GLOBAL CHINA
ASSESSING CHINA'S GROWING ROLE IN THE WORLD

POLICY BRIEF | DECEMBER 2022

CREATING A BETTER ENVIRONMENT FOR DEVELOPMENT AS AN OBJECTIVE OF US POLICY

DAVID DOLLAR, PATRICIA M. KIM, LOUISON SALL, AND JONATHAN STROMSETH

Executive summary

If the global environment for development continues to decline, the acute security and economic challenges facing the United States will become increasingly difficult to resolve. To create a better environment, the United States must work closely with other prominent global actors, especially China. The two countries are key players in three main arenas shaping the landscape: climate change, trade architecture, and development finance. And how developments in these arenas affect each other will largely determine the long-term outcomes for growth and poverty reduction worldwide. Promoting a stable foundation for development will help reduce conflict and enable global economic growth.

What's the problem?

After decades of steady decline, global poverty has risen since 2019.[1] While several exceptional factors such as Russia's invasion of Ukraine and the lingering effects of the COVID-19 pandemic contributed to this reversal, the fact remains that the global environment for development may continue to be poor for decades. The main structural factors already at work are (1) climate change, which contributes to more frequent and severe environmental disasters; (2) a fragmentation of the global trading system; and (3) a lack of development finance, which is needed for infrastructure and for addressing challenges such as the pandemic and its second- and third-order effects. If the poor environment for development continues, there will be more poor people, more instability and conflict in the developing world, insufficient progress on global carbon reduction, and more global health crises. As such, it is in America's interest to devote more resources and policy attention to supporting development and to cooperate more fully with other major players, especially China, to address these looming global challenges.

What's the existing landscape?

CLIMATE

On climate change, the United States is currently setting a good example. This may seem surprising, since policy has progressed in fits and starts. But as of mid-2022, the U.S. administration has passed and signed into law measures that will speed the transition to renewable energy and electric vehicles and to more fuel-efficient buildings. Under the new legislation, greenhouse gas emissions must be cut by 40% by 2030.[2] Partners might wonder whether U.S. policy will shift if a Republican president comes to office, but cleverly, the current approach to cutting emissions does not rely on taxes that could be repealed, but rather on subsidies that are likely to be popular and widely accepted within a few years. Yet, beyond setting a good example, the United States is doing little to help developing countries reduce their carbon emissions as well as prepare for major environmental changes that — even under the best scenario — will be wrenching. In 2009, at the 15th Conference of Parties (COP15) climate summit in Copenhagen, developed countries promised to channel $100 billion a year to developing countries by 2020 to help with mitigation and adaptation, but contributions from America and other wealthy nations fell far short of that goal. This year, at COP27, the United States promised to double its initial pledge and provide $100 million to the United Nations (UN) Adaptation Fund, which was set up to help poor countries mitigate and adapt to climate change. Washington also promised to give $150 million in new support to the President's Emergency Plan for Adaptation and Resilience for climate adaptation efforts in Africa.[3]

China, unfortunately, is going the other direction on emissions. And this is despite Beijing having a strong incentive to cooperate: According to the most recent report from the Intergovernmental Panel on Climate Change, China will be the biggest loser from climate change.[4] The report paints a dire picture for the rest of developing Asia as well. Asian coasts are projected to see higher sea level rises than the global average, putting cities along the coast at increasing risk of storm surges and high waves caused by tropical cyclones of higher intensity. Another study finds that, under a high emissions scenario, 340 million people worldwide live on land that will be underwater by mid-century — and the vast majority of them live in developing Asia.[5]

