DEVELOPMENT FINANCE IN ASIA: U.S. ECONOMIC STRATEGY AMID CHINA'S BELT AND ROAD

HEARING

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DEVELOPMENT FINANCE IN ASIA: U.S. ECONOMIC STRATEGY AMID CHINA'S BELT AND ROAD

WEDNESDAY, NOVEMBER 15, 2017

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ASIA AND THE PACIFIC,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:45 p.m., in room 2172, Rayburn House Office Building, Hon. Ted Yoho (chairman of the subcommittee) presiding.

Mr. YOHO. Hello, everybody. The subcommittee will come to order.

Members present will be permitted to submit written statements to be included in the official hearing record.

Without objection, the hearing record will remain open for 5 calendar days to allow statements, questions, and extraneous material for the record, subject to length limitations in the rules.

Good afternoon, and thank you to my colleagues on the subcommittee and the panel for coming together to discuss the future of U.S. economic engagement. And I have to give a shout out to Mr. Engel, the ranking member. He is in Financial Services, and they have 15 votes teed up, ready to go, so he will be here as soon as he can.

President Trump has just returned from his first trip to the Asia-Pacific, a region the White House has taken to calling the Indo-Pacific region. The long trip, which began on November 3, is the longest trip to Asia by an American President in more than 25 years and a fitting reminder of the importance of the region to American interests.

Going forward, the trip will surely be an inflection point for the U.S. policies toward the region. One of the most important aspects of this policy will be our economic engagement, which is what we have gathered to discuss here today.

The discussion about U.S. economic engagement in Asia frequently centers on trade, but the Asia-Pacific is still a developing region, and too often the discussion does not give sufficient attention to what the United States must do before the important development and trade promotion work that is a precursor to robust trading relationships.

The United States already has the tools needed for this important work. U.S. development finance institutions—OPIC, the Overseas Private Investment Corporation; the USTDA, which is the U.S. Trade and Development Agency; and others—leverage private investment to promote development and economic activity abroad.

These institutions are increasingly important because their work is in line with a larger tectonic shift in how capital moves in the developing world. Over the last few decades, private capital has outstripped assistance from donor governments to constitute 90 percent of financial flows into developing countries. Deepening U.S. development finance authorities will make foreign assistance more effective by working with this trend rather than against it.

A model focused on public-private partnerships would also be more sustainable in times of budgetary constraints. Development finance institutions frequently operate at little or no cost. OPIC remitted $239 million to the U.S. Treasury in fiscal year 2016.

And, finally, a development-finance-based approach is rooted in U.S. national interests as well, promoting U.S. business abroad and opening up new export opportunities for U.S. industries.

Despite these advantages, development finance is consistently undervalued as a part of overall development assistance strategy. To begin to remedy this, I have introduced the Economic Growth and Development Act, which would create a one-stop shop for private-sector participation in overseas development, and I am currently working on more expansive legislation that would consolidate, reform, and improve U.S. development finance mechanisms.

I hope that the panel will share with us today their own recommendations for improving our development finance efforts.

While U.S. economic engagement in Asia adjusts, China's economic engagement strategy, known as "One Belt, One Road," or, more recently, the "Belt and Road Initiative," is well underway. The Belt and Road Initiative itself is a development finance undertaking—a multitrillion-dollar response to the substantial unmet infrastructure needs of the Asia-Pacific region, designed to build roads, bridges, ports, and other infrastructure across Eurasia and the Pacific and Indian Oceans to increase China's economic connectivity with the nations who have joined.

While infrastructure investment is desperately needed across the region, there is more to the Belt and Road Initiative than meets the eye. Though China has promoted the program as generous "win-win" assistance to its fellow developing nations, the Belt and Road seems motivated primarily by self-interest.

Belt and Road projects are financed by Chinese institutions at high rates not typically found in the development context, conducted by Chinese corporations that are often state-owned enterprises, utilize Chinese labor and material, and seem to add little to local economies and can bring unsustainable debt burdens.

The program also seems too closely aligned with China's strategic and military interests to be more than just mere coincidence. In one illustrative example, China built an economically unviable port in the hometown of Sri Lanka's corrupt former leader, converted its interest to equity when Sri Lanka could not service the resulting debt, and now owns a port along its maritime energy supply route through the Indian Ocean.

In contrast, U.S. development finance efforts can offer an alternative that is healthier for the region while furthering our own interests. U.S. programs have the high standards and transparency that Belt and Road projects often lack and are demand-driven by market forces, not state-owned corporations and military strategists.

So, as we discuss U.S. development finance in Asia today, it will be helpful to do so in the context of China's Belt and Road Initiative. And I hope the panel can discuss how U.S. Efforts can counter the potential negative aspects of the Belt and Road Initiative.

Without objection, the witnesses' written statements will be entered into the hearing record.

And I now turn to the ranking member, Mr. Deutch. Do you have a comment you want to say?

[The prepared statement of Mr. Yoho follows:]

Development Finance in Asia: U.S. Economic Strategy Amid China's Belt and Road
Subcommittee on Asia and the Pacific
House Committee on Foreign Affairs
Wednesday, November 15, 2017, 2:30 p.m.
Opening Statement of Chairman Ted Yoho

Good afternoon, and thank you to my colleagues on the subcommittee and the panel for coming together today to discuss the future of U.S. economic engagement in Asia.

President Trump has just returned from his first trip to the Asia-Pacific – a region the White House has taken to calling the "Indo-Pacific." The long trip, which began on November 3, is the longest trip to Asia by an American President in more than 25 years, and a fitting reminder of the importance of the region to American interests. Going forward, the trip will surely be an inflection point for U.S. policy towards the region. One of the most important aspects of this policy will be our economic engagement, which is what we've gathered to discuss today.

The discussion about U.S. economic engagement in Asia frequently centers on trade. But the Asia-Pacific is still a developing region, and too often the discussion does not give sufficient attention to what the United States must do *before* trade— the important development and trade promotion work that is a precursor to robust trading relationships. The United States already has the tools needed for this important work. U.S. development finance institutions—the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, and others—leverage private investment to promote development and economic activity abroad.

These institutions are increasingly important because their work is in line with a larger tectonic shift in how capital moves into the developing world. Over the last few decades, private capital has outstripped assistance from donor governments to constitute 90 percent of financial flows into developing countries. Deepening U.S. development finance authorities will make foreign assistance more effective by working with this trend, rather than against it.

A model focused on public-private partnerships would also be more sustainable in times of budgetary constraints. Development finance institutions frequently operate at little or no cost—OPIC remitted $239 million to the U.S. Treasury in Fiscal Year 2016. And finally, a development finance-based approach is rooted in U.S. national interests as well— promoting U.S. business abroad and opening up new export opportunities for U.S. industry.

Despite these advantages, development finance is consistently undervalued as a part of our overall development assistance strategy. To begin to remedy this, I've introduced the Economic Growth and Development Act, which would create a one-stop shop for private sector participation in overseas development, and I'm currently working on more expansive legislation that would consolidate, reform, and improve U.S. development finance mechanisms. I hope the panel will share with us today their own recommendations for improving our development finance efforts.

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While infrastructure investment *is* desperately needed across the region, there is more to the Belt and Road Initiative than meets the eye. Though China has promoted the program as generous "win-win" assistance to its fellow developing nations, the Belt and Road seems motivated primarily by self-interest. Belt and road projects are financed by Chinese institutions at high rates not typically found in the development context, conducted by Chinese corporations that are often state-owned enterprises, utilize imported Chinese labor, seem to add little to local economies, and can bring unsustainable debt burdens.

The program also seems too closely aligned with China's strategic and military interests to be mere coincidence. In one illustrative example, China built an economically unviable port in the hometown of Sri Lanka's corrupt former leader, converted its interest to equity when Sri Lanka could not service the resulting debt, and now owns a port along its maritime energy supply route through the Indian Ocean.

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So, as we discuss U.S. development finance in Asia today, it will be helpful to do so in the context of China's Belt and Road Initiative—and I hope the panel can discuss how U.S. efforts can counter the potentially negative aspects of the Belt and Road.

Mr. DEUTCH. I do not.

Mr. YOHO. Okay.

And, with that, we are thankful to be joined today by Mr. Daniel F. Runde, the Schreyer chair and director of the Project on Prosperity and Development at the Center for Strategic and International Studies; Mr. Roy Kamphausen, senior vice president for research at the National Bureau of Asian Research; and the Honorable Jonathan N. Stivers, a Commissioner of the U.S.-China Economic and Security Review Commission and former Assistant Administrator to the USAID bureau for Asia.

And, with that, we are going to start with your testimonies. You guys know how the buttons work and the timers and all that? That is good.

Mr. Runde, if you will, let's hear your testimony. Thank you.

STATEMENT OF MR. DANIEL F. RUNDE, WILLIAM A. SCHREYER CHAIR AND DIRECTOR OF THE PROJECT ON PROSPERITY AND DEVELOPMENT, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. RUNDE. Thank you, Chairman Yoho, Ranking Member Sherman, and distinguished members of the subcommittee. Thank you for inviting me to testify before you today.

I hope to use my time to talk about two things: First, the changed world in which we find ourselves, especially in Asia. Simply put, China is eating our economic and diplomatic lunch in Asia. Second, the critical role that enhanced U.S. development finance capabilities can play in countering Chinese economic influence as part of a larger U.S. economic strategy for Asia. We need to take a series of concrete steps, as the American Government, so that we can continue to lead and have an ability to shape the future.

My bottom line is that the Congress can take a series of steps to strengthen OPIC and other bilateral and multilateral instruments of American power. Congress should spend its limited political and policy time on strengthening and reforming the institutions we already have, including multilateral institutions, and take USAID's Power Africa model and apply it to different sectors in Asia, including power and infrastructure. I believe the United States will get much more benefit out of a reformed and strengthened OPIC compared to a merger of government offices and agencies.

Let me talk about change to Asia. While recognizing the great diversity across the continent, it is safe to say this is not your grandparents' Asia. Asia is much freer, is more interested in trade and foreign direct investment, is rapidly urbanizing and aging, needs to close a massive infrastructure deficit, and wants a deeper partnership with the United States around science, technology, and innovation. We need different approaches in Asia.

We also need to understand what China is doing, because China is a full-fledged soft-power competitor to the United States. China has over 3 million young people joining its workforce every year. Employing so many young people every year is a real issue for China. China's need for jobs and access to alternate trade routes has necessitated the creation of a new model on different terms, one built on quick, one-stop-shop financing and one that leverages its state-owned enterprises.

China also has displayed a willingness to periodically overlook human rights, environmental or social standards in the way that it approaches these things.

The One Belt, One Road initiative is a prime example of a Chinese effort that leverages all aspects of this model described above. It is also, frankly, a good idea. Recreating the old Silk Road land roads, cutting transit times for goods and services, would be an economic boon. We cannot stop One Belt, One Road, nor should we. The United States and its allies should instead seek to influence the soft infrastructure of One Belt, One Road. And I have submitted some documents for the record about that.

Let me move to development finance. Let me first define "development finance institutions." Development finance institutions are government or quasi-government institutions that provide equity, loans, or other financial support for private-sector projects in low- and middle-income countries. The Overseas Private Investment Corporation is the United States' DFI. DFIs are not a solution to all of our challenges in Asia, but they must be part of a larger economic and political strategy for Asia and the developing world.

DFIs are powerful and precise development tools, and DFIs are one reason that there has been a massive expansion of cell phones, for example, in Africa and Asia. In the late 1990s, no normal investor believed that there was a mass consumer market for cell phones. DFIs provided the capital and provided a demonstration effect that others could make money in the African cell phone sector.

As I said, though, DFIs are not a solution for every problem, and they cannot do things that grants or technical advice or diplomacy can do. DFIs usually need a private-sector sponsor, a business partner. They provide money in the form of a loan. They sometimes take a minority ownership position or provide highly specialized advice.

DFIs need clear rules of the game. They need some level of security and a functioning state. There are things that USAID and MCC provide that DFIs can't, and there are things that USTD and export credit agencies like U.S. Ex-Im Bank provide that DFIs cannot.

So what are we to do about all this? Well, I think there are several things this Congress should be doing. The first is that the Congress should ask the administration to produce a U.S. economic strategy to go with our national security strategy.

Second, I would recommend that the Congress work with the administration to provide the following enhanced instruments for OPIC: OPIC is not permanently authorized. It ought to go to a 10-year authorization. Congress needs to raise OPIC's ceiling of total investments that it can make. It is currently $29 billion; it should go to $58 billion. OPIC ought to be able to keep some of its profits.

