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G7's 'Build Back Better World': Rival to China's BRI?

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SYNOPSIS

As a rival to China's Belt and Road Initiative (BRI), the G7's "Build Back Better World" (B3W) will face significant challenges. As a complement, however, both the B3W and BRI together could help build a more inter-connected world and drive global economic growth in the post-COVID-19 era.

COMMENTARY

ON 12 JUNE 2021 the G7 Leaders launched a global infrastructure initiative labelled the "Build Back Better World (B3W). According to the [US government fact sheet](#) issued on the occasion, the B3W will be "a values-based, high standard, and transparent infrastructure partnership led by the major democracies" to "collectively catalyse hundreds of billions of dollars of infrastructure investment for low and middle-income countries".

Through the B3W, the G7 and other like-minded partners are to "coordinate in mobilising private-sector capital in four areas of focus – climate, health and health security, digital technology, and gender equity and equality". Additional details of the B3W including the level of funding that developing countries could expect to receive are, however, not yet known. Because of the ongoing heightened US-China competition and confrontation, analysts have interpreted the B3W as a rival counter-initiative to China's Belt and Road Initiative (BRI).

Progress of BRI: Silk Road Offshoots?

The BRI was launched in 2013 as China's foreign and economic policy initiative to achieve improved connectivity, regional cooperation, and economic development on

a transcontinental scale. It presently involves China's partnership with over 140 countries and international organizations.

According to the [Refinitiv](#) database, in mid-2019, the BRI comprised some 2631 projects valued at US\$3.7 trillion. In the aftermath of the pandemic, as borders closed and lockdowns were imposed, the number of BRI projects started to gradually fall.

In June last year, [China's Ministry of Foreign Affairs](#) announced that 30-40% of BRI projects had been "somewhat affected" by the pandemic, while another 20% had been "seriously affected". Restrictions on the flow of Chinese workers and construction supplies were cited as the major reasons for project suspensions or slowdowns in, among others, Pakistan, Cambodia, and Indonesia.

There were some speculations about the sustainability of the BRI. But rumours of its demise have proven to be exaggerated. China is gradually moving into new priority areas of sustainable and inclusive growth (Green Silk Road), medical aid and cooperation (Health Silk Road) and telecom and digital infrastructure (Digital Silk Road).

B3W and BRI As Rivals

If B3W is to be a rival to the BRI, as most expect, it will face several important challenges:

- *First*, not all of the US' allies are enthusiastic about the B3W. While the UK continues to rally behind the US, challenges emerge from the European Union and Germany where China is seen as a vital trading and investment partner. Italy's simultaneous participation in the G7 and the BRI also complicates universal support for the B3W.
- *Second*, most B3W investments are to come from the private sector which will seek profits from infrastructure projects. It will also be difficult for these investment projects to compete with state-sponsored and supported BRI loans and investments.
- *Third*, China's foreign exchange reserves stands at about \$3.2 trillion and part of the reason it is investing in BRI projects is to seek higher returns rather than simply hold low-yielding US Treasuries. The G7 countries are not in such a situation.
- *Fourth*, China has relative comparative advantage in building physical infrastructure, not the G7 countries. Overall infrastructure development and project management skills including cost controls are better in China than in the G7 countries. Construction workers and materials are also cheaper.

China has some of the best infrastructure in the world including the fastest train and the longest sea-bridge. The US Interstate Highway System with a total of 77,960 km took 36 years to complete. China completed its National Trunk Highway System which is almost twice as long in 29 years.

B3W and BRI as Complements

B3W can also complement the BRI in several ways:

- *First: sectoral focus:* Although it is changing to some extent, the BRI focuses mainly on traditional “hard” infrastructure: Ports, roads, dams, railways, electric power plants, and telecommunication facilities. On the other hand, the B3W is to focus on “softer” infrastructure, namely climate, health and health security, digital technology, and gender equity and equality.

During the past two decades, China has accumulated a vast amount of experience in building physical infrastructure both domestically and overseas. Projects in the “soft” areas should benefit from President Biden’s efforts to push social infrastructure development at home.

- *Second, financing modality:* The BRI relies mainly on bilateral loans and investments from state-owned commercial and policy banks like China Development Bank, Export-Import Bank of China, and the Silk Road Fund. So far, China has had limited success in leveraging private capital.

The B3W plans to use bilateral and multilateral loans and private sector capital to mobilise hundreds of billion dollars of investment for infrastructure projects. At the bilateral and multilateral level, B3W plans to use funding from the Development Finance Cooperation, USAID, EXIM, the Millenium Challenge Cooperation, and the US Trade and Development Agency.

Because of the long investment cycle and low returns on projects, private financiers have tended to stay away from infrastructure projects. B3W’s success in this area will be useful for the BRI.

- *Third, resource additionality:* According to an [Asian Development Bank report](#), Asia alone faces a \$26 trillion infrastructure investment need until 2030 mainly in the power and transportation sectors. Infrastructure financing gaps are expected to be large. There is, therefore, room for both the B3W and BRI.

Hardening US-China Relations

Summing up, if the B3W is to be a rival to the BRI, it will face a number of major challenges. As a complement to the BRI, however, the B3W and BRI could leverage and contribute significantly to building “high standard” global infrastructure and, thereby, promote economic growth in the post-COVID-19 world.

China has repeatedly emphasised the open and inclusive nature of BRI and its willingness to cooperate with other stakeholders. Since the B3W concept is still evolving, those driving the project should coordinate closely with their counterparts overseeing the BRI and exchange information.

The hardening US-China relations where the US sees China as a strategic competitor is certainly a constraint at the present time. But, by and large, the US and China are still closely integrated and inter-dependent at many levels and this should eventually lead to more cooperation than competition between the two countries.

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