



**Statement before the House Select Committee on the
Chinese Communist Party**

***“Enabling a Better Offer: How Does the
West Counter Belt and Road?”***

A Testimony by:

Daniel F. Runde

Senior Vice President; William A. Schreyer Chair; Director of the
Project on Prosperity and Development, and Americas Program

May 16, 2024

Chairman Moolenaar, Ranking Member Krishnamoorthi and distinguished Members of the Committee, thank you for asking me to testify before you today. It is a privilege and an honor. The views represented in this testimony are my own and should not be taken as representing those of my current or former employers.

Currently, I hold an endowed chair at the Center for Strategic and International Studies (CSIS), researching how we might use American soft power and influence around the world. I served in the Bush Administration at USAID, worked for a time at the World Bank Group, and started my career in investment and commercial banking. I recently published a book, “The American Imperative: Reclaiming Global Leadership Through Soft Power” that discusses among other things how we should push back against the Chinese Communist Party (CCP) in this Age of Great Power Competition. I am submitting a series of CSIS reports and other articles for the record. Let me make several key points with my time today.

My main message is this: in this era of Great Power Competition, the United States must formulate a strategy that advances areas where it has a comparative advantage over China while focusing on regions vital to U.S. economic and national security interests. The United States needs an alternative positive narrative, rather than a demand that developing nations cease working with China, who is likely their top trading partner and debt holder.¹ We have taken some steps in response, but our response is far from adequate. Specifically,

- 1) China is seen as a “near peer hard power” competitor, but it is clear they are also a “near-peer soft power competitor.” China can, and will, fill any void we leave in ways that they could not even 15 years ago, including vaccines, telecommunications, undersea cables, ports, roads, leadership in the multilateral system or many other non-military areas. They can match us in these areas of soft power and, at times, offer something better.
- 2) If we do not meet the hopes and aspirations of developing countries, then developing countries turn to China. We must provide (or enable) an alternative.
- 3) We do not have to meet China dollar for dollar, but we must work with partners and allies while leveraging the private sector so we can be better infrastructure investment partners than China. The United States does not have companies and capabilities at the price point that China offers. From project identification to signing, commencing and completing—China is much faster and cheaper than the United States at virtually every stage. The Western offer, therefore, must work on being faster and being stronger in other ways to compete effectively.
- 4) The United States must focus on key sectors and locations. Looking at countries and potential projects through a military, economic, and strategic lens is a crucial first step. What would failing to challenge a particular Belt and Road Initiative (BRI) project signal to neighbors in the region? If China wants to build a farm-to-market road in the middle of nowhere, that might be fine. If China wants to build a dual-use port on the other side of the Atlantic in Africa, that’s definitely not fine. If China makes a play to control the digital rails of the future via Huawei, ZTE and Alipay, we need a plan to counter that, too.
- 5) The United States must improve its commercial diplomacy to unlock the private sector of the United States and our allies. Chinese infrastructure investment in developing

¹ Mark A. Green, “China Is the Top Trading Partner to More Than 120 Countries,” Wilson Center, January 17, 2023, <https://www.wilsoncenter.org/blog-post/china-top-trading-partner-more-120-countries>.

countries often unlocks access to the world's largest trading nation—China, and China is indeed the top trading partner for more than 120 countries which is a driving force behind the BRI.² Countries are incentivized to pursue projects with the country that they are doing the most business with. In all sectors, the private sector can act as a lending arm to achieve a scale impossible for any singular development agency or bank.

- 6) At the end of the day, infrastructure, both digital and transportation, bends towards trading routes. If your number one trading partner is China, then China-oriented infrastructure will follow. We will need to lead in global trade if we want to ultimately push back against Belt and Road. We can do this with more targeted and effective trade deals while also showcasing U.S. leadership in things like AI, space, democracy, etc. which should also be attractive to peoples and leaders around the world in contrast with China's system. Ideally, we would lead the world in trade as we did 25 years ago.

What is the BRI and Why Does It Matter?

