Microfinancing Abroad along China’s “One Belt, One Road”: Replicating the Wokai, Kiva and Other Experiments Worldwide and the American “War On Poverty” Experience Internationally

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Abstract

The aim of this study is to investigate details of successful microfinancing projects worldwide following experimental microfinancing projects such as Wokai within China and Kava across the developing world. In line with previous studies, the results indicate that institutions providing microfinancing to qualified lenders in countries that are not war torn display loan default rates that are very low, and that the primary reason the full potential of microfinancing has not been realised is because of over-regulation by government. The question of what concrete steps to take to expand microfinancing, reduce poverty in developing nations, is explored. The results suggest that China should expand its approach to its “One Belt, One Road” (OBOR) initiative by including microfinancing as a tool with low or reasonable interest rates plus minimum regulatory “red tape” in order to cut through siphoning by local officials in developing nations that receive Foreign Direct Investment (FDI) in the 21st century, much as the United States presidential administration of Lyndon Baines Johnson did as part of America’s “War On Poverty” 50 years ago in the 1960s. Some implications for action will include Sino-American and Sino-Russian diplomatic relations, projected Return on Investment (ROI) from the Asia Infrastructure Investment Bank (AIIB), as well as the general “value added” that Small to Medium Size Enterprises (SMEs) bring to international trade when financed effectively.


JEL Classification: G14, G15, O19, O31, O38.
1. Introduction

Standing out above and going well beyond almost any other altruistic effort historically, China’s One Belt One Road (OBOR) appears to envision raising almost all Lesser Developed Nations (LDNs) out of poverty and into full development in the 21st century, as many as possible before the People’s Republic of China (hereinafter “China”) expects to celebrate its 100th birthday on 01 October 2049. It entails funding estimates of USD 1.4 Trillion, hoping to improve the quality of life of 4.4 Billion people or 40 percent of the world’s population across 64 countries, be 12 times larger than the United States Marshall Plan of 1948 and commit nine percent of China’s Gross Domestic Product (GDP), twice as much as the Marshall Plan,1 reflecting “soft power” at its best notwithstanding drawbacks that include corruption, delays, local opposition2 and undoubtedly also opposition from China’s competitors across Eurasia particularly, in the Association of South East Asian Nations (ASEAN) bloc, Japan and Korea especially.

Scholars including this author have argued that much, possibly most, of China’s foreign economic policy since that country “opened” to trade with the West in 1979, even before then, have followed Confucius’ principles,3 including wisdom of that sage from the 5th century B.C.E. who once stated that, if worldly principles could be capsulized in one word, that word would be “reciprocity.”4 Certainly, in providing humungous financial investment across Eurasia and Africa then most recently into Europe via the Central and Eastern European Countries (CEEC), China is anticipating an ample Return On Investment (ROI) from “reciprocity” in one way or another. What will China provide to its partners, provide to the world in general, in return? If “reciprocity” in the sense that Confucius clearly envisioned it is to mean anything, it must mean that in providing so much financial investment abroad both domestic and foreign citizens must gain from this wealth. To a lesser extent, it is only fair that governments, both China itself and each of its foreign partners, will realise gains, also. When microfinancing is put to optimum uses, parties should gain at all levels: economically, educationally, industrially, technologically, with an end result being overall gain to society

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1 Comparing USD in 1948 with USD in 2016, and presuming an increase of approximately 25 times.
from the concatenation of these separate events. Regulatory balance is essential, not too much “red tape” so as to discourage or even preclude applications from free flowing, but also not too little regulation such as will lure politicians, particularly at local levels of government, to siphon off what comes their way, at the expense of individuals or communities intended as end recipients, at the expense of societal improvement or at the cost of China’s rising global image and reputation.

Figure 1


2. Marshall Plan (European Recovery Program)

If as China and many of its actual or prospective partners contend, Chinese Foreign Direct Investment (FDI) is a 21st century “Marshall Plan” designed as America’s 1948 Marshall Plan was to help impoverished prospective trading partners get back on their feet economically, then it becomes important to observe the significance and sustainable success of the original Marshall Plan named after President Franklin Delano Roosevelt’s long serving U.S. Army chief of staff (1939-1945) and President Harry S. Truman’s secretary of state (1947-1949) and secretary of defense (1950-1951), General of the Army George C. Marshall, Jr. Only its altruistic ambitions, without details, were summarised on 05 June 1947 in Secretary Marshall’s graduation address to Harvard University students.5 Then the ERP was implemented from Paris under the leadership of Barry Bingham, Sr., Louisville, Kentucky.

newspaper publisher and himself an important financial contributor to various anti-poverty programmes.

