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Development aid as part of the new Cold War

Sources: IPS [Image: Economipedia]

Development aid has become a new battleground of the new Cold War between China and the United States. Beijing is moving forward with the Belt and Road Initiative, its new Silk Road, Washington is trying with the new Partnership for Global Infrastructure and Investment, to which it has added the rest of the Group of Seven.

SYDNEY/KUALA LUMPUR – Financing for development, long a means for powerful nations to influence developing countries, has taken on renewed importance in the new Cold War. Unlike the previous Cold War between the United States and the former Soviet Union, now the rivalry is between mixed capitalist market systems.

Rivalry in development aid

After repeatedly reneging on their promises of development aid and climate finance, the large wealthy nations of the Group of Seven (G7) dutifully endorsed and approved the Partnership for Global Infrastructure and Investment (PGII) promoted by US President Joe Biden, during their annual 2022 summit, held in June in the German town of Schloss Elmau.

With a $200 billion commitment from the United States, the G7 pledged to mobilize $600 billion in public and private funds for infrastructure investments in developing countries of the South, opening up competition with China's multibillion-dollar Belt and Road Initiative (BRI). a reissue of the ancient Silk Road.

The White House argues that unlike the BRI, the PGII offers high-quality, sustainable, value-based infrastructure. Therefore, G7 funding is more likely to have conditions, for example, taking sides in the new Cold War.

A spokesman for China's Foreign Ministry stressed that Beijing continues to welcome all initiatives that promote global infrastructure development, but insisted that the emerging global power is opposed to pushing geopolitical calculations under the pretext of infrastructure construction or discrediting the BRI.

America's National Security Priority

At the 2021 G7 Summit, Biden had put forward a similar initiative, the Build Back Better World (B3W), insisting that it would define the G7's alternative to the Chinese BRI. Based on its national Build Back Better (BBB) program, B3W soon failed when the U.S. Senate rejected the original, the BBB.

The White House's claim that, with the B3W, the United States was bringing together the world's democracies to respond to peoples, meet the world's greatest challenges, and demonstrate shared values has also been removed from the approved PGII.

With few details on the B3W initiative, the European Union (EU) launched in December 2021 its own strategy, called the Global Gate, for developing countries, pledging $300 billion in infrastructure investments by 2027.

At the EU-African Union Summit in February 2022, the European bloc announced $150 billion in funding for the Africa-Europe Investment Package, half of the Global Gate budget.

EU leaders have touted their new Global Gate as the best response to the new Chinese Silk Road, suggesting that G7 initiatives should not only be complementary, but also mutually reinforcing. But the EU's African priority is not necessarily shared by other G7 members.

EU funding of $135 billion will come from the European Fund for Sustainable Development. The UK's Clean Green Initiative, which emerged during the 2021 Glasgow Climate Summit, and Japan's $65 billion for regional connectivity cannot be additional either.

Acknowledging the scepticism about the amount of new money, German Chancellor Olaf Scholz urged G7 members to present their commitments in a coherent manner to dispel doubts about double counting and the low ratio of subsidies to credits.

When it was announced that the PGII launched in June at the G7 summit would replace the failed B3W, a great deal of confusion was created. Making its purpose clear, the White House unequivocally stated that the PGII will promote U.S. national security.

Crazy, risky and conditioned

The G7 also now calls for using public money to mobilize private sector funds. But such initiatives have failed to mobilize significant private funds, which does not allow us to expect the trillion-dollar funding gap to be filled.

According to the British conservative publication *The Economist*, blending, which combines public, charitable and private money, is struggling to take off. Even the International Monetary Fund (IMF) and the World Bank warn that public-private partnerships, so-called PPPs, incur contingent fiscal risks.

Worse, PPPs distort national priorities, favour private investors and exacerbate debt crises. Nor have they improved equity of access, reduced poverty, or improved sustainability.

