“Currency Manipulation and the Belt & Road”

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Scott Miller: I'm Scott.

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Scott and Bill: And we're the Trade Guys.

Andrew Schwartz: You're listening to The Trade Guys, a podcast produced by CSIS where we talk about trade in terms that everyone can understand. I'm H. Andrew Schwartz, and I'm here with Scott Miller and Bill Reinsch, the CSIS Trade Guys. In this episode, we're going to talk the topsy-turvy situation with China, what's going on this week with the markets, with the currency manipulation accusation. What is going on with the U.S. and China? Plus, we welcome a special in-house guest. Jon Hillman is a senior fellow with the CSIS Simon Chair. Jon also directs the Reconnecting Asia Project at CSIS, which tracks new roads, railways, ports, and other infrastructure across Eurasia and China's Belt and Road Initiative. We'll discuss what the Belt and Road Initiative is, how it might be affecting global trade, and what the initiative says about China's economic vision. You'll hear all that and more on this episode of The Trade Guys.

Andrew Schwartz: And we're off. This week, gentlemen, was a little insane with what’s going on with China. We had a big back and forth with the Chinese, they're currency manipulators according to the Trump administration and the market had a precipitous fall. Today though, it’s back up as we speak at 3:30 on, what are we, Tuesday, 3:30 on Tuesday, it’s back up 277 points and climbing. What’s going on, Trade Guys? Tell us your wisdom.

Scott Miller: Just as a starting point, it looks to me like the president is frustrated.

Andrew Schwartz: Yeah, he's frustrated.

Scott Miller: Negotiations aren’t going as he anticipated and so, he’s taking action. Actually, what it looks like is a sort of classic pressure or leverage move on his part. I think there’s some disappointment involved. The currency manipulation charge is a little odd, mostly because it seems to have been a relatively short-term effect.

Andrew Schwartz: Well they think we’re currency manipulators too, don’t they?

Bill Reinsch: We’re about to be, I think.

Scott Miller: We may be. It's a little harder for us to actually move it, but the Treasury Department does have criteria, they do evaluate all currencies every six months by statute, and China didn’t meet the criteria for currency manipulated at the last regular evaluation, but it does now and being labeled a currency manipulator doesn’t have any immediate action, I mean other than being called sort of you're a bad economy-

Andrew Schwartz: Yeah.
Scott Miller: ... or something like that. It's a messaging thing. At the same time, because the financial system is quite complicated, there's only so much that the Chinese can do in terms of lowering the value of the RMB without creating a lot of internal risks. For instance, if you're a Chinese company, you're buying and selling in RMB. If you have financing from a foreign bank, it's probably in a foreign currency. So, yesterday, if you're a Chinese entity selling and buying in RMB, which dropped precipitously, and you're repaying your loans in yen which went up precipitously, that's the recipe for default and is essentially the very thing, when it persisted, which caused the Asian financial crisis, or the start of the Asian financial crisis, in 1997. So this really can't go on too long and it looks like today that China began to defend the RMB, it didn't fall further and that, I think, calmed markets.

Andrew Schwartz: Okay, so did they think they had us in a tough place? I don't really understand this, I have to tell you. It felt like we were at a disadvantage all of the sudden because we got tough with them, but is that not the case?

Bill Reinsch: The charitable explanation and kind of my take on it is that this happens a lot when leaders or principals get together. They don't like to be confrontational with each other. They're confrontational when they're away from each other.

Scott Miller: Yes.

Bill Reinsch: But when they're in the same room together, they don't do that, and they talk past each other. And so they came out of Osaka announcing that they'd agreed without really understanding what the other guy was saying and it seemed to me that Trump clearly thought that the Chinese promised to buy more agricultural products and...

Andrew Schwartz: That's what he wanted to hear.

Bill Reinsch: That's what he wanted to hear, and he thinks that's what they said, and they haven't, at least as many or as much as he wants. It looks like Xi thought that Trump agreed there wouldn't be any new tariffs right away.

Andrew Schwartz: Yep.