In 2019, China accounted for 27% of global greenhouse gas emissions, more than the whole developed world combined.[6] Hence, China's climate action will be crucial for significantly reducing global emissions and limiting the global rise in temperature to 1.5 degrees Celsius. As part of the UN process, China has made various commitments on reducing carbon emissions, but they are not enough to help limit the temperature rise to 1.5 degrees. The most important commitments made by Beijing are to reach net-zero emissions by 2060 and to "strictly control" the increase in coal use over the next decade, reaching peak coal use and emissions by 2030. Developed economies such as the United States, European Union states, and Japan have set a target to reach net-zero emissions by 2050. China's position is that it is a developing country and needs more time, yet in 2021, President Xi Jinping announced that China would stop building coal plants abroad under its Belt and Road Initiative (BRI). While this was an important step, China should urgently address its use of coal power at home. China's goal of "pursuing green development and promoting harmony between humanity and nature," as described in Xi's work report to the 20th Party Congress, would be better served by peaking coal use immediately, with the intention of reaching net-zero emissions by 2050. China has other promising policies, including one to increase the share of renewables in its overall energy mix, and it currently has more installed solar and wind power than any other country and plans to double this power by 2030. But the bottom line is that China's emissions are projected to increase until at least 2030. The world has a huge stake in encouraging China to accelerate the timetable for phasing out coal and reducing emissions.

TRADE

For the past several decades, there has been no significant trade liberalization within the World Trade Organization. Instead, global deals have been replaced by a series of blocs, such as the United States-Mexico-Canada Agreement for North America and the Regional Comprehensive Economic Partnership (RCEP) for the Asia-Pacific. China has been much more active than the United States in pursuing trade pacts; the RCEP agreement is the largest free-trade agreement in history. China has also signed numerous other trade pacts, including with the Association of Southeast Asian Nations, Australia, Korea, Pakistan, New Zealand, and Singapore. To be sure, these pacts are relatively shallow in that they provide opportunities for cutting tariffs and increasing market access but do not deal with modern trade issues such as investment, services, or environmental or labor standards. Nevertheless, as a result of its trade activism, China has become the largest trading nation and partner for most countries in the world, even though the U.S. economy is significantly larger. The RCEP is likely to solidify China's role in the heart of manufacturing value chains. And to expand its engagement even further, China has applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Although it would be difficult for China to abide by the high standards of that agreement, Beijing seems committed to the effort.

Ever since former President Donald Trump took the United States out of Trans-Pacific Partnership (TPP), there has been a perception that the United States is backing away from economic integration. Trump imposed tariffs on Chinese products, and on steel and aluminum, and President Joe Biden has largely left the tariffs in place. In May 2022, the Biden administration launched the Indo-Pacific Economic Framework (IPEF), which augments the economic pillar of the administration's Indo-Pacific Strategy. However, while the IPEF now boasts 14 members, representing 40% of the global gross domestic product, the framework lacks any promises of negotiating reciprocal market access, which remains a key interest for many U.S. partners.[7] Asian allies continue to urge Washington to also return to the TPP. The IPEF primarily focuses on setting rules of the road for the digital economy and fair economic policies, securing commitments on climate change, and promoting resilient supply chains. Although the framework should be used to create secure supply chains among allies for select critical materials and products, any effort to cut China completely out of manufacturing value chains in general is bound to fail; China is by far the largest producer of manufactured goods, and a complete decoupling would be very costly, especially for other Asian nations. It is not a road that America's partners should pursue, nor is it a realistic option.

DEVELOPMENT FINANCE

Some of China's trade with other developing countries is connected to the BRI. Launched in 2013, the initiative is designed to promote connectivity among its partner countries, primarily via infrastructure development. China has been providing about $100 billion of financing per year to support infrastructure projects in other developing countries, but these projects have mostly used Chinese construction companies, steel, and machinery.[8] In addition, quite a few partners have come up against debt sustainability problems. China's loan rates are somewhat more favorable than those available to developing countries in the private market, but the loans are largely commercial and are in U.S. dollars at floating interest rates. As a result of the pandemic, the global slowdown in economic growth, and the U.S. Federal Reserve's moves to increase interest rates during 2022, economic and financial conditions are becoming increasingly difficult for many poor countries. They cannot service the debt to China, and they will struggle to take on new debt. In 2021, about 56% of developing were in debt distress or at high risk of debt distress, according to the International Monetary Fund.[9] For these countries, in 2020, China was the largest bilateral official creditor, holding 18% of their external debt. Private creditors held 19%. Most of these countries will need debt relief, and it will be challenging to get China, private creditors, and traditional donors (in other words, multilateral institutions and Western countries) to cooperate on this effort. As a result of these debt problems, the BRI's level of activity seems to be slowing down.[10]

