II. International

THE CASE OF MOZAMBIQUE

The West Should Join China, Not Oppose It: The G7 Alternative Is Naught But Glitter

by Hussein Askary

Hussein Askary is the Co-Chair of the Belt and Road Institute of Sweden (BRIX).

All that glisters is not gold;
Often have you heard that told:
Many a man his life hath sold
But my outside to behold:
Gilded tombs do worms enfold.
Had you been as wise as bold,
Young in limbs, in judgment old,
Your answer had not been inscroll'd:
Fare you well: Your suit is cold.
—William Shakespeare, *The Merchant of Venice,* Act II, Scene 7

Not all that glitters is gold, and not all shiny infrastructure initiatives have substance. Developing nations, especially in Africa, are advised to be careful about initiatives that have dollar signs on them. They should not exchange their right to development through large-scale infrastructure construction for some promises of small cash injections, or for temptation of a flood of money resulting from investments focused solely on the extraction of more raw materials without improving the basic infrastructural situation in their countries. The case of Mozambique is a stark reminder of this kind of deceptive fool's gold.

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In the June 11-13 Summit of the Group of 7 (G7) in Cornwall, England, the leaders of the Group launched what they termed the "Build Back Better World (B3W) Partnership," an "initiative" that is supposed to deal with the massive deficit in infrastructure in the developing sector. According to the fact sheet of the B3W Partnership released by the White House, the initiative is aiming at "a values-driven, high-standard, and transparent infrastructure partnership led by major democracies to help narrow the $40+ trillion infrastructure need in the developing world, which has been exacerbated by the COVID-19 pandemic." So, this initiative, unlike the Belt and Road Initiative (BRI) launched by China in 2013, is an exclusive club of nations and their "like-minded partners."

10 Downing Street/Simon Dawson

The G7 leaders pose at their June 11-13 Summit in Cornwall, England.

On the other hand, while it admits that the deficit is US$40 trillion, it adds that "B3W will collectively catalyze hundreds of billions of dollars of infrastructure investment for low- and middle-income countries in the coming years." There is clearly a discrepancy in the calculation.

A better breakdown of this hypothetical and misleading number is done by Shakeel Ahmed Ramay from the Sustainable Development Policy Institute, in Islamabad, Pakistan, in his article, "G7 $40 Trillion Infrastructure Investment for What: Development or Rivalry?" of June 16, 2021 in *China Focus*.

Otherwise, the reference to "mobilizing the private sector" for funding infrastructure is a pie in the sky, because the profit-driven private sector cannot make profit from infrastructure projects such as railways or power generation unless they rip off the users of that infrastructure and demand massive subsidies and tax breaks to build it.

The purpose of public infrastructure is not monetary profit, but to create a social and physical economic profit for society as a whole as it enhances the productivity of that society and its agro-industrial production capacity. It is the latter which is the source of monetary profit, generated by providing the necessary physical goods and services to society within a nation's market or to international markets.

A Financial Black Hole

The B3W is vague as to concrete plans for infrastructure projects to be built and the scope of financing. The reason for this is that the G7 nations themselves are in deep financial and economic crises, and are unable even to mobilize resources for desperately needed infrastructure investments in their own countries.

As a satirical cartoon, "The Last G7" in China's *Global Times* of June 13, 2021 correctly pointed out, money printing has become the primary activity of these nations.

As the U.S. Federal Reserve's own balance sheet report shows, liquidity pumping, through Quantitative Easing for example, since the 2008 financial crisis to date, has reached $8 trillion. If we add the liquidity pumping by the Bank of England, the European Central Bank, and the Bank of Japan, the number is between $18-$20 trillion. It is important to note that almost none of that liquidity was used to build or improve infrastructure, neither in the G7 countries nor in the developing nations. The sole purpose of the QE was, and still is, to save the financial system of the Transatlantic region and Japan.

Another aspect of this crisis is the U.S. national debt, which hit the $28 trillion level this year, and if nothing changes, will reach $89 trillion by 2029.

The world has seen many similar pledges made by the G7 to the least developed nations, the most famous of which was the promise they made at both the Copenhagen Climate Conference of 2009 and the Paris Climate Summit of 2015, where $100 billion per year by 2020 was pledged to help developing sector nations with "climate mitigation" financing. According to a polite but revealing study conducted by UN experts, these nations failed massively to reach that goal.

