US-Sino rivalry driving development financing

Geoeconomic battle brewing with developing nations offered choices in economic integration

By Qarrem Kassim

The competition for influence among great powers like the United States and China is continually reshaping the global landscape.

One of the non-conventional "weapons" deployed to reshape geopolitics is development financing, which allows great powers the opportunity to interfere in another nation's level of development and influence its long-term economic integration.

Countries can now integrate selectively with global trading systems based on strategic interests, creating a new and equally pivotal arena for geoeconomic influence. Understanding the interplay of great-power dynamics is important, as developing nations grapple with growing infrastructure and developmental deficits, forcing them to leverage these shifts for their own benefit.

For more than a decade, China has effectively leveraged on its economies of scale to project its geoeconomic influence and build global economic partnerships through its ambitious Belt and Road Initiative (BRI), which spans 155 countries and encompasses more than 3,000 projects.

BRI, central to China's geoeconomic strategy, aims to foster connectivity by spearheading a network of infrastructure projects designed to further its economic interests abroad – particularly developing nations, which constitute 77% of its participants.

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Since inception, cumulative BRI investments have totalled US$1 trillion (RM4.7 trillion), while total trade value between China and other BRI markets more than doubled from US$883 billion in 2013 to US$1.9 trillion in 2022, making up more than a third of its total trade.

Alternative to West

Traditional institutions like the International Monetary Fund and World Bank (which China perceives as fundamentally Western-led) have typically imposed rigorous governance conditions for financing.

BRI, in contrast, offers state-sponsored loans with more "lenient" governance obligations, allowing developing countries to bypass traditional institutions. Nevertheless, BRI loans are often larger, more expensive and less transparent, leading some analysts to suspect the initiative of furthering "debt-trap diplomacy".

Nevertheless, BRI has undergone significant evolution in the past four years, scaling back risky overseas investments as rising repayment problems and low economic returns persist. China's maturing economy, likewise, means that it can no longer continue to underwrite costly, high-risk loans.

As the BRI faces increasing scrutiny over the sustainability of large-scale infrastructure projects, a strategic pivot is emerging. Announced in 2021, China's Global Development Initiative (GDI) represents a shift towards smaller local-scale projects that align with the United Nations Sustainable Development Goals (UNSDG 2030).

GDI underscores China's evolving narrative, positioning itself as a champion of home-grown economic development that stands in contrast to what some perceive as the West's preoccupation with security in the Indo-Pacific. This sentiment has resonated with certain nations in the Global South, which may perceive this stance as giving secondary priority to their immediate development needs.

While the GDI remains nascent, amorphous and comparatively opaque, the shift in policy focus from infrastructure to local development could broaden and reshape China's engagement with the world.

This expansion aims to deepen China's economic agenda, focusing on sustainable and inclusive development, positioning it in more direct competition with other global institutions in the developing world.

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From Beijing's perspective, this also serves to mitigate potential geopolitical risks, promoting long-term stability and cooperation through enhanced economic integration.

G7 anxieties

Uncomfortable with the growing geoeconomic dependency among developing nations with China, US President Joe Biden announced the Partnership for Global Infrastructure and Investment (PGII) at the G7 Summit in 2022, an initiative to mobilise US$600 billion in pledged private-sector loans and grants for sustainable projects in developing nations.

PGII is distinctive for its values-driven and standards-setting approach to attract private sector investment over state-sponsored loans typified under BRI. To encourage private investment, certifications for infrastructure must comply with the "Blue Dot Network" requirements. These are derived from 70 international frameworks complete with scoresheets and review processes, ensuring that only projects that meet its high standards are considered.

However, PGII fails to find a common vision with the needs of the developing world, which have limited appetite and capacity for sustainability assessments – a component critical to the financing model of private capital.

In contrast to China's state-driven BRI, which boasts numerous flagship projects, PGII faces difficulty finding "bankable" projects in developing nations, which may prefer Beijing's looser requirements.

There are also no assurances that G7 governments will be able to make good on their pledges, given that they have no material control over private-sector investments. Coupled with the fact that finding sufficient bankable projects will require significant technical assistance and capacity building, it could take years to achieve widespread results.

While it doesn't seem likely that PGII could supplant BRI in the near term, it does present an opportunity to access varied funding sources while offering a yardstick to benchmark development projects.

Diverse funding sources

It must be stressed that the developing world is not a homogenous collective. Developing nations have varied gaps and needs. For developing nations that possess stable governments and relatively lower risk, PGII makes an attractive alternative, emphasising robust standards. Meanwhile, nations with more acute developmental needs may still turn to the BRI and GDI.

By recognising this diversity, nations are offered a choice between development models that can align best with and tailored to their circumstances.

In a best-case scenario, the emphasis on high-quality standards could incentivise BRI to uplift its own framework, setting in motion a virtuous cycle, as values-driven competition could encourage a race to the top, leading to better sustainable outcomes.

In the long term, as economic and trade integration intensifies, the choice of development partner will influence the trading relationship of the developing world and direction of global supply chain integration. Amid an increasingly bifurcated geoeconomic landscape, the competition for global influence is intensifying the pivot towards the developing world.

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