Bill Reinsch: Because they were going to come back to the table, so Lighthizer and Mnuchin come back from Shanghai, report not a lot of progress. Trump loses it, announces the tariffs and announces that the Chinese are not buying enough agricultural products. So, from Trump's perspective, it's a breach of faith on the Chinese part. From Xi's standpoint, it's a breach of faith on the American part. And then, it's Trump doing what he... announcing the tariffs, which is a classic leverage move as you've said. Then I think what the Chinese have done is to say in effect, not too subtly, "Hey, we got tools too."

Andrew Schwartz: Right.
Scott Miller: Yeah.

Bill Reinsch: I mean, I don't think they... Nobody thinks they forced the RMB down. All they did was stop defending it, and it went down on its own accord-

Scott Miller: Yes. That's right.

Bill Reinsch: ... because those market forces are going to take it down because their economy's slowing down.

Scott Miller: Sure.

Bill Reinsch: So what they've done for the last year is prop it up, which is ironic because when you tell them not to manipulate their currency, you're... in fact, to the extent they've been manipulating their currency it's been to help us, not hurt us. And they stopped doing that, so it went down. There's a tool. They announced yesterday they're not going to buy anymore agricultural products. Another tool.

Scott Miller: Yes.

Bill Reinsch: I mean they're dropping hints all over the place. The Trump view was because we have a big deficit with them, we have more leverage. We buy all this stuff and they don't buy as much stuff, we could hurt them more than they could hurt us. I win. And what the Chinese are saying, "No, it's more complicated than that. We've got a lot of other tools."

Scott Miller: Yes, and while we may or may not have more leverage because of the size of the deficit, China definitely has more ability to withstand or tolerate irritation and pain. Just their politics are different.

Andrew Schwartz: And their investors are not necessarily going to be able to call up their leader and say, "Hey, I lost x millions of dollars if not billions today and I don't like it."

Scott Miller: Yes. Now, yesterday was the worst day in equity markets for 2019.

Andrew Schwartz: That's right.

Scott Miller: And now every year has a worst day, it just happens, so-

Bill Reinsch: But it's noteworthy just on that, that the market is lower now than it was in January 2018.

Scott Miller: That, for me, is the key is this all started about January 2018 and the Dow Jones Industrial Average, at least, as a benchmark, is lower today than it was in January 2018.
Andrew Schwartz: So all these gains we made are erased.

Scott Miller: Well, the thing is that says the equity prices are equal despite a strong economy, despite strong corporate earnings, which says there's some uncertainty there. There's some questions about investment, so overall when you look over the period of 20 months-

Andrew Schwartz: It's not that the gains we made there are erased, it's that there's uncertainty.

Scott Miller: Yes. The markets have been basically flat for 18 months during the time of this controversy with China.

Andrew Schwartz: So, if you're Trump and your claim to fame is you make good deals, you exert leverage, and you get results, maybe that's not the case here.

Scott Miller: He's at a point of stalemate at the moment.

Bill Reinsch: It's exactly what we said. It's an unusual... For me, it was an unexpected development. I had the great good luck to be in Canada while all this happened, so I didn't have to think about it too much, but I mean we've talked about this before. Eventually, he's going to figure out that he's not going to get what he wants, and then he has to decide whether to settle for less and call it victory or continue the war and keep on fighting.

Scott Miller: Yes.

Bill Reinsch: This, to me, is kind of an unexpected blip. He reacted, probably overreacted. I think they decided that they've had enough and needed to send some signals about what... their limitations to what they're going to put up with. What I hope does not happen is that, you know, the logical doubling down response for Trump is we're going to devalue the dollar, which is a lot easier said than done, and more pressure on the Fed to do that because the U.S. government... Not the Fed, the government doesn't have enough money to do that on its own, so the Fed would have to cooperate. The only way you can do that if you're the United States is if you line up all your allies-

Scott Miller: Right.

Bill Reinsch: ... to help you, which is what we did in the Plaza Accord in '85 or '86. But I can see Trump trying to muscle the Fed into doing this. At some point-

Andrew Schwartz: Sounds like a lot of work.