Competing with China

While the B3W communiqué itself does not mention China nor the BRI, a June 12 White House press release betrays the intention, stating:

DoE

A liquified natural gas (LNG) tanker ship.

> Today, President Biden met with G7 leaders to discuss strategic competition with China and commit to concrete actions to help meet the tremendous infrastructure need in low- and middle-income countries.

The expression "Build Back Better" itself is derived from the 2020 Biden presidential campaign, pointing to the fact that the U.S. infrastructure is in dire need of reconstruction after decades of neglect, and the same goes for almost every industrial nation. Although the industrial nations did invest heavily in infrastructure in the 1950s, 1960s and 1970s, they have grossly neglected investment in their own infrastructure in the last several decades. Most developing nations did not experience any substantial infrastructure construction in the post-World War II period.

The standards set by the B3W for financing infrastructure in developing nations make it impossible to launch any significant projects. One such standard, which China and the BRI are being accused of violating, is "fiscal responsibility," which basically means that if a nation is poor and in debt, it should not build large-scale infrastructure, nor borrow money to do so. Western institutions, like the World Bank (WB), stopped financing major infrastructure projects in Africa several decades ago, relying on similar standards.

FDRE

Financed by government bonds and private donations, the Grand Ethiopian Renaissance Dam (GERD) runs counter to the colonial policy of regarding Africa as only a source of raw materials.

For example, based on allegations of lack of transparency, environmental considerations and social inequality, the WB stopped a $500 million loan to Ethiopia to build the Gibe III Dam on the Omo River. The same treatment was given to the Grand Ethiopian Renaissance Dam (GERD) on the Blue Nile, which was designed to provide massive clean and reliable electricity to Ethiopia and its neighbors. The WB, the U.S. and the EU refused to finance it. Fortunately, Ethiopia managed to finance these large-scale hydropower projects by mobilizing its citizens and institutions to buy dedicated bonds. Chinese banks extended a helping hand as well.

My pessimistic assessment of this B3W initiative is based on examining many similar initiatives in recent years which were actually attempting to challenge

China as their primary goal, rather than improving the living conditions and infrastructure of peoples in the developing sector. Impeding the BRI and discouraging nations from working with China is written all over the terminology and language of the B3W initiative. "Transparent," "value-based," "fiscally sustainable," "socially-sustainable," and "environmentally-sustainable" are all "standards" that the Western political institutions and mass-media have determined are lacking in China's BRI infrastructure projects. As I have shown in various previous articles and interviews, there is no factual basis for these accusations.

Western Initiatives: Exercise in Futility

On April 22, the U.S. Senate Foreign Relations Committee passed a bi-partisan resolution, called "Strategic Competition Act of 2021," supposedly to compete with China's Belt and Road Initiative. It proposes to allocate $300 million annually, to do what? Build railways? Power plants? Hospitals and schools in Africa and Asia? No. Much of it will be spent to finance "independent media" and "third party" civil organizations, in countries around the world to discredit the BRI.

The legislation also calls on the Assistant Secretary of State for Democracy, Human Rights and Labor to work with the U.S. Agency for International Development (USAID) to "support and train journalists on investigative techniques necessary to ensure public accountability related to the Belt and Road Initiative." So, the intention is to pay and train professionals in other countries to create fake news and proliferate negative narratives about the BRI, such as the discredited "debt-trap" narrative. (Watch our BRIX Podcast #9: "The Final Demise of the Chinese Debt-Trap Narrative," from April 4, 2021.)

If the G7 wants to beat China and the BRI, shouldn't it be building better and cheaper railways in Africa? Wouldn't it be better to prove its superiority by building more efficient power plants and water management systems, and better schools and hospitals, than the Chinese do? Obviously, this is not the purpose of such initiatives. The U.S. and EU have made many initiatives to "beat the BRI," but none of them materialized, and some of them have even become comic in nature to most of the rest of the world.

For example, there was the "EU-Asia Connectivity" Initiative in 2018, a 14-page document and a two-page slide show, which for some strange reason neglected to take note of the fact that China exists! No railways, roads, ports or airports are to be built in accordance with this strategy.

There was also the "Asia-Africa Growth Corridor" backed by Japan and India, launched in 2017. It turns out that it is a series of seminars and conferences, with a website that has not been updated since January 2018!

What is wrong with all these initiatives? And why do they fail? First, they are far from the reality of what people in the developing world really need and aspire to achieve. Second, they are merely designed as political and media operations to encounter, defame and undermine the BRI, without backing them up with any substantial investments or serious alternatives.

