Forbes

China's Bridge to Nowhere
September 7, 2017

By Joel Moser
https://www.forbes.com/sites/joelmoser/2017/09/07/chinas-bridge-to-nowhere/2/#6848e4c84cee

Shutterstock

In the aftermath of the Cold War, the Soviet “Evil Empire” appeared to be more myth than reality—a public relations stunt perpetrated by USSR leadership to appear strong. In fact, the pace of Soviet expenditure on its military, at a quarter of its GDP, was unsustainable and its economy was headed to collapse. Are we witnessing a similar public relations stunt in China’s plan for world domination via infrastructure development instead of military might?

In its Belt and Road initiative, China has laid out plans to spend as much as US$8 trillion dollars on infrastructure intended to connect the Eurasian land mass as well as Africa to create the 21st Century equivalent of the Silk Road, reestablishing China as the center of the globe and cementing global economic ties. At first look, this is a masterful plan as it proposes to create lasting bonds through transportation and energy links. A closer examination raises a series of questions.

First, can China, as big as it is, actually afford this build-up? The plan calls for incremental expenditures in an amount close to the total GDP of the country. True, China’s GDP will grow over time and the plan does not have very specific timeframes for completion, allowing for affordability pacing. However, big-ticket projects tend to grow in cost at a rate far in excess of inflation.

Next, consider the regions and countries intended to be connected by the plan. These include some of the most politically complicated states on the planet such as Iran, Pakistan and Saudi Arabia, as well as China's frequently unmanageable neighbor Indonesia where a court in the capital city Jakarta recently convicted its ethnically Chinese former Governor of blasphemy and sentenced him to two years in prison. These are nations which are not likely to easily fall in line from the soft power of trade links, and China may come to see investment in these countries as misadventures akin to the United States' failed attempts to insert itself in the affairs of several South American countries and elsewhere in the heady days after World War II.

Trillions of dollars of cement and steel may be more influential than covert CIA plots, but the United States, other NATO countries and the World Bank have also seen trillions of dollars of infrastructure spending in complicated places around the world quite literally blown up as politics rapidly shifted on the ground.

In the Late 1960s through the early 1980s, the United States planed, funded and constructed numerous infrastructure projects, including in some of the very countries that are to be part of the Belt and Road initiative. Many were implemented by USAID in Iran, Laos, Syria and Lebanon. Through ensuing revolutions and wars, many of these projects, though completed, subsequently were literally destroyed, bombed out of existence.

What these experiences demonstrate is that poured concrete alone will not cement trading routes, trading routes alone will not create economic opportunities and infrastructure development, however massive, is not permanent in the face of civil unrest and political turmoil. Big infra assets like bridges, power stations and refineries are often the first targets of precision bombing raids when armed conflicts break out.

In calculating its return on $8 trillion of investment, has China factored in the political risk of violent regime change or civil unrest? Furthermore, how are they hedging these massive investments against the risk of disruptive technological shifts such as localized commercial scale 3D printing, advanced distributed solar power generation, or even solar powered air travel that may make heavy land and sea based transportation systems and midstream energy links largely obsolete?

Infrastructure is expensive and there are good reasons that most market driven investors will only put capital into stable countries and into projects with long-term off-take or use agreements. A country can make these forms of investment for policy reasons or with longer time horizons, but they are nonetheless subject to the same political and economic risks. Presumably China is aware of all of this and must understand how much of a gamble this capital deployment would be.

Why plan such an undertaking if it may be a giant bridge to nowhere? Because it plays well politically now, and the fulfillment of the plan will fall to the leaders of the future. Because Chinese builders need projects to stay busy at a moment in which the country has overbuilt its own infrastructure and there are few mega projects left to undertake—you can build only so many ghost cities.

Finally, because it's a show for both internal and external audiences. The world has seen wasted infrastructure spending in unstable regions and a seemingly rising power spend itself to death in an effort to project a larger image on the world stage. Now it's China's turn to make the same mistakes.