China announced the Belt and Road Initiative (BRI) in 2013 as a combination of construction and financing projects for roads, airports, ports, and energy across greater Asia.³ 2015 was a watershed year which saw the official launch of the BRI⁴ and the establishment of the Asian Infrastructure Investment Bank (AIIB), headquartered in Beijing and positioned as a Chinese-led alternative to the World Bank and International Monetary Fund.⁵ In the decade since the BRI's launch, the BRI has facilitated Chinese investment worth upwards of \$1 trillion⁶ in over 140 countries across Africa, Oceania, and Latin America. China has surpassed the World Bank and other Multilateral Development Banks (MDBs) as the world's biggest official creditor.⁷

The BRI is an ambitious and hopeful project that speaks to the aspirations of China's friends and potential friends. As many countries have become wealthier, their interests have progressed beyond basic human needs (what the United States prefers to fund with our foreign aid dollars) to issues like energy, telecommunications, trade, and investment. China has tapped into these interests by offering large amounts of government financing with few questions asked, working bilaterally, and promising to deliver projects quickly. It has been successful largely because it is willing to assume risks that other investors have not, whether legal or illegal. In too many cases, China's offer is the only option.

² Lee Ying Shan, "China De-Linking Talk Is Overdone and It's Still Key to the Global Economy, Asian Development Bank Says," CNBC, February 26, 2024, <https://www.cnbc.com/2024/02/26/china-still-top-trading-partner-for-many-countries-says-adb.html#:~:text=However%2C%20the%20economic%20powerhouse%20remains,U.S.%20think%20tank%20Wilson%20Center>.

³ Yu Jie and Jon Wallace, "What Is China's Belt and Road Initiative (BRI)?," Chatham House, December 19, 2022, <https://www.chathamhouse.org/2021/09/what-chinas-belt-and-road-initiative-bri>.

⁴ James McBride, Noah Berman, and Andrew Chatzky, "China's Massive Belt and Road Initiative," Council on Foreign Relations, February 2, 2023, <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>.

⁵ Hong Yu, "Asian Infrastructure Investment Bank's Role in Regional Infrastructure Financing," essay, in *Understanding China's Belt and Road Initiative*, vol. 26, Asia in Transition (Singapore: Springer Nature, 2024), 153–67.

⁶ Girish Luthra, "China's Belt and Road Initiative at a Crucial Juncture," ORFonline, August 25, 2023, <https://www.orfonline.org/expert-speak/chinas-belt-and-road-initiative-at-a-crucial-juncture>.

⁷ Sebastian Horn, Carmen M. Reinhart, and Christoph Trebesch, "How Much Money Does the World Owe China?," Harvard Business Review, February 26, 2020, <https://hbr.org/2020/02/how-much-money-does-the-world-owe-china>.

China's BRI—and the low-quality, fast-built infrastructure that often characterizes it—threatens to constrain development and America's ability to project power as China increases infrastructure ownership or control, enabling economic and military expansion. The continuation of the BRI without any formidable alternative from the United States risks creating unwarranted dependence on China in much of the world.

Infrastructure Needs in the Global South

Over the next 15 years, more infrastructure is projected to be built globally than currently exists.⁸ By 2050, there would be 15.5 million miles of new paved roads, enough to circle the world more than 600 times.⁹ This global build-out will have profound implications for the economic, security, and environmental wellbeing of countries throughout the world.¹⁰ The United States needs a strategy for contributing effectively to this effort while advancing its own interests in a world that is literally being remade.

World nuclear generating capacity is projected to double by 2050.¹¹ There is not a single operational nuclear power plant in the ASEAN region.¹² China currently has 36 reactors under development and is expected to leapfrog the United States and France to become the world's leading source of nuclear power by the end of the decade.¹³

There is an unmet demand for digital infrastructure as more of the world comes online. Digital infrastructure is increasingly underpinning traditional infrastructure. Bandwidth needs are expected to triple between 2022 and 2027.¹⁴ China has become a leading subsea cable provider and owner as part of its "Digital Silk Road" – the digital arm of its BRI expansion strategy.¹⁵ Chinese state-owned and subsidized firm HMN Technologies (Huawei) is now the fourth largest cable provider globally and has seen the fastest growth over the past decade, completing over 108 projects.¹⁶ Beijing reportedly aims to capture 60 percent of the fiber-optic cable market by 2025.¹⁷ Chinese control over data transmission lines raises the risk of espionage or sabotage.