The irony is that the more the opposition to the BRI and China grows among politicians, think-tanks and media in the West, who try to tarnish China and the BRI, the more nations are attracted to joining it. Up to now, 140 nations have joined the BRI, many of them after 2017. That's a testimony to success.

The opposition to China and the BRI is generally based on the notion of British Imperial geopolitics—a zero-sum game, where the winner takes all and the loser is destroyed. Win-win cooperation, as promoted by President Xi Jinping, is considered naïve, misleading and against human nature by the geopoliticians.

Trump's 'Prosper Africa'

Then came the Donald Trump Administration's own challenge to China and BRI in Africa, called "Prosper Africa," which was launched in 2018 by then-National Security Advisor John Bolton. The initiative, he said, would foster U.S. investment, expand Africa's middle class, and enhance business climates across the region. He also said it would help to counter "predatory" financial and political efforts by Russia and China in Africa.

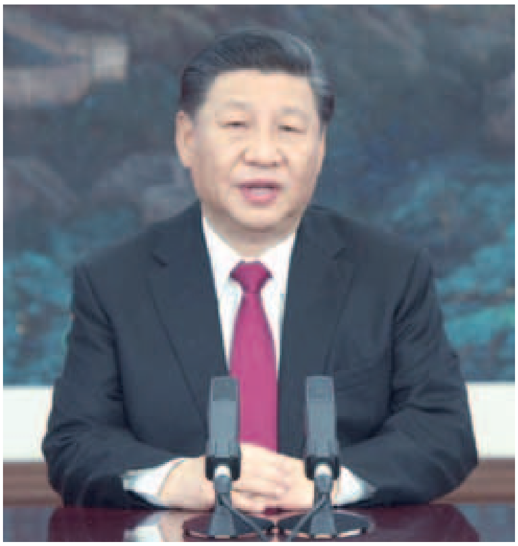
While it is the most potent of the initiatives so far, Prosper Africa had all the hallmarks of the colonial policy of regarding Africa as a source of raw material for the West and its allies. The Trump Administration's biggest single investment, amounting to US$ 4.7 billion from the U.S. EXIM Bank, ended up in a black hole called Liquified Natural Gas of Mozambique.

Where Does Wealth Come From?

But before we review this disastrous endeavor in Mozambique, let's deal with the serious axiomatic matter: Where does wealth come from?

The reader may have witnessed (as I have done over the years) many African leaders, citizens, or scholars who claim that "Africa is a rich continent," and some of them even arguing that Africans don't need the outside world, because it has all the resources it needs. This is a dangerously false and misleading axiom. Yes, from the standpoint of the colonial powers and their modern predecessors, there are large deposits of natural resources "sitting idle" in Africa that are needed in the industrialized world. It seems that those afore-mentioned Africans have adopted the same idea as the colonialists.

While natural resources are useful, they do not represent real wealth. Throughout the history of humankind, it is the development of the creative, productive powers of society (labor) through scientific discoveries and technological progress, as emphatically argued by the American economist Lyndon LaRouche, which creates wealth. His views are shared by one of the most important American statesmen, Alexander Hamilton, a Founding Father of the American Republic and the first Treasury Secretary of the U.S. In his "Report on the Subject of Manufactures" presented to the Congress, he argued that the purpose of issuing national credit is to promote manufactures in the new republic. Hamilton wrote:



WEF/Pascal Bitz

"Innovation [is] the primary driving force of growth ... and human resources the primary source to support development." —Xi Jinping.

> To cherish and stimulate the *activity of the human mind,* by multiplying the objects of enterprise, is not among the least considerable of the expedients, by which the wealth of a nation may be promoted. (Emphasis added.)

This is the secret of the U.S. economic advancement at its best. Chinese President Xi Jinping is acutely aware of the accuracy of this principle. In various speeches, he has pointed to the fact that innovation and the development of human resources is the ultimate source of all wealth.

Elaborating on the impact of scientific progress since the European Renaissance on the industrial development of Europe and later the United States, President Xi, in a speech on January 18, 2016, said:

> In the 16th Century, human society entered an unprecedented period of active innovation. Achievements in scientific innovation over the past five centuries have exceeded the sum total of several previous millennia.... Each and every scientific and industrial revolution has profoundly changed the outlook and pattern of world development.... Since the second Industrial Revolution, the U.S. has maintained global hegemony because it has always been the leader and the largest beneficiary of scientific and industrial progress.

