**Testimony of**
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**before the House Foreign Affairs Committee**
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**"Assessing U.S. Efforts to Counter China's Coercive Belt and Road Diplomacy"**

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Chairman McCaul, Ranking Member Meeks, and Members of the Committee, thank you for inviting me here today to testify on the People's Republic of China's (PRC) Belt and Road Initiative (BRI).

I am pleased to have the opportunity to speak with you about how we are meeting the challenge of China's BRI at the U.S. Department of Commerce's International Trade Administration (ITA) and, more specifically, in our Global Markets business unit, which includes the U.S. and Foreign Commercial Service.

As you know, China has described its nearly $1 trillion Belt and Road Initiative as a way to enhance China's global economic connectivity and support global economic development through policy coordination, infrastructure development, trade facilitation, financial integration, and people-to-people exchanges. China has built an extensive network of relationships across the globe and, in many cases, is bringing resources to the table to deliver critical infrastructure to emerging markets. Our latest estimates show that China has BRI memorandums of understanding with 145 countries. Multiple examples of BRI projects have illuminated the risks posed by an overdependence on China's financial and infrastructure resources, including the potential for overborrowing or low-quality outcomes. The United States urgently requires a whole-of-government response to meet the infrastructure needs of emerging markets around the world and provide alternatives to China's BRI model.

## Challenges Posed by BRI

Notwithstanding China's best efforts to portray China's BRI as a generous offering to advance infrastructure development and economic growth around the world, our trading partners increasingly share our view that BRI poses more risk than opportunity.

First, China's BRI can threaten the economic development of our trading partners.

Our partners have learned the hard way that the PRC's state-led participation in their infrastructure projects often comes with unexpected negative consequences. These projects – such as high-speed rail, ports, power generation, and fiber networks – are often developed using labor from China rather than local workers, and with little regard to the environmental impacts of their operations. Such projects also frequently come with financing terms that are opaque, which has contributed to elevated or unsustainable debt levels in many recipient countries. This debt can form the basis for China to press for greater control over that infrastructure in a manner that risks undermining the interests of borrowing governments. Additionally, instead of open competition, partner countries may be required to issue closed tenders (so competitors from other countries cannot bid). They may also be required to buy specific equipment that will lock them into future equipment purchases from China to ensure integration and implement China standards – rather than international standards – in the tenders. This can result in greater *dependence* on China, which can serve as a drag on inclusive economic growth – rather than the greater *autonomy* that can come with a diversification of reliable trading partners.

Second, China's BRI threatens U.S. economic and national security interests.

China's BRI investments in transportation infrastructure have supported and reinforced China's control of critical supply chain chokepoints – such as those relating to the mining and processing of minerals that form the foundation of most manufactured products, including solar technology. China also has used transnational subsidies to maintain its influence over critical supply chain segments such as solar technology, even when relevant components or products are manufactured outside China. This control by Chinese entities *expands* the very chokepoints that already exist in China by virtue of the supply chains that have been built over recent decades. As a result, at precisely the moment when our government, our trading partners, and companies around the world have recognized the importance of diverse and resilient supply chains, China's BRI works to strengthen Chinese government influence over those supply chains.

Third, China's BRI diminishes the ability of U.S. companies to sustain market share and to compete in markets around the world.

The success of China's BRI rests on China's funding of hundreds of billions of dollars in projects in markets around the world, including most trading partners of the United States. The funding tends to be provided through China's ExIm Bank or the China Development Bank, which leverage development finance tools (without necessarily adhering to internationally accepted guidelines) to advance China's commercial interests. Combined with longstanding non-market anticompetitive practices, including massive state subsidies and preferential domestic lending, China's BRI has used its financing to open doors for its state-owned or state-controlled firms while ensuring those doors remain closed for market-based competitors from other countries including the United States. In a process that has been accelerating over the last ten years, China has increasingly displaced America as the #1 trading partner in many markets around the world that are now key BRI partners – including those in our immediate neighborhood, the Western Hemisphere.

## **Our Strategy to Compete**

These challenges created by China's BRI compel the question: how do we counter the BRI and help American companies compete in a global economy where, as Secretary Raimondo has said, "China has proven over and over again that it is willing to be anti-competitive, coercive, violate human rights, steal our technology, [and] use it against us…"?

