United States Institute of Peace

"All Roads Lead to Beijing? The CCP's Global Development Offensive"

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Chairman Moolenaar, Ranking Member Krishnamoorthi, and distinguished Committee members, I very much appreciate this opportunity to discuss China's Belt and Road Initiative. As an economist at the United States Institute of Peace, I work directly with USIP's China Team within its Asia Center, although the views expressed here are my own.

Introduction

In the remarks that follow, I seek to demystify the nature of China's Belt and Road Initiative (BRI). I contend that the Chinese leadership has often claimed responsibility for activities under the banner of the BRI that would have occurred regardless of the existence of this policy program. This is most true in the realm of financing. By distinguishing between the reality of the BRI as a successful international forum of countries with a humble impact, and the persistence of Chinese international finance that exists independently of the BRI, we may better understand their motivations and how the US might wish to engage with these distinct initiatives. More broadly, if the US wishes to compete with Chinese loans (which are almost exclusively export credits) to Global South countries, it should recognize the value of the Export-Import Bank of the United States (US EXIM Bank) as a complement to the Development Finance Corporation (DFC). However, it is not clear that countering the BRI as a forum, or Chinese finance more broadly, is necessarily in the US's interests. The US has other strengths to play to that may have a more positive impact and could resonate louder among global partners.

What the BRI is and isn't

The BRI is in many ways China's equivalent to the UK's Commonwealth of Nations. This may sound like a provocative statement, but it is not intended to be. To be clear I am not alluding to the historical legacy of the UK's colonialism. Instead, I think the Commonwealth is the best equivalent to understanding the relevance of the BRI. Both were created as platforms to periodically bring together a large gathering of mostly Global South countries in communication with their richer forum leaders. In both cases there is a great effort to focus on shared geopolitical visions and understandings, and in both cases, they are largely sustained by the hopes of all involved that the forum will lead to economic or political opportunities.

But by that same token, I think it's fair to say that the BRI is in many ways as limited in scope as the Commonwealth of Nations because it is first and foremost just an international association. Contrary to popular belief, the BRI is not actually responsible for generating finance. The only tangible financial engagement that was created as a direct result of the BRI is a small institution called the Silk Road Fund. China's State Council released a white paper in October 2023 stating that in the 10 years of the existence of the BRI the Silk Road Fund has financed only 75 projects at a total of $22billion and offers us no significant insights into its financing focus or strategies[1]. This is a tiny fraction of the trillions of dollars in financing often ascribed to the BRI.

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[1] For example, in 2015 China signed loan agreements with Venezuela alone worth $20 billion. China's State Council White Paper titled "The Belt and Road Initiative: A Key Pillar of the Global Community of Shared Future." can be found here: http://www.scio.gov.cn/zfbps/zfbps_2279/202310/t20231010_773734.html

When the BRI first launched in 2013, Chinese leaders claimed that it would connect China to the rest of the world via interlinked transport infrastructure. This vision was often supported by beautiful graphical representations of a trainline or highway stretching across Asia to North Africa or Europe, and a stream of ships reaching from the East coast of Africa back to China's seaboard. Since the BRI grew to encompass South America and many more countries in Africa, these simplistic graphical representations were largely abandoned, but the mythology of the BRI being defined by interlinked transport infrastructure remained. In reality, such a network never actually materialized. A trainline built in a country like Ethiopia was not necessarily connected to another trainline at its borders with Sudan, let alone anything stretching all the way back to China. More to the point, very little of the infrastructure was actually built with Silk Road Fund financing. There isn't much information available on the Silk Road Fund's portfolio, but it's clear that not all of its 75 projects were focused on transport infrastructure. On the Fund's website, they claim that they are also mandated to export Chinese technologies (much like an export credit agency) and they cite equity investments in overseas energy infrastructure. On this basis it would appear that the BRI has actually achieved very little of its stated original ambition of building infrastructure that would connect China with the many BRI member countries.

Nevertheless, a lot of academic and journalist literature on this topic actually feeds into the mythology of the BRI that China's leadership has created. For instance, when Xi Jinping proudly announces that the Export-Import Bank of China (China EXIM Bank) is an implementer of the BRI, many western institutes take this at face value and produce reports that reinforce this narrative. They ascribe every China EXIM Bank loan to a BRI signatory country as a reflection of the ambition and scale of the BRI, often including misleading terms like "development finance" when they are really just reporting on export credits. But to do so completely misunderstands the mandate of an institution like the China EXIM Bank and assumes that the BRI is responsible for its behavior in BRI signatory countries. In fact, when we look at data of China EXIM Bank lending to regions like Africa and Latin America from 2003 to 2023, it is quite clear that the launch of the BRI in 2013 made no substantive difference to the lending patterns of the China EXIM Bank. In fact, China EXIM Bank lending even declined for a huge swathe of BRI signatories after 2016.