In a discussion of the role of science as a driver for the development of any nation, President Xi argued in a speech in 2015 that China's inability to innovate would become the "Achilles heel" of its economy. Concerning the primacy of human creativity to so-called natural resources, President Xi stressed in the same speech:

> So we must consider innovation as the primary driving force of growth and the core in this whole undertaking, and human resources as the primary source to support development. We should promote innovation in theory, systems, science and technology, and culture.

Addressing African leaders gathered at the Forum on China-Africa Cooperation (FOCAC) in Johannesburg, South Africa in December 2015, President Xi said that "industrialization is an inevitable path to a country's economic success," reviewing China's own success, and that it is entirely possible for African nations to achieve the same goal of eliminating poverty and achieving prosperity. However, in that same speech, he identified the "three bottlenecks of development" in Africa: lack of capital, lack of infrastructure, and lack of skilled labor. He promised to help African nations fill these gaps.

The reason I am citing at length these speeches is to identify a method of thinking embedded in the BRI that is lacking in the Western initiatives towards Africa and other developing nations. Ironically, the same is lacking among certain African experts. They might argue that the West developed by looting Africa's natural resources, but that is not the full truth. In fact, that argument is a source of danger for African nations whose leaders might think natural resources are the primary source of wealth.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Although Nigeria has been exporting oil for decades, it has now surpassed India in the number of people in extreme poverty. Shown here are Nigerians working an offshore oil producing facility in January 2012.

The nearly total dependency of several African nations on the export of raw materials, while importing almost all necessities of life, especially food, puts them at the mercy of the fluctuation of commodity prices in the international markets and the fluctuation of the value of the U.S. dollar, which most commodities are priced in. Following every such shock which devalues their currencies, these "rentier states" are forced to resort to borrowing from international financial institutions to fill the gaps in their balance of trade and reserves.

This process has forced many nations into a real debt-trap, and massive inequality in income distribution. For example, Nigeria, the most populous African nation, which has been exporting oil for decades, has recently surpassed India in the number of people in extreme poverty, according to a World Economic Forum report citing the World Poverty Clock. In a certain sense, through this dependency, natural resources become a curse rather than a gift.

Natural Gas Trap in Mozambique

After the end of the long and devastating civil war in Mozambique (1977-1992), the economy gradually started to recover. But, as in many other nations in Africa, the lack of adequate infrastructure such as water management, power, and transportation, left this country—which is almost totally dependent on traditional subsistence agriculture—at the mercy of the forces of nature. A major cyclone in 2019 wrought large scale destruction to the crops and whatever outdated infrastructure that existed in the country. Another destructive cyclone hit in January of this year. In other years drought has been a recurrent phenomenon and equally destructive for agriculture.

While the World Bank and International Monetary Fund (IMF) statistics speak of a growth-rate of 6-7% per year from 2002 to 2016, little is noticed about the living conditions of the people. By 2016, 48% of the population was living in poverty. Growth was not equally distributed to all parts of the country, and inequality between the urban centers (where most of the growth was in services, real-estate and tourism) and the rural areas, increased in those years.

In 2010, the Texas-based energy company Anadarko announced the discovery of large quantities of natural gas off the coast of the northern province, Capo Delgado. Italy's multinational oil and gas company, ENI, made similar discoveries in 2012 in the adjacent area further out in the Indian Ocean. In total, it is estimated that the gas reserves could amount to 175 trillion cubic feet, which puts Mozambique in the 9th or 10th place among the countries with the largest reserves.

Exports from the three major gas fields (Mozambique LNG, Rovuma LNG, and Coral South Floating LNG) were estimated to reach 35-40 million tons of LNG per year when fully operational by 2023. Qatar and Australia, the two largest LNG (Liquified Natural Gas) exporters in the world, export around 80 million tons per year each. So, the windfall of cash from these projects is estimated to be large, as large as $60-70 billion over a period of 25 years. However, to reach that level of production, massive infrastructure had to be built, with a total cost estimated to reach $25 billion.

Enter Reality

In spite of all the promise of riches from this LNG discovery, no investments in the required production infrastructure were made by the global giants, Total, ENI, and ExxonMobil, who had received the concessions. The obvious reason was that due to the 2008 financial crisis and the prolonged recession that followed globally, the price of natural gas collapsed from the 2008 height of $13 per million BTU to the incredibly low $1.9 in 2012 and $1.7 in 2016. Therefore, the appetite of global energy giants for exploration of new gas fields subsided, especially as the U.S. went into a fracking frenzy simultaneously. This curse of price fluctuation brought most energy export-dependent nations to their knees economically.