⁸ Maxwell Gomera, "Nature vs. Infrastructure," Project Syndicate, December 28, 2018, <https://www.project-syndicate.org/commentary/applying-the-precautionary-principle-to-infrastructure-planning-by-maxwell-gomera-2018-12>.

⁹ Ibid.

¹⁰ Ibid.

¹¹ "IAEA Increases Projections for Nuclear Power Use in 2050," IAEA, September 16, 2021,

<https://www.iaea.org/newscenter/pressreleases/iaea-increases-projections-for-nuclear-power-use-in-2050>.

¹² Ernest Z. Bower, "ASEAN Going for Nuclear Power," CSIS, July 7, 2010, <https://www.csis.org/analysis/asean-going-nuclear-power#:~:text=There%20is%20no%20operational%20nuclear%20power%20plant%20in.adding%20nuclear%20power%20into%20the%20electricity%20generating%20mix>.

¹³ Dan Murtaugh, "China's Nuclear Energy Expansion Is Getting Even Faster," Bloomberg, March 15, 2024, <https://www.bloomberg.com/news/newsletters/2024-03-15/china-s-nuclear-energy-expansion-is-getting-even-faster?sref=15EKux8t>.

¹⁴ "Perspectives from the Global Telecom Outlook 2023–2027," PwC, September 28, 2023, <https://www.pwc.com/gx/en/industries/tmt/telecom-outlook-perspectives.html>.

¹⁵ Robert Greene and Paul Triolo, "Will China Control the Global Internet Via Its Digital Silk Road?," Carnegie Endowment for International Peace, May 8, 2020, <https://carnegieendowment.org/posts/2020/05/will-china-control-the-global-internet-via-its-digital-silk-road?lang=en>.

¹⁶ Sadia Rahman, "The Cable Ties to China's Digital Silk Road," The Interpreter, April 29, 2024, <https://www.lowyinstitute.org/the-interpreter/cable-ties-china-s-digital-silk-road>.

¹⁷ Dale Aluf, "China's Subsea Cable Power Play in the Middle East and North Africa," Atlantic Council, May 2023, https://www.atlanticcouncil.org/wp-content/uploads/2023/05/ChinasGrowingInfluence_052423-1.pdf.

China has also developed a global network of strategically vital ports under its “Maritime Silk Road” – the oceanic counterpart of the Digital Silk Road. Beijing now owns or operates ports and terminals at nearly 100 locations in over 50 countries, spanning every ocean and every continent, effectively leaving the Chinese Communist Party in control of the ports that lie at the heart of global supply chains.¹⁸ Many of these ports have the potential for dual and triple use as military bases and intelligence gathering sites.¹⁹

Despite widespread agreement about the importance of increasing infrastructure investment, two gaps stand in the way. The first gap is quantitative: the Global Infrastructure Outlook estimates that there will be a \$15 trillion investment gap by 2040 given current trends. Over 150 countries have signed a Memorandum of Understanding with China, including EU members and Latin American and Caribbean nations.²⁰

The second gap is qualitative. Not every road, power plant, or fiber-optic cable is created equal. There is a wide spectrum of practices and standards for project selection, construction, and operation. Some projects are built with long-term maintenance and operations costs in mind, while others hide and defer these costs. Stemming from different financing approaches and procurement practices, projects can differ in their openness to competition, opportunities for participation among local firms, and demands to transfer technology and expertise. Done poorly, infrastructure projects can destroy more value than they create.²¹

What Has Been the Response to the BRI from the United States and Allies?

The United States is now sharpening its infrastructure toolkit after decades of neglect. The United States largely got out of the direct infrastructure business in the developing world in the 1970s. The “New Directions” legislation, passed by Congress in 1973, accelerated the transition from providing loans to providing grants, and from focusing on delivering large capital projects to providing technical assistance and a focus on basic human needs.²² After declining for decades, infrastructure as a percentage of total investment at the Multilateral Development Banks like the World Bank or the Asian Development Bank, the primary avenue for U.S. indirect support for foreign infrastructure projects, began rising in the early 2000s.²³

The United States has also taken steps towards assembling its own arsenal to better compete against China. In 2019, President Trump put forward reforms to the Export-Import Bank of the United States (EXIM Bank) and the EXIM Bank was reauthorized by Congress to better compete

¹⁸ Liz Sly and Julia Ledur, “China Has Built a Global Network of Strategically Vital Ports,” The Washington Post, November 6, 2023, <https://www.washingtonpost.com/world/interactive/2023/china-ports-trade-military-navy/>.