Bill Reinsch: Well, at some point we have to have an adult who says, "This is stupid." You know, if you get into a cycle of competitive devaluations, the last time we did that was during the Depression and it did not have a happy ending.

Scott Miller: Yeah, my sense is that it's going to be an interesting month because the tariff increases will take effect September 1, so there's some time for things to
calm down here a little bit, and it could be that the president decides that we're going to live with this for a while and he's not going to try to escalate. Also, you know, I would just point out that when China says we're not buying American farm goods anymore, it's not like the Chinese or their livestock are going to stop eating, okay? They're going to buy some imported products likely from other economies, and there'll be some global demand for global exports, but it is a pretty direct message. I would agree with that.

Andrew Schwartz: Politically, what's his game here? What's his endgame? Is it that he's going to play this out for a while, and then figure out a way to come in and save the day and take credit that he ultimately won? Is that the endgame?

Bill Reinsch: You mean Trump?

Andrew Schwartz: Yeah. Trump.

Bill Reinsch: I think he has to play it out for a while, because in the end, it's going to be less than he wants, and he has to sell it as a victory. And the best time to do that is shortly before the election, so people won't know it's bad until after they voted. So, he has to string this out for a year. And, yeah, this is a way to do that. Just keep people guessing.

Scott Miller: Which is roughly what we talked about a week ago-

Andrew Schwartz: It is.

Scott Miller: ... in the tweetstorm.

Andrew Schwartz: Okay, but what I don't understand is, while he strings this out, maybe some Republicans have tolerance for that string of a game, but do investors and serious businesspeople have that kind of tolerance for that kind of game?

Scott Miller: Look, the president's China policy is astonishingly popular in Washington.

Andrew Schwartz: Yeah.

Scott Miller: It is one of two things, in my view, there is actual bipartisan support for. The other thing is dealing with big tech. Where both Republicans, Democrats agree something has to be done. They don't agree on the something, but when it comes to U.S.-China economic policy, the president has a lot of support right at the moment, and I wouldn't expect that to change overnight.

Andrew Schwartz: Okay, but what about the rich people that President Trump absolutely cares about. Rich guys in New York that are his peers, that call him on the phone and say, "Hey, you know, we don't like this."

Scott Miller: Well, look, Congress is out of town for five weeks, and, you know, summer is a time when interesting things happen, so we’ll have to watch it.
Andrew Schwartz: All right, well, we're going to have to watch it. As promised, though, we also have a very special guest with us here today: Jon Hillman, senior fellow at CSIS in the Simon Chair. He's also director of the Reconnecting Asia Project at CSIS. Now, for those of you who don't know about Reconnecting Asia, it is an amazing project and a website that analyzes China's Belt and Road, and it maps and analyzes all of China's new roads, and railways, and ports, and all the infrastructure that's emerging across the supercontinent that is known as Eurasia. Jon, welcome.

Jon Hillman: Thanks for having me.

Andrew Schwartz: We've got a lot to ask you. Let's start with Belt and Road 101. What is it, what are some of the examples of projects, and why is China doing it?

Jon Hillman: So, I think we're still trying to figure out what it is, but this is Xi Jinping's signature foreign policy vision, and it's something he announced in 2013. It initially included an overland component, which is referred to as the "Belt", and a maritime component, which is confusingly referred to as the "Road", and-

Bill Reinsch: Wouldn't it be the other way around? I mean...

Jon Hillman: You would hope so, but this is what they went with. Well, there is a huge maritime focus to this.

Andrew Schwartz: Okay.

Jon Hillman: And so they've got ports-

Andrew Schwartz: There's no good word for it.

Jon Hillman: They've got that covered. I'm sure there are plenty of words for it-

Andrew Schwartz: Okay.

Jon Hillman: ... and in fact, this is actually good advice for them. I think they're, in a way, trying to rebrand the Belt and Road Initiative. Maybe not by changing the name, per se, but the brand has not done so well over the past few years since it's been announced.

