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on Asia, The Pacific, Central Asia, and Nonproliferation,
and Europe, Energy, the Environment and Cyber**

***“U.S.-European Cooperation on China
and the Broader Indo-Pacific”***

A Testimony by:

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Chairman Bera, Chairman Keating, Ranking Member Chabot, Ranking Member Fitzpatrick, distinguished Members of the Subcommittees, thank you for this opportunity to offer my thoughts on U.S.-European cooperation on China and the broader Indo-Pacific region.

I was asked to focus my comments on the Group of Seven (G7)'s Build Back Better World (B3W) global infrastructure initiative and how the United States and its European partners can work together to put it into motion. In doing that, I will draw extensively from a brief analysis of the initiative I published last month with my CSIS colleague Jonathan Hillman,¹ as well as the work we have been doing over the past six years on global infrastructure issues through the CSIS Reconnecting Asia project.² But before discussing B3W, I would like to lay out the broader context for U.S.-European cooperation in the Indo-Pacific region.

Opportunities and Challenges in the Indo-Pacific

For both the United States and Europe, the Indo-Pacific region³ exerts a strong gravitational pull on their political, security, and economic interests. The region accounts for roughly half of the world's population, gross domestic product, and trade. It includes a number of security flashpoints, from territorial disputes to nuclear proliferation concerns. It is a region prone to both seismological and climate-related disasters. And, perhaps most important for today's discussion, the Indo-Pacific region is where global rules, standards, and norms that will shape our security and prosperity over the coming decades are most fiercely contested.

At the heart of this story is China. In just four decades, the country has risen from abject poverty to become the largest economy in the Indo-Pacific and second largest in the world. On many levels, China's rise has been an enormously positive development—certainly for the hundreds of millions of Chinese citizens who have joined the middle class, but also for others in the region and beyond that have benefited from China's growth as a market, as a key link in global supply chains, and increasingly as a source of advanced technological know-how.

But China's rise has also brought with it substantial challenges for the international system. China is now the world's largest source of greenhouse gas emissions and other forms of environmental damage, for example to the Lower Mekong Basin. Over the past two decades, a series of global health crises—from the SARS epidemic of the early 2000s to the Covid-19 pandemic today—have originated in China.

Moreover, with its greater strength has come a troubling turn toward more authoritarian and assertive behavior by Beijing that poses a severe threat to the regional and global order. The administration of Xi Jinping has tightened internal political controls and sharply constricted personal freedoms, notably in Xinjiang and Hong Kong. In the economic realm, Beijing has largely abandoned the path of reform and opening pursued by Xi's predecessors and doubled down on market-distorting industrial policies, including massive subsidies, forced technology transfers, and data protectionism. Externally, Beijing has violated international law and norms through island-

¹ <https://www.csis.org/analysis/g7s-new-global-infrastructure-initiative>

² <https://reconasia.csis.org/>

³ Defined here to include the 21 economies of the [Asia-Pacific Economic Cooperation \(APEC\)](#) forum, plus India, the three non-APEC members (Cambodia, Laos, and Myanmar) of the [Association of Southeast Asian Nations \(ASEAN\)](#), and the Pacific island states

building and other illegal activities in the South and East China Seas, and through recurring examples of economic coercion against neighboring countries.

Even where China's policies are not as overtly disruptive to the global order as the examples above, Beijing is offering alternatives to established institutions, rules, and norms long championed by the United States and its allies and partners. The foremost example is Xi Jinping's signature Belt and Road Initiative (BRI), which has provided hundreds of billions of dollars of Chinese financing for infrastructure projects around the world, while raising a number of concerns including lack of transparency around China's lending, corruption, unsustainable debt, adverse environmental and social impacts, and projects with dual-use potential. I will come back to BRI later.

Meanwhile, Beijing is portraying its version of authoritarian state capitalism as a more effective model of governance than the free-market, democratic approach offered by the United States and its allies. While this is a highly debatable proposition, the perception has gained some traction in the Indo-Pacific region and beyond. For the next decade at least, it seems clear that we are in a fierce competition with China over whose vision of regional and global order will prevail.

Answering the China Challenge

How should the United States and its allies respond to this multifaceted challenge? Containing China or broadly decoupling from it are not realistic options; every country, including the United States, has some level of interdependence with China, much of it mutually beneficial. Moreover, given China's central role in transnational challenges like climate change, pandemics, and proliferation, the United States and its partners have no choice but to engage with Beijing if we are going to find meaningful solutions to these problems.