¹⁹ Zongyuan Zoe Liu, “Tracking China’s Control of Overseas Ports,” Council on Foreign Relations, November 6, 2023, <https://www.cfr.org/tracker/china-overseas-ports>.

²⁰ Christoph Nedopil Wang, “China Belt and Road Initiative (BRI) Investment Report,” Green Finance & Development Center, February 5, 2024, <https://greenfdc.org/china-belt-and-road-initiative-bri-investment-report-2023/>.

²¹ Atif Ansar et al., “Does Infrastructure Investment Lead to Economic Growth or Economic Fragility? Evidence from China,” Oxford Review of Economic Policy 32, no. 3, (January 2016): 360–390, <https://doi.org/10.1093/oxrep/grw022>.

²² Curt Tarnoff, “U.S. Agency for International Development (USAID): Background, Operations, and Issues” (Washington, DC: Congressional Research Service, 2015), <https://fas.org/sgp/crs/row/R44117.pdf>.

²³ Chris Humphrey, “Infrastructure Finance in the Developing World: Challenges and Opportunities for Multilateral Development Banks in 21st Century Infrastructure Finance” (Seoul: Global Green Growth Institute, June 2015), <https://www.g24.org/wp-content/uploads/2016/05/MARGGK-WP08.pdf>.

within the rapidly developing arena of export finance.²⁴ Congress also passed the BUILD Act, which consolidated several development finance activities into a new agency, the Development Finance Corporation (DFC).

I want to make a key point; I have heard many smart people say that the DFC is our response to Belt and Road. The DFC did \$9 billion across about 130 transactions last year,²⁵ while China's BRI did \$92 billion across about 210 deals.²⁶ The DFC is not the silver bullet to counteract the BRI that it has mistakenly purported to be, but the DFC has been an important asset in U.S. development strategy.²⁷

In 2018, the Trump administration agreed to a capital increase for the World Bank, the United States invested \$1.2 billion²⁸ with the support of Congress. This increase was part of an ambitious package that included a series of internal reforms and policy measures, some of which were intended to stop China from receiving loans after 5 years.²⁹ President Biden and the other G7 leaders launched Build Back Better World (B3W) during the G7 Summit in June 2021.³⁰ The following year, the G7 repackaged B3W under a new strategy, the Partnership for Global Infrastructure Investment (PGII).³¹ This "values-driven, high-impact, and transparent partnership" aims to mobilize \$600 billion in infrastructure financing by 2027.³² PGII remains a work in progress and is not fully operationalized.

In an attempt to close the qualitative gap, the United States and its allies have pushed to develop a standardization of infrastructure. In June 2016, under Japanese presidency, the G7 defined quality infrastructure in its endorsement of the five Ise-Shima Principles for Promoting Quality

²⁴ Daniel F. Runde and Alexander Mayer, "Moving Forward: An Ex-Im Bank for the Twenty-First Century," CSIS, March 2, 2021, <https://www.csis.org/analysis/moving-forward-ex-im-bank-twenty-first-century>.

²⁵ "DFC's Global Portfolio Surpasses \$40 Billion Across More Than 100 Countries," DFC, December 13, 2023, <https://www.dfc.gov/media/press-releases/dfcs-global-portfolio-surpasses-40-billion-across-more-100-countries#:~:text=In%20Fiscal%20Year%202023%2C%20DFC,the%20organization's%20total%20FY20%20commitments>.

²⁶ Christoph Nedopil Wang, "China Belt and Road Initiative (BRI) Investment Report," Green Finance & Development Center, February 5, 2024, <https://greenfdc.org/china-belt-and-road-initiative-bri-investment-report-2023/>.