To be clear, China EXIM Bank is an export credit agency created to support the sale of Chinese goods and services to international buyers. It lends vastly more than any other export credit agency in the world, but I contend that this is not because it is part of a conscious policy process dubbed the BRI. I would argue instead that it lends for reasons related to its mandate, and for reasons related to its contemporary function in China's domestic economy. Briefly on this latter point, China's domestic economy is really struggling to stimulate consumer demand, and it has exhausted its ability to channel cheap credit into local infrastructure and manufacturing programs. By the most basic laws of economic growth, China's only remaining hope to stimulate demand is to rely on a positive trade balance, and their extravagant lending programs are a reflection of this existential need. In this context, I would argue that the BRI is best understood as a convenient narrative for something that Chinese financial institutions have to do because of domestic economic pressures and because of the mandates they are designed to fulfil. In other words, an institution like China EXIM bank would be lending the vast quantities they have been regardless of whether the BRI existed or not.

There are other examples of the BRI being ascribed responsibility for activities that really have no causal relationship to it. For instance, in 2017 the US companies Cisco and IBM formally signed on as an implementing partners of the Digital Silk Road – a subset of the BRI[2]. It's unclear what projects Cisco or IBM may consider themselves implementing on behalf of this Chinese government program, and it's unlikely they received any financing for signing on. More likely than not, this was simply an opportunity to market themselves to Chinese clients both inside and outside China's domestic market. Similarly, in a study conducted in 2021 we reviewed as many publicly available BRI memorandums of understanding signed by both China and Global South countries[3]. We found no evidence of any financial or legal commitments by either China or the signing counterpart. But these examples go to the heart of the strength of the BRI. It is not so much about the money, as it is about who signs on publicly. It's about getting governments and institutions to join a forum that is led by China, and China wants to see BRI participation grow. To that end China was notably upset when Italy decided to leave even if that didn't mean much in practice.

Lastly, another point you often see made by Western and Chinese scholars and journalists is that the BRI comprises trillions of dollars' worth of trade, investment, and GDP. But the reality is that, just like the UK's Commonwealth of Nations, these countries would be trading and growing regardless of the existence of this policy label that is often slapped on post-hoc. This ultimately feeds into the impressive narrative that Beijing is trying to create, but I don't think it is necessarily helpful or accurate. It is this mythology of the BRI that ultimately drives the hopes of its partners and the fears of its competitors. These nebulous meanings ascribed to the BRI by everyone and anyone are ultimately a source of great strength and weakness for this flagship Chinese policy program. By cutting through the mythology of the BRI, US lawmakers would be in a better position to know how to respond to this policy initiative.

How could the US respond to the BRI?

Having established that the BRI is first and foremost a forum intended to engage with mostly Global South regions, the question is whether the US should create something comparable. There are several options available to the US in this regard.

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[2] People's Daily, "International Business Alliance Set up to Support Digital Silk Road," November 3rd, 2017: http://en.people.cn/n3/2017/1103/c90000-9288419.html

[3] Henry Tugendhat and Julia Voo. 2021. China's Digital Silk Road in Africa and the Future of Internet Governance. Working Paper No. 2021/50. China Africa Research Initiative, School of Advanced International Studies, Johns Hopkins University, Washington, DC: https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/61084a3238e7ff4b666b9ffe/1627933235832/WP+50+-+Tugendhat+and+Voo+-+China+Digital+Silk+Road+Africa.pdf

The Summit for Democracy is perhaps the US's first foray into creating a global forum that involves mostly Global South countries. It is obviously very different in scope to the BRI by centering itself on the political values of democracy. This likely makes it less appealing than a forum that centers the conversation on the economic development of its members, and the definition of democracy makes its membership inherently less stable. For instance, the Commonwealth of Nations is effectively a semi-permanent membership and although many countries were formerly part of the British Empire, others can join at will; e.g., the 1995 accession of Mozambique. The BRI's only precondition for membership would be adherence to the One China policy, and it involves signing MOUs with member countries that are renewed every 5 years. By contrast, based on the criteria of democracy, the Summit for Democracy changed its membership list in just two years between the first forum in 2021 and the second in 2023 and it will likely keep doing so at every iteration.

The US has had more recent experience and success with regional forums such as the Organization of American States (OAS) or the US-Africa Leaders Summit. However, these are necessarily limited in geographical scope and are more comparable to China's forums with those same regions; namely the China-CELAC[4] forum and the Forum on China-Africa Cooperation (FOCAC). The OAS in particular is also very different, because although it is headquartered in Washington, DC, it is not intended to be led by the US in the same way that the BRI or China-CELAC forums are designed to be led by China. One could interpret the US's relative focus on regional forums as a strength, rather than a shortcoming, since regional forums at least have the potential to be more responsive to issues of mutual interest, rather than global forums that may struggle to define common goals as easily.