OPIC ought to create a funding stream for early-stage financing for innovators and entrepreneurs in developing countries. We should dilute or remove the U.S.-content requirement, especially in U.S. national-security-priority countries. OPIC needs a limited amount of what is called equity authority—basically, the ability to make minority ownership stakes in a small number of projects.

And OPIC should dilute or even remove its so-called carbon cap. This carbon cap puts a limit on carbon emissions related to the totality of the projects financed by OPIC. President Trump was just in Vietnam and talked about doing more projects in Vietnam with OPIC. The carbon cap will hold back OPIC's ability to work in Vietnam and other countries that are not the poorest of the poor.

Development finance capabilities will only get us so far; we need to do a lot more in trade. I know this is important to you, Chairman. We need to make sure that the trade facilitation agreement gets done in Asia. We need to provide the money for it in the 150 account and then that AID and our diplomats at the State Department follow through on that. That is a win-win for the United States and for developing countries.

Fourth, regarding AID—and I know I am running out of time—that we should take lessons from the Obama-era's Power Africa and apply it to Asia. We also need a strategy for exiting middle-income countries. And I would encourage AID to return to the use of enterprise funds.

Regarding TDA, it is one of the best and most efficient agencies in the U.S. Government. It does a series of things, highly leverages its money. But I would seek a larger congressional appropriation for TDA. I would not merge it with OPIC for a series of reasons, in that they don't overlap almost at all. I can answer questions about that.

Six, regarding the U.S. Ex-Im Bank, we need a fully functioning Ex-Im Bank. It is completely absurd that we don't have a functioning Ex-Im Bank. Currently, you can only approve deals of only $10 million. There is currently $30 billion in U.S. Ex-Im Bank applications waiting right now. This is crazy.

Seventh, our bilateral agencies and our multilateral agencies need to move much more quickly and in a coordinated way. Japan's aid agency and its DFI have reduced their door-to-door approval of infrastructure projects to 11 months in response to AIIB and the Chinese, and so should we.

Eighth—and I will stop here—with regard to multilateral development banks, we need to rethink about how we use the Asian Development Bank and the World Bank. The Asian Development Bank is a great asset to the United States. If they were to come to us for a special capital increase, I think we should consider it. I believe this committee ought to consider doing hearings about the United States and the Asian Development Bank.

I will stop there.

[The prepared statement of Mr. Runde follows:]

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Statement Before the

House Foreign Affairs Committee
Subcommittee on Asia and the Pacific

"Development Finance in Asia"

A Testimony by:

Dan Runde

William A. Schreyer Chair and Director,

Project on Prosperity and Development

Center for Strategic and International Studies (CSIS)

November 15, 2017

2172 Rayburn House Office Building

Introduction and Main Points

Chairman Yoho, Ranking Member Sherman, distinguished Members of the subcommittee, thank you for inviting me to testify before you today. It is a privilege and an honor. Currently, I hold an endowed chair at the Center for Strategic and International Studies, researching how we might use American soft power and influence around the world. I served in the Bush Administration at USAID and worked for a time at the World Bank Group after starting my career in investment and commercial banking.

I hope to use my time to talk about two things: First, the changed world in which we find ourselves, especially in Asia. Simply put, China is eating America's lunch in Asia on economic and diplomatic issues. Second, the critical role that enhanced U.S. development finance capabilities can play in countering Chinese economic influence as part of a larger US economic strategy for Asia. We need to take a series of concrete steps, as the American government, so that we continue to lead and have an ability to shape the future. I believe the Congress and the Trump Administration are both ready to act.

My bottom line is that the Congress can take a series of steps to strengthen OPIC and other bilateral and multilateral instruments of American power. I do not believe that a new "US Development Finance Corporation" of a 3-way merger of OPIC, USTDA and USAID's Development Credit Authority is politically feasible. Instead, I would spend limited political and policy time on strengthening and reforming the institutions we already have including multilateral institutions, and take the USAID "Power Africa" model and apply it to different sectors in Asia including power and infrastructure. I believe the United States will get much more benefit out of a reformed and strengthened OPIC compared to a merger of these other government offices/agencies.

A Changed Asia

While recognizing the great diversity across the continent, it is safe to say that this is not your grandparent's Asia. Asia is much freer, is far more interested in trade and foreign direct investment, is rapidly urbanizing and aging, needs to close a massive infrastructure deficit, and wants a deeper partnership with the United States around science, technology, and innovation.

As part of my job, I have travelled extensively to almost every country in this part of the world. **In almost every country I have visited in Asia they want *more, not less,* U.S. involvement.**

In 1990, the share of Asian economies was 23% of the global GDP. Today, Asia accounts for 40% of global GDP (greater than the shares of the United States or the European Union).[1] China's trade with other Asian economies increased from $165 billion in 1996 to $1.9 trillion in 2015. Today, 75 countries are eligible for International Development Association (IDA) loans, which are the cheapest that the World Bank offers and targeted at the world's poorest countries.

[1] *Asia Pacific Economic Outlook, Q1 2016*, Deloitte Insights, 2016. (https://dupress.deloitte.com/dup-us-en/economy/asia-pacific-economic-outlook/2016/q1-asia-economic-growth-continues.html)

20 of these qualifying countries are in Asia.[2] In 10 years' time, it is estimated that only two Asian countries will be eligible for IDA.[3]

In other words, in the medium term, while poverty will still exist, there will be fewer and fewer "poor countries" in Asia. At the same time, only a handful of Asian countries can be classified as "fragile/conflict affected states." We need to see a broader set of countries in Asia not as recipients of foreign assistance but as trading partners and allies in solving great challenges. China does not look at the vast majority of Asian countries as recipients of assistance or countries to "fix." **The Chinese look to Asia and see business partners.**

I also want to spend a minute talking about the role and relative size of foreign assistance. Let me be clear, there is a clear and important role for foreign assistance. At the same time, we need to understand that American and multilateral assistance are specific tools in the tool kit. Since the 1970s, the dynamics of U.S. economic engagement using traditional foreign assistance has completely reversed, with Official Development Assistance (ODA) constituting only 9 percent of total economic engagement today as a result of greater US global engagement and economic growth in these societies.[4] There is a growing recognition (for example via the UN's Addis Ababa Financing for Development efforts) that traditional foreign assistance is a "catalyst" for growth. The foreign assistance community often refers the need to go "from billions to trillions," which implies a recognition that traditional foreign assistance, while important, is not going to meet all the global needs.

In other words, global traditional foreign assistance is not the largest "wallet in the room," nor has it been for decades. There is an increasing understanding that there are literally trillions of dollars in private savings held in banks, pension funds, and capital markets all throughout Asia, a reality showcased in many developing countries. Many more countries can access global capital markets than just 20 years ago. The number of emerging market countries that are classified as "investment grade" are 63, including 13 in Asia.[5] Asian countries are also collecting much more in taxes from their own citizens and companies for a whole series of reasons including more prosperity. In conclusion, many developing countries especially in Asia do not need traditional foreign assistance to bankroll basic health and education; and even if these countries currently do that sort of assistance, they will need a lot less of that kind of money in the near future.

At the same time, there are other shortfalls in Asia that require different approaches. As we develop that approach, we need to understand what China is doing and respond accordingly. We need to look at Asia not only through an opportunity and security lens; we also need to understand that China is a full-fledged soft power competitor in Asia and elsewhere.

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[2] *ABCs of IDA*. The World Bank Group. (https://ida.worldbank.org/results/abcs/abcs-ida%E2%80%94key-achievements-country)
[3] *The World Bank at 75*. Center for Global Development. 2015. (https://www.cgdev.org/sites/default/files/world-bank-75-revised-3-26-15_0.pdf)
[4] Center for Global Prosperity at Hudson Institute, Table 1, in *The Index of Global Philanthropy and Remittance 2016*.
[5] Moody's Country Credit Rating. (https://countryeconomy.com/ratings/moodys)

China as a Soft Power Competitor

China has over 3 million young people joining its workforce every year[6]. Part of the social contract that China has with its people is that the Party will ensure enough jobs as long as you don't 'rock the boat.' Employing so many young people every year is a real issue for China.

Given its size, China believes that it should have greater "voice and vote" in the IMF and other global institutions. Not addressing these concerns and aspirations have real consequences for these institutions and for the U.S. For example, a 5-year dispute between the U.S. Congress and the Obama Administration delayed the obscure topic of "IMF Quota Reform."[7] The other 19 of the G20 countries were ready to move but had to wait 5 years on the U.S. Frustrated by this inaction and with $2 trillion "in the bank", China decided it did not need to wait for the Americans to work out our political dysfunction; it would just start new institutions, one of which is the Asian Infrastructure Investment Bank (AIIB) and another of which is the New Development Bank. Almost every elected member of Congress with whom I have spoken is aware of China's AIIB and understands the implications of its existence. China also has a series of so-called "policy banks" which spent more in Asia than the World Bank and the Asian Development Bank combined over the last three years.[8] China's need for jobs and access to alternate trade routes has necessitated the creation of a new model on different terms, one built on quick and "one stop shop" financing and one that leverages its state-owned enterprises. Via this model, China displays a willingness to periodically overlook human rights, environmental, and/or social standards and ultimately offers partners a quicker, easier, and cheaper suite of options.

The One Belt One Road initiative (now called the "Belt and Road Initiative") is a prime example of a Chinese effort that leverages all aspects of this model described above. It also is a good idea. Recreating the old "Silk Road" and cutting transit times for goods and services would be an economic boon for the world. I do not think we can stop One Belt One Road, nor should we. The United States and its allies should instead seek to influence the "soft infrastructure" of One Belt One Road so that we ensure that a reconnected Asia will support open markets and open societies with an even playing field for U.S. goods and services. We want to be involved because we want the reconnecting of Asia to happen in ways that build on the current global system, as opposed to creating the underpinnings of an alternative global system. One concrete thing we should do is to encourage the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank - the two most relevant institutions engaging with One Belt One Road - to be very involved in this process. I have put together a report on how we might influence this soft infrastructure of Asian development that I submit for the record.[9]

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[6] *World Bank Data* (https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?end=2016&locations=CN&start=2000)
[7] *How can multilateral institutions work in America's interest?* CSIS (https://www.csis.org/analysis/how-can-multilateral-institutions-work-americas-interest)
[8] U.S. global development leadership in a changing world, Brookings Institution (https://www.brookings.edu/wp-content/uploads/2017/07/global-20170731-blum-homikharas-brief-1.pdf)
[9] *The Role of U.S. Soft-Infrastructure in Influencing the Reconnecting of Asia*, CSIS (https://www.csis.org/analysis/role-us-soft-infrastructure-influencing-reconnecting-asia)

Finally, China has become a low-cost provider of infrastructure; this has had all sorts of implications, especially with regards to rules around public sector procurement which is a core part of infrastructure activities. President Trump recently "[called] on the World Bank and the Asian Development Bank to direct their efforts toward high-quality infrastructure investment that promotes economic growth."[10] Government procurement officials in developing countries play very large role in determining the suppliers and builders of infrastructure in their countries. These procurement officials have a much larger set of options today including working with China. With as much as 15% of the GNP of developing countries going through the hands of government procurement officers, much of which is money for infrastructure development, procurement standards matter an inordinate amount.[11]

For decades, the *de facto* procurement "rule book" has been that of the World Bank which accompanied its loans. That rule book encouraged procurement officials in developing countries to pick the lowest bidder. In the last five years, however, the World Bank - at the encouragement of the Obama Administration and many other countries including Japan, Canada, and the U.K. - has made revisions to its procurement rule book. These obscure but important revisions impact the way developing countries make decisions about buying goods and services. The new rules change the way countries view infrastructure development by encouraging the consideration of "lifecycle costs" as opposed to simply trying to find the lowest bid. Lifecycle cost principles are what we employ when we prefer a $10 light bulb that will last 2 years over a $1 light bulb that will last 2 weeks.

Development Finance Institutions

Let me spend a minute on defining development finance institutions.

Much of the analysis in this section comes from a CSIS Report that was released in October 2016 and a Forbes article, both of which we are submitting for the record.[12,13] Development Finance Institutions are government or quasi-government institutions that provide equity, loans, and other financial support for private sector projects in low and middle-income countries. The Overseas Private Investment Corporation is the United States' DFI.