²⁷ Daniel F. Runde et al., "The Next Five Years of the DFC: Ten Recommendations to Revamp the Agency," CSIS, September 27, 2023, <https://www.csis.org/analysis/next-five-years-dfc-ten-recommendations-revamp-agency>.

²⁸ World Bank, *The World Bank Group's 2018 Capital Increase Package: An Independent Validation of Implementation and Results*, Independent Evaluation Group (Washington, D.C.: World Bank, 2023), 1-171, <https://documents1.worldbank.org/curated/en/099110008282361509/pdf/SECBOS0e9b06ea05c0ae19027c0a729fafd.pdf>.

²⁹ Scott Morris and Gailyn Portelance, "Examining World Bank Lending to China: Graduation of Modulation?" CDG Policy Paper (Washington, D.C.: Center for Global Development, 2019), <https://www.cgdev.org/sites/default/files/examining-world-bank-lending-china-graduation-or-modulation.pdf>.

³⁰ "Fact Sheet: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership," The White House, June 12, 2021, <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/>.

³¹ "Memorandum on the Partnership for Global Infrastructure and Investment," The White House, June 26, 2022, <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/06/26/memorandum-on-the-partnership-for-global-infrastructure-and-investment/>.

³² "Fact Sheet: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership," The White House, June 12, 2021, <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/>.

Infrastructure.³³ Announced in 2019, the Blue Dot Network (BDN) was officially launched on April 9, 2024.³⁴ BDN is also not our response to the BRI in terms of being a source of investment for infrastructure.³⁵ Rather, it intends to encourage quality infrastructure investment by certifying projects with high levels of transparency and sustainability. It is the “LEED Standard for Global Infrastructure.” The BDN is a good idea in theory. There are two major problems with BDN in practice: First, what does the Mayor of Dakar, Senegal “get” for being BDN certified? Second, we are going to need to train thousands of people to evaluate projects all over the world. The BDN is ambitious, and we will have to resource it ambitiously.

How Has the BRI Changed?

Arguably our responses from the United States and the West are reactions to the BRI of 2015 to 2021. By design, the BRI is more of a loose brand than a strict program. BRI has undergone revisions over the years. A 2021 Study by AidData found that 35% of BRI projects experienced implementation issues such as corruption scandals, labor violations, environmental hazards, or public protests. China has adjusted in response to concerns and critiques, particularly the accusation of “debt trap diplomacy.” China is not building as many megaprojects after its pivot to “smaller” and “greener” projects.³⁶

This does not mean we have hit “peak China,” and we can wait for China to fold. All the above means we need to adjust our approaches to reflect the needs of our partners and the changing approaches of our adversaries. The CCP remains the “go to” financier and builder of infrastructure in the developing world. Fostering bilateral relationships for the purpose of challenging the U.S.-led world order remains the CCP’s strategic objective for the BRI.

Recommendations

The United States should formulate a strategy that advances areas where the United States has a comparative advantage over China while focusing on regions vital to U.S. economic and national security interests. The United States has several strengths to harness: innovative companies, technical expertise, rule of law, abundant and affordable sources of energy, deep pools of private capital, a network of partners and allies, and leadership roles in multilateral institutions.

1) Get America’s Soft Powerhouse in Order

The BUILD Act, the legislation for the DFC, is up for reauthorization next year. AGOA, a trade preferences act for Africa, is up for reauthorization next year as well. Members of Congress have put forward the bi-partisan Americas Act which proposes a new partnership with our neighbors. The EXIM Bank is up for reauthorization in 2026. This March, the IDB board approved a capital increase for IDB Invest, the private sector arm of the Inter-American Development Bank.³⁷ There is a proposal in front of Congress to

³³ “G7 Ise-Shima Principles for Promoting Quality Infrastructure Investment,” Ministry of Foreign Affairs of Japan, June, 2016, <https://www.mofa.go.jp/files/000196472.pdf>.

³⁴ “Blue Dot Network,” U.S. Department of State, April 2024, <https://www.state.gov/blue-dot-network/>.

³⁵ Daniel F. Runde, Matthew P. Goodman, and Jonathan E. Hillman, “Connecting the Blue Dots,” CSIS, February 26, 2020, <https://www.csis.org/analysis/connecting-blue-dots>.