In summary, there is value in these international associations but the US does not have a strong equivalent to the BRI at present. International associations like the BRI are an opportunity to lead conversations on the nature of complementary economic and political interests. But they also cost time and resources, and there is an important question as to how much they benefit their members compared with more tangible forms of economic or political engagement. For instance, the US already has a rich network of chambers of commerce, engagements in multilateral development banks, membership in regional and mini-lateral forums, UN bodies, etc. Based on my earlier remarks, I would argue that the specter of the BRI is actually larger than its impact, and we should not be too hasty in trying to replicate its modest contribution to global affairs. On the other hand, the US has a number of options available to compete with or complement China's economic engagements in the Global South that should be considered independently of international associations or forums.

How could the US respond to Chinese economic engagements in the Global South?

As alluded to above, Chinese economic engagements in the Global South are far more significant than anything the BRI can claim responsibility for. By virtue of China's own domestic economic

[4] CELAC: Community of Latin American and Caribbean States

needs and incentives, it has led an extended lending spree to export Chinese goods and services to as many willing buyers as its financial institutions can find. We should not underestimate the complementarity of what China has to sell with the support of its loans, and what Global South countries need. China has mostly been selling construction services in the past 20 years, in part due to the oversaturation of this sector domestically, and in part because China is still moving up the industrial value chain from a low starting point. There is still a staggering infrastructure gap in many parts of the Global South, and many countries are capital-poor. For more complex forms of infrastructure like hydropower dams, they may also not necessarily have domestic industries to protect, so there are no concerns of Chinese "dumping". If anything, it is considered a help that China is willing to sell these goods and services with loans. However, the US does not have the same economic need to export surplus capacity to Global South regions at any cost. So the bigger question is whether the US considers it a strategic need to compete with Chinese lending?

From a market-competition standpoint, US firms are rarely outcompeted by Chinese equivalents in Global South markets. Most Chinese exports to these markets are lower down the value chain. Furthermore, the US does not necessarily have firms that can compete with Chinese counterparts in all types of goods and services. For instance, in the realm of telecommunications carrier equipment, Huawei's main competitors are the European firms Ericsson and Nokia; Motorola barely produces the leading technologies in this sector anymore. That said, there are some high-tech sectors where US firms are outcompeting Chinese firms (e.g., cloud services, and enterprise networking equipment), and some high-tech sectors where Chinese firms are outcompeting US firms (e.g., mobile phone handsets, and EVs).

From a national security point of view, concerns around Chinese loan-backed projects will likely be assessed on a case-by-case basis. For instance, a sports stadium or a highway will likely be less of concern to the US than the construction of a port with dual-use capabilities. However, the host country of any such projects may not care for such framings as they will seek to prioritize their own development needs, over and above the security interests of external powers.

In this context the DFC has attempted to compete with Chinese lending for more strategically significant projects. However, it will always struggle to fully succeed in this mandate for several reasons. Firstly, not all projects funded by Chinese financial institutions may appear to be of national security interest to the US at the outset, whereas they may be of concern later. Secondly, if the DFC aims to outcompete Chinese financed projects, then it is effectively a reactive institution that is heavily dependent on good information about projects that China intends to fund. This is very tricky for them because many projects are not necessarily put out to a public bid, or announced before agreements are signed. Thirdly, as established previously, Chinese financial institutions do not necessarily have a geographic or sectoral focus. They are mandated to support the export of Chinese goods and services wherever they can find willing buyers. As a result, the US must assume that Chinese vendors are knocking on multiple doors across multiple countries at any given time and hoping to get the support of Chinese export credits wherever needed. The DFC is ill-equipped to have this probing approach to selling US goods and services before China does. Lastly, the DFC is mandated to operate in low and low-middle income countries as defined by World Bank income categories. Bureaucratic exceptions can be made for upper-middle income countries but Chinese financial institutions face no such constraints.

More broadly, the challenge for US export credit agencies is that Chinese counterparts broadly lend in two ways. The first may be categorized as strategic lending where Chinese financial institutions demonstrate clear geopolitical goals, such as the vast amounts of financing to Angola and Venezuela to help meet China's energy security. But far more frequently, Chinese finance is just looking to support Chinese exports wherever they can. This type of financing could be categorized as exploratory rather than strictly strategic. If the US wants to compete with Chinese export credit practices, then it needs to address both of these forms of finance.