DFIs seek to invest in commercially sustainable projects, often in concert with private investors, that may struggle to attract commercial investors for a variety of reasons. Let me be clear: DFIs are not a solution to all our challenges in Asia. But they must be part of a larger economic and political strategy for Asia and the developing world. As President Trump noted last week in his address at the APEC CEO Summit in Vietnam, we must commit to reform our development

[10] *Remarks by President Trump at APEC CEO Summit | Da Nang, Vietnam*, The White House (https://www.whitehouse.gov/the-press-office/2017/11/10/remarks-president-trump-apec-ceo-summit-da-nang-vietnam)
[11] World Bank's *Benchmarking Public Procurement Report (2017)* (http://bpp.worldbank.org/~/media/WBG/BPP/Documents/Reports/Benchmarking-Public-Procurement-2017.pdf)
[12] *Development Finance Institutions Come of Age: Policy Engagement, Impact, and New Directions*, CSIS (https://csis-prod.s3.amazonaws.com/s3fs-public/publication/161021_Savoy_DFI_Web_Rev.pdf)
[13] *Development Finance Institutions Come of Age*, Forbes.com (https://www.forbes.com/sites/danielrunde/2014/10/17/development-finance-institutions-come-of-age-dfi/#4c3917525c2c)

finance capabilities so that they can better incentivize private sector investment in Asia's emerging markets.[14] DFIs provide strong alternatives to state-directed initiatives that otherwise come with many strings attached.

DFIs have experienced a major explosion of growth in the last 15 years. The number of institutions have grown and the amount of business that they do has grown by more than 7 times since 2002. We did some analysis at CSIS and found that DFI investment activity across about two dozen DFI organizations (e.g. the UK, France, the U.S., and many others) grew from $10 billion in 2002 to $70 billion in 2014. Compare that to traditional foreign assistance that went from $88 billion in 2002 to around $140 billion in 2014- less than doubling over the same period. If DFIs and foreign assistance continue on a similar trajectory, we estimate that the amount of DFI investment activity will be greater than all foreign assistance sometime in the next five years. In other words, DFIs worldwide will do more financially than all traditional foreign assistance put together.

There are a number of reasons for this growth. DFIs have a clear "theory of change": through the provision of financing to private sector entities and responsible investment practices they can produce direct contributions (jobs, economic growth, and increased taxes) that have wider development impacts. All global foreign assistance is not going to grow very much. At the same time, developing countries are richer, freer and more capable. With the acceptance of free market capitalism as the default way to develop at the end of the Cold War, the landscape of the developing world has changed and DFIs have benefitted from this change.

DFIs are powerful and precise development tools but they are often not well understood by some policymakers. DFIs are one reason that there has been a massive expansion of cell phones in Africa and Asia. DFIs are also a reason for the expansion of microfinance in the developing world. In the late 1990s, no "normal" investor believed that there was a mass consumer market for cell phones. DFIs provided the capital and provided a "demonstration effect" that others could make money in the African cell phone sector. DFIs did the same thing in Bangladesh and Afghanistan making critical investments when others were unwilling to make those sorts of investments proving that there was a market. DFIs have their own specialized finance language that is very different than the language of international development or national security or foreign policy. DFIs are very "transaction focused" institutions and have often avoided getting involved in policy discussions.

Given their growth, a changed understanding about the critical role of the private sector in development, and the changed needs of the developing world, DFIs are taking a much more prominent role. They are, however, not a solution for every problem and they cannot do things that grants or technical advice or diplomacy can do. DFIs usually need a private sector "sponsor" (a private sector business partner) as they do not usually own a company; they typically provide money, take a minority ownership position, or provide highly specialized advice. DFIs need clear rules of the game. DFIs need some level of security and a functioning state. DFIs often need to work with providers of advice and expertise that agencies such as

[14] *Remarks by President Trump at APEC CEO Summit | Da Nang, Vietnam*, The White House (https://www.whitehouse.gov/the-press-office/2017/11/10/remarks-president-trump-apec-ceo-summit-da-nang-vietnam)

USAID and MCC provide. DFIs often benefit from other non-finance expertise such as project preparation analysis which is often provided by institutions such as USTDA and export credit such as provided by U.S. EX-IM Bank.

How can the U.S. and U.S. Government adapt and shape this new world?

If the United States is going to continue to be competitive in Asia, then the U.S. Congress and Trump Administration should do the following:

First, Congress should ask the Administration to produce a U.S. Economic Strategy to go with our National Security Strategy. Such a strategy would seek to answer two questions:

> *How do we ensure our national competitiveness in a world characterized by increasingly competitive global production centers?*
>
> *How can the U.S. protect and grow jobs and ensure it is fully benefitting from the global economy while continuing to improve global economic security and prosperity?*

This strategy should look at how the United States can deploy its full suite of economic tools, including development finance, foreign assistance, export credit, trade, and other economic tools in Asia to ensure that the United States remains competitive.

Second, I would recommend that Congress work with the administration to provide the following enhanced instruments to OPIC:

- OPIC is not a permanently authorized agency and, as such, has suffered from 10 years of one-year reauthorizations. This is absurd. At one point, OPIC was not reauthorized for over 6 months and no transactions were done during this period; OPIC estimated that it left $2 billion in deals on the table.[15] I would recommend that Congress reauthorize OPIC on a five or ten-year basis to allow for more stability in how it supports U.S. investment abroad. Remember, China does not need to reauthorize the AIIB or its policy banks; let's not needlessly hamstring U.S. institutions with administrative hurdles.

- OPIC needs a higher financing limit. At present, it can provide total financing commitments of $29 billion; it currently holds $21 billion in its portfolio. This limit has not been adjusted since the late 1990s and, as such, has not even kept pace with the rate of inflation. Congress should immediately double its financing limit to $58 billion and consider giving OPIC the ability to increase each year based on the rate of inflation.

- OPIC is a net benefit for the U.S. government, returning hundreds of millions in profit each year to the U.S. Treasury. OPIC should be allowed to keep a portion of this money for a variety of purposes including providing technical assistance to companies, to make higher risk "first loss" investments in critical countries, and to make a small number of equity investments, including in the funds in which it invests. OPIC should also consider creating a dedicated window that could provide support to outside entities that provide

[15] *Reauthorization of OPIC*, CSIS (https://www.csis.org/analysis/reauthorization-opic)

early stage financing for innovators and entrepreneurs in developing countries; there is a critical gap here that OPIC should find ways to help close.

- We should "dilute" or remove the U.S. content requirement, especially in conflict affected countries and national security situations. The truth of the matter is that it's quite difficult to find American investors willing to invest in Afghanistan; at the same time, we need jobs in the licit economy right now to help win the peace. In cases like Afghanistan, the CEO of OPIC should get clearance from his/her board or the National Security Adviser to do a transaction without an American partner.

- OPIC needs a limited amount of what is called "equity authority", basically the ability to take minority ownership stakes in a small number of projects. The United States is the only DFI without the ability to make equity investments. In the case of Afghanistan, nearly 30 million people (89 percent of the population) now purchase cell phone services from 5 different service providers in the market[16]. Almost all of the cell phone companies started with some ownership by the various European DFIs and the International Finance Corporation. All of the projects turned out to be very financially successful because there was a massive pent up demand for cell phones. Under the Taliban there were only 50,000 cell phones.

- OPIC should dilute or even remove its so-called "carbon cap." This carbon cap puts a limit on the carbon emissions related to the totality of the project financed by OPIC. It does not "kick in" for the poorest countries. At the same time, for countries such as Vietnam it does matter. President Trump and OPIC's management team was just in Vietnam and talked about doing more projects in Vietnam. The carbon cap will hold back OPIC's ability to work in Vietnam and other countries that are not the poorest of the poor.

Third, enhanced development finance capabilities will only get the United States part of the way there in Asia. In the area of trade, Congress should ensure that the monies for WTO's trade facilitation agreement are identified in the "150 account" and that USAID and the State Department are following through on making the Trade Facilitation Agreement happen. The WTO's Trade Facilitation Agreement is something to which we are already signed up so it is now a question of funding the fixes that are part of the deal. I would encourage this committee to hold a hearing on the Trade Facilitation Agreement in Asia because this is the perfect "aid to trade" story. The other reason to focus on this is that credible estimates are that half of all the jobs created by fixing delays at customs and borders are going to be created in wealthy countries such as the United States.[17]

Also, we need to look at trade and investment agreements across Asia to assure American jobs and grow more American jobs. There are a series of countries in Asia where we need to review our trading relationship with the goal of deepening it. We should start with close allies and the

[16] Afghanistan Telecom Regulatory Authority, Government of Afghanistan (http://atra.gov.af/en/page/telecom-statistics-2014)
[17] *Report: Payoff from the World Trade Agenda 2013*, Peterson Institute for International Economics (https://piie.com/publications/papers/hufbauerschott20130422.pdf)

emerging economies of ASEAN. The Trump Administration should start negotiations right now with Japan on a bilateral free trade agreement. I would encourage this committee to hold hearings on prospects of a US-Japan bilateral free trade agreement.

Fourth, regarding USAID. The Trump Administration has named one of its stars to lead USAID. I am speaking, of course, about Ambassador Mark Green, known to many of you for his four terms serving here in the House of Representatives. I would like to see USAID do several things.

- USAID needs a strategy for exiting middle income countries and leaving behind a different kind of relationship. Is it building a strategy for a trade and cooperation strategy for Asia? Are we helping Asian countries to build the capacity for a trade- and cooperation-based relationship with the U.S.?

- There are other activities USAID should consider doing relevant to this hearing. I would encourage USAID to return to doing more activities such as the enterprise funds of the past. This committee should consider holding a hearing on "future directions of U.S. enterprise funds." This topic deserves much more attention.

- USAID should also take the lessons learned from the important Obama era effort where USAID coordinates all government agencies working in Africa to provide power called Power Africa. USAID should replicate Power Africa in Asia. In addition to a "Power Asia" there should be an "Infrastructure Asia." I would encourage this sub-committee to hold a hearing on "lessons of Power Africa and its applicability in Asia."

- USAID and State have roles to play in the areas of science, technology and innovation. You would be shocked how focused the political and business and education leaders are in Asia on these issues. These Asian countries like other ones want to escape the so-called "middle income" trap. The trap is an economic situation where an export-based economy, that initially saw its wage levels rise, loses its competitive edge over advanced economies, as rising wage levels do not match up with the high-value-addition offered by the advanced economies in the market.[18]

- USAID's Development Credit Authority (DCA) is a tool that allows USAID to use risk-sharing guarantees to mobilize local wealth for national development. Through DCA, USAID provides 50% guarantees to loans lent out by a local banks or local nonbank financial institutions to encourage them to lend to local entrepreneurs who would otherwise be perceived as too risky to receive credit. As compared to OPIC, DCA is not limited to American institutions. DCA works well within USAID and has some synergies with USAID's field missions. I would be reluctant to merge DCA with OPIC.

Fifth, U.S. Trade and Development Agency (USTDA) is one of the best and most efficient agencies in the U.S. Government. USTDA is not well known to the public, but it helps bring American know how and supports American exports to developing markets get American goods purchased for projects in the developing world. USTDA is quite efficient: it supports $95 in

[18] *Avoiding Middle-Income Growth Traps*, The World Bank Group, 2012 (http://siteresources.worldbank.org/EXTPREMNET/Resources/EP98.pdf)

U.S. exports for every dollar programmed and leverages additional funding from the private sector. It also carries out "reverse trade missions" bringing buyers from developing countries to the U.S. heartland to look at America's fine good and services. Finally, USTDA offers something very important but seemingly boring: public sector procurement training. Why does this matter? Training developing country public officials in making better buying decisions and moving away from only picking the lowest bidder is good for American goods and services and good for American jobs. As I mentioned above, the Chinese have been beating all others on a lowest bid basis. The United States, Japan and many others now want developing countries to consider a "life cycle cost" approach which means not the cheapest option. If countries pick on a "life cycle cost" basis they will likely choose what America has to offer. I would seek a larger Congressional appropriation for USTDA. USTDA is a very nimble agency. Anyone following the President's trip will note the ability of USTDA to offer immediate value to the President's jobs agenda.

Given how quickly USTDA can move, I would not recommend consolidating USTDA with OPIC. USTDA's current project mix overlaps with OPIC at about 3% of all its projects. In other words, there is very little synergy with OPIC. We should look for way for USTDA and OPIC to work more closely together. I am reluctant to combine USTDA with another agency which might limit its ability to meet its mission and its support for U.S. jobs. There is limited political bandwidth for fixes and reforms. I would use that limited bandwidth for other things such as making a series of fixes OPIC right now. I would do a long list of things before merging USTDA with some other agency.