Andrew Schwartz: Yeah. "Belt and Road" sounds kind of harsh.

Scott Miller: Yes.

Andrew Schwartz: Sort of sounds like a failed sparkplug commercial, or something like that.

Scott Miller: Yeah, or it sounds like the drills we use to do in two-a-day football practices in the summer. "Okay, 20 belt and road," right?
Andrew Schwartz: Yeah, yeah, there you go. 20 belt and road, got it.

Bill Reinsch: I just think "belt and suspenders".

Andrew Schwartz: Oh, yeah. "Belt and suspenders" is too much. You got to go with one or the other.

Bill Reinsch: Yes, well, exactly. That’s the point.

Andrew Schwartz: So, who came up with Belt and Road? Why Belt and Road?

Jon Hillman: So, this is... again, it’s Xi Jinping’s signature foreign policy vision, and it includes... it’s a whole host of initiatives. So, it includes infrastructure, which is the component that we track very closely at the Reconnecting Asia Project. China’s got seven of the world’s ten largest construction firms. And so, they have these massive companies, a huge incentive to go build beyond their borders. So, this is allowing them to do that. Belt and Road, according to the policy documents, also is supposed to include trade agreements. There’s supposed to be a network of trade agreements set up among Belt and Road countries. You know, there’s a lot of bilateral deal-making going on. It’s not like China’s doing a multilateral deal under the Belt and Road.

Andrew Schwartz: Well, Jon, you’re a trade guy. I mean, as many who know you in the policy world know, you were a policy advisor at the Office of the USTR. What’s the big trade component of Belt and Road?

Jon Hillman: So, the physical infrastructure component of it actually involves selling goods to countries, often by providing the export financing for China to do that. When those links... if they are completed, that could also encourage trade as well. Facilitate trade. And then, Belt and Road, you know, includes a whole host of policy coordination, including things like improving customs arrangements to promote trade between countries.

Scott Miller: Does China have what we’d call a "model agreement" of some sort? The model bilateral agreement that they try to strike? Or, is it improvised based on the partner?

Jon Hillman: We have seen a few differences in the agreements that they negotiate, which are interesting. Not a lot of the agreements are public, and in fact, they’re quite weak, if you were to compare them to something like a real trade agreement.

Scott Miller: Sure.

Jon Hillman: Often, at the bottom of these, there are MOUs, and they will literally say at the bottom, "This is not a legally binding document." And, it’s very aspirational, you know, “we’re going to promote connectivity over the following dimensions.”
Scott Miller: So, more of a press conference than a trade agreement.

Jon Hillman: Yes. Very much so, yeah.

Andrew Schwartz: So, Jon, what is China accomplishing so far with Belt and Road?

Jon Hillman: So, I think in the early years of Belt and Road, which, by the way, this, according to Chinese officials, is supposed to be a multi-decade effort. So, we are still... By one count, we haven't even hit the implementation phase yet. In the early phase of this, there's a lot of political interest among other countries in participating in this. And, I think there's something really powerful about that, you know, China's offered a vision to provide infrastructure to any developing countries who urgently need infrastructure and don't have a lot of great alternatives. And so I think, you know, as we think about what the U.S. should be doing, it seems to me that offering some kind of positive alternative, not necessarily infrastructure, although we could do a little bit of that, but China's offered a very positive-oriented vision for the region that speaks to the needs of developing countries. So, there's something very attractive about that. We could talk about whether, you know, all of the promises that are being made are actually being followed, but there is something at least very attractive about the framing of it.

Andrew Schwartz: Who are they making the promises to? The countries in Eurasia, that they're going to invest in them, and then they're not delivering? Is that the case?

Jon Hillman: So, at the first Belt and Road forum, which was in May of 2017, in Beijing, there were about 30 or so heads of foreign states that showed up. So, I take that as a pretty significant sign of support for this.

Andrew Schwartz: Sure.

Jon Hillman: And then they had representatives from other countries and international organizations.

Andrew Schwartz: When the big dog calls a meeting, you show up.