$79.6 billion of climate finance the OECD reported in 2019 was the highest in history. But OECD estimates are much disputed, for example, for double counting and for including non-concessional commercial loans, renewed loans and private financing.

Cooperation, not conflict

Debt crises in developing countries often involve commercial loans or money from the private sector. For example, the Latin American debt crises of the 80s were caused by the interest rate hikes of the US Federal Reserve to end inflation.

Private sector loans typically involve higher interest rates and shorter repayment periods than loans from governments and multilateral development banks. Of course, they lack equitable restructuring or refinancing mechanisms.

Ignoring another United Nations (UN) resolution, powerful nations ignore developing countries' calls for fair and orderly multilateral sovereign debt restructuring agreements. Similarly, the West refuses to fix the unfair trade, fiscal and other rules that hurt poorer countries.

Trust deficit

More than half a century ago, rich nations pledged 0.7% of their gross national income as development aid. But total development aid (ODA) from wealthy members of the Organisation for Economic Development and Cooperation (OECD) has barely exceeded half the amount pledged.

Worse, the percentage has declined from 0.54% in 1961, and only five nations have consistently met their 0.7% commitment in many years. The international organization Oxfam estimated that 50 years of unfulfilled promises meant an aid deficit of $5.7 trillion through 2020.

In 2005, during the Gleneagles Summit in Scotland, G7 leaders pledged to double their aid by 2010, allocating $50 billion annually to Africa. But real input has been woefully scarce, with no transparent reporting or accountability.

Most development aid is not transparent or predictable. After some progress in decoupling, aid is once again increasingly tied, forcing beneficiaries to implement donor projects or to buy from donor country suppliers, compromising its effectiveness.

The United States ranks lowest among the G7 countries, with only contributing 0.18% of income in aid in 2021. To make matters worse, U.S. aid effectiveness is the worst among the world's 27 richest nations. It is clear that, in addition to the lack of the amount of aid, quality is also an issue.

The Syrian refugee crisis and the COVID-19 pandemic have provided some recent pretexts for cutting aid. Some powerful countries have resorted to creative accounting, for example, accounting for the costs of refugee settlement and military peacekeeping operations as ODA.

No wonder the UN is very concerned about recent decisions and proposals to significantly cut ODA to address the impacts of Ukraine's war on refugees.

Indeed, controversies over which climate finance is new and in addition to ODA have not been resolved since the adoption in 1992 of the United Nations Framework Convention on Climate Change at the Earth Summit in Rio de Janeiro.

In addition, G7 members failed to meet rich countries' 2009 commitment to provide $100 billion annually in climate finance through 2020 to help developing countries adapt to and mitigate global warming.

TheAlthough China is new to financing for development, it is now among the world's largest development financiers. In the wake of broken promises and duplicity, even betrayal, China's importance has increased as funding from OECD donors declined relatively.

China is now a more important global player in financing international development than the world's six major multilateral financial institutions combined. Many developing countries have no choice but to commit to, if not depend on, China.

There is no doubt that there are justified concerns about China's development financing and practices. These include adverse environmental impacts, poor transparency and a high proportion of commercial loans, albeit at favourable interest rates.

In 2019, the then managing director of the IMF and now president of the European Central Bank, Christine Lagarde, suggested that the new phase of the BRI would benefit from greater transparency, public procurement with competitive tenders, and better risk assessment in project selection.

Lagarde approved China's new debt sustainability framework and green investment principles for evaluating BRI projects. I hoped then that BRI 2.0 would be governed by a spirit of collaboration, transparency and commitment to sustainability that would serve all its members, both today and tomorrow.

The new Cold War could stimulate a healthier and more peaceful rivalry, inadvertently improving development aid and the prospects of developing countries of the South.

Anis Chowdhury was a professor of economics at Western University Sydney and held senior positions at the UN. Jomo Kwame Sundaram was a professor of economics and UN Under-Secretary-General for Economic Development.

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