³⁶ Carla Freeman and Henry Tugendhat, “Why China Is Rebooting the Belt and Road Initiative,” United States Institute of Peace, October 27, 2023, <https://www.usip.org/publications/2023/10/why-china-rebooting-belt-and-road-initiative>.

³⁷ “Secretary of the Treasury Janet L. Yellen on the Inter-American Development Bank Group Annual Meetings and IDB Invest Capital Increase,” U.S. Department of the Treasury, March 11, 2024, <https://home.treasury.gov/news/press-releases/jy2165>.

finance an investment of \$75 million a year for 5 years to meet the proposed commitment for this capital increase. If Congress and the Biden administration cannot come to an agreement for a capital increase for IDB Invest, the CCP can make a play for “up for grabs” shares not claimed by the United States.

If there is an embassy open in the Global South, and an Administration puts forward a qualified candidate, Congress should fill it. If a U.S. Executive Director slot is open at the World Bank or a regional development bank, and an administration puts forward a qualified candidate, Congress should fill it.

2) We Need to Spend Some More Foreign Aid Money to Counter China

We likely need to spend at least another \$2 billion a year in foreign aid to counter China for the next couple of decades. We have a foreign aid budget of about \$60 billion. There is a reasonable debate whether we can “find” that \$2 billion and make some trade-offs. The Biden Administration and Congress (through the appropriations subcommittees) are not making these trade-offs. We are going to have to find this money and commit to this. Some of this money could be for influencing “what kind” of infrastructure is built, some of it is for training government officials to make more sophisticated infrastructure decisions, some of it might be for the Blue Dot Network, some of it should be for countries to collect taxes better, some of it might be for new financial vehicles, “guarantees,” “concessional finance,” or “blended finance.”

3) Strengthening U.S. Development Agencies

We can meaningfully counter the BRI by equipping our development agencies, such as the DFC and the Millenium Challenge Corporation (MCC), to take greater infrastructure risks. DFC should be able to operate in middle- and upper-middle income countries more easily. The DFC’s investment portfolio (the total amount it has invested) hit \$41 billion across 112 nations this past fiscal year, but it can still do more. The DFC website lists over 100 countries where it cannot do business for a variety of reasons, and it also maintains a \$60 billion lending ceiling (its “credit card limit”).³⁸ Congress should significantly increase the DFC’s credit card limit at the next reauthorization.³⁹

The MCC could do more as a counter to the BRI, but it has been underfunded for years. The original vision of the MCC was to have an agency equipped with \$5 billion in annual funding, but it spends under \$1 billion per year. We should revisit the MCC given its bias for financing infrastructure projects and repurpose it as a strategic response to Belt and Road. The MCC could include middle income countries, revisit the concept of “compacts” (the MCC’s bread and butter programming), regional compacts, and how it uses its “Junior Varsity” programming called “threshold programs.”

There are important roles for USAID, State, Commerce, EXIM and USTDA as well. There are already a variety of counter China initiatives, but funds have been limited. I would argue that any increase in counter CCP funds ought to be run out of USAID with input from other relevant agencies.

³⁸ “Places Where DFC Is Unable to Provide Support,” U.S. International Development Finance Corporation, August 2022, <https://www.dfc.gov/eligibility/where-we-work/places-dfc-unable-to-provide-support>.

³⁹ Andrew Herscowitz, “Opinion: How the US DFC Is Stuck in a Carnival Game,” Devex, February 15, 2024, <https://www.devex.com/news/opinion-how-the-us-dfc-is-stuck-in-a-carnival-game-107046>.

Specifically, we should bring the Power Africa approach to other parts of the world and other sectors as part of our counter BRI strategy. Power Africa has a specific mission (enable and finance energy projects in Africa) and clearly designates the roles and responsibilities for each agency. USAID leads Power Africa yet is willing to delegate authority to others on the mission.

4) **“Ride Herd” on the World Bank and Regional Development Banks.**

If the United States “rides herd” on the MDBs by exercising active leadership, the MDBs can be a force multiplier for a western form of globalization. The United States should selectively support scaling the World Bank and other MDBs.