Development finance from the United States, its allies, and development banks set up under American auspices has been on a downward trajectory in real terms since the end of the Cold War. Financing for infrastructure has particularly tailed off, as most Western assistance is now targeted to social sectors and administration.[11] Western assistance for infrastructure also tends to be slow and bureaucratic. Chinese projects proceed quickly, often with scant attention to environmental or social spillovers. Western aid projects have complicated environmental and social safeguards that slow down implementation and make the financing less attractive to developing countries. Many developing countries have adopted a pattern of using Western aid for social services and Chinese finance for infrastructure in transport and power. The West has announced a succession of programs to finance infrastructure in the developing world, most recently through a new G7 infrastructure initiative,[12] but so far these programs have not resulted in much impact.

What's the policy objective?

The U.S. policy objective for development is complex. The primary aim is to promote growth and poverty reduction in poor countries. This aim is both ethical and practical: A world in which the vast majority of peoples' lives are improving steadily is more likely to be peaceful and stable. Steady global growth is also a good foundation for American prosperity. There will be more trade, which raises all countries' incomes, and there will be a larger market in which innovations can be exploited, increasing the incentives for developing new technologies. However, efforts toward sustainable growth have to include aggressive carbon reduction, otherwise any gains will be burned up later in the century.

What complicates the picture is that China does a lot to promote development around the globe but the United States does not always agree with its approach. In the development finance arena, Beijing's terms are too commercial and therefore exacerbate debt crises. China's projects move quickly, but often with negative spillovers, including excessive carbon emissions and instances of elite capture. In the trade arena, China provides developing countries with a large market, but its openness is partial. And on many occasions in recent years, Beijing has weaponized trade; for example, it punished South Korea for its security decisions[13] and the Philippines for asserting rights in its exclusive economic zone.[14] Meanwhile, the United States is missing in action from Asia-Pacific trade deals and that leaves the field to China to set the rules.

Given China's prominent role in development, it is essential for the United States to address the issues in these arenas with China on a bilateral and multilateral basis, especially in the climate domain. What is happening now with carbon emissions is a good example. The United States is on an aggressive downward path of emissions, stimulating new technologies and cutting costs in a way that benefits the whole world. In cooperation with its partners, the United States should use measures, as well as climate dialogues with China, to push Beijing to match the accelerated emission reduction timelines of Washington and other leading countries. The pressure could include, for instance, an agreement among the countries to tax high emissions products and penalize countries that lag behind in their emissions targets, while rewarding those with more ambitious carbon targets.

Analysts differ on the potential benefits of U.S.-China cooperation on climate. The traditional view is that the climate crisis cannot be effectively addressed unless the two most powerful and well-resourced nations cooperate and pull in the same direction. An emerging view is that great power competition is actually good for reducing climate change because it triggers a "race to the top" by Washington and Beijing, encouraging each power to make stronger climate commitments at home and offer greater support abroad. It is possible that both perspectives can be true and are not mutually exclusive. The United States and China each have useful climate knowledge and technology to share, and other countries would presumably benefit from some level of coordination between the two great powers.

On trade, the only way to resist China's abusive trade practices is to get back into the game: The United States should join the CPTPP and encourage IPEF members to join that agreement as well. America should also be giving much more in development aid. This is a tough sell politically in an era of tight budgets, but Washington manages to find enormous sums for the military budget and even a modest transfer of resources toward development cooperation would enhance U.S. security and support broader interests in global economic prosperity and stability. Development banks could also do more, but developing countries must be given a greater say on how the banks are managed, as this approach could result in new resources and efficiencies.

Recommendations

- Leverage the recent announcement by the United States and China to restart bilateral climate dialogue. Washington should work with Beijing to ensure that sustained and substantive working-level exchanges[15] can continue regardless of other bilateral frictions that ebb and flow.