Jon Hillman: Yeah. When Xi Jinping throws a Belt and Road party, everyone comes.

Bill Reinsch: Yeah.

Scott Miller: Yeah.

Andrew Schwartz: Yeah.

Scott Miller: You want to be there for the handshake and the photo.

Andrew Schwartz: Yeah, for sure.
Jon Hillman: And the MOU. They want that MOU. And, at the most recent forum, in April, I think the count was up to 39 heads of state. And so, even though this thing has really had some negative experiences in recent years, they got even more leaders to show up. They had people show up, you know, heads of state from Pakistan and Malaysia, who campaigned and basically, in some ways, against the Belt and Road. Took office. They’re in office, they gave speeches essentially endorsing the Belt and Road at the recent forum.

Scott Miller: Now, this is often portrayed in the media as a sort of a bet on land transport, on connecting the Asian continent via land routes, and land infrastructure. Now, last I checked, most world trade moves on water. The container ship is far and away the most efficient way to move goods, and building an infrastructure for what will ultimately be a less efficient transportation means doesn’t strike me as a genius idea, but what else is going on here? Of course, is that portrayal correct?

Andrew Schwartz: Well, and this is also... this is the new Silk Road.

Scott Miller: Lots behind it.

Jon Hillman: Right. So, that’s a lot of the imagery, and I think a lot of the marketing around this, the parts that have been successful, they evoke the ancient Silk Road, and you think of camels, and caravans, and Marco Polo.

Scott Miller: Marco Polo, yeah sure.

Jon Hillman: And so, China has been increasing, you know, several types of connectivity with Europe going across land.

Scott Miller: Now at one point it was the Silk Road, not the consumer electronics road. So, you only moved things that were light and valuable, because it was really expensive.

Jon Hillman: So, I think the China-Europe rail services are a great example of this. About 15 years ago, there were almost no weekly reliable services, direct services, from China to Europe by rail. There’s now over 50 cities in China, and over 50 cities in Europe, connected by these. However, heavily subsidized by the Chinese.

Scott Miller: Yes.

Jon Hillman: And, really, the business case, as you point out, is for those higher value items, like, you know, shipping computers and auto parts.

Scott Miller: Yeah. They’re doubling up on the coasts and moving on water. But there are a lot of big inland cities in China, and being able to connect them is quite an undertaking, so...
Bill Reinsch: Say you’re in Shanghai manufacturing something, is it advantageous, in terms of time and cost, to ship overland to Rotterdam, or is it cheaper and faster to go by boat?

Jon Hillman: So, it’s about half the time to go overland by rail, but it is more expensive. And that includes the subsidies from China, which, you know, maybe they continue indefinitely, because they like this as an advertising mechanism, but you know, if they eventually come off, I think the price goes up on that even further.

Bill Reinsch: And it’s more expensive because the per unit costs are greater, because you can’t move as much cargo in a single train as you can on a container ship, I guess?

Scott Miller: I mean, the most energy-efficient vehicle is the super large container ship, in terms of energy expended per mile moved per pound of goods. So, far and away, ocean shipping is more energy-efficient, therefore, more cost-efficient at the end of the day. It also requires less infrastructure because you don’t have to build rails to move the boats.

Bill Reinsch: No, but you do have to have special loading and unloading facilities at each port.

Scott Miller: Yes, which rail operations have that as well, have terminals that are used for that. But overall, the reason people prefer shipping is now, particularly in the world of these super large container ships, it has efficiency advantages very difficult to overcome. Subsidies help, but they don’t get it all the way there.

Jon Hillman: And your shipping route with maritime shipping is more flexible too.

Scott Miller: Right.

Jon Hillman: You don’t have to go, you know, back and forth between point A and point B. A huge challenge for these new rail services is that coming back from Europe, they’re often empty, there are lots of empty rail cars.

Scott Miller: Yeah. No, you have a substantial land mass and just like in the United States, efficient freight rail is a very important transportation service in the U.S. We benefited by the fact that U.S. freight rail is very efficient. So, China replicating that would be actually a useful thing for the interior, because it’s a big country too.