The US and our allies set up the World Bank to rebuild Europe after World War II. Combined, the US, Europe, Japan, South Korea, and Canada have a majority of shares of the World Bank. The World Bank has an ambitious agenda for infrastructure centered around climate. I think we should be more “all of the above” in our energy approach, but this more limited approach will have to do for now.

There are a series of important regional development banks including the EBRD set up after the fall of the Soviet Union, the Inter-American Development Bank set up after the fall of Cuba to the Communists, and the Asian Development Bank which was set up in the mid-1960s to counter communism in Asia. The African Development Bank was set up after the colonial era in Africa. The United States and OECD countries are much smaller shareholders in the African Development Bank. All of the institutions are significant, trusted and if you add up the shares of the United States and our allies (excluding the African Development Bank) we can direct and certainly can stop dumb things from happening. These institutions can deploy tens of billions on infrastructure.

The United States should push⁴⁰ to strip China’s privileged status as a “developing country” in all international organizations. This status allows China to borrow money from the World Bank and Asian Development Bank. China should not borrow from these Banks. The relatively high amounts of contracts by dollar value that China wins at the World Bank and other MDBs is notable and should be a cause of concern.

5) **Creating New Vehicles Sponsored by the U.S. Government and Others**

The United States may need to create strategic assets funds for ports, airports, and other key sectors to help level the playing field for U.S. companies competing with Chinese-subsidized firms. The United States might model this after instruments such as In-Q-Tel, a venture capital fund for the Intelligence Community, or the kind financial innovations that created Fannie Mae.

We should pursue an “enterprise fund for undersea cables” in partnership with Japan, South Korea, the United Kingdom, and Australia. We need a specialized fund that could provide loans, project finance, equity investments, project management, and technical

⁴⁰ Mychael Schnell, “House Unanimously Passes Bill to Work to Remove China’s ‘developing Country’ Label,” The Hill, March 27, 2023, <https://thehill.com/homenews/house/3921082-house-unanimously-passes-bill-to-work-to-remove-chinas-developing-country-label/>.

assistance for this important sector. We should think about such a fund starting at \$500 million.

We should explore “securitizing” the PGII-promoted warehouse structure which the International Finance Corporation (IFC) is working on with other MDBs. Creating a secondary market for infrastructure investments, similar to housing or credit card loans in the United States, would be game changer for getting western institutional investors involved in developing countries’ infrastructure projects. Such a market would create pressure to standardize infrastructure loans so they could be sold on the secondary market.

6) Prioritize Innovation

The United States is capable of out-innovating China in emerging markets. No one does free markets and the private sector better than the United States and its allies.⁴¹ BRI projects often cater to the interests of government officials posed to personally benefit from large and opaque BRI projects. The United States can diminish the BRI’s intended diplomatic and commercial relation building through our own “citizen-centric” model for infrastructure aimed at unleashing U.S. innovation.⁴² When China builds infrastructure, it often brings its own workers. The U.S. model can better compete against China by hiring and skilling locals.

Strategically insignificant infrastructure built by China is not of major concern if U.S. companies and innovators offer local employment opportunities and address solutions for local needs: health, digital, energy, water, and sanitation.⁴³ A greater percentage of U.S. foreign aid might be allocated to scaling innovation through businesses in emerging markets. The United States had made steps in this area through Development Innovation Ventures⁴⁴ and the Global Innovation Fund⁴⁵, but both are underfunded and do not integrate innovation into USAID’s overall activities.

Another comparative advantage is the dominance of the financial sector writ large, particularly major banks which tend to play a key role in infrastructure financing. We should be considering new partnerships among banks, capital markets, Development Finance Institutions (DFIs), and MDBs to subsidize and nudge certain kinds of infrastructure.

7) Get the Boring Stuff Right (Technical Training and Procurement Assistance)

a. Update U.S. Procurement Systems

⁴¹ International Finance Corporation, *IFC Jobs Study: Assessing Private Sector Contributions to Job Creation and Poverty Reduction* (Washington, D.C.: International Finance Corporation, January 2013), 1-150, https://www.ifc.org/wps/wcm/connect/0fe6e2804e2c0a8f8d3bad7a9dd66321/IFC_FULL+JOB+STUDY+REPORT_JAN2013_FINAL.pdf?MOD=AJPERES.