Sixth, the U.S. must have the right tools – including a fully functioning Export-Import Bank – in our toolbox to be successful in the global marketplace, with those tools being constantly repaired and reformed. We need all of President Trump's nominees for the board of directors confirmed now for the U.S. EX-IM bank. 95 countries have export credit agencies and we need a fully functioning U.S. EX-IM Bank. Given the context of this hearing and the recent trip by President Trump, it is crazy that EX-IM Bank cannot approve deals over $10 million. We need a Senate Banking committee vote on President Trump's nominees. President Trump was talking about buying American goods in Asia in Japan and Korea. There are currently $30 billion in U.S. EX-IM Bank applications are waiting right now to be approved. All those transactions getting approved means jobs right here in America. Finally, we need to lift the Obama era carbon restrictions on Ex-Im activity. I hope that when the Trump Administration holds the chair that we will remove this job killing rule that goes against the spirit of the U.S. EX-IM Bank's sole focus on promoting American jobs.

Seventh, our bilateral agencies and our multilateral agencies need to move more quickly and in a more coordinated way. Japan's aid agency and its DFI have reduced their "door to door" approval of infrastructure projects to 11 months and so should we. China is able to package loans, advice and "turn key solutions." China's EX-IM Bank and other policy banks are perceived as being able to move quickly.[19] Many projects at the World Bank take years to get approved. I do not know the "door to door" at OPIC. I hope it is 11 months or less but I am guessing that it is longer than that.

[19] *U.S. Global Development Leadership in a Changing World*, The Brookings Institution (https://www.brookings.edu/wp-content/uploads/2017/07/global-20170731-blum-homikharas-brief-1.pdf)

Eighth, with regards to multilateral development banks, we need to think about the Asian Development Bank and the World Bank Group. We need a strengthened and more agile Asian Development Bank as Japan and America's answer to the Asian Infrastructure Investment Bank. The Asian Development Bank is an important but overlooked tool in our toolkit. The current leadership of the Asian Development Bank has taken a number of steps to respond to the AIIB and has greatly increased its lending activity. This committee should hold a hearing on "the U.S. and the future of the Asian Development Bank." If the management of the ADB went to the United States and Japan and sought a special capital increase it would cost the U.S. some additional hundreds of millions of dollars and the ADB could use that money to make billions of dollars in additional lending especially around infrastructure.

The ADB has projected that electricity demand in Asia and the Pacific will more than double between 2010 and 2035, reaching some 16,169 terawatt-hours in 2035—that is equivalent to half of the world's energy consumption by the same year. By then, Asia will also be responsible for almost half of global carbon emissions, 35% higher than current emissions.

ADB has provided important support for coal-fired power plants in the region. Between 1994 and 2012, the institution was the third largest public international financier of coal-fired power plants, investing $3.9 billion in 21 projects. Over the past decade, the institution invested $1.7 billion in different coal projects. These include the controversial 4,000-megawatt Tata Mundra Ultra Mega Coal plant in the Indian state of Gujarat and the Jamshoro coal-fired power project in Pakistan.

ADB's role is to support its developing member countries in meeting their energy access goals and their NDC (Nationally Determined Contribution) for their greenhouse reduction goal. Despite pressure from NGOs, ADB has not ruled out financing for proposed coal-fired power plants because there are some cases where people would like to use energy from coal to meet basic needs like heating. In addition, in some places, there is no other cost-effective solution except to pursue coal, and ADB's developing member countries would like for coal to remain an option for consideration. The US Congress and the Trump Administration should continue to support the ADB's policy on coal.

Regarding the World Bank and IFC, these are very important institutions. The Congress should meet the Trump Administration's request for IDA - the soft loan window for the poorest countries. IFC and the World Bank have enormous influence in developing countries and do a lot of good on our behalf in the world. The influence that they wield is based not only their money but far more on their expertise and their brands. The money they provide is useful but is an increasingly shrinking part of the monies that developing countries access.

The World Bank Management would like a capital increase. I testified on behalf of the Obama Administration on behalf of a previous capital increase. The US just finished paying its "mortgage" on that capital increase. I agree with the Trump Administration and would want to see a series of reforms and rethinks before providing any newer money for a capital increase for the World Bank.

For example, I believe that the World Bank has to rethink its financial relationship with China. China is the World Bank's largest IBRD client - the lending window for middle income countries.[20] China needs World Bank expertise but it certainly does not need the World Bank's money. The World Bank does fee for service advice for plenty of other countries there is no reason it cannot do the same in China. The World Bank needs a new approach to upper middle-income countries and it needs one before getting a capital increase. The World Bank and other multilaterals need to think about how they use their existing capital more creatively. By many measures, the World Bank is managing its finances in too conservative a way.[21] The World Bank is taking some steps in this direction but there are perhaps several others. Also, the World Bank and the other multilaterals work together but there are always better and more ways they might work more closely together.

Conclusions

Given these great changes there are three big conclusions to draw:

- First, the world is not going to wait on the United States. If we do not meet the hopes and aspirations of these societies, they will turn to China.
- Second, the U.S. needs an economic and political strategy for Asia. Components of that strategy would include a far greater focus on trade, financing infrastructure, and leveraging our science, technology and innovation. Stronger development finance capabilities are essential to that.
- Third, we need to work as closely as possible with all our allies in the region. Our first conversation on everything Asia should start and end with Japan. Our close second conversation should be with Australia, a country that has sent troops to fight alongside the U.S. in every conflict since World War I. We have many other friends and allies in Asia. We should work with them.

We need to be thinking about using all our tools for creating jobs and deepening partnerships with current and future allies. Development finance is one part of the toolkit for achieving that larger goal. We need to further our engagement in Asia, but we need to adjust our existing institutions in the context of an evolving region. We are going to need leadership from the President and from the Congress. I am grateful that this subcommittee has convened this meeting. The rules based system and the institutions that undergird it have fostered unprecedented growth in Asia. We do not need to throw out the playbook, but we do need to adapt it to new realities. If we maintain this flexibility and remain open to change, things we have been able to do for the last 70 years, we will continue to maintain our position of global leadership.

[20] *Trump Takes Aim at World Bank Over China Loans*, Forbes (http://foreignpolicy.com/2017/10/13/trump-takes-aim-at-world-bank-over-china-loans/)
[21] A Path to US Leadership in the Asia-Pacific, Atlantic Council (http://www.atlanticcouncil.org/images/publications/A_Path_to_Leadership_in_the_Asia-Pacific_web_1116.pdf)

Mr. YOHO. No, I appreciate your input on that, and those are all great points, and I look forward to hearing more about that.

Mr. Kamphausen? Is that correct?

Mr. KAMPHAUSEN. Yes, sir.

Mr. YOHO. Good.

STATEMENT OF MR. ROY KAMPHAUSEN, SENIOR VICE PRESIDENT FOR RESEARCH, THE NATIONAL BUREAU OF ASIAN RESEARCH

Mr. KAMPHAUSEN. Chairman Yoho, Ranking Member Sherman, and distinguished members of the committee, thank you for the opportunity to appear today.

I am a China guy, and so my role is to talk about the Belt and Road. And I am basing my comments largely on a recent monograph that we published at NBR, and glad to provide a copy to you, Mr. Chairman.

Since the establishment of the People's Republic of China in 1949, the Chinese leadership has had two overwhelming foreign policy goals: One, the restoration of what China considers as its national domain and boundaries; and, two, the restoration of China's historical position at the center of Asia as the preponderant power in the region.

These two restorations are really the heart of what President Xi Jinping in China has called his "China dream" for the rejuvenation of the great Chinese nation, which he hopes to fulfill by the 100th anniversary of the founding of the PRC in 2049.

And so, understood in the light of China's longstanding foreign policy goals, the Belt and Road Initiative is, I believe, an early test case which offers us a glimpse of the sort of integration under Chinese-led norms that Beijing would like to see emerge in Eurasia.

The Belt and Road Initiative is very important to the Chinese leadership. As mentioned by the chairman in his opening statement, more than $1 trillion has been dedicated, at least in principle, to funding projects. President Xi Jinping is personally engaged, including making an appearance at the multinational Belt and Road Forum in May of this year in Beijing. And the Belt and Road has been written into the Chinese Communist Party charter in the most recent 19th Party Congress. It tells us how important this initiative is to leadership.

As an overview, the Belt and Road Initiative sets the general long-term direction for China and seeks to mobilize and coordinate the use of all available national resources—political, economic, diplomatic, military, and ideological—to pursue both internal, in terms of economic development, and external, both strategic and national security objectives, in an integrated way.

And so I would like to focus on how those three areas—economic, security, and strategic—really come together from Beijing's perspective.

On the economic side, one way to think of Belt and Road is as a new Chinese stimulus package, similar to that introduced after the 2008 global financial crisis. And it is intended to sustain Chinese economic growth, the development goals notwithstanding. The crucial difference is that, this time, the activity will take place outside of Chinese territory, and, in effect, the plan is to export some of the overcapacity that developed as part of the response to the 2008 global financial crisis.

From a security angle, in the near term, Belt and Road has significant potential to increase China's military footprint in the region, Central Asia, and beyond in an effort to secure China's periphery, a central goal of the Chinese leadership. The geographic scope of BRI extends over regions that, together, form an arc of instability, where the security situation can be volatile due to a variety of factors, including ethnic and religious violence, territorial disputes, and destabilizing spillovers.

And, finally, on the strategic side, the Belt and Road Initiative is a way to secure China's periphery, address internal security challenges, those which have international linkages—and I am thinking primarily of terrorism here—and to respond to the Chinese perception of a challenge from the United States. Chinese authorities believe that, by providing economic development, they will help secure China's most restive provinces in the west of China, which have connections to international terrorism originally in Central Asia.

More broadly, at a strategic level, Belt and Road reflects Beijing's regional and global ambitions. It is an instrument to consolidate China's position at the heart of Eurasia, in a space where U.S. influence is rather limited. The initiative is intended to counter what Beijing perceives as the U.S.'s unacceptable containment of China off of its eastern seaboard.

So how does the Belt and Road actually expand Chinese influence? Very briefly, China portrays itself as the magnanimous provider of public goods through development projects and proposes a list of possible areas for cooperation under the umbrella of Belt and Road and then urges other countries to get on board China's train of development. It offers material incentives in the form of investment, infrastructure projects, and general economic and security benefits to members that choose to take advantage. But, in return, it expects that recipient countries will tacitly agree not to challenge China's core interests, criticize its posture, or seek to change its political system.

But there are some predatory aspects of Belt and Road, and I will end with these, just by ticking them off.

First, the bidding process. It is not at all clear that there is any evidence of a competitive bidding process for projects.

State subsidies. China's loans are, in reality, state subsidies for China's companies to build infrastructure with Chinese materials, using Chinese workers.

Third, it is not really a development effort. Only 23 percent of the Chinese aid funding falls under the OECD's definition of aid, mostly given to projects without a development intent and that have a grant element of under 25 percent.

Debt burden for host states. And the chairman referred to this in his opening statement. Loans can be financially unsustainable for poor countries—over 6 percent, in many cases. Sri Lanka, for example, owes 10 percent of its debt to China.

Who gets the jobs? Xi Jinping has said, since Belt and Road was launched, more than 180,000 local jobs have been created, but there is no transparent record of that.

Who gets the revenue? Revenue generation formulas from infrastructure projects are completely unclear. For instance, Pakistan will reportedly receive only about 9 percent of the revenues from the terminal marine operations at the new Gwadar Port.

And then there is the endemic corruption, environmental impacts, economic leverage that China poses on countries that fall under the program, and so forth.

So, in conclusion, I would submit that just because we in the West may not have fully grasped what Belt and Road is all about, it does not make the initiative foolish, unimportant, or doomed to fail. For now, China has the initiative, and its projects under Belt and Road have gained an undeniable momentum.

But Beijing's plan to reshape the economic and political map of Eurasia is still in its early stages, and there will be many obstacles on the road ahead. The United States can and must come up with a comprehensive strategy to better defend our existing order in ways that serve our own national interests.

Thank you.

[The prepared statement of Mr. Kamphausen follows:]

NBR THE NATIONAL BUREAU *of* ASIAN RESEARCH

Testimony before the
House Committee on Foreign Affairs
Subcommittee on Asia and the Pacific

United States House of Representatives

Hearing:

"Development Finance in Asia: U.S. Economic Strategy Amid China's Belt and Road"

Testimony by:
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Chairman Yoho, Ranking member Sherman, distinguished members of the Committee,

Thank you for the opportunity to appear before you today to share my views on China's Belt and Road Initiative (BRI). I want to recognize the Committee's vigilance for bringing to the public's attention this important but underappreciated project, which is the subject of my testimony today. These views are my own and do not necessarily reflect those of The National Bureau of Asian Research (NBR).[1]

I. Path to the Belt and Road Initiative

Since the establishment of the People's Republic of China (PRC) in 1949, the Chinese leadership has had two overarching foreign policy objectives: 1) the restoration of what it considers as its national domain and boundaries, and 2) the restoration of its historical position at the center of Asia, as the preponderant power in the region. These two "restorations" are basically encapsulated in what Xi Jinping has called the "China Dream of the great rejuvenation of the nation," which he has promised to fulfill by the PRC's 100-year anniversary in 2049.