Andrew Schwartz: Jon, you mentioned that some of the promises haven’t necessarily been delivered. I take it part of this isn’t just building capacity to export and all that. It’s also building relationships with these countries where China can have exerted influence and China can really lay the groundwork for dominating the region. How has that gone as a result of this plan?
Jon Hillman: So I think you see that influence exerted even before projects are done. Countries will do things in order to attract the financing, attract deals. And so you even have a few examples in Central and Eastern Europe. Countries like Hungary have taken political positions that favor China and, you know, have weakened EU statements on human rights and other areas, in order to attract that financing.

Bill Reinsch: What’s the story in Italy? I seem to hear mixed reports but they signed something and now they’re sort of saying, ”Maybe we didn’t mean it quite that way.” Is that right?

Jon Hillman: So, Italy is an interesting case. I mean, it’s the largest economy to sign an MOU for the Belt and Road so far. And, you know, when it was done, I think the U.S. took it as a slight, because we were advising them not to do that. But it is one of those documents that again, at the bottom it says, "This is not a legally binding document." And, you know, it was signed when Xi Jinping visited Italy. I think the other thing that’s interesting is he then went on to France. France has not signed a Belt and Road MOU, announced probably five- to six-fold more deals with China.

Scott Miller: Yeah.

Jon Hillman: So, signing up is not a precondition for doing business with China.

Scott Miller: It used to be G7 members kind of cared about what we thought about them. I’m not so sure that’s the case now.

Bill Reinsch: You talked about how the U.S. had reacted. How has the U.S. handled this whole thing so far? Both Obama and Trump.

Jon Hillman: In the Obama administration, this is even earlier days of Belt and Road, there was awareness of it. Again, I think an attempt to analyze and figure out what this thing was about. But at the time, you know, the U.S. also had its own positive economic vision for Asia, TPP, and so the U.S. didn’t spend a lot of time criticizing Belt and Road because it had something positive to offer.

Scott Miller: Now, we took a pass on the AIIB, right? The Asia Infrastructure-

Bill Reinsch: Well, not just a pass, we tried to get everybody else to take a pass.

Scott Miller: ... Yes, right.

Andrew Schwartz: Well, and we were busy criticizing what was going on in the South China Sea. Which brings me to another question. I mean, are there concerns the Belt and Road projects are laying the groundwork for Chinese military bases, are those concerns valid?

Jon Hillman: So, some of those concerns are valid. I think that all these infrastructure projects are dual use. You know, a port that works really well can be used for
cargo ships, it can be used for naval vessels. And as a sort of analytical matter, it’s often very difficult to separate those two things because lots of the characteristics that make a port good commercially, also give it some military utility. We see cases where a port is being developed near another port that already has excess capacity, and so that raises questions about whether the country actually needs another port. And then sometimes, I think people jump to the conclusion that if this project isn’t economically viable, there must be some secret military purpose. That could be true, but there are also cases where there are interest groups that like to build things-

Andrew Schwartz: Yeah.

Jon Hillman: ... and there are leaders that like to announce projects, regardless if they serve some underlying military-

Andrew Schwartz: We’ve got a lot of members of Congress that like to build things.

Scott Miller: I’ve noticed that.

Bill Reinsch: We got off the track here for a minute. You were talking about the Obama approach, what’s the Trump approach?

Jon Hillman: The Trump approach has been certainly more oppositional to Belt and Road. You know, a lot of the rhetoric that’s used to describe what China is doing is predatory economics. You know, China’s taking advantage of other countries.

Bill Reinsch: Is it?

Jon Hillman: In some cases, sure. I mean, I think a lot of these projects are negotiations and China’s often the bigger, you know, more advantaged partner at the negotiating table. Often takes advantage of those situations. But there are things the U.S. can do to empower developing countries to be their own best advocates, and I also think, you know, there’s a range of reactions that we see to the Belt and Road. There’s India, which opposes it because you know, projects go through-

Bill Reinsch: Because it’s Chinese.