For Mozambique, this was a double nightmare, since the elites of the country had gambled on the expected cash from gas revenues. Both the government and private sector resorted to borrowing, both from domestic and international banks, with the hope of paying back the debt from the future LNG revenues. A real-estate bubble started to emerge in the capital and other large cities.

At the same time, between 2013-2016, some government officials were secretly arranging a $2 billion loan backed by sovereign guarantees via the Swiss bank Credit Suisse. This was done behind the back of the parliament, which is a violation of the constitution, since sovereign guarantees must be ratified by parliament. The alleged purpose of the loans was to develop the fishing industry of Mozambique through the purchase of a fleet of modern fishing boats, hence the name "Tuna Bonds Scandal." The scandal erupted after a public audit revealed that $500 million were not accounted for, and that $200 million had been spent on bank fees.

In addition, the ship-building company, Privinvest, had overinflated the prices of its ships, and bribes and kickbacks were funneled to government officials. Credit Suisse staff, Privinvest managers, and the former Finance Minister of Mozambique and other officials came under investigation both by the U.S. Department of Justice and Mozambique authorities.

Adding insult to injury, the IMF, the World Bank (WB) and 14 partner countries decided to cut loans to Mozambique after finding an undisclosed $1 billion loan in 2016. Mozambique's credit rating was lowered, and the country defaulted on its debt in 2017. Consequently, the country was plunged into a new economic and social crisis.

Trump Administration Intervenes

For reasons that can only be considered as geopolitical, Mozambique was revisited by the U.S. and its allies to resuscitate the LNG project. The undeclared goal was to reverse what the Trump Administration considered a dangerous dependence of U.S. allies on imports of natural gas from Russia. Another indicator that this was a political project is that both the WB and IMF, which had just recently boycotted and punished Mozambique on grounds of corruption, lent open support to the LNG project, with one IMF official calling it "a game-changer," despite major risks in the project, including security risks.

The IMF official did not include developing the nation's infrastructure in his recommendations to utilize this coming "LNG wealth," and advised Mozambique's government to be "fiscally responsible." Also, the support from these largely Western-controlled banks violated their previous pledges not to finance or support projects involving fossil fuels! Obviously, the political pressure on the two was unsurmountable. The hypocrisy of the attack on China being a polluter, spreading carbon dioxide through power plants in the BRI nations, is obvious here, where the self-appointed champions of fighting "climate change" among the G7 states are themselves pouring tens of billions of dollars into a gas project.

An unprecedented mobilization was launched by the U.S., Britain, Japan, India, Italy, Netherlands, and 21 international banks to raise nearly $25 billion in credits, the largest in the history of investments in Africa for a single project. This was managed in a very short period starting in 2019, following the launching of Prosper Africa, which is directed against China and the BRI. By the end of 2018, natural gas prices had recovered but were still hovering around US$ 4.9 per million BTU.

According to China Investment Research, in July 2020, Total announced that it had secured financing commitments of $14.9 billion, led by loans from the USA's EXIM ($4.7 billion), Japan's JBIC ($3 billion), Export-Import Bank of Thailand ($150 million), the ADB (Asia Development Bank) ($400 million), as well as loan guarantees from Italy's NEXI ($2 billion), the UK's UKEF ($1 billion), Italy's SACE ($950 million), India's ECIC ($850 million), and Netherland's Altradius ($604 million).

Twenty-one banks were also involved in the facility. Furthermore, most of the future LNG developed from this operation was contracted to be purchased by Japan, India and Thailand—which represented nearly 50% of the consortium shareholders. However, Henry Tillman, Founder and Chairman of China Investment Research, warned in September 2020 that there were many large risks involved in this project, the most prominent of which was the security risk posed by the threat that militant groups like ISIS would launch an insurgency in Capo Delgado where the gas field operations are located.

Ecstatic about this major feat, the Trump Administration (while engaged in a heated election campaign) touted this as a great victory, not for Mozambique, but for the U.S., as it would create 16,700 jobs in the U.S. through 68 corporations in nine states who would supply the materials used in the production of the LNG. In its press release dated May 14, 2020, on the approval of the $4.7 billion loan, the U.S. EXIM Bank, while celebrating the thousands of jobs this project would create in the U.S., and how that is part of the anti-China "Program on China and Transformational Exports" issued by Congress, made no mention of how this project would benefit the people of Mozambique.