- Use bilateral settings, as well as multilateral venues in partnership with other leading states, to push Beijing to adopt more ambitious climate measures. For instance, the United States should consider working with Europe and Japan on a regime to tax high emissions products and penalize free-riders with unambitious climate goals and, conversely, to encourage imports of low emissions products and reward states with ambitious carbon targets.

- Maintain an openness to imports and develop the IPEF in a pro-trade direction. Focus on securing the supply chains of a small number of strategic products. Engage in close consultations with allies and partners to identify which critical supply chains must be secured and at what cost and to determine how to carry out such efforts without upending economic stability and growth. Eventually join the CPTPP and welcome China's membership provided that it can meet the standards of the pact. Explain to the American people the mutual benefits of trade, perhaps, for example, by holding Congressional hearings that explore the costs and benefits of joining the CPTPP.[16]

- Provide more funding for development through multiple channels, including climate aid, development banks, and bilateral assistance.

- Accelerate and operationalize infrastructure coordination with allies and partners to support sustainable development in the Indo-Pacific. The objective should not be to counter BRI and create a bifurcated region, but rather to develop compelling alternatives and then reengage China from a position of strength.

- Encourage development banks to give developing countries a greater say in the banks' management, which would ultimately help bring in new finance from emerging markets and streamline the banks' overly bureaucratic approach to infrastructure.

- Work with China to resolve the unsustainable debt problems facing poor countries, drawing Beijing into Paris-Club-like cooperation. Coordinate with other stakeholders, including developing country partners, to encourage China to make more of its BRI financing concessional.

References

1 Mahler, Daniel Gerszon, Nishant Yonzan, Ruth Hill, Christoph Lakner, Haoyu Wu, and Nobuo Yoshida, "Pandemic, Prices, and Poverty," World Bank Blogs, The World Bank Group, April 13, 2022, https://blogs.worldbank.org/opendata/pandemic-prices-and-poverty.

2 Stokstad, Erik, "Surprise Climate Bill Will Meet Ambitious Goal of 40% Cut in U.S. Emissions, Energy Models Predict," Science, American Association for the Advancement of Science, August 1, 2022, https://www.science.org/content/article/surprise-climate-bill-will-meet-ambitious-goal-40-cut-us-emissions-energy-models.

3 "Fact Sheet: President Biden Announces New Initiatives at COP27 to Strengthen U.S. Leadership in Tackling Climate Change," The White House, The United States Government, November 11, 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/11/11/fact-sheet-president-biden-announces-new-initiatives-at-cop27-to-strengthen-u-s-leadership-in-tackling-climate-change/.

4 Hans-Otto Pörtner, Debra C. Roberts, Valérie Masson-Delmotte, Panmao Zhai, Melinda Tignor, Elvira Poloczanska, Katja Mintenbeck, Andrés Alegría, Maike Nicolai, Andrew Okem, Jan Petzold, Bardhly Rama, Nora M. Weyer eds., "The Ocean and Cryosphere in a Changing Climate," (Geneva: Intergovernmental Panel on Climate Change, 2019), https://www.ipcc.ch/srocc/download/#pub-full.

5 Scott A. Kulp and Benjamin H. Strauss, "New elevation data triple estimates of global vulnerability to sea-level rise and coastal flooding," *Nature Communications* 10, no. 4844 (2019), https://doi.org/10.1038/s41467-019-12808-z.

6 Larsen, Kate, Hannah Pitt, Mikhail Grant, and Trevor Houser, "China's Greenhouse Gas Emissions Exceeded the Developed World for the First Time in 2019," Rhodium Group, Rhodium Group, LLC, May 6, 2021, https://rhg.com/research/chinas-emissions-surpass-developed-countries/#:~:text=Global%20greenhouse%20gas%20emissions%20estimates%20for%202019&text=China%20alone%20contributed%20over%2027,at%206.6%25%20of%20global%20emissions.