To create space for that engagement while ensuring that we manage competition with China, four lines of effort are required, two defensive and two offensive. First, we need robust policies to protect critical technologies and supply chains. The strengthening of U.S. investment screening and export control regimes in recent years has been broadly helpful in this regard, as have efforts to ensure the resilience and integrity of critical supply chains and international research collaboration. The key in implementing these policies is to maintain openness—whether of trade, investment, or scientific collaboration—as the preferred option, with restrictions applied only where there is an identified threat to national security.

Second, we need to defend existing rules and norms. Where China violates existing trade rules, we should challenge them in the World Trade Organization (WTO) or under domestic laws. Where it engages in massive subsidization or other market-distorting practices, we will need to develop new rules and policies to constrain this behavior. Where China's lending practices encourage unsustainable debt, we should push for greater transparency. Responding effectively to China's economic coercion, though challenging, is also critical.

To compete with China, we also need to play better offense. This means, first of all, running faster. We need to invest more in the underpinnings of our own competitiveness, including education and workforce skills, research and development, and sustainable infrastructure. The various pieces of legislation moving through both houses of Congress that address these issues are broadly encouraging. We also need to up our game in international standard-setting and in championing a

U.S.-preferred system of data governance, both of which require legislative and/or organizational changes at home.⁴

The other critical aspect of good offense in this context is offering an affirmative vision and credible policies and programs to implement it. Even if China were not challenging today's order, the United States would have a national interest in upholding and updating high-standard rules and norms that promote its security and prosperity. This is particularly true in the Indo-Pacific region, where the opportunities are greatest, the rules are most contested, and the demand from allies and partners for demonstrations of long-term U.S. commitment to regional affairs is strongest.

Frankly, the United States is currently on the back foot in this regard. U.S. withdrawal from the Trans-Pacific Partnership (TPP) in early 2017 and the failure since then to offer a compelling alternative approach to regional economic integration have created skepticism among allies and partners about our commitment to the region and an opening for China to advance its vision. As I argued in a recent commentary,⁵ we need either to rejoin an effort like TPP or offer a credible economic strategy to replace it.

The Importance of Working with European Partners

In all four of these lines of effort, the United States needs to work with its allies and partners. This is a practical point, not a sentimental one. Our efforts to protect critical technologies or enforce existing rules will be ineffective if China or others can take advantage of gaps between the United States and its partners. The success of our investments at home and affirmative policies abroad also rests on support from like-minded countries.

Transatlantic partners are especially important in this regard. The European Union is the world's largest economic unit after the United States, the United Kingdom remains the world's fifth-largest individual economy, and the interests and values of these partners are closely aligned with those of the United States.

European views of Asia, and particularly China, have evolved significantly in recent years. Once seen primarily as a lucrative market, production base, and source of investment, China is now viewed in Europe with far greater ambivalence. I first detected this shift about five years ago when the so-called "16+1" (since expanded to 17+1) forum between China and a group of Eastern and Southern European countries was gaining prominence, and contacts in Brussels told me of their alarm about China's skirting EU procurement rules in its BRI offerings to these countries. Adding to these concerns have been acquisitions of household-name European companies by Chinese investors, Beijing's aggressive industrial and technology policies, and its recent sanctions against EU parliamentarians and think tanks.⁶ All of this has hardened views in Europe to the point that in a March 2019 report, the European Commission declared China a "systemic rival."⁷

⁴ For policy recommendations in these and related areas, see the work of the CSIS Trade Commission on Affirming American Leadership: <https://tradecommission.csis.org/>.

⁵ <https://www.csis.org/analysis/depa-and-path-back-tpp>

⁶ <https://www.csis.org/analysis/we-stand-merica>

⁷ <https://ec.europa.eu/info/sites/default/files/communication-eu-china-a-strategic-outlook.pdf>

Still, there is not yet in Europe the kind of bipartisan consensus on the China challenge that has emerged in Washington in recent years. The governments of the four largest European economies—Germany, the UK, France, and Italy—have all wavered between accommodation and confrontation of China, for example on whether or not to ban Huawei equipment from their telecommunications networks.⁸ Moreover, broader rifts between the United States and EU during the past several years—over Trump’s tariffs and Biden’s “Buy American” policies on one hand, and Brussels’ aspirations for “strategic autonomy”⁹ and “technology sovereignty”¹⁰ on the other—raise doubts about the scope for transatlantic cooperation.