Stated goals of the Marshall Plan were: (1) rebuild war-devastated regions, (2) remove trade barriers, (3) modernize industry, (4) make Europe prosperous again, (5) prevent the spread of communism.⁶ The Marshall Plan required participating European countries to eliminate inter-state economic barriers, reduce “red tape” regulations, encourage worker participation in labour unions, achieve sharp increases in industrial productivity, and adopt what we consider currently to have become modern business practices,⁷ much as W. Edwards Deming implemented in Japan at about the same time. Will China’s “New Marshall Plan” do the same, will it achieve the same effects? Amongst recipient nations of America’s Marshall Plan, the United Kingdom, France, and Germany received the largest benefits, then went on to apply elimination of cross-border economic barriers as the cornerstone of the European Economic Community, although “red tape” returned to haunt the European Union. In fact, former United States Federal Reserve Board chair Alan Greenspan contends that Ludwig Erhard’s influence on Germany’s spectacular post-war economic phoenix is attributed to its lack of regulation more than anything else.⁸

Effects of the Marshall Plan have been weighty, although they could have been stronger. Main strengths of America’s Marshall Plan seen through the 70 year lens of history include “facilitating the restoration of financial stability and the liberalization of production and prices,” primarily, although a lost opportunity existed for the Marshall Plan to achieve greater economic recovery by “stimulating investment, augmenting imports, and financing infrastructure repair” that it failed to do sufficiently.⁹ If China proceeds with its “New Marshall Plan,” undoubtedly it will both stimulate investment and finance infrastructure, the question being whether it will also augment imports and achieve the success the American Marshall Plan indisputably achieved. It is only fair to mention that critics from the left such as Noam Chomsky have argued that the Marshall Plan enabled declining imperial European colonial powers to oppress their colonial subjects further,¹⁰ this criticism already having been

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voiced by Africans against Chinese FDI on their continent, sometimes more against Chinese expatriate managers than the FDI itself.11

3. Economic Opportunity Act (EOA) of 1964

The EOA established over a thousand Community Action Agencies (CAAs) at the local level to implement “Great Society” programmes of the President Lyndon Baines Johnson administration. CAAs varied greatly, with some being nonprofit groups, some being city agencies, and some community-controlled groups. By 1968 there were over 1,600 CAA's covering two-thirds of the nation's counties. The EOA was notable in administrative terms because Congress bypassed state and local governments to fund community groups directly. However, economic opportunity offices were also created at the level of state government as a means of involving the governors in Great Society poverty programs, guided at the national level by the Office of Economic Opportunity (OEO). Governors could veto inappropriate grants subject to override by OEO director Sargent Shriver brother-in-law of the late President John F. Kennedy, though the governors lacked the right of prior approval. It was not uncommon for southern governors to veto OEO grants only to be overridden by Shriver. In fact, Shriver overrode almost all vetoes.12

In an article published recently in Forbes, its author contends that China’s “Belt and Road is a playground for big government and big business” because of the infrastructure that is found “often rising up behind high gates without any input from the communities who live in their proximity [.]”13 Exactly so, and this is the reason why care must be taken to direct such FDI toward individuals and away from officials determined to siphon it off before it reaches target populations and Small to Medium Size Enterprises (SMEs) that ordinary people own and manage. This article suggests that OBOR is changing individual lives for the better, but this paper points to ways to improve the end results of OBOR globally and regionally.

The EOA required the poor have "maximum feasible participation" in poverty program planning. CAAs sought participation by the poor by opening storefront and neighborhood centers. Such centers helped train a new generation of community activists and leaders. These individuals also were recruited into the ranks of federal poverty program administration. As this new power base developed, some mayors and other political leaders were threatened and successfully lobbied Congress to earmark new funds into “National Emphasis Programs” (NEPs) specified by Congress. The NEP requirements effectively undermined the discretion

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of CAA’s to allocate funds. As Congress’s influence grew, the commitment of the president to the OEO declined, but the nationwide network of Community Action Agencies (CAAs) acting in partnership with each other across localities and collectively with the central government remained sustainably. Flexibility, Immediacy, and Coordination were the primary Strengths of the CAAs, meaning that they contained minimum governmental bureaucracy, strove to provide economic assistance as rapidly as feasible, and possessed cross-agency networking capabilities required to solve problems encountered by individuals, families, and communities alike as much as possible, as outlined in an online advertisement published by Knox County, Tennessee.\footnote{Knox County (TN) Community Action Committee, “National Network of Community Action: The CAA Network: Community Action Agencies Across America.” N.D. \url{http://www.knoxcac.org/newweb/who-we-are/national-network-of-community-action}.} It is of interest to note that former U.S. ambassador to Poland under the second President George W. Bush term and the first year of President Barrack H. Obama’s administration, Victor H. Ashe, was mayor of Knoxville, the Knox County seat and longest serving mayor in the United States, whose tireless efforts to attract sustainable American FDI to Poland have been remarkable and very sustainable.