⁴² John Simon, Elaine Dezenski, and Allie Diciara, “American Innovation Can Counter China’s BRI,” *The National Interest*, September 26, 2022, <https://nationalinterest.org/feature/american-innovation-can-counter-china%E2%80%99s-bri-204992>.

⁴³ *Ibid.*

⁴⁴ United States Agency for International Development, *Development Innovation Ventures: Turning Bright Ideas into Global Solutions* (Washington, D.C.: United States Agency for International Development, November 2023), 1-2, https://www.usaid.gov/sites/default/files/2023-11/DIV_Fact%20Sheet_cleared_Nov%202023.pdf

⁴⁵ “Improving Lives through Social Innovation,” Global Innovation Fund, n.d., <https://www.globalinnovationfund/>.

It remains difficult to work with allies on soft power because of our cumbersome procurement planning and budgeting processes for U.S. foreign assistance. U.S. budgeting and procurement systems are basically the same as they were in 1980s. Great Power Competition should require us to reform our foreign aid “plumbing” to match the challenge.

b. Procurement Assistance and Training

Some countries end up stuck in BRI deals that they cannot afford. The government of Sri Lanka ended up relinquishing over 80 percent of a port project to its Chinese backers after struggling to repay a \$1.2 billion loan from the Export-Import Bank of China.⁴⁶ The United States and its allies should aim to train one hundred thousand bureaucrats in the developing world on how to buy and manage infrastructure better. The United States and its allies can be a better partner to the Global South by helping governments negotiate complex infrastructure projects as well as providing technical assistance in legal, financial, and engineering matters.

The United States Trade and Development Agency’s (TDA) Global Procurement Initiative (GPI), launched in 2013, offers public procurement training programs to support high-quality infrastructure development in emerging market economies.⁴⁷ We need to scale this program. For example, the *de facto* standard for infrastructure procurement is the World Bank guidelines. These guidelines were changed to allow for life cycle costs.

c. Taxes

Infrastructure is primarily financed by tax revenue in developing countries. Most infrastructure is not financed by the World Bank, the DFC, or China’s Belt and Road National and “sub-national” governments should collect taxes that have been agreed to within societies. Ideally, societies should have pro-growth tax regimes. In many developing countries, only “stupid people pay taxes” so a new social contract has to be established to show that paying taxes is explicitly linked to the delivery of services including the building of infrastructure. The United States works in this area, and it is relevant to infrastructure.

8) Establish a Private Sector Consortium

The strength of the United States and its partners is access to private capital. Companies from allied nations including Japan, Australia, and the United Kingdom, could work in consortiums to deliver projects that are just as “turnkey” ready as BRI bids. The EU needs to be a part of this conversation. We need improved commercial diplomacy and better business intelligence to identify strategically significant infrastructure projects so there is time to organize a collaborative team of private sector leaders capable of delivering ports and other large scale infrastructure projects. By combining construction, manufacturing, and engineering capabilities, counteroffers to BRI would be more comprehensive. We need to do a better job of working with our allies on all of the above.

⁴⁶ Maria Abi-Habib, “How China Got Sri Lanka to Cough Up a Port,” The New York Times, June 25, 2018, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

⁴⁷ U.S. Trade and Development Agency, “USTDA Launches Pacific Islands Public Procurement Training Program,” USTDA, January 23, 2023, <https://www.ustda.gov/ustda-launches-pacific-islands-public-procurement-training-program/>.

As an example, last year the Croatian government canceled a deal with three Chinese state-owned companies to build and operate a container terminal at the Port of Rijeka following significant pressure from the United States and the EU. The \$3 billion concession was ultimately awarded to a Croatian logistics company.⁴⁸ Moving forward, a private sector consortium would help get ahead of issues like these by advertising opportunities to a network of corporations capable of countering Chinese bids.

⁴⁸ Warren P. Strobel, "In Croatia, U.S. Campaigned to Stop Chinese Bid on Key Port," The Wall Street Journal, April 2, 2023, <https://www.wsj.com/articles/in-croatia-u-s-campaigned-to-stop-chinese-bid-on-key-port-58c9bbff>.