7 Benson, Emily, and Grant Reynolds, "The Indo-Pacific Economic Framework for Prosperity: A New Approach to Trade and Economic Engagement," International Institute for Sustainable Development, September 25, 2022, https://www.iisd.org/articles/policy-analysis/indo-pacific-economic-framework#:~:text=The%20IPEF%20has%2013%20other,than%2040%25%20of%20global%20GDP.

8 Timperley, Jocelyn, "The Broken $100-Billion Promise of Climate Finance - and How to Fix It," Nature News, Nature Publishing Group, October 20, 2021, https://www.nature.com/articles/d41586-021-02846-3.

9 Chabert, Guillaume, Martin Cerisola, and Dalia Hakura, "Restructuring Debt of Poorer Nations Requires More Efficient Coordination," International Monetary Fund, April 7, 2022, https://www.imf.org/en/Blogs/Articles/2022/04/07/restructuring-debt-of-poorer-nations-requires-more-efficient-coordination.

10 Chang, Felix K, "China's Belt and Road Initiative Meets Slowing Global Trade," Foreign Policy Research Institute, April 4, 2022, https://www.fpri.org/article/2022/03/chinas-belt-and-road-initiative-meets-slowing-global-trade/.

11 McBride, James, and Anshu Siripurapu, "The State of U.S. Infrastructure," Council on Foreign Relations, November 18, 2021, https://www.cfr.org/backgrounder/state-us-infrastructure.

12 "G7 Launches Plan to Boost Global Infrastructure Investment," U.S. Embassy & Consulates in Italy, July 11, 2022, https://it.usembassy.gov/g7-launches-plan-to-boost-global-infrastructure-investment/#:~:text=Through%20the%20partnership%2C%20the%20G7,funding%20for%20infrastructure%20by%202027.

13 Choi, Seong Hyeon. "Why Is South Korea Hesitant to Boycott the 2022 Beijing Winter Olympics?," Center for Strategic & International Studies, November 23, 2022, https://www.csis.org/blogs/new-perspectives-asia/why-south-korea-hesitant-boycott-2022-beijing-winter-olympics.

14 Morales, Neil Jerome, "Philippines Protests China's 'Illegal' Acts in Disputed South China Sea Atoll," edited by Shri Navaratnam, Reuters, June 11, 2022, https://www.reuters.com/world/asia-pacific/philippines-protests-chinas-illegal-acts-disputed-south-china-sea-atoll-2022-06-11/.

15 Yan, Flora, "China-US Subnational Exchanges under the Biden Administration," The Diplomat, Diplomat Media INC., January 4, 2022, https://thediplomat.com/2022/01/china-us-subnational-exchanges-under-the-biden-administration/.

16 Yellen, Janet L, "Remarks by Secretary of the Treasury Janet L. Yellen at the Center for Global Development," U.S. Department of the Treasury, October 6, 2022, https://home.treasury.gov/news/press-releases/jy0997.

About the authors

David Dollar is a senior fellow in the John L. Thornton China Center at the Brookings Institution and host of the Brookings trade podcast, “Dollar & Sense.” He is a leading expert on China’s economy and U.S.-China economic relations. From 2009 to 2013, Dollar was the U.S. Treasury’s economic and financial emissary to China, based in Beijing, facilitating the macroeconomic and financial policy dialogue between the United States and China. Prior to joining Treasury, Dollar worked 20 years for the World Bank, serving as country director for China and Mongolia, based in Beijing (2004-2009).

Patricia M. Kim is a David M. Rubenstein fellow at Brookings and holds a joint appointment to the John L. Thornton China Center and the Center for East Asia Policy Studies. She is an expert on Chinese foreign policy, U.S.-China relations, and U.S. alliance management and regional security dynamics in East Asia.

Louison Sall is a research assistant at Brookings and holds a joint appointment to the John L. Thornton China Center and the Energy Security and Climate Initiative.

Jonathan Stromseth is a senior fellow at Brookings, where he holds the Lee Kuan Yew Chair in Southeast Asian Studies in the Center for East Asia Policy Studies. He also holds a joint appointment with the Brookings John L. Thornton China Center.

Acknowledgements

The authors wish to thank Lori Merritt for editing and Rachel Slattery for layout.

Disclaimer