China's BRI is, I believe, the test case which offers us a first glimpse of the sort of integration that China would like to see emerge in Eurasia, and possibly across the globe. It gives us a window into how China intends to use its wealth and power, and for what ends.

The amount of intellectual energy that the Chinese elites—government, media, and academic alike—have put into discussing BRI is truly

[1] NBR recently published a monograph on China's Belt and Road initiative entitled *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative* by NBR Senior Fellow Nadège Rolland. Her research and findings are central to the arguments made in this testimony, which draws heavily on the monograph.

staggering. There are extensive materials available in the Chinese-language sources, not all of which are of equal quality. Some are nothing else than elaborate parroting of the official line, but many of these materials are very pertinent and reveal the internal discussion revolving around BRI. Moreover, the sheer volume of articles in a top-down system such as China's suggests the importance of the topic to Chinese Communist Party (CCP) leaders.

Add to this the amount of BRI events sponsored around the world by Chinese entities, plus the $1 trillion that Beijing has promised to invest in related projects and the political capital personally invested by Xi into the initiative, and you will rapidly come to the conclusion that the mobilization of all these efforts and resources has to be done for a reason that the China authorities see as being tremendously important. This was confirmed by the Belt and Road Forum in Beijing in May 2017 and the inscription of BRI in the Chinese Communist Party Charter during the 19th Party Congress.

II. The Economic and Strategic Motivations behind BRI

BRI is officially framed as a product of China's benevolence and a friendly offer to neighboring countries to jump "aboard the Chinese development train." Language touting "win-win" outcomes and common goals language is readily apparent. But there are compelling reasons to believe that at its core BRI is in fact conceived in strategic terms as a means to secure China's periphery, address internal security challenges with international linkages, and respond to challenges from the United States. The initiative sets the general long-term direction for China and seeks to mobilize and coordinate the use of all available national resources (political, economic, diplomatic, military, and ideological) to pursue internal (economic development) and external (diplomacy and national security) objectives in an integrated way.

For the purposes of this hearing, I will focus on the economic, military, and strategic nexus of BRI.

On the economic side, BRI looks like a new Chinese stimulus package, similar to the one that was introduced after the 2008 global financial crisis to sustain China's economic growth. The crucial difference is that this time the activity will take place outside Chinese territory. BRI is also a way to export some of the overcapacity that was created precisely by the 2008 stimulus package—the surplus of Chinese cement and steel, for example.

The process will support the aim for China's state-owned enterprises to "go global" and, with the help of state subsidies, will open new markets for the national champions that have, for this purpose, recently merged and consolidated into larger entities than they had been in the 1990s. Finally, in line with China's ambition to make the renminbi fully convertible, the hope is that, as a result of BRI, the renminbi will be increasingly used across the region for cross-border transactions. Such a trend would weaken the effectiveness of U.S. sanctions.

From a security angle, in the near term BRI has significant potential to increase China's military footprint in the region. BRI's geographic scope extends over regions that together form an "arc of instability," where the security situation can be volatile due to ethnic and religious violence, territorial disputes, and destabilizing spillovers. Over one million Chinese nationals and nearly 30,000 Chinese companies already operate abroad, and since 2010 they have been involved in 345 security incidents outside China, a trend that continues to rise. To secure themselves, Chinese firms operating in risky environments are increasingly hiring private Chinese security companies. As of 2013, 4,000 registered entities employed more than 4.3 million security personnel—most of them Chinese military veterans.

On the strategic side, Chinese authorities believe that providing economic development will help secure China's most restive provinces. The western province of Xinjiang has presented some of the most challenging cases of terrorism and separatist activity. The CCP believes it can quell these forces by closing the prosperity gap between the country's underdeveloped western regions and the prosperous east coast. In the same way, the authorities presume that through infrastructure investments linking China to its neighbors, BRI will raise the standard of living in the near abroad, promote mutual trust across the region, and discourage radicalization and terrorist recruitment. Chinese leaders are also hoping to secure energy resources and diversify supply through land routes that circumvent the Malacca Strait and the South China Sea. BRI is thus a major instrument that serves China's neighborhood diplomacy: the hope is that the enormous amounts of money that will be invested in the region will help China gain some support for its foreign policy objectives and reduce potential resistance from neighboring countries against its regional and global interests. Economic power can be an instrument both of influence and of coercion against recalcitrant countries.

More broadly, BRI reflects Beijing's regional and global ambitions: it is an instrument to consolidate China's position at the heart of Eurasia, in a space where U.S. influence is rather limited. The initiative is intended to counter what Beijing perceives as the United States' unacceptable "strangulation" of China's strategic space in order to thwart China's rise. This goal is not openly discussed, but in light of the concept associated with BRI, we can start to make out the contours of a new regional order that Beijing would like to see emerge as a result of the initiative.

China is still prudent and does not want to give the impression that it has devouring ambitions, for fear of resistance, opposition, and negative reactions along the lines of the "China threat theory." In this sense, BRI is a continuation of a favorite Chinese strategic gambit that to win without war, one must weaken the adversary's resistance by all means available. In the case of BRI, opposition is weakened through large-scale investment (often without contingencies) and extensive informational, even propaganda, campaigns.

III. Examples of How China Leverages BRI to Expand Its Influence

Consider the perspective offered by Li Xiangyang, the director of the National Institute of International Strategy at the Chinese Academy of Social Sciences (CASS. Li described BRI as providing a "complementary view (like when you have the choice between tea or coffee)" that is not directly competing with the mainstream model but is simply "development-oriented as opposed to rule-oriented."

But BRI is much more than a development initiative. It is not merely a series of engineering projects but a strategic concept meant to break through U.S. attempts to limit China.

China, portraying itself as the magnanimous provider of public goods, proposes a list of possible areas for cooperation under the umbrella of BRI, and urges other countries to get "onboard China's train of development." Beijing also offers material incentives in the form of investments, infrastructure projects, and general economic and security benefits to the members of the community. In return, it expects that recipient countries tacitly agree not to challenge China's core interests, criticize its posture, or seek to change its political system.

As a recent study of China's high-speed railway diplomacy observes, "agreements for deepening cooperation in military affairs, culture, research and education, or other areas, are often negotiated simultaneously with—or in the aftermath of—the railway deals," ultimately contributing greatly to China's growing global presence and influence.

The following are examples of the more predatory aspects of BRI:

- Bidding process: To date there appears to be little evidence of a competitive bidding process for projects. Agreements are done on a government-to-government basis. This sidelines local companies who do not get access to the contracts.

- State subsidies: China's loans are in reality state subsidies for Chinese companies. They are primarily used to pay Chinese companies to build the infrastructure with Chinese materials, using Chinese workers.
- Commercial interests: Only 23% of the Chinese aid funding falls under the OECD's definition of aid. By contrast, 93% of U.S. spending falls into the category. Chinese loans are mostly given to projects without a development intent and that have a grant element of under 25%, which reflects China's overall intention to promote its commercial interests overseas.
- Debt: Loans can be financially unsustainable for poorer countries (over 6% interest rate). Sri Lanka, for example, owes 10% of its debt to China (over $8 billion). The $24 billion China-Bangladesh agreement is equivalent to 20% of Bangladesh's GDP. High-interest loans and unused infrastructure, added to underdeveloped financial markets, poor debt management, and weak trade balances, worsen the recipient countries' capacity to pay China back. As a result, the debt will be passed to future generations or could be turned into equity that gives China control over national assets and critical infrastructure.
- Jobs: At the Belt and Road Forum in May, Xi Jinping claimed that since BRI was launched, 180,000 local jobs have been created. Yet, there are no transparent records on the ratio of Chinese to local workers, nor is it clear what kind of jobs local workers might get in BRI projects.
- Infrastructure projects: Revenue generation from infrastructure (port terminals, special economic zones, highway tolls) is unclear for local countries (e.g., Pakistan will reportedly receive only 9% of revenues from terminal and marine operations at Gwadar port). Where projects do not meet local needs and remain underutilized, local countries will be saddled with "white elephant" projects that

not only do not produce revenue but cost an additional hundreds of millions of dollars in maintenance.

- Corruption: There is a high risk of Chinese bribery practices to worsen corruption in already governance-weak countries.
- Environmental impact: There appears to be little concern over damage to fresh water or arable land. Moreover, concerns remain that land will be expropriated for high-profile political projects.
- Control: The investment and assistance programs financed and controlled by China provide it with significant leverage over its neighbors, as Beijing can give and take back as it pleases. Enmeshed within a web of cooperation at all levels, and with no credible alternative sources of investment and aid in sight, regional countries are reluctant to oppose Beijing. Those that have tried to challenge China's core interests, or refused to align their votes with it in the United Nations, have been subjected to severe economic and political pressure through threats to constrict trade and cooperation. Wary that they might be punished and isolated, most countries silently acquiesce to Beijing's diplomatic priorities.

Economic pressure: Beijing's use of economic pressure against Mongolia, Norway, and South Korea provides only the most recent examples of a trend that has been evident for over a decade. As BRI countries are pulled ever more into China's economic orbit, they will find it increasingly difficult to challenge Beijing on political issues. This has already begun to happen, and not only in the poorer countries along China's borders.

The CCP has centered its narrative on the struggle against hostile foreign forces that try to encircle and force their will on China. By 2049, thanks to BRI, Beijing believes that these external forces will not be in a position to coerce China anymore because it will have gained considerable influence over its neighbors. Beijing will have shut down criticism and challenges to its interests, and most countries will in effect acquiesce to Beijing's diplomatic priorities, for fear of economic reprisal.

IV. Policy Implications for the United States

According to China's vision, the long-term effects on the region will be that the renminbi replaces the dollar; customers will use Alipay instead of VISA; authoritarian rule will be consolidated thanks to closer cooperation with Beijing, including in the security domain; families will watch Chinese TV programs and read the news provided by Xinhua; students, professionals, and political elites will be educated and trained in Chinese universities; internet censorship technology and applications from China's "great firewall" will cover the region and filter public cyberspace; the spread of universal rights will yield to "development rights"; and finally, Western influence, especially that of the United States, will be relegated to the margins. China, in short, will be the preponderant regional power. That's the vision that BRI is intended to enable and serve.

Just because we in the West may not have fully grasped what BRI is all about does not make the initiative foolish, unimportant, or doomed to fail. If we continue to be mesmerized by its supposed economic potential and pushed by some people's willingness to engage with BRI for fear of being left behind or missing out on some ill-defined opportunities, then we are enabling Beijing to achieve its objectives and fulfil this broader vision. China will continue to make progress until, and unless, we acknowledge the risks posed by BRI both for U.S. interests, including the survival of the international legal order we have built, and for regional countries' interests. The United States must come up with a comprehensive strategy to better defend this order against China's attempts to undermine it.

For now, China has the initiative, and its projects under BRI have gained an undeniable momentum. But Beijing's plan to reshape the economic and political map of Eurasia is still in its early stages, and there will be many obstacles on the road ahead. Rather than allowing BRI countries to be drawn more deeply into the Chinese-led system, and thus China's sphere of influence, the United States and its friends and allies must be flexible in seeking to provide a counterweight, and when appropriate an alternative, to Chinese-led projects. This approach involves the following:

1. Continuing to provide developing countries with alternative options to support their infrastructure and development needs
2. Supporting the reform of multilateral development banks to enable sustainable infrastructure funding, in accordance with high transparency and good-governance standards
3. Engaging with BRI countries at the local level to inform them about potential debt burden, corruption, and environmental risks

Mr. YOHO. Thank you, sir.

Mr. Stivers, if you would.

STATEMENT OF THE HONORABLE JONATHAN N. STIVERS, COMMISSIONER, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION (FORMER ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT)

Mr. STIVERS. Thank you.

Chairman, distinguished members of the subcommittee, thank you for the invitation to testify today. It is an honor to be back before this subcommittee, especially alongside such distinguished colleagues.

Before I begin, I would like to make clear that the views I express today are my own and not necessarily to be attributed to the U.S.-China Commission.

This morning, the bipartisan U.S.-China Economic and Security Review Commission, on which I serve as a Commissioner, submitted to Congress its 2017 annual report. The Commission is tasked by Congress to examine the national security and foreign policy implications of the U.S. trade and economic relationship with China.