The competitive challenges of today are fiercer and more pressing than ever before, and decisive action is necessary. The International Trade Administration (ITA) and the Global Markets business unit that I oversee are uniquely positioned to be one of the U.S. Government's most effective programs in helping U.S. companies compete and win against PRC-supported entities in the global marketplace. We have the policy knowledge, the practical skills, and a worldwide network of trade and investment professionals – the U.S. and Foreign Commercial Service – who provide assistance to U.S. companies at home and abroad as they compete for business around the world. Importantly, we have more than 40 years of proven success in trade promotion and commercial diplomacy.

Our network is intrinsically connected to a growing list of more than 35,000 U.S. companies– our "clients," your constituents – more than 85% of them U.S. small-to-medium sized companies. Our strategy for success in countering the BRI and helping U.S. companies compete with China and other foreign businesses rests on three pillars centered on the global competitiveness and the economic security of the United States: (1) pursuing market share; (2) promoting market openness; and (3) preserving market security.

We are pursuing market share by aligning and leading U.S. Government export promotion efforts to help U.S. businesses gain greater market share vis-à-vis PRC-supported entities engaged in anticompetitive behavior in countries around the world. As a part of this alignment, with the resources available to us, we are prioritizing key trade shows in BRI countries, to raise the visibility of U.S. exporters in those markets.

We are building our partnerships with the Department of Defense (DOD) in SOUTHCOM and INDOPACOM, two regions of intense focus under the BRI, to ensure that our teams in those regions are sharpening their awareness of critical infrastructure projects, reinforcing and deepening market intelligence gathering and USG advocacy to help level the playing field for U.S. exporters to compete, and promoting U.S. solutions in the early stages of investment projects. This model is yielding good results and we hope to expand it to other regional U.S. Commands.

We are also leveraging partnerships with the State Department, EX-IM, the DFC, USTR, and others on interagency Deal Teams at U.S. Embassies around the world. These deal teams identify and deliver resources from across the U.S. Government that are available to U.S. businesses as they compete for projects and sales. In support of our deal team efforts, we conduct quarterly on-line training sessions in conjunction with the Economic Bureau of the State Department for our economic and commercial officers around the world. These training sessions highlight successfully advocated deals and best-in-practice collaboration between our regional Commerce offices and State Department Partnership Posts, and they often include multiple-agency deal team participants from posts overseas and here in Washington. The focus, as you might expect, has been on understanding the "anatomy" of successful deals in the face of foreign competition, including from Chinese entities.

We are intensifying our commercial diplomacy efforts to promote market openness by engaging with foreign counterparts in critical sectors and on infrastructure projects, under initiatives including the Indo-Pacific Economic Framework for Prosperity (IPEF) and Partnership for

Global Infrastructure and Investment (PGII). We are using all the tools available to us across the Commerce Department (e.g., the Commercial Law Development Program) and the interagency, often in collaboration, to build necessary regulatory capacities, increase transparency, and enable commercial environments in countries around the world, in the face of competition from China, so U.S. companies can compete. Additionally, we are expanding the work of our Standards, Digital, and Intellectual Property attachés around the world, to leverage their expertise in helping companies navigate foreign digital policies and regulatory issues, change and align standards, protect U.S. intellectual property rights, and improve systems to counter the PRC's non-market policies and practices that result in uneven playing fields for U.S. business

Finally, we are focused on preserving market security, both here at home and in overseas markets, to preempt and counter predatory and anticompetitive PRC practices. We are targeting U.S. capabilities across strategic areas important to our national security including climate change, cybersecurity, genomic research and healthcare, critical minerals and their processing, semiconductors, critical infrastructure, and defense. We are similarly focusing our efforts on ensuring that China's actions, including through the BRI, do not threaten either the reliable performance of critical infrastructure in foreign markets, or the secure supply of critical inputs for U.S. production essential to our long-term economic and national security. To achieve these twin security objectives, we are leading interagency efforts through our Advocacy Center in support of U.S. companies competing for foreign government tenders, and we lead the interagency Defense Advocacy Working Group (DAWG) on aerospace and defense competitive issues.

