Global Counsel

Reviewing the UK's G7 Presidency: building back better?

Blog post by Jon Garvie, 8 December 2021

G7 foreign and development ministers will meet this weekend in Liverpool, alongside their ASEAN counterparts. It may be the UK presidency's final opportunity to draw together the many initiatives which have sprouted under the banner of "build back better". The foreign secretary Liz Truss framed the meeting in characteristically ambitious terms, declaring that "I want us to build a worldwide network of liberty that advances freedom, democracy and enterprise."

Building has been this year's G7 theme. Donald Trump undermined the format and declared the era of multilateralism over. Covid-19 prevented the in-person discussions on which deals often depend. The UK's priority was to show that international cooperation could be reconstructed post-pandemic and to provide a foundation for COP26. Its strategic ambition was to showcase and advance an "Indo-Pacific tilt".

At the June G7 summit in Cornwall, leaders agreed to "urgently narrow the infrastructure investment gap in developing countries", which the US priced at $40 trn. A slew of related proposals followed. The UK launched its "clean green initiative" at COP26, and plans to deliver "£8 billion a year of public and private sector investment in international projects by 2025". The European Commission published its Global Gateway strategy last week, promising an eye-catching "300 bn euros in public and private funds by 2027" for global infrastructure projects. US President Joe Biden is unlikely to provide similar detail until after the mid-terms.

As a year of grand promises draws to a close, four questions stand out. Why are rich countries rushing for their chequebook? Where will the money come from? How will the initiatives dovetail? And what are the prospects for success?

The fundamental driver is China's Belt and Road Initiative (BRI). That neither the country nor the initiative was named explicitly by its western competitors reflects the ongoing spectrum of opinion. The EU was negotiating a comprehensive investment deal with China only last year. The British government was still referring to a "golden era" of bilateral relations in 2017. The US view is that Europe is now coming round to its position that the BRI is a neo-colonial, authoritarian project through which a combination of debt and technology embed permanent reliance on Beijing.

The finance is less clear than the political intent. The UK, US and the EU all suggest that public money (whether through debt, equity, or guarantees) will be used to catalyse private finance, which will then play the substantially bigger role. This is fundamentally different to the traditional BRI playbook, where most development finance was provided through the state or state-owned-enterprises, though the Chinese model is also now changing.

The G7 proposals are not novel but aim to reinvigorate existing ideas, such as that national governments and multilateral development banks might be persuaded to take on higher degrees of risk; that a different risk model could help “crowd in” rather than “crowd out” private finance; and that the G7 could work together to shape “country platforms” which package a recipient country’s infrastructure into an attractively investable format. All of this belies a fundamental point about scale. Most estimates suggest that the BRI portfolio exceeds $1 trn; more than double existing G7 commitments. If the G7 is to challenge the BRI in regions like Africa and central Asia, sustained public expenditure will be required.

In response to the question of how the various initiatives might cohere, the G7, US, EU, and UK have all promised higher “standards”. This plays to the contentious allegation that China uses the BRI as a means of predatory “debt trap diplomacy”; enforcing unrepayable loan terms as means of gaining influence over recipient countries, and assuming control over strategic assets. The UK has also placed particular emphasis on climate standards, with the implication that Western countries will be best-suited to future-proof heavy infrastructure projects against carbon rules. Finally, as much as a third of BRI projects are estimated to have encountered implementation problems, from corruption to labour standards to public protests. However, low and medium-income attitudes towards Chinese investment have not shifted as much as some of the G7 rhetoric would suggest and the attractions of quick money will persist.

What then are the prospects for success? The geopolitical context suggests that these ideas will stick rather than fade. US / China tensions are here to stay and, as with the EU – US trade and technology council, development finance initiatives offer a means of thickening and deepening a “Western” position. But a world in which third countries and investors must choose between Chinese and Western spheres of influence is neither viable, nor in those countries’ interests. The new German government, which takes the reins of the G7 Presidency on 1 January, faces the challenge of substantiating this year’s promises while avoiding further polarisation.