This year, we spent some time analyzing the One Belt, One Road Initiative. We conclude that China is expanding its presence on the world stage through both coercion and a charm offensive, thereby creating pockets of influence, leverage, and control. The charm offensive is typified by One Belt, One Road, which seeks to bring more than 60 countries into China's economic and strategic orbit.

It is time for a new U.S. economic and development strategy for the Asia-Pacific region in order to effectively compete with China's growing influence and investment. In my view, the discussion about U.S. economic engagement in Asia has been overly focused on trade policy. This new strategy should prioritize development financing and our foreign assistance tools, some of our greatest strengths, in a strategic way, coordinated with our allies and partners, in order to advance our national interest in a stable, prosperous, and democratic Asia-Pacific region.

The Asia-Pacific region, which I include India in that, is absolutely vital to the security and prosperity of the American people. It is the most dynamic and one of the youngest and fastest-growing regions of the world. U.S. companies invest more in ASEAN and its members than our investment in China, Japan, and India combined, and they are responsible for over ½ million U.S. jobs and has tremendous potential for future U.S. exports.

In the coming years, the countries of this region will play an increasingly pivotal role in world affairs. The question isn't whether but how the Asia-Pacific region develops, and the type of development will make all the difference. And there are different competing models out there.

While the U.S. is consumed by a lot of other issues, China is not only investing in becoming a high-tech powerhouse, which our annual report describes in much detail, but it is also placing itself at the center, strategically and economically, of the fastest-growing region of the world.

China's One Belt, One Road Initiative includes about $900 billion worth of projects, mostly financed by the China Development Bank. The state implicitly guarantees its debt, and its assets dwarf those of the World Bank and other multilateral development banks.

Key aspects of China's development model include: First, relieving China's overcapacity in its slowing industrial and construction sectors of its state-owned enterprises. In short, as has been said earlier, China builds the infrastructure with its own materials, its own workers, and sends the recipient country the bill for it later. Less planning is devoted to the impact or the sustainability of these projects for the country and its impact on the people.

Second, expanding China's access to strategically important maritime and overland trade routes. Page 3 of my written testimony shows these routes in a nice map.

Third, gaining influence and using its new economic leverage to coerce other countries.

Fourth, taking advantage of low standards on transparency, leading to a higher debt burden for developing countries. And while the international community and this Congress pursued debt relief for poor countries two decades ago, China is now reburdening these countries with predatory loans that create dependence on China.

China often uses the term "win-win" to describe its economic activities, but Asian officials sometimes joke that "win-win" usually means China wins two times.

While Asian governments generally want Chinese investment, they would prefer more competition and higher-quality options. In many cases, Chinese investment has sparked backlash because its development model is exclusively focused on helping China, and it often facilitates corruption, displaces communities, and harms the environment.

It would be expensive for the U.S. to compete with China dollar for dollar on building infrastructure in Asia. But due to the limitations of China's development approach, it isn't necessary. The U.S. Can compete with China for fewer dollars and greater effectiveness if our resources are used in a strategic way.

And so I would submit the following recommendations. I have seven of them in my written testimony, but I will mention a few here.

First, economic and development assistance to the East Asia-Pacific region should be significantly increased. Currently, the region only receives 3 percent of all nonmilitary U.S. foreign assistance. These low levels ensure that efforts to compete with China and Asia are vastly underfunded. And making matters worse, the Trump administration budget request included a 46-percent cut to development assistance in the region.

The best way to compete with Chinese investment is to provide the needed resources to increase our competitive advantage in what we do the best: Global health, fighting pandemics and infectious diseases, humanitarian assistance, disaster relief, food security, environment protection, governance and rule-of-law initiatives that promote stable economies and democracies. These development initiatives are tremendously successful, but, without the resources, we simply can't adequately help shape this all-important region.

Second, the U.S. should provide stronger support for institutions that are best positioned to compete with China on infrastructure. Last week, in Asia, President Trump stated he would support additional infrastructure development in Asia. Unfortunately, these announcements are not consistent with his budget request, which zeroed out OPIC, reduced funding for the World Bank, and cut the U.S. contribution to the Japan-led Asian Development Bank in half.

It is my understanding that the Trump administration is considering some sort of larger development financing reform, and I would be happy to have a discussion about that in more depth with my colleagues and with the Members. But, in short, I would say bringing our development institutions together under one agency that improves coordination is a lot better than creating yet another development agency bureaucracy with an independent commission.

And then, third, as opposed to China, the U.S. has strong allies and partners in the Asia-Pacific, and we should double our development efforts to empower those counterweights, namely India and ASEAN. We should assist India with gaining membership to the Asia-Pacific Economic Cooperation Forum, support Prime Minister Modi's Act East policy, and help India with its own domestic development challenges. And, in addition, a strong and unified ASEAN has the potential to push back on China. And the U.S. can help the ASEAN Secretariat become more effective.

And, also, on Taiwan, Taiwan has a new southbound policy as it seeks to diversify its economy. And Taiwan has a lot to bring to the table, with good development practices and a democratic model. We should be finding ways, consistent with the Taiwan Relations Act, to coordinate and utilize those resources for both Taiwan and the U.S.'s larger goals.

So, in conclusion, Beijing's main advantage has been that, for the last two decades, the U.S. has diverted its focus from Asia while pursuing other challenges. The U.S. can no longer ignore the strategic competition that is underway in the Asia-Pacific region. And the challenge now is for the administration and Congress to develop a more effective strategy to compete with China and make sure it has the resources to be successful.

[The prepared statement of Mr. Stivers follows:]

Statement of Jonathan N. Stivers
Commissioner at the U.S.-China Economic & Security Review Commission; Former Assistant Administrator for Asia at the U.S. Agency for International Development (USAID)
Before the House Committee on Foreign Affairs, Subcommittee on Asia and the Pacific
"Development Finance in Asia: U.S. Economic Strategy Amid China's Belt and Road"
Wednesday, November 15, 2017

Chairman Yoho, Ranking Member Sherman, and Distinguished Members of the Subcommittee:

Thank you for the invitation to testify on the vital role of U.S. development initiatives in promoting security and opportunity in Asia especially amid China's One Belt, One Road (OBOR) initiative. It is always an honor to testify before this subcommittee especially alongside such distinguished colleagues. I would like to be clear that the views I express today are my own.

This morning, the bipartisan U.S.-China Economic & Security Review Commission, on which I serve as a Commissioner, submitted to Congress its 2017 Annual Report. The Commission is tasked by Congress to examine the national security implications of the trade and economic relationship between the U.S. and China including a focus on China's foreign policy priorities.

This year we spent some time analyzing the One Belt, One Road initiative. We conclude that Chinese President Xi Jinping is expanding China's presence on the world stage through both coercion and a charm offensive, thereby creating pockets of influence, leverage and control from the East and South China seas to Africa to Europe. The charm offensive is typified by One Belt, One Road which seeks to bring in more than 60 countries into China's economic and strategic orbit.[1]

As President Donald Trump returns from Asia today, China is marshalling the full resources of its state and private sector in an attempt to shape the Asia-Pacific region in a way that places China at the center of economic and security activity in the region. I believe that the U.S. needs a new strong, coordinated economic and development policy for Asia in order to effectively compete with China's growing investment and influence in the Asia-Pacific region.

In my view, the discussion about U.S. economic engagement in Asia is overly-focused on trade policy. This dialogue has not adequately taken into account essential development financing and foreign assistance tools that are some of our greatest strengths. Make no mistake that China's leaders recognize the value of economic engagement as they have little interest in any further opening of their domestic consumer market to Asia or the world.

A new U.S. economic strategy for Asia should prioritize development financing and our foreign assistance tools in a strategic way, coordinated with our allies and partners, in order to advance our national interest in a stable, prosperous and democratic Asia-Pacific region. Further, Asian countries continue to be wary of a U.S. strategy that is too focused on military relations. A better balance between U.S. security and economic activities in Asia would strengthen the effectiveness of both endeavors.

The Asia-Pacific Region is the Future

The Asia-Pacific region, including India, is absolutely vital to the security and prosperity of the American people. It is the most dynamic and one of the youngest and fastest growing regions of the world with four of the five projected highest growth rate countries: China, India, Indonesia, and the Philippines. In the next five years nearly half of all growth outside the U.S. will happen in Asia. By 2050, the region's share of world GDP will double and it will be half of the world's GDP.

Vice President Mike Pence noted during his April 2017 visit to the ASEAN Secretariat that "U.S. companies invest more in ASEAN and its members than any other part of Asia, nearly $274 billion, which is more than our investment in China, India, and Japan combined."[2] Further, we know that ASEAN countries are responsible for over half a million U.S. jobs, with the potential for more. Among ASEAN's 630 million citizens, the middle class is exploding and has tremendous potential growth as a consumer market for U.S. exports.[3]

In the coming years, the countries of this region will play an increasingly pivotal role in world affairs. The question is not *whether*, but *how* the Asia-Pacific region develops. The type of development can make the difference between economic growth that is lasting and economic growth that is fleeting. Between cities powered by clean, sustainable energy sources versus suffocating pollution in overwhelmed urban areas. Between a generation that grows up illiterate and malnourished, or one that is educated, healthy and breaks free from the cycle of poverty. Between an oppressed populace with no hope for the future, or one empowered to unlock its full potential.

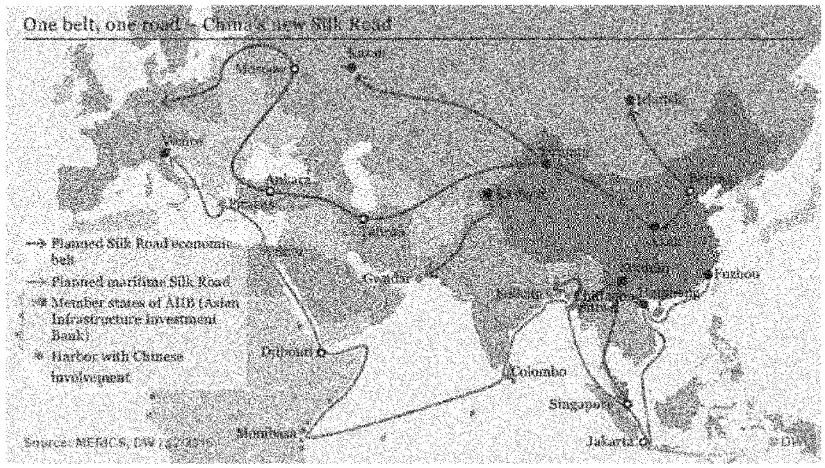
The decisions these countries make will impact our economy and jobs, the air we all breathe, the water we all drink, human health, the world's food supply, and whether our planet is plagued by conflict or if there is peace and stability. Americans are safer and stronger at home when fewer people face destitution, when our trading partners are flourishing, when nations around the world can withstand crises, and when societies are freer, more democratic, and more inclusive. There are competing models of development out there and it is essential to our future that the Asia-Pacific region develops in a way that will best produce stability, prosperity, democracy, and human rights.

Today, it seems every country has an economic strategy for the Asia-Pacific region. The U.S. had the "Pivot" or the "Rebalance," India has an "Act East" policy, Taiwan has a "New Southbound Policy," and China has its "One Belt, One Road" initiative. While President Trump's speech last week in Vietnam included some good ideas, it is past time for the Administration to produce a substantive economic strategy for this important region if we are to adequately protect our national security and strengthen our economy.

China's One Belt, One Road (OBOR) Initiative

In 2013, Chinese President Xi Jinping launched the OBOR initiative as a top economic and strategic foreign policy program. According to analysis from Fitch, OBOR includes $900 billion worth of projects (planned or already underway) with more to come.[4] Development financing for OBOR projects primarily originates from the China Development Bank (CDB) and the Export-Import Bank of China.

The CDB is the world's largest development bank and its assets dwarf those of the World Bank and other multilateral development banks. The CDB reportedly has available $1.6 trillion of assets and the state implicitly guarantees its debt. In 2014, China also established the Silk Road Fund with an endowment of $40 billion and the Asian Infrastructure Investment Bank (AIIB) authorized to spend up to $250 billion. Key aspects of China's global development initiatives include:



Source: Galina Petrovskaya, "'Silk Road'" in EU: Trans-Caspian Transit Bypassing Russia," Deutsche Welle, September 3, 2016. Translation.

- **Relieving China's overcapacity in slowing domestic industrial and construction sectors.** OBOR's heavy focus on infrastructure creates an outlet for this tremendous capacity and allows the Chinese government to postpone difficult economic reforms such as privatizing its state-owned companies. In short, China builds the infrastructure with its own materials and workers and sends the recipient country the bill for it later.