Amongst many controversies encircling the CACs from their inception, the most striking seem to have been the battle for control of Federal monies disbursed at the state, county, and local levels:

Soon [after 1964], some of the local CAAs established under the law became embroiled in controversy. Local community activists wanted to control the agencies and fought against established city and county politician’s intent on dominating the boards. Since both groups were important constituencies in the Democratic Party, the "war" over the War on Poverty threatened party stability. President Johnson ordered Vice President Hubert Humphrey to mediate between community groups and "city halls," but the damage was already done. Democrats were sharply divided, with liberals calling for a greater financial commitment—Johnson was spending about $1 billion annually—and conservatives calling for more control by established politicians. Meanwhile, Republicans were charging that local CAAs were run by "poverty hustlers" more intent on lining their own pockets than on alleviating the conditions of the poor.\footnote{Miller Center of Public Affairs, University of Virginia. “Lyndon B. Johnson: Domestic Affairs.” \url{http://millercenter.org/president/biography/lbjohnson-domestic-affairs}, accessed 16 August 2016.}

This phenomenon is natural. Countries such as China that have earmarked funds for development find this problem in post-colonial governance at the national, provincial, and local levels of many developing countries. An option is clear: cut through “red tape,” direct funding to end recipients.

By 1967, Congress had given local governments the option to take over the CAAs, which significantly discouraged tendencies toward radicalism within the Community Action
Program. By the end of the Johnson presidency, more than 1,000 CAAs were in operation, and the number remained relatively constant into the twenty-first century, although their funding and administrative structures were dramatically altered—they largely became limited vehicles for social service delivery.

Overall government funding devoted to the poor increased greatly. Between 1965 and 1968, expenditures targeted at the poor doubled, from $6 billion to $12 billion, and then doubled again to $24.5 billion by 1974. The billions of dollars spent to aid the poor did have effective results, especially in job training and job placement programs. Partly as a result of these initiatives—and also due to a booming economy—the rate of poverty in America declined significantly during the Johnson years. Millions of Americans raised themselves above the "poverty line," and the percentage under it declined from 20 to 12 percent from 1964 to 1974.16

Indeed, China has reached similar results domestically, two generations after the United States. Chinese efforts to expand poverty reduction internationally will require many partnerships.

4. Microfinancing through the ADB

Recognition must be paid to microfinancing that has been guaranteed by the Asian Development Bank (ADB) for decades. On its global website, the ADB projects “support for inclusive finance [that] is provided through loans, credit lines, investments, grants, guarantees, and technical assistance in the following areas (as defined in the 2014 Project Classification System):

+ microfinance
+ credit cooperatives and credit unions
+ agriculture finance and rural microenterprise
+ branchless/mobile banking
+ financial literacy and consumer protection
+ remittance management
+ savings mobilization
+ rural banks 17

Varieties of “inclusive finance” similar to that provided by the ADB should be offered by or through the Asia Infrastructure Investment Bank (AIIB) the President Xi Jinping administration inaugurated shortly after he took office as China’s president in 2012. However, the AIIB seems to have been formed as an alternative to the ADB, not merely in name, but also in approach, with the ADB making strong and determined efforts to reach out to

16 Ibid.
consumers, in contrast to the AIIB approach that provides economic assistance largely to governments in power over territories. Thus, it could follow that the AIIB is less interested than the ADB in microfinancing, because it aims to strengthen governmental rather than individual economic wealth. This focus should change. To achieve its strategy, ADB focuses on:

- creating a microfinance-friendly policy environment
- developing financial infrastructure
- building viable retail institutions
- supporting pro-poor innovations
- supporting social intermediation

Each of these foci is worthy of replication by China as it works its OBOR objectives globally. Viable retail institutions are very important, they are closer to the consumer population and they provide an opportunity for ordinary people, adults, emerging adults, and children to contemplate changing fashion trends that reflect international cultural dimensions.