Jon Hillman: ... Well, and some projects go through disputed Kashmir, which is, you know... that’s a sovereignty issue for them. Japan is certainly not a Belt and Road booster. Very, you know... I think, has a pretty sober-eyed view of what this thing is and could be-

Scott Miller: Sure.

Jon Hillman: ... but they’ve taken a much more nuanced position on this and they’ve said, “Look, the world needs infrastructure. Let’s talk about the type of infrastructure it needs. And so, let’s put some conditions around the types of
projects we would support. Whether China builds them, whether we build them, whether someone else builds them." So I think there's probably room for a little more nuance in the U.S. position on this.

Andrew Schwartz: How would there be a governing body that regulates what China would do across this region?

Jon Hillman: So the G20 actually recently announced a set of quality infrastructure principles.

Andrew Schwartz: Right.

Jon Hillman: So that's been one forum in which these discussions have happened. It happened first in the G7 framework.

Andrew Schwartz: Right, but those are principles, like how would this actually be enforced?

Jon Hillman: Ultimately, recipient countries need to... Their response... They're sovereign countries, they need to decide how they want to handle this. They're-

Andrew Schwartz: Right.

Scott Miller: It comes down to the projects. And a lot of these projects are crazy. It doesn't matter who's building them, they shouldn't be built. And their infrastructure projects are rife with insane priorities, bridges to nowhere, you know, rail systems and subway systems that get half-built. I mean, it's notorious for that.

Jon Hillman: Yeah-

Scott Miller: So, I don't know how you avoid it. But-

Jon Hillman: Yeah... I mean, even in the best business environments-

Scott Miller: Yes.

Jon Hillman: ... these projects are typically... cost more than expected, take longer than expected-

Scott Miller: Too easy to get white elephants all-

Jon Hillman: ... deliver fewer benefits than expected.

Scott Miller: Right.

Andrew Schwartz: So, in your view, do you think the United States should be trying to counter Belt and Road with its own infrastructure push in Asia?
Jon Hillman: I think the best response to the Belt and Road is not even really a response to the Belt and Road per se. I think it’s the U.S. pursuing its own interests, putting forward its own positive economic vision. I think trade needs to be a really important part of that. That’s a U.S. strength.

Andrew Schwartz: We love trade.

Bill Reinsch: Indeed, we do.

Jon Hillman: But I think it would be shortsighted and sort of reactionary for us to get focused on only infrastructure. I mean, that’s China’s game. It has the companies, it has the domestic political economy for certain types of infrastructure. You know, the U.S. does a lot of other things much better, providing services around a lot of economic activity.

Andrew Schwartz: Yeah, we don't have seven of the largest construction companies in the world.

Jon Hillman: Not anymore.

Andrew Schwartz: No. And so, these seven construction companies are state owned, obviously.

Jon Hillman: Yeah, and they receive generous subsidies from the Chinese government and the government will facilitate deals for them.

Scott Miller: When your customers are printing money, you can become a big company very quickly, you know?

Andrew Schwartz: Back to the currency manipulation.

Scott Miller: Exactly, so-

Andrew Schwartz: We’ve tied it all together. Jon, thank you for coming here and enlightening us about Belt and Road. If our listeners want to learn more, please visit the Reconnecting Asia microsite. It’s very easy. Type in “Reconnecting Asia” and it’ll pop right up. And it also is linked from the CSIS website.

Andrew Schwartz: Jon, thanks for being here with us.

Jon Hillman: Thanks for having me.

Andrew Schwartz: To our listeners, if you have a question for the Trade Guys, write us at TradeGuys@csis.org. That’s TradeGuys@csis.org. We’ll read some of your emails and have the Trade Guys react to it. We’re also now on Spotify, so you can find us there when you’re listening to the Rolling Stones or you’re listening to Tom Petty or whatever you’re listening to. Thank you, Trade Guys.
Scott Miller: Thanks, Andrew.

Bill Reinsch: Thank you.

Andrew Schwartz: You've been listening to The Trade Guys, a CSIS podcast.