Total Throws in the Towel

The warnings about the risks involved in this project came true in March and April of 2021. The attacks by ISIS and Al-Shabab-linked terrorist groups intensified in Capo Delgado at the end of 2020 and the beginning of 2021, coming closer and closer to the construction sites of the LNG project. Attempts to send more troops and support from very expensive international private military contractors (mercenary firms) all failed in late March of this year. Calls for the African Union to step up support for Mozambique, to fight the insurgent groups, did not materialize. The EU also pledged to assist Mozambique with technical support, training and humanitarian aid. So far, the only active support Mozambique has received is humanitarian aid through the UN's World Food Program.

On April 26, Total, the largest contractor in the LNG project in Mozambique, declared *force majeure*, and withdrew all its foreign staff, closing all operations. While acknowledging this development, the U.S. Exim Bank and other lenders to the project have kept an ambiguous stance towards this development. But one thing is clear: the LNG project is shelved indefinitely. While there are many hypotheses and theories on how these terrorist groups emerged and who is behind them, which is not the subject of this article, one thing is clear: it takes many years and a great deal of international efforts to eliminate or even weaken such groups as the Al-Shabab in Somalia or Boko Haram in West Africa. Such groups are clearly not simple local phenomena: they are international.

Now Mozambique is thrown between the jaws of a real security threat on one side and an escalating social and economic crisis on the other, that sees no light at the end of the tunnel. This can lead to more dismay in the population and further political destabilization. While the government of Mozambique should not in all fairness be accused of creating this crisis, it is the whole process and thinking method, both in Mozambique and the West, that did not contribute to its prevention.

CC/Skilla1st

An example of the permanent, hard infrastructure that China finances and builds—in contrast to just raw materials extraction—is the electrified standard-gauge Addis Ababa–Djibouti Railway, inaugurated in 2018. It reduced the cost of cargo transport to the port by two-thirds and travel time from 3 days to 12 hours.

Conclusion and Recommendations

The B3W is doomed to fail because it is conceptually flawed, like the previous initiatives. China is building real infrastructure—railways, roads, ports, power plants—with tangible effect on the productivity of the economies of its partners. It also provides the credit for launching these projects. However, the gap in the need for infrastructure is so huge, it cannot be bridged by China alone. What the West should do is to join China, and use the successful BRI as a *modus operandi* to promote real economic development and growth in the underdeveloped countries, as well as productive projects for U.S. business.

Nations in Africa and Asia that are raw materials exporters should escape the trap of being rentier states, dependent entirely or to a large extent on exporting raw materials to pay for their needs. The fact that such a simple thing as growing food domestically for meeting at least the very basic needs of the population of any nation is not realized in the 21st century should be considered outrageous.

In her book *Will Africa Feed China?*, Dr. Deborah Brautigam debunks the myth of China being involved in land-grabbing in Africa to produce food for the Chinese people. She expresses her deep disappointment with countries in Africa who use their natural resources to buy food from the international market, calling it "begging with a bowl made of gold." However, no nation can build a reasonably modern agricultural sector without sufficient infrastructure (water, power, transport and skilled labor). This should be the purpose of any serious initiative.

Concerning the financing of infrastructure, a two-tiered system should be put in place. On the one hand, an international mechanism for financing infrastructure, like the Asian Infrastructure Investment Bank (AIIB), with no political strings attached to loans extended to nations; on the other hand, developing nations should be enabled to create their own credit which they can direct towards internal improvements, without being accused of breaking IMF or free market rules. Germany, for example, was enabled to create credit after World War II through the *Kreditanstalt für Wiederaufbau (KfW)* with American support.

The issue of debt-forgiveness of the underdeveloped nations, not merely debt service postponement, must become part of the global agenda.

Finally, there should be an end to the disinformation campaigns targeting China and the BRI, using unfounded allegations and outright lies that are counterproductive and misleading for most people in the West.

The Belt and Road Institute in Sweden is willing to extend the hand of cooperation with other research institutions and think tanks both in the East and the West to conduct objective studies of the BRI and its impact in different parts of the world. As the COVID-19 pandemic has shown, there is today, more than any other time, a need for a collective effort to put in place a modern health system globally, and to provide the physical means for its construction. Creating a "community of a shared future for mankind" and achieving the common goals of humanity is no longer an ideal or rhetoric. It is a reality that is being built, but far more slowly than needed.