yi dai yi lu), the term ‘belt’ is used to indicate the land Silk Road and ‘road’ the maritime one. The ‘belt’ consists of highways and railways (and in some cases oil and gas pipelines) linking China to Europe via central Asia, to Singapore via mainland Southeast Asia, to the Bengal Gulf via Myanmar and to the Arabian Sea via Pakistan, etc. The ‘road’ provides maritime linkages by constructing or renovating harbours facilitating the transport of goods to Asia, Europe, and Africa. However, soon it became clear that the BRI was also more than this. The initiative is a framework rather than a coherent programme.23 Various projects have been progressively added and integrated in response to the needs of China and partner countries. The geographical scope has been extended to include Latin America. The range of projects has been extended to include investment in mines, the production and commercialisation of commodities, urban infrastructure, airports, oil refineries, etc.24 The initiative responds to three Chinese priorities, which are the typical priorities of a rapidly expanding economy. The first is securing commodities from food to strategic raw materials such as lithium and cobalt, the second is expanding the market for exports of Chinese goods and the third is creating investment opportunities abroad to prevent the large amount of foreign reserves accumulated as a result of sustained trade surpluses overheating the Chinese economy. From another perspective, however, the BRI can be understood as an instrument to help China address the recurrent crises generated by capitalist development.25 The need to find overseas opportunities for surplus capital corresponds to the “spatial fix” that British geographer David Harvey used to explain the propensity of Western capital to make long-term infrastructure investments in China after the adoption of the open-door policy.26 Now the same need to invest abroad to avoid devaluation of financial assets at home is prominent in China.27 Therefore, the BRI became an integral part not only of China’s international projection but also an essential instrument for the economic viability of its current growth strategy.

The BRI was able to count on a number of factors that facilitated its reception, particularly in developing countries. Some of these factors, however, also motivated opposition and sometimes resistance to the Chinese initiative. The first element to consider is the financial resources committed to the initiative. The projects signed by Beijing with foreign counterparts are typically confidential and no official data are available. Most estimates suggest that the BRI has mobilised resources in the order of a trillion dollars, while some consider this amount excessive and others put it as high as eight trillion.28 Dedicated institutions such as the Asian Infrastructure and Investment Fund and the Silk Road Fund, together with the China Investment Bank and other Chinese commercial banks, make the funds available through streamlined procedures. Unlike the loans provided by international financial institutions and regional investment banks, the BRI loans are approved without strings attached. They are not conditioned on specific economic reforms and neither do they require adherence to environmental or social principles.

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22 ‘Xi proposes a “new Silk Road” with Central Asia,’ China Daily, 8 September 2013.
24 Yu Jie and Jon Wallace, ‘What is China’s Belt and Road Initiative (BRI)?’ Chatham House, 13 September 2021.
28 Jonathan E. Hillman, ‘How Big Is China’s Belt and Road?’ Center for Strategic and International Studies, 3 April 2018.
The lack of conditionality on environmental sustainability and human rights is particularly welcomed by authoritarian regimes in various parts of the world. In turn, this is one of the main criticisms the BRI has received both in recipient countries and internationally.

Assessment of the impact of the BRI is complicated as many of its projects are quite recent and the negotiations on them have normally been shrouded in confidentiality. Somewhat polarised views have emerged, largely influenced by political motivations, on the basis of anecdotal information and limited evidence. In the case of Africa, there is consensus on the strong impact of the BRI in improving regional infrastructure. One of the first studies addressing the knowledge gap on the impact of the BRI suggests a manifold reality. Chinese investment has promoted trade between China and Africa, particularly in large countries and ones rich in natural resources. On the other hand, imports of Chinese manufactured goods have led to crowding out of locally produced goods, while the focus on the resource sector has been associated with a decline in non-resource sectors in some African countries. Based on case studies of three countries – Kenya, Ethiopia and Nigeria – the same research contradicts a prevailing rhetoric against the Chinese BRI indicating that most projects are environmentally friendly and developed in line with countries’ national plans.