5. Domestic Microfinance in China

Inside of China, microfinance programmes have witnessed mixed success and failure, sometimes with one following the other in either direction. Some Chinese entrepreneurs contend they are sacrificial lambs for the Chinese government’s foreign economic policies, viewing elimination of poverty as a “zero sum” game: either it will happen inside the Chinese Mainland or outside, but not both at once, as a University of Southern California (USC) report illuminates:

From dairy farms to dumpling stands, more and more people are turning to microfinance companies to start or expand their business dreams. And with 40% of its population below the poverty line, Inner Mongolia is a prime target for microcredit operators. Chifeng Zhao wuda Women’s Sustainable Development Association (CZWSDA), who assists Wokai in supporting Siqinggaowa, began operating in 1998 with the support of the United Nations Development Program. Of its 3,128 borrowers, 100% are female. Over the past several decades, the practice of lending small amounts to ambitious yet underprivileged entrepreneurs has become a superstar in the global fight against poverty. According to Deutsche Bank, microloans have grown to more than US$25 billion worldwide. The loans, which can range anywhere from US$5 to several hundred dollars, can be enough for new businesses to set up

shop. In a country with 200 million people living on less than US$1 a day, China is a clear destination for these micro-banking services.^[19]

Some improvements have been realized in the last seven year period, not many. Figure 2 below reflects domestic microfinancing in China in the first decade of the 21st century.

**Figure 2. Domestic Microfinancing in China, 2009**

<table>
<thead>
<tr>
<th>Type of Credit Institution in China</th>
<th>Microfinance Services?</th>
<th>Setting</th>
<th>Oversight</th>
<th>Method of Capital Accumulation</th>
<th>Interest Rates</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Banks</td>
<td>No</td>
<td>Urban/Rural</td>
<td>State-run &amp; Public Holdings</td>
<td>Commercial Banking &amp; State Funding</td>
<td>5-10%</td>
<td>Bank of China, China Construction Bank</td>
</tr>
<tr>
<td>Agricultural Bank of China (National)</td>
<td>Yes</td>
<td>Rural</td>
<td>State-run</td>
<td>Commercial Banking &amp; State Funding</td>
<td>5-10%</td>
<td>--</td>
</tr>
<tr>
<td>Rural Credit Cooperatives (RCCs)</td>
<td>Yes</td>
<td>Rural</td>
<td>State-run</td>
<td>Increasing Commercialization, Foreign Donors &amp; State Funding</td>
<td>12-20%</td>
<td>Chifeng Zhaowuda Women's Sustainable Development Association</td>
</tr>
<tr>
<td>NGOs &amp; IOs</td>
<td>Yes</td>
<td>Urban/Rural</td>
<td>Non-profit Orgs &amp; Foreign Govts</td>
<td>Foreign Contributors, Aid, Gov't Donations</td>
<td>12-18%</td>
<td>United Nations Development Program</td>
</tr>
<tr>
<td>Private Microfinance Companies</td>
<td>Yes</td>
<td>Rural</td>
<td>Private</td>
<td>Private Foreign Donors</td>
<td>15-20%</td>
<td>Wokai</td>
</tr>
<tr>
<td>Private Lenders &quot;Sharks&quot;</td>
<td>Yes</td>
<td>Urban/Rural</td>
<td>Private</td>
<td>Private</td>
<td>20-25%</td>
<td>Pawn Shops, Wealthy Locals</td>
</tr>
</tbody>
</table>


“We aim to help a range of different social causes in China, whether it be healthcare or education or the environment,” said Casey Wilson, co-founder and chief executive of Wokai, who added: “For example, you could buy a solar panel for a family that doesn’t have electricity or you could fund a child’s education for a semester,” reflecting the Wokai commitment to eclectic microfinancing, a concept required if China or other countries expect to succeed in global microfinancing. Surely loan “sharks” and other disreputable

entrepreneurs must be kept at bay. To accomplish this, the mainstream Chinese banking institutions should step in to supervise, and be “clean” themselves from questionable practices such as corrupt officials at the Industrial and Commercial Bank of China (ICBC), the world’s largest bank, together with other Chinese financial institutions, have been sanctioned for participating in.\textsuperscript{20}

6. Conclusion

As China becomes engaged as a change agent involved in securing the upward mobility of nations in the developing world, it has an obligation, however self-asserted, to assume that role in a manner best designed to achieve the results intended. Microfinancing is an option, undoubtedly the best option, because if designed and implemented properly it will bring economic change directly to end recipients, individual consumers and workers whose upwardly mobile quality of life will be affected. Ordinary citizens require access to capital markets tailored to their needs and within their abilities to service. As Chinese foreign economic policy initiatives progress across Eurasia and Africa as well as elsewhere globally, microfinancing is an option to be considered. If as China has pledged it intends to substantially reduce, even eliminate, poverty globally in preparation for celebration of its 100\textsuperscript{th} anniversary on 01 October 2049, improving the quality of life for individuals and families will be as important as or even more important than improving the sovereign wealth of nations. This is likely to become even more important as democratic institutions increase globally, even in China itself, because as citizens vote they cast their favour upon what their neighbours, including China, have done for them personally and tangibly, rather than merely what they have done to perpetuate friendly if autocratic leaders.