Against this backdrop, President Biden’s trip to Europe in June was constructive in conveying a sense of U.S.-EU solidarity on the economic policy front. In addition to setting aside their longstanding aircraft subsidies dispute, the two sides agreed to set up a new high-level Trade and Technology Council (TTC)¹¹ to coordinate their bilateral and global economic policies. The TTC’s agenda is expansive but includes a number of promising areas for cooperation, including on technology standards, data governance, export controls and investment screening, and unfair trade practices by non-market economies. These align well with the four lines of effort I enumerated earlier. As always with these bilateral consultation mechanisms, the proof of the pudding will be in the determination of both sides, once the political spotlight has moved on, to work through their differences and make tangible progress toward joint action.

Let me note here the importance of Washington and Brussels’ pulling other allies and partners into these cooperative efforts, particularly as they relate to rulemaking and norm-setting in the Indo-Pacific region. Foremost among these partners are Japan and the UK, the third- and fifth-largest economies in the world, each with substantial technological prowess and aligned values and interests. Japan has been a leader in promoting high-standard rules and norms in the Indo-Pacific and beyond, including in bringing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to conclusion and in winning G20 leaders’ endorsement of two useful concepts: “quality infrastructure”¹² and “data free flow with trust.”¹³ Japan also joined the United States and EU in a promising trilateral initiative launched by the Trump Administration to try to rein in China’s massive industrial subsidies and other market-distorting policies.¹⁴ For its part, the UK is seeking a new global role post-Brexit and is hoping to join CPTPP and other Indo-Pacific initiatives.¹⁵

Assessing B3W

Alongside the U.S.-EU and NATO summits, the G7 Summit in Cornwall was an important highlight of President Biden’s recent trip to Europe. Having been riven by internal differences and eclipsed by the G20 in recent years, the G7 proved at its June meeting that it retains value as a

⁸ <https://www.reuters.com/article/us-britain-huawei-europe/as-britain-bans-huawei-u-s-pressure-mounts-on-europe-to-follow-suit-idUSKCN24F1XG>

⁹ https://ecfr.eu/special/independence_play_europes_pursuit_of_strategic_autonomy/

¹⁰ <https://sciencebusiness.net/technology-strategy-board/news/decoding-europes-new-fascination-tech-sovereignty>

¹¹ <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/15/u-s-eu-summit-statement/>

¹² https://www.mof.go.jp/english/policy/international_policy/convention/g20/annex6_1.pdf

¹³ <https://www.csis.org/analysis/governing-data-asia-pacific>

¹⁴ <https://www.csis.org/analysis/trade-trilateral-targets-chinas-industrial-subsidies>

¹⁵ <https://www.chathamhouse.org/2021/03/why-joining-cptpp-smart-move-uk>

forum for the world's largest advanced market democracies to discuss and find common cause on global challenges—including managing the rise of China.

In addition to major announcements on Covid-19 vaccines, climate change, and global tax, this year's G7 meeting was notable for one major outcome that gave tangible form to allied cooperation in response to the challenge from China: the Build Back Better World infrastructure initiative. A White House fact sheet¹⁶ described B3W as “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.” The core of the initiative involves catalyzing private capital to invest in global infrastructure, with a focus on four areas: climate, health and health security, digital technology, and gender equity and equality.

Motivating B3W are shared concerns among the United States and other G7 countries about China's Belt and Road Initiative since it was launched by President Xi Jinping in 2013. As mentioned earlier, these concerns include lack of transparency, corruption, unsustainable debt, adverse environmental and social impacts, and projects with dual-use potential. The Biden Administration was explicit in framing the initiative as a response to BRI, noting in its fact sheet: “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.”

Unmet global needs are another primary driver of B3W. China's BRI has significantly pulled back in recent years, underscoring Beijing's challenges in managing the endeavor and presenting an opportunity for G7 countries to offer competing alternatives. To be sure, BRI was never as big as sometimes portrayed, reaching into the hundreds of billions rather than trillions of dollars. A lack of transparency, and the absence of official criteria for projects, makes it difficult to track BRI with precision. But the overall trend is clear: as the list of countries participating in BRI has ballooned, the resources being made available to those countries have plummeted. The Covid-19 pandemic has further increased needs in the developing world while reducing the ability of many countries to borrow.