In recent years a major concern has emerged regarding debt sustainability for developing countries joining the BRI. This concern has even led to adoption of the term ‘debt trap diplomacy,’ suggesting that China intentionally uses debt to seize strategic assets or influence national policies in developing countries. A large number of new studies, however, have consistently argued that accusations of ‘debt trap diplomacy’ are unsubstantiated and actually mistaken, although this argument is still present in the media. These studies clearly indicate that China does not use the leverage of BRI loans to appropriate infrastructure in developing countries. On the contrary, China emerges as a creditor with great flexibility and leniency in dealing with debt. A notable example of this attitude is provided by a study by the British ODI: in the case of the Addis Ababa-Djibouti railway the Ethiopian government was allowed to defer interest payments and then to renegotiate the terms of the loan, extending the repayment period from 15 to 30 years. A wider study conducted by the Rhodium Group reports many instances in which debt repayments were written off, deferred, refinanced or renegotiated. The ‘debt-trap diplomacy’ argument seemed to be supported by the notorious case of the Hambantota harbour in Sri Lanka, which was leased to a Chinese SOE by a debt-distressed national government. However, the reality is different to what is often reported. The Hambantota harbour was a ‘White Elephant’ project of former Prime Minister Mahinda Rajapaksa with no relationship with the BRI. The Sri Lankan debt crisis was motivated by poor economic management, corruption, and excessive borrowing from Western-dominated capital markets, not from China. There was no debt-for-asset swap but a Chinese SOE leased the port in exchange for $1.1 billion, which Sri Lanka used to pay off other debts and boost foreign reserves. The lease does not allow the Chinese navy to use the facility (as is often reported). Mounting evidence and non-partisan studies have allowed the accusation of predatory Chinese policies using the BRI to seize assets or procure natural resources below market prices from debt-distressed partners to be discarded. The lack of intentionality in creating debt-traps, however, does not exclude the fact that China is using the BRI to achieve geopolitical aims and that dept-dependence may increase Chinese leverage in dealing with client states.

32 Deborah Brautigam and Meg Rithmire, ‘The Chinese Debt Trap Is a Myth: The Narrative Wrongfully Portrays Both Beijing and the Developing Countries It Deals With,’ The Atlantic, 6 February 2021, reprinted by the Harvard Business School, Faculty & Research Website.
34 Agatha Kratz, Allen Feng and Logan Wright, ‘New Data on the “Debt Trap” Question,’ Rhodium Group, 29 April 2019.
The BRI is a key instrument in a wider Chinese effort to maintain high growth rates and catch up with Western economies through stronger international economic projection. The strengthening of the Chinese economic position has obvious geopolitical implications. Empirical data show dramatic shifts in different regions, where in most cases China has become the first or second trading partner surpassing or challenging the historical pre-eminence of the United States or the European Union. From 1991 to 2020 China passed from absorbing 4.9% to 17.5% of Sub-Saharan Africa’s exports. In the same period, the share of exports to the European Union slightly declined from 22.6% to 17.9%, while that to the US dropped dramatically from 24.0% to 5.2%. China’s quota of goods imported from Sub-Saharan Africa also drastically increased from 3.9% to 18.7%. Trade relations between China and African countries rich in natural resources have become even more pronounced: from 1991 to 2020 the share of the Democratic Republic of Congo’s exports directed to China rose from 11.3% to 51.0%.38

While the strengthening of the Chinese position in Africa is seen as a threat to European interests, in the case of Latin America it is the United States that faces a challenge in what was perceived to be its backyard. Also in this case, empirical data show a major shift. From 1991 to 2021 the share of exports from South and Central America (minus Mexico) to China increased from 2.5% to 23.2%, while that to the US halved from 30.2% to 16.4%. A similar pattern is also seen in imports to the region.39

The alternatives to the BRI: too little, too late?

At the G7 summit in June 2021 President Biden proposed “to launch the bold new global infrastructure initiative Build Back Better World (B3W), a values-driven, high-standard and transparent infrastructure partnership led by major democracies to help narrow the $40+ trillion infrastructure need in the developing world, which has been exacerbated by the COVID-19 pandemic.” The American plan defined four areas of focus: climate; health and health security; digital technology; and gender equity and equality. Less clear was the amount of money to be invested. The US strategy was to mobilise private-sector capital from the G7 and other like-minded partners with catalytic investments by public development finance institutions. The commitment, however, remained somewhat vague: “B3W will collectively catalyse hundreds of billions of dollars of infrastructure investment for low- and middle-income countries in the coming years.” Notwithstanding its elusiveness, the American plan was notable because it represented a return to a multilateral approach in the global competition with China. The US return to multilateralism also implied a recognition of the UN system as an essential ally in a coordinated effort to address the needs of developing countries.

