The problem of concentrated power

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Last week, I quoted a recent speech by US national security adviser Jake Sullivan, in which he asked, "How does trade fit into our international economic policy, and what problems is it seeking to solve?" As I'll argue here, we should start by seeking to solve the problem of concentration and competition.

Leaving aside the question of whether Beijing invades Taiwan (an enormous question, of course, but stick with me), many of the current US and European concerns with China are about the way in which the country's state-run system encourages economic concentration, and the fact that this concentration is then deployed in mercantilist ways.

China has for years been able to flood global markets with everything from cheap steel to underpriced PPE to higher end goods, thanks to its ability to artificially depress wages as well as ignore environmental concerns and (all too often) WTO rules. Thanks to its singular economies of scale, China is on track to become the world's biggest EV exporter, which will inevitably lead to a spate of new trade disputes.

China also has monopoly power in many crucial supply chains including pharmaceutical inputs and rare earth minerals. According to a 2022 US-China Economic and Security Commission review, 41.6 per cent of US penicillin imports came from the country, which also has 76 per cent of global battery cell manufacturing capacity within its borders, 73.6 per cent of permanent magnets (a critical component of electric vehicles), and from 2017 to 2020, supplied 78 per cent of US imports of rare earth compounds. The US has its own supply of certain minerals but, thanks to Chinese subsidies, some domestic American businesses have ceased production.

This kind of monopoly power poses both a security threat and a competitiveness one. China has made numerous clear statements about wanting to ringfence some crucial

global supply chains while reducing its dependence on foreign countries in others. No country wants to worry about having crucial drugs or commodities cut off.
Let's be clear — Beijing didn't reach over and "steal" production, investments and jobs from elsewhere. Instead Chinese central and local government simply deployed subsidies for decades, offered discounted land and gave major tax breaks to producers in order to entice localisation within China. Western companies naturally followed, given that share-holder capitalism requires business leaders to chase the highest share price and the lowest consumer costs (and, crucially, doesn't account for the resulting negative externalities in labour, climate or security). But monopoly power is by no means just a China problem — or indeed solely an international one. Deregulation and weaker enforcement of antitrust laws in the US since the 1980s has led to extreme corporate concentration. Walmart sells more than half of all groceries in some areas of the country, Amazon dominates ecom-merce, a handful of companies control food supply, a single railroad (BNSF) ships 47 per cent of all grain.

The existing giants grow ever bigger and more powerful. JPMorgan acquires yet another failed bank. Food inflation is rising, as insurance Allianz calculates that about 10 per cent of the jump in Europe reflects the search for higher profits. This is made possible by the fact that key parts of the food supply chain are dominated by a handful of players.

Chinese mercantilism, European and US corporate price gouging, American Big Tech and Too Big To Fail banks are really all disparate parts of one problem — too much concentra-tion of power in one place. This leads to market fragility, less innovation (which tends to come from smaller companies and more, rather than less, competition), security concerns and defensiveness on the part of states that worry they could be cut off from crucial sup-plies.

China, of course, has been subject to US export bans and is understandably anxious about it. While it is legitimate for any country to limit the export of technology that could be used for defence purposes by an adversary, it's also true that teasing out dual-use technologies is a tricky business. Total decoupling between the west and China is not what anyone wants. So, how to square the circle?

I'm beginning to think that we should institute a new market principle that Barry Lynn, the head of the Open Markets Institute, an antimonopoly think-tank in Washington DC, calls "a rule of four". In crucial areas, from food to fuel to consumer electronics, critical minerals, pharmaceutical prod- ucts and so on, no country or individual company should make up more than 25 per cent of the market. What's more, countries should apply this rule both locally and globally.

This would be a way for nations to support free trade, while also being able to build up resilient and redundant sup- ply chains. It would buffer the global race to the bottom in which cheap capi- tal is forever flowing to places with the cheapest labour and lowest environ- mental standards. It would, of course, require a total revamp of the WTO. But that wouldn't be a bad thing, since many countries feel it is not functional anyway.

This isn't a perfect solution. But it's a way to start shifting focus from trade wars, cold wars and class wars to the main culprit in all of those things — too much power in too few hands.

Paris Club of creditors struggles to find forum after Beijing's rise

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The last time emerging markets faced a major debt crisis in the 1990s, creditors, named after traditional centres of diplomacy and finance, could quickly gather in private to agree a solution. These days, bringing together a more diverse group of lenders has proved more cumbersome.

The Paris Club's members are the mostly western nations that used to dominate bilateral lending, but their contributions are dwarfed by China, which now lends more to the world's poorest countries than all other bilateral creditors put together. The London Club of commercial banks has lost its relevance, with borrowers increasingly raising finance on bond markets.

These shifts have meant creditors' positions are far less aligned. As Anna Gelpern, at the Peterson Institute for International Economics, put it, new entrants are "just not embedded" in the previous clubby set-up. What's replaced them is a blame game, where critics accuse China of lending on terms that give it a hidden advantage. As its loans have soured, the country has become an alternative lender of last resort, challenging the IMF and stymying restructuring negotiations by trying to impose its own terms.

For those in default, such as Zambia, Sri Lanka, Ghana and others, the lack of an informal club has meant debt restructurings have been frustratingly slow, taking years in some cases. More sovereign issuers are likely to suffer a similar fate soon as higher global borrowing costs and weak growth push them into insolvency.

Finding the right approach to break the debt deadlock will be hard, analysts said, with much depending on Beijing. Yet it has appeared to soften its opposition to collegiate action and even dropped its insistence that development banks should join other creditors in writing down the value of their loans. That proposal, which would raise the funding costs of the World Bank and other development banks, is seen as a non-starter by economists and western governments. Such a change in China's position, says Clemence Landers, at the Center for Global Development think-tank, would be "an important and long-overdue breakthrough".

The Group of 20 big economies, of which China is one, has come up with a common framework. However, only four countries have signed up: Zambia, Chad, Ethiopia and Ghana, partly because the framework obliges debtors to seek the same treatment from all creditors, including those in the private sector, something many sovereigns are keen to avoid for fear of damaging their creditworthiness.

Bondholders, meanwhile, say they are being kept in the dark. Kevin Daly, a director at Abrdn, an asset manager, says the IMF's assessment of a debtor country's needs should be shared with all creditors including bondholders, not only after bilateral creditors have reached a deal. In Zambia, he notes, as creditors, bondholders are as big as Beijing. "We're trying to come up with ideas to speed things up but we lost months of lead time," he said. "Yet we're not the ones who lent recklessly on opaque terms."

Some say the recent leaking of the IMF's criteria for a deal in Sri Lanka offers a precedent for more transparency for the private sector. That bondholders got sight of what to expect early on reinforces the case for making it a habit.

Another way to speed things up would be to substantially raise the funding available from multilateral development banks, enabling them to provide more grants or concessional loans, rather than outright debt relief, to nations in distress. Ways to do this are under discussion.

In what looks like an attempt to revive the clubby meetings, the IMF, World Bank and G20 have tried to corral all creditors into a new initiative. The Global Sovereign Debt Roundtable met in Washington last week, with both China and the Paris Club participating, plus the private sector.

Little progress was made. Effective action will be slow. But with no other workable solutions, borrowers and lenders hope the forum will be given a chance to succeed.