In each of these pillars of our strategy, the Championing American Business Through Diplomacy Act (CABDA) has brought focus to the importance of new partnerships between the State Department, Commerce, USTR, and others that has helped us collaborate and innovate in support of U.S. businesses in a more strategic and impactful way. Our teams are working together like never before. For example, State's economic diplomacy efforts in areas that support trade-related capacity building and technical assistance lay the groundwork for U.S. businesses to gain market access through Commerce's commercial diplomacy and trade promotion efforts. These collaborative efforts help level the playing field for U.S. businesses to compete and win. This combination of economic and commercial diplomacy is a major step forward for us, and a one-two punch in support of U.S. businesses as we up our game in competition with China.

Mr. Chairman, it is important to note that the elements of this strategy I have described only scratch the surface of the breadth and depth of the work that our staff of 1450 professionals in Global Markets does on a daily basis around the world in support of U.S. business. At the same time, there is more we could do.

**<u>Resources to Compete</u>**

Our U.S. and Foreign Commercial Service, through its 106 domestic offices in cities and rural communities across the United States, is comprised of trade and inward investment promotion experts who provide American companies with global market intelligence, counseling, programs, and services that strengthen their global competitiveness.

Our overseas staff of foreign commercial service officers and local commercial specialists are strategically located at 124 U.S. Embassies and Consulates in 78 countries, conducting commercial diplomacy and implementing programs to help companies gain market access, and identify and win export opportunities for major projects.

To a person, their work plans reflect our intense focus on delivering for U.S. business, even in the face of intense competition from China including the Belt and Road Initiative.

I would be remiss if I did not also underscore that the drive and commitment of our team to this mission can only carry the day so long against a competitor like China, whose trade officers outnumber us 3-1, in 223 offices in 171 countries, according our latest internal analysis. And China spends more than $110 million annually in support of its companies at global trade fairs and events – voluminously displaying the products of PRC companies for the world to see. In comparison, in ITA, our budget allows us to allocate approximately $5-7 million annually to support U.S. participation at global trade events, with U.S. companies essentially covering their own costs of participation – costs that are rising in the post-pandemic global economy.

I should note that participation in trade fairs around the world is often prohibitively expensive for small- to medium-sized businesses. We need to find a way to do more to support them. While the U.S. Government is limited in its ability to financially support a U.S. company's participation in a trade event (for example, through STEP funds), we can do more to build our capacity to provide more efficient programs and services, so they can more effectively provide their products and services in markets around the world as an alternative to those offered by their foreign competition, including competitors from the PRC.

That is why I am particularly thankful that Congress provided Global Markets with $6.5 million in FY 2023 to expand our capacity to help U.S. business compete. Our strategy is to target our resources where U.S. businesses need us most, and they tell us they need us in markets where competition is fierce and foreign competition, including from China, is squeezing them out. With those funds we plan to open new operations in Côte d'Ivoire, Guyana, and Zambia, while making additional investments to existing operations in the Indo-Pacific region, Eastern Europe, and Central America, subject to approval of our FY 2023 spend plan. Moreover, the President's FY 2024 Budget Request includes a $16.8 million increase for Global Markets to continue investing in our workforce at a time when we must show up, and show up often, if we are to help U.S. businesses compete in markets around the world.

We, as a government, risk losing our own competitive battle vis-à-vis China's trade and investment practices in third-country markets, and we must take decisive resource-driven action.

## **Conclusion**

Mr. Chairman, it is my honor to lead the U.S. Government's premier cadre of specialized global personnel trained for and experienced in commercial diplomacy and trade promotion.

Our network has experience and deep expertise in successfully promoting U.S. exports and protecting U.S. business interests abroad, and in opening markets and removing barriers to trade using the convening power of the U.S. government.

Along with our partners across ITA, we have proven success in leading and executing a comprehensive strategy in support of U.S. business as it competes in the 21st century. And we look forward to doing even more.

Thank you, Mr. Chairman and Members of the Committee for the opportunity to speak to you today. I would be pleased to answer any questions or provide examples of our successes worldwide.