B3W adds to a proliferation of proposed alternatives to BRI, few of which have yet produced tangible results. As mentioned earlier, as host of the G20 in 2019, Japan won endorsement by leaders to a set of principles for quality infrastructure investment. The same year, Japan and the European Union announced a “Partnership on Sustainable Connectivity and Quality Infrastructure.”¹⁷ Just last week, EU foreign ministers agreed on a global infrastructure strategy entitled “A Globally Connected Europe.”¹⁸ Meanwhile, India announced the Asia Africa Growth Corridor with Japan in 2017¹⁹ and is discussing a joint initiative with the EU.²⁰

¹⁶ <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/12/fact-sheet-president-biden-and-g7-leaders-launch-build-back-better-world-b3w-partnership/>

¹⁷ <https://www.mofa.go.jp/files/000521432.pdf>

¹⁸ <https://www.reuters.com/world/china/after-g7-pledge-eu-seeks-rival-chinas-belt-road-with-own-infrastructure-plan-2021-07-12/>

¹⁹ <https://aagc.ris.org.in/>

²⁰ <https://www.ft.com/content/2e612c38-aba9-426a-9697-78e11ab1c697>

For its part, the United States has gradually realized the importance of offering positive alternatives to BRI. In late 2019, United States, Japan, and Australia announced the Blue Dot Network (BDN)²¹ to help operationalize the G20 principles.²² The effort has received encouraging interest from the private sector and civil society, but it is still developing criteria for certifying projects that meet high standards. B3W could add urgency to announcing pilot projects and working toward expansion of BDN to include European partners.

B3W's global scope could allow partners to focus on different functional and geographic areas in line with their capabilities and interests. European partners, for example, are increasingly active in the Western Balkans, where Chinese projects have raised red flags in several EU-candidate countries.²³ Japan has been active in Southeast Asia, where it remains the incumbent provider of infrastructure projects.²⁴ U.S. involvement is likely to emphasize the Indo-Pacific, which will help respond to criticism that the Biden Administration lacks a credible economic strategy in the region. B3W's focus on mobilizing private capital stems from the G7's recognition that global demands for infrastructure cannot be met by public capital alone. During 2015-19, G7 countries provided nearly \$113 billion in official development assistance for foreign infrastructure projects. That support is fundamentally different from most of China's BRI lending, which comes with higher interest rates and does not adhere to the Paris Club principles.²⁵ While remaining steady as BRI has declined, the G7's combined assistance is only a fraction of what the developing world needs. Developing Asia alone will require \$26 trillion in infrastructure investment through 2030, according to the Asian Development Bank.²⁶

The private sector is where the untapped financial firepower resides. Pension funds, mutual funds, insurance companies, and sovereign wealth funds are all looking for reliable, long-term returns. Wealth and money managers now handle over \$110 trillion, more than 16 times the U.S. federal budget in 2020.²⁷ But only a small fraction of this vast amount is invested in infrastructure, and developing economies in particular have appeared too risky for many investors.

Mobilizing more private capital for global infrastructure will require designing incentives that shift investors' risk-reward calculus. As the CSIS Global Infrastructure Task Force²⁸ noted:

The challenge is that too often, especially in emerging markets, potential rewards are not commensurate with perceived risks. The list of overarching risks is long and varied: environmental, social, health, and safety risks; inflation, foreign exchange, and other macroeconomic risks; idiosyncratic decision-making, contract disputes, weak rule of law, and other legal and political risks. The complexity of projects should not be discounted, and there is an assortment of construction and operations risks... As a result of all of these

²¹ <https://www.state.gov/blue-dot-network/>

²² <https://www.csis.org/analysis/connecting-blue-dots>

²³ <https://www.csis.org/programs/europe-russia-and-eurasia-program/european-security-politics-and-economics/red-flags>

²⁴ <https://www.bloomberg.com/news/articles/2019-06-23/china-no-match-for-japan-in-southeast-asia-infrastructure-race?sref=VZPf2pAM>

²⁵ <https://clubdeparis.org/en/communications/page/the-six-principles>

²⁶ <https://www.adb.org/news/developing-asia-needs-invest-more-5-gdp-over-next-decade-infrastructure>

²⁷ <https://www.pionline.com/money-management/global-aum-set-hit-almost-150-trillion-2025-report>

²⁸ https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/190423_Hadley%20et%20al_HigherRoads_report_WEB.pdf

challenges, there is a shortage of “bankable” projects that can promise enough upside. Unlocking greater pools of U.S. private capital will require innovative ways, including multilateral or direct insurance products, to adjust the current risk-reward calculus.