In the following months the B3W initiative scarcely resurfaced in the American and international media. The Biden Administration was confronted with strong opposition in the Senate to its national Build Back Better project and it had limited space for significant moves at the international level. The choice to brand the international initiative with the same label as a failed domestic agenda proved to be mistaken and in spring 2022 it emerged that the name had been abandoned.45

37 Author calculations on IMF data, Direction of Trade Statistics, online database.
38 Ibid.
39 Ibid. Given the relatively large size of the Mexican economy and its integration with the US through NAFTA, including Mexico in the sample would have made the dynamics that affect the entire region less visible.
41 Ibid.
42 Ibid.
43 ‘G7 leaders adopt “Build Back Better World” plan to rival China’s belt and road strategy,’ South China Morning Post, 12 June 2021.
44 Conor M. Savoy and Shannon McKeown, ‘Opportunities for Increased Multilateral Engagement with B3W,’ Center for Strategic & International Studies, 6 May 2022.
In the meantime, on 1 December 2021, the European Union launched its own initiative, which seemed to be independent of but aligned with B3W. This initiative was called Global Gateway and it aimed to boost smart, clean, and secure links in the digital, energy and transport sectors and to strengthen health, education, and research systems. Like B3W, the EU initiative was meant to mobilise the public and private funds of Team Europe, meaning the EU institutions and EU member states jointly. In this case, the amount to be mobilised was 300 billion euros from 2021 to 2027. In the European case, as for B3W, the difference to the BRI was supposed to lie in the values of transparency, equal partnership, environmental sustainability, and human rights compliance.

At the G7 conference in Elmau (Germany) in June 2022, the US-led initiative was re-launched – this time as a Global Investment and Infrastructure Partnership. President Biden made a more binding commitment. He indicated that the initiative would mobilise 600 billion dollars in the five years to 2027 and that 200 billion would be provided by the US alone. Biden also gave concrete examples of projects to be supported: a secure underwater cable linking Europe and Southeast Asia, an industrial MRNA vaccine plant in Senegal, solar projects in Angola, a modular nuclear reactor plant in Romania and a port linking Christmas Island with the rest of the world.

A number of questions, however, remain unanswered. The new G7 plan, together with the EU Global Gateway and parallel initiatives promoted by the UK and Japan, does not seem to rely on secure financial resources apart from those already committed for development cooperation and now rebranded. The level of coordination and cooperation among these distinct initiatives is also undefined and this casts doubt on the concrete amounts to be mobilised. This ambiguity contrasts with China’s ability to mobilise its large foreign currency resources. In contrast, over the years Western countries have actually reduced their financial support for developing counties and the possibility of relying on private capital for risky and long-term projects in Africa and Latin America is doubtful. In the short term it is unlikely that these G7 and like-minded initiatives will be able to create a substantial alternative to the Chinese BRI. On the other hand, these initiatives indicate that new strategies are taking shape and that a more concrete challenge to the Chinese BRI may emerge in the near future.

Conclusion

At the G7 conference in June 2021, the Biden Administration launched a plan that was openly presented as an alternative to the Chinese BRI. The plan was presented again – under a new name – at the G7 conference in June 2022. This plan, together with parallel (and coordinated?) EU, British and Japanese initiatives, is gradually taking shape. However, it is doubtful that at least in the short term they will be able to match the financial resources committed by the Chinese initiative. More importantly, the BRI is only a – crucial – element in a wider Chinese global projection connected to and supporting the rapid economic growth of the giant Asian country. The return of the United States to multilateral policies will facilitate coordination with its traditional allies and possibly create a framework in which the Chinese challenge to American hegemony can be peacefully negotiated. The war in Ukraine, however, may also lead to a more dramatic scenario in which US-China competition takes the shape of a new cold war, of which the rules of the game are less clear than at the time of the Iron Curtain.

46 European Commission and High Representative of the Union for Foreign Affairs and Security Policy, Joint Communication to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: The Global Gateway, Brussels, 1 December 2021.
47 Patrick Wintour, ‘G7 relaunches funding programme for developing countries under new name,’ The Guardian, 26 June 2022.
48 Ibid.