- **Expanding China's access to strategically important maritime and overland trade routes.** In 2015-2016, Chinese companies announced plans to purchase or invest in $20 billion worth of port infrastructure around the world.[5] Chinese investments in port infrastructure associated with OBOR potentially could pave the way for Chinese naval access to key areas in the Indian Ocean region. In August 2017, China officially opened its first permanent overseas military base in Djibouti, a small country on the Horn of Africa located close to Camp Lemonnier – one of the largest and most critical U.S. military installations abroad.

- **Enhancing China's energy security strategy.** Approximately 70 percent of China's energy imports arrive from the Middle East and West Africa by passing through the narrow Strait of Malacca. Chinese energy development projects are designed to diversify how its energy imports arrive to China. Key projects include the Central Asian oil and gas pipelines, the $54 billion China-Pakistan Economic Corridor, and a new pipeline from China to the Indian Ocean through Burma with a deep water port in Rakhine, near where Burma's Rohingya population are suffering and being driven out of the country.

- **Gaining influence and leverage over other countries and countering U.S. influence.** The Chinese government has already shown a propensity for using economic coercion to pressure foreign governments. Examples include retaliating against South Korean companies in China over deployment of the U.S. Terminal High-Altitude Area Defense (THAAD) missile defense system, suspending communication and people-to-people exchanges with Taiwan over the "One China" policy, and cutting off imports of bananas and other farm products from the Philippines to protest Manila's challenge to China's activities in the South China Sea.

- **Placing China at the center of future economic and trade activity in Asia.** U.S. Defense Secretary James Mattis recently stated, "In a globalized world, there are many belts and many roads, and no one nation should put itself into a position of dictating 'one belt, one road.'" Infrastructure projects such as the Kunming-Singapore railway network funded by China will direct more trade to China.

- **Taking advantage of low standards on transparency and accountability leading a higher debt burden for developing countries and less opportunities for U.S. companies.** China's economic engagement is not transparent and can foster corruption. Combined with government subsidies from Beijing and low interest rates from the People's Bank of China, it is increasingly difficult for American and other international firms to compete with China in one of the fastest growing regions of the world.

Chinese regional projects also focus on economic growth at the expense of political liberalization and can create instability by imposing high social, environmental and food security costs, especially in the Lower Mekong River region. The social and environmental impacts of China's infrastructure projects are often an after-thought. Further, the loans are on terms advantageous to China and often predatory in nature, which in effect can create longer-term dependence on China. While the international community pursued debt forgiveness for poor countries decades ago, it seems that China is burdening low income countries with debt all over again.

Limitations of China's Development Model

For the most part, Asian governments want Chinese investment but they would prefer more competition and higher quality options. China often uses the term "win, win" to describe its economic activities in the developing world. Asian officials sometimes joke that "win, win" usually means China wins two times. Asian countries are wary of Chinese dominance and generally would like to see more U.S. economic involvement in the region.

Throughout the world, Chinese investment has sparked backlash because its development model seems to be exploitative because it primarily focuses on benefitting Chinese businesses, employing Chinese workers, and extracting valuable resources for China's use, while at the same time often facilitating corruption, displacing communities and harming the environment. Examples of backlash include:

- The Myitsone Dam in Burma is a $3.6 billion hydropower project on the Irrawaddy River that stipulated 90 percent of the dam's power to be sent to China and required the resettlement of thousands of people. This deeply unpopular project was suspended in 2011 and China continues to seek compensation for $800 million in contractual obligations.
- In Sri Lanka, there have been violent protests against Chinese port projects that are designed to be controlled by China while displacing people and increasing Sri Lanka's debt to China.
- The Thailand-China railway through Laos was subject to years of delay due to China's insistence on acquiring land concessions and employing Chinese rather than Thai workers.
- The Areng Valley Dam in Cambodia was to be constructed in a protected forest but protesting citizens forced the cancellation of those plans.

It would be difficult and expensive for the U.S. to compete with China dollar-for-dollar on infrastructure development, but due to the limitations of the effectiveness of China's development approach, it isn't necessary. The U.S. can compete with China with fewer dollars and greater effectiveness if resources are used in a strategic way in the region. The U.S. should consider the following recommendations:

Recommendations

First, the Trump Administration and the U.S. Congress should increase economic and development assistance to key countries in the East Asia-Pacific region commensurate with their importance to U.S. strategic, economic and political interests. Currently, the region only receives 3 percent of all non-military U.S. foreign assistance. These low levels ensure that efforts to compete with China in Asia are vastly underfunded. Making matters worse, the FY18 Trump Administration budget request included about a 40 percent cut to U.S. development assistance to the East Asia-Pacific region. If the Trump Administration budget request were to be enacted it would drastically weaken U.S. engagement and influence, undercut our allies and partners, and force more Asian countries to become more dependent on Chinese initiatives.

USAID is the most effective development institution on the planet in alleviating extreme poverty, promoting resilient democratic societies, and advancing U.S. interests of stability and prosperity in the developing world. Today's modern USAID utilizes a new model of development that leverages the private sector, science, innovation and regional solutions.

The best way to compete with Chinese investment in the Asia-Pacific region is to play to our strengths by increasing and allocating development assistance in a more strategic way. The U.S should also better coordinate efforts with our allies and partners in the region and then provide the needed resources to increase our competitive advantage including global health, fighting pandemics and infectious diseases, humanitarian assistance, disaster relief, food security, environmental protection, and governance and rule of law initiatives that promote a stable economies and democracies.

Second, the U.S. should provide stronger support for the institutions that are best positioned to compete with China on infrastructure, including the Asian Development Bank (ADB), the World Bank, the Overseas Private Investment Corporation (OPIC) and the U.S. Export-Import Bank to name a few.

China, Japan, and South Korea have been the leaders in the Asia-Pacific infrastructure sector and this is an area where the U.S. does not have a comparative advantage. That said, it is in the U.S. national interest for the Asia-Pacific region to be economically connected in a way that isn't dominated by any one particular country, promotes inclusive economic growth, provides high standards of efficiency and sustainability, and employs strong social and environmental safeguards.

In the last week, President Trump stated that he would push for the World Bank and the Asian Development Bank to fund additional infrastructure development in Asia. The Administration also announced that OPIC and U.S. Trade and Development Agency (TDA) have signed Memorandums of Understanding with Japan to promote infrastructure investments abroad.[6] Even though details have not been provided, these small steps seem to be going in the right direction.

Unfortunately, these announcements are not consistent with the Trump Administration's FY18 budget request that zeroed out OPIC, reduced funding for the World Bank, and cut the U.S. contribution to the Japan-led Asian Development Bank in half from approximately \$99.2 million to \$47.4 million. There is still time for the Congress to reverse these short-sighted cuts to the institutions that are best positioned to compete with China.

Further, Chairman Yoho and Armed Services Ranking Member Adam Smith have introduced the "Economic Growth and Development Act" (H.R. 2747) which would strengthen our development financing initiatives including OPIC. Congress should move forward with passing that legislation expeditiously. I also agree with recommendations from the U.S. Global Leadership Coalition that OPIC should be allowed to make limited investments and help build capacity in American-owned businesses operating in emerging economies. OPIC's portfolio and administrative caps should be raised in order to expand its presence in the Asia-Pacific region.[7]

Third, India should become a central component of an Asia-Pacific strategy. India shares our democratic values and we have overlapping strategic interests, particularly concern about China's policies in the region. The Trump Administration is on the right track with the "Indo-Pacific" region terminology and the resuscitation of the Quadrilateral Dialogue with democratic partners Japan, Australia and India last week. Moving forward, the U.S. should ensure there is a strong economic component of the Quadrilateral Dialogue, which is a good forum to discuss a set of policies to counter China's coercive economic and political policies in the region.

In addition, the U.S. should assist India with gaining membership in the Asia-Pacific Economic Cooperation (APEC) forum, support Prime Minister Narenda Modi's Act East policy, and help India with its own domestic development challenges. Of all those who live in extreme poverty in the world, 33 percent live in India. India's health, regional connectivity, and energy and electricity sectors must make progress if any Indo-Asia-Pacific strategy is to be successful. A strong India is in U.S. interests, and the U.S. should place a higher priority on helping India achieve its potential.

Fourth, a strong and unified ASEAN is in the strategic and economic best interests of the U.S. and the region. Strengthening and helping the ASEAN Secretariat become more effective should be a top priority. The U.S can do this by enhancing its support for initiatives such as the U.S.-ASEAN Connect initiative and the ASEAN Single Window to facilitate trade and provide better opportunities for U.S. businesses. U.S. efforts need to be strengthened to better assist ASEAN and APEC streamline customs clearance procedures, increase transparency, and lower costs for business, allowing increased U.S. jobs and business opportunities in our fourth largest export market. An effective and unified ASEAN would have more credibility and a better ability to push back against Chinese diplomatic and economic coercion.

Fifth, the State Department and USAID should provide consistent and robust support for the Lower Mekong Initiative (LMI), a diplomatic and development platform for the U.S. to partner with Burma, Cambodia, Laos, Thailand, and Vietnam to promote better cooperation in the Mekong River sub-region. The Mekong River is the lifeline and critical artery for transportation, agriculture and fishing for at least 60 million people. Chinese dams upriver are jeopardizing the food supply, livelihoods and the natural environment of the entire region.

Through the LMI, the U.S. can help these countries come together to analyze the impacts, support regional dialogues on fisheries management, and provide U.S. engineering expertise on the construction of "smart infrastructure" (i.e. dams and roads that minimize their impact on the environment). U.S. funding for the LMI has averaged approximately $4.2 million since 2009 but in 2016 the funding level dropped from $11.5 million to $3 million. Stable and more consistent support for the LMI would help these countries more effectively push back against policies that threaten the region.

Sixth, the U.S. Congress should create a "Countering Chinese Economic Influence Fund" modeled after the "Countering Russian Influence Fund" that received $100 million last year. While countering Russian influence should be a priority, it is important not to ignore China's more methodical military and economic activities that are shaping the fastest growing region of the world. I would argue that China should receive at least as much priority as Russia. This fund could focus on providing additional bilateral assistance to countries in Asia that are having the most difficulties with China including support for civil society.

Seventh, the Congress should require the State Department, Treasury Department, Commerce Department, USAID, and relevant agencies to submit a plan to Congress for competing economically with China in the Asia-Pacific region. The annual Department of Defense Authorization bills regularly include a provision requiring the Secretary of Defense to develop a strategic plan that prioritizes efforts in the Indo-Asia-Pacific region. This requirement from Congress would force the Administration to better articulate its strategy and sharpen its policy and programs in the region.

In conclusion, Beijing's main advantage has been that, for the last two decades, the U.S. has diverted its focus from Asia while pursuing challenges in the Middle East and elsewhere. The U.S. can no longer ignore the strategic competition that is under way in the Asia-Pacific region. The good news is that the U.S. has strong allies and partners in the region who welcome a more active U.S. role. The challenge now is for the Administration and Congress to develop a more effective strategy to compete with China and make sure it has the resources to be successful.

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END NOTES

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Mr. YOHO. I appreciate everybody's testimony. Great. You guys are spot-on. And I look forward to this, because it is so important, as you brought up.

Mr. Stivers, you brought up how we have kind of pivoted from the Asia-Pacific over the last decade or so. The last administration had a strategic patience, where we were kind of just spectators on the sideline, and we can't afford to do that. And China has run with the One Belt, One Road Initiative. My records show that they have invested over $4 trillion to $5 trillion in the last decade. And it is an investment in the future. You know, it is an investment in the future of their development and trade and things like that. We need to make sure that we are at the table.

And, you know, the thing that concerns me is, after the 19th Party Congress in China with Xi Jinping, he was quoted as saying, "China should take center stage in the world," adding that "no one should expect China to swallow anything that undermines its interests."

And we just did a codel, and we were in Vietnam, Singapore, and Hong Kong, and while in Hong Kong, I reiterated these words. And I brought up: These words sound threatening toward America's interests, proposing China wants to supplant America's leadership and knock us off the world stage. This will not be tolerated. If China cares to share the world stage with us or any other world powers, we would be willing to do so. And then I asked them to please convey that message to Beijing, which I am sure it was.

The important thing is, their initiative, like you brought up and the members of the panel brought up, they are investing in hard assets; they haven't learned the soft power. And all you have to do is look at their past history, how they treated Hong Kong, with the 50-year transition, the agreement, they are not living up to that; how they treated South Korea. When South Korea asked to have a THAAD system for their own security, China retaliates against South Korea instead of North Korea and does economic damage to South Korea.