Making B3W Real

In sum, B3W is a promising initiative that could offer a credible alternative to BRI and help address the gaping infrastructure needs of the developing world in a sustainable way. But it needs support from the Administration and Congress and their counterparts in other G7 countries to have real impact.

First and foremost, the United States and its partners need to invest in a system for developing a sustainable pipeline of bankable projects. Sharing information and improving coordination between public and private sector stakeholders, as the G20’s Global Infrastructure Hub²⁹ was created to do, is necessary but not sufficient. Preparing projects will require putting some public money on the table. In developing countries, project preparation expenses often approach 5-10 percent of the total project cost. The European Bank for Reconstruction and Development’s Infrastructure Project Preparation Facility³⁰ is one promising model to consider.

In our Global Infrastructure Task Force report, we made a number of suggestions for catalyzing private-sector finance for infrastructure, including encouraging development finance institutions like the U.S. International Development Finance Corporation (DFC) and multilateral development banks to use their grant monies to provide first-loss guarantees for projects and reimburse investors if losses exceed a predetermined amount; contributing funding to the Currency Exchange Fund (TCX), which helps mitigate exchange risk; and contributing to the World Bank’s Global Infrastructure Facility (GIF), which aids recipient countries with project financing, planning, and preparation efforts.

The recently restructured DFC is a vital tool in U.S. global infrastructure strategy, and I applaud this Committee’s recent efforts to strengthen the DFC and make the most of this important organization, especially its equity authority. Other institutions such as the U.S. Agency for International Development (USAID), the Millennium Challenge Corporation (MCC), and the U.S. Trade and Development Agency (USTDA) are also key to an effective infrastructure strategy and need to be adequately funded and staffed.

The United States and its B3W partners should continue to support capacity-building efforts in developing countries receiving infrastructure finance. Providing transaction assistance bilaterally and through multilateral institutions can help developing countries avoid unusual confidentiality clauses, inflated costs, and other risks.³¹ Modest investments in these activities can have outsized outcomes, which will help countries negotiate for better financial and legal terms that meet accepted international standards. For example, helping more countries implement life-cycle cost assessments will also enhance the competitiveness of B3W offerings. In Senate testimony in May

²⁹ <https://www.gihub.org/>

³⁰ <https://www.ebrd.com/infrastructure/infrastructure-ppf.html>

³¹ <https://www.wsj.com/articles/u-s-goes-on-the-offensive-against-chinas-empire-building-megaplan-11554809402>

2019, I highlighted a promising program launched by the Trump Administration, the Transaction Advisory Fund, that sought to offer this kind of assistance at relatively low cost.³²

B3W needs to resonate with leaders in developing countries. Many will be eager to expand their options, and the B3W brand could carry prestige as a high-quality effort. But leaders will be cautious about tradeoffs that B3W projects might present—more public scrutiny, higher up-front costs, and longer timelines for project delivery. Competing against China’s approach, which often promises speed and low up-front costs, will require fashioning effective incentives. The United States and its partners should consider targeted funding for pilot projects where the groundwork has already been laid and the benefits of the B3W’s high-standard approach can be demonstrated relatively quickly.

Finally, the U.S. government needs a central coordinator for these efforts. The list of U.S. agencies with relevant expertise and capabilities is long, including not only State, Treasury, Commerce, and USAID, but also Defense, Homeland Security, Transportation, and smaller specialized agencies such as the DFC, USTDA, and the U.S. Export-Import Bank. President Biden’s making the B3W a priority provides an opportunity to more effectively harness these capabilities. Coordination with other G7 countries as they implement B3W will also be critical, and this, too, points to the need for a central locus of coordination in the U.S. government.

Conclusion

What is encouraging about B3W and the various economic initiatives agreed between the United States and European partners during President Biden’s recent trip is that they build out the last of the four lines of effort I described earlier: offering an affirmative vision of a global economic order that best serves the interests and values of the United States and other advanced market democracies. We cannot succeed only by playing defense or by trying to stop China or others dissatisfied with the current order from pushing out their preferred approach; we have to offer something better.

Again, this is especially true in the Indo-Pacific region, where many of the rules and norms of the global economy will be set over coming decades. The United States and Europe have a shared interest in working together in that critical region to ensure that our preferred approach prevails. While there is a long way to go, it is encouraging to see the first tangible steps being taken in that direction.

Thank you for your attention.

³² https://csis-website-prod.s3.amazonaws.com/s3fs-public/congressional_testimony/190522_MattGoodman_Testimony.pdf (see footnote 26 on p. 9)