Currently, the DFC is best equipped to challenge projects of strategic interest, but only in certain limited circumstances due to the constraints listed above. In contrast, the US EXIM Bank is an underutilized tool for exploratory financing. It should not be viewed as a threat or alternative to the work of the DFC, but rather a complement which can proactively connect US exporters with overseas prospective buyers. Indeed, the China EXIM Bank was created in 1994 with the exact same mandate as the US EXIM Bank that was founded in 1934. The US EXIM Bank has a long pedigree and experience in connecting US exporters with prospective buyers. More importantly in the context of this conversation, it is much better placed to plan ahead and be a first mover to address Global South countries' economic needs before any other external power, as compared with the DFC.

The US EXIM Bank could also learn from the way in which the China Development Bank created risk sharing agreements with strategic companies like Huawei. Effectively in the early 2000s, the CDB lent Huawei money directly in order to make its own loan agreements with foreign institutions. They agreed that any losses would be shared equally between Huawei and the CDB, having determined that Huawei was better placed to judge the viability of the buyers and debtors it was selling to. This was a core feature of Huawei's ability to grow rapidly overseas.

If the US wishes to differentiate itself a step further from China's financial institutions it could also make a point of not using aid money to cover export credit deficits. In other words, the US could draw a firewall between financing that is genuine 'development finance' – i.e., money that's disbursed through USAID or committed through MDBs – and money that is earmarked to support commercial engagements between the US and global counterparts. Currently most ECAs all around the world will cover deficits with aid money on the premise that the borrower was a developing country. This practice could really be seen as a form of creative accounting in order to support domestic industries with foreign aid budgets. Such a change in the US EXIM Bank's practice would be a powerful way of distinguishing themselves from China's lenders and the many other ECAs around the world that do this.

Having made the case for ways in which the US could better compete with Chinese lenders, I would conclude by questioning the value of this approach. Firstly, the US is primarily funding its export credit agencies via government appropriations of taxpayers' money. By contrast, China's EXIM Bank and the China Development Bank are primarily funding themselves by domestic bond issues which are able to soak up excess US dollars in their market given that strict capital controls make it very difficult for people to do much with surplus USD. China's creditors are therefore in a potentially stronger position to "out-lend" the US in the near term. However, in the medium to long-term, remember that China's financial institutions are often not lending because they have a carefully considered strategy. They are lending because their economic system currently depends on it. There is also good reason to believe that China's economy will be forced to rebalance soon due to its unsustainable domestic debts. A rise in consumer demand would effectively reduce its need to sustain as large a trade surplus as it is currently forced to maintain and therefore its overseas lending program would likely decrease concomitantly. On top of this, the vast majority of Chinese export credits support Chinese state-owned enterprises rather than market leading corporate firms from China like Alibaba or Tencent. There are important reasons behind this strategy rooted in China's domestic politics and its economy, but it is an incredibly risky strategy for China's financial institutions to devote so much capital towards companies based on loyalty rather than success.

In summary, the US economy does not have the same imperatives as China right now, nor does it have overcapacity in labor intensive industries such as the ones China is often exporting. If it tries to compete in the near term, it will be confronting an economy that is far better equipped to issue overseas credit and may struggle to keep up. This may be warmly received by the many countries in Africa, Latin America, and beyond who still need masses of amounts of infrastructure for their domestic growth, but the US may also risk exacerbating debt distress if its only focus is on China rather than the countries it is lending to. The US should also have a clear idea of why it wants to go toe-to-toe with Chinese export credit-backed projects and what it hopes to achieve. Clarification of the goal will better inform the tools that the US could leverage. For instance, if it is just about developing diplomatic relationships then an increase of US export credits is not necessarily advisable.

Conclusions

Ultimately, what the BRI has taught the US more than anything is that messaging matters. As argued above, I think the BRI's achievements are actually very limited compared with its original mission. But it has mostly succeeded at convincing the world that the BRI is something big and important to be a part of. I don't think countering this forum with a US equivalent is necessarily in the US's interests, nor do I think the US should aim at out-lending Chinese financial institutions. Furthermore, by trying to counter Chinese economic engagements in these regions head on, the US risks looking like it cares more about the geopolitical rivalry with China than it cares about the economic and political prospects of the partners it engages with.

It may sound counter-intuitive, but I would argue that the US's best approach would be to simply highlight the complementarities and differences of its own economic engagements in those regions, and bolster those relative strengths where possible. The US has its own good stories to tell here, and its own forms of positive economic engagement that could be reinforced. For instance, where China leads on export credits, the US still leads on foreign direct investments in many world regions. Where China leads on low-tech goods and services, the US generally leads on high-tech sectors. And in terms of actual development finance, the US is still a much bigger source of bilateral aid, and contributor to multilateral development banks (MDBs) like the World Bank, Interamerican Development Bank, and the African Development Bank. It is powerful stories and concrete engagements like these that will resonate loudest with US partners. Not poor imitations of a policy program that can mean different things to different people.