The bottom line is it makes these countries—if America's presence is not there economically, in trade, or in military support, these countries are looking and they are not wanting to but they are going to pivot closer to China. And it is not just South Korea; it is the ASEAN nations.

And we have had the privilege of meeting with all the Ambassadors from those nations. And it was interesting, because we just had our 50th year anniversary of ASEAN, our 40th year for involvement with that. And I asked them, why has ASEAN been such a successful pact? And they said it was because of America's leadership. And so, when coming back from this trip, from that region, everybody said they want us back, it is important that we are back, and they want to focus on trade and the initiatives.

So my question is, how should the significant capital infusions brought to Asia by the Belt/Road Initiative affect our decisions in the future?

The one thing that we can do, that I don't think China has quite gotten there yet, is the relationships that we build, that we, as we invest in the country, we want the best for that country, you know.

And I think it has been brought up by the panel that, you know, it is a win-win.

A double win for China, that was pretty good.

But about the allocations of our development assistance, which would you recommend?

And you brought up about combining these agencies. We have a bill that is looking at that. Mr. Kamphausen, you were talking about streamlining it, and our bill will streamline that whole process. And we will share that with you in due time.

But, Mr. Stivers, what would you do different as far as our aid?

Mr. STIVERS. Well, in terms of a reorganization, I am not sure that the different development agencies need to be combined into one. My worry, from my standpoint and also having worked at USAID, is that it is so difficult to coordinate across agencies. Even for the State Department and USAID, it is a challenge to coordinate and make sure we are working from the same page.

And so, when you have 10, 12, more than that, development agencies, it is very hard for the administration, it is very hard for our country, to compete with China, which is a top-down, authoritarian model, which can just decide which path they want to go and everyone goes in that direction.

So creating more agencies and more bureaucracies, I don't think anyone wants to do that. But, unfortunately, that has been done in the past, because it is so difficult to try to do any kind of serious foreign aid reform. And I know this committee has worked on that issue and hasn't been able to get there because it is so difficult. And so, again, my fear is that we would create another one that would make it more difficult.

And so you can streamline or combine certain agencies at one point, but there does need to be, I believe, more centralization in terms of our foreign assistance.

Mr. YOHO. I agree.

Mr. Kamphausen?

Mr. KAMPHAUSEN. Very quickly, I think we want to make sure that we don't convey to countries that desperately need development aid that the U.S. is opposed to aid for them because it comes from China.

I will share an example.

Mr. YOHO. Agreed.

Mr. KAMPHAUSEN. Each year, I have the privilege of briefing a delegation of Pakistani generals that comes to our National Defense University, twice this past year. And on both occasions, we have talked about the China-Pakistan Economic Corridor, which is an important part of the Belt and Road, $42 billion worth of planned investment in four types of projects, mostly energy. And Pakistan is desperately in need of more energy.

And it came out in the course of the discussion, one of the generals finally said, it sounds to me like your problem with CPEC—and I don't have a problem with CPEC, but—your problem, America's problem with CPEC is that it is Chinese in origin. And so your strategic competition with China is making us a bill payer if you oppose it too strenuously.

And so we need to be very clear that the penalty is not paid by countries that desperately need the development aid.

Mr. YOHO. I appreciate that. And, you know, the thing is it is not against China, you know, because I wish them the best of luck, but it is not at our expense.

And I am going to go to Mr. Ted Deutch from Florida.

Mr. DEUTCH. Thank you, Mr. Chairman.

Thanks to the witnesses for being here.

Mr. Stivers, you said that President Xi is expanding China's presence on the world stage through coercion and a charm offensive.

So I would like the three of you to talk about that, One Belt, One Road and how it works, how the investments lure countries in—they welcome the investments, obviously—and how that turns into coercion. How does that actually play out?

Please, Mr. Runde.

Mr. RUNDE. Thank you.

Let me just first say that every country I visit in Asia, they want more America, not less America, to your point.

I would just make one other point, and then I will respond to your question, Mr. Deutch, in that I think there are fewer and fewer poor countries in Asia. If I think about this subcommittee's footprint and when you think about countries, as I said, this is not your grandparents' Asia. And so, over the next 10 years, you are only going to go have one or two or a handful of countries eligible for IDA, meaning the softest loans from the World Bank.

And so what that means is that the kinds of things that they want from the United States and from the rest of the world aren't going to be traditional foreign aid. There are going to be pockets of poverty in those countries, but, in many ways, those countries ought to be able to fund and finance much of the basic human needs.

And I think that is one of the reasons you have seen the uptake of things like the Asia Infrastructure Investment Bank. Every Member of Congress I have ever met knows what the Asia Infrastructure Investment Bank is. They all know what it is, and they don't like it. I don't necessarily like it either. But it reflects, I think, the fact that—what I say is that, if we don't meet the hopes and aspirations of countries, they will take their business to the Chinese. And I think the hopes and aspirations of countries in Asia are changing and evolving, and we need to change with their hopes and aspirations. And we should really——

Mr. DEUTCH. I am sorry. Since you brought it up—we will get back to this if we have time. But since you brought it up, let's talk about the Asia Infrastructure Bank.

Mr. RUNDE. Yes.

Mr. DEUTCH. So there is this investment bank that has been created. Most of our allies, our European allies——

Mr. RUNDE. Have joined.

Mr. DEUTCH [continuing]. Have joined. We have not. So I understand that people tell you they don't like it, but was that a wise choice, does it continue to be a wise choice, for us to not be a part of that?

Because when you talk to the Chinese, they will tell you all they are trying to do is make these investments to help develop the area.

Mr. RUNDE. I think that we ought to be strengthening the institutions that we built as a result of—in the rule-based international order of things like the Asian Development Bank. My view is that we ought to be strengthening the Asian Development Bank and strengthening our bilateral instruments first.

I have a very hard time imagining that any administration would come to the U.S. Congress and ask for several hundred million dollars to put into a Chinese-led initiative. I have a very hard time imagining that it would even be politically feasible. I am not necessarily sure I would want to do that either. I would rather work on a whole series of other things first before even contemplating that.

And regarding your question regarding One Belt, One Road, I think that it goes to my point about meeting the hopes and aspirations. It is actually a good idea. If you actually can cut the travel time across the Eurasian land mass, this is a great accomplishment. It is a good thing to do.

I don't think we can stop the One Belt, One Road, nor should we try to. But what we should be trying to do is influence the soft infrastructure around the One Belt, One Road. I have written a report that I am submitting for the record about the soft infrastructure of the One Belt, One Road, things like, how do we use the European Bank for reconstruction and development, how do we use the Asian Development Bank, the two regional development banks that will most—we should have them be financing infrastructure projects along the One Belt, One Road.

We should work to have—there was a discussion about—we didn't talk a lot about this, but there is an obscure topic but, I think, an important topic around the issue of government procurement. Most of the decisions about buying railroads or building bridges or building airports or power are often in the hands of government procurement officers in developing countries. And I know this seems like an obscure topic, but it relates to American jobs and American business. Just bear with me. I know it is a little obscure. But, in essence, we have told developing countries for 50 years to use one rule book that has go with the lowest bid and lowest bid procurement. And if we go with lowest bid procurement, because they are the cheapest, the Chinese are winning on low-bid procurement.

In the last 5 years, we have been able to change the rule book at the World Bank, which is the de facto set of standards for procurement in the developing world, to use a concept called lifecycle cost. It is the kind of thing you use when you buy——

Mr. DEUTCH. Right. And I appreciate that, but I don't have a whole lot of time. But I appreciate that.

But I want to ask, the soft infrastructure and changing the rules, we are way into the weeds. Big picture? Big picture, China is making massive infrastructure investments, and the way you describe it, it looks like we are trying to sort of pick up the scraps.

I mean, Mr. Stivers, what do the Chinese think that they are getting from it? And how do they turn those investments into political power?

Mr. STIVERS. China is using—again, they are using their charm offensive with OBOR, with these projects, but they are also using economic coercion after that. You see this in all places in Asia. Some of the democratic openings that have happened in the region, whether it is in Burma or Sri Lanka, there has been a direct China component to that, where countries have responded negatively and there has been backlash to certain projects.

We have talked about Sri Lanka. I think the chairman mentioned it in his statement. In Burma, the Myitsone Dam was a huge dam that was built as—I think it is part of OBOR now, and I think China puts everything as part of OBOR in terms of its projects. But they didn't do any kind of environmental or social assessments. It is deeply unpopular in the country. This a country and a people, a proud people, that don't want to be dependent on China.

And so you have countries where there is significant popular backlash, if not the governments, all over the region.

Just real quick on AIIB, I really don't think the U.S. should be joining it, first of all, because we don't have a couple hundred million to contribute to it. And, second of all, we don't know if AIIB is going to be an instrument of Chinese foreign policy yet. We don't know if they are going to have high standards of development yet. And I think being on the outside and holding our membership as a possibility while other countries are inside of it trying to maneuver is a better place for the United States to be in regards to AIIB.

And just, third of all, about that, AIIB has only lent $2 billion, which is a small number compared to as much financing is going on. And China still retains 26-percent voting power in AIIB, and I am not sure we want to be a part of that yet.

Mr. CHABOT [presiding]. The gentleman's time has expired.

Mr. DEUTCH. I appreciate it. Thank you, Mr. Chairman.

Mr. CHABOT. Thank you.

The Chair will recognize himself, the acting Chair, at this time for 5 minutes.

The President just got back from an almost-2-week trip to the region of the world that we are discussing here this afternoon. And he once again used a term that I wouldn't necessarily use, but I am not President, so he gets to say what he wants, but this, kind of, "America first." And he said, well, all countries consider themselves first.

And, clearly, China's attitude is really "China first." And you gentlemen testified to that earlier when you talked about what you get when you enter into one of these mega-projects or even a smaller project with the Chinese. You do get Chinese money, but you get Chinese workers and you get a Chinese asset and, overall, Chinese profits. And they are pretty much there probably forever, for the most part.

Do the other countries, by now, do they realize, you know, what they are getting when they jump into bed with China on one of these mega-projects?

Mr. Stivers, do you want to——

Mr. STIVERS. I think some do, some don't. And we talk about this a little bit in the U.S.-China Commission, our annual report.

Some countries, like Thailand, are more economically advanced. It is a strong middle-income country, and they are able to push back on China on a lot of these projects. But you have a country like Burma, who doesn't have the expertise to analyze a lot of the details of these very complicated infrastructure deals. They don't know what they are signing up for, in terms of these loans that they are getting. And I think that certain countries know what they are getting into, and they negotiate in a very tough way with the Chinese. Others don't have the leverage to push back, in many cases.

And so I think that some of the work that USAID does to help these countries improve their governance, improve their capacity to analyze economic deals—a lot of this, I guess we call it soft power, but it is some of the really good work that we do—can really help these countries push back on things that will harm their country in the long term.

Mr. CHABOT. Thank you.

Let me go to another area here. TPP, unfortunately, became a campaign issue in the last race. And both sides—and I don't want to get too political here, but the Democratic candidate, in particular, who had a history of being basically pro-TPP, I think because of Bernie and a lot of his supporters ended up getting dragged way to the left on this and ended up being against it, and Trump was pretty much always against it, I think. So you had both major candidates being against it. And I think, to some degree, we have marginalized ourselves as a result of that, and now China is much more in the driver's seat because of our absence to affirm that.

What can we do about it at this point? I know the President has talked about how he doesn't believe in regional trade agreements, he wants bilateral trade agreements. And I have met a number of times with some of his people about that and their optimism for accomplishing that. But are there any suggestions you gentlemen would make to the administration on how they can actually move forward with that, if that is their philosophy?

Mr. Kamphausen?

Mr. KAMPHAUSEN. Very quickly, in my own discussions with representatives from Japan's METI, I think they think in very sophisticated terms about: Whatever we do in terms of our bilateral deals, have them being TPP-ready for the future point at which, you know, common sense might prevail and we will see the need to return to a multilateral setting.

So the Japanese even use the term "docking station," where a bilateral agreement could then, if you imagine a space shuttle kind of setting, actually merge back into what TPP has become. And I think there is a lot of value to that. We don't want to sacrifice the standards; we want to have TPP-level standards. And so, at that future point, they can potentially be joined back in.

Mr. CHABOT. Mr. Runde?

Mr. RUNDE. Thank you.

I would encourage this subcommittee to hold hearings on prospects for a U.S.-Japan bilateral free trade agreement. I think to the point Mr. Kamphausen was making, I think we need to think about Lego building blocks for coming back. I would like to see us return to something like a TPP.

And I think, as well, we need to take a look at trade and investment agreements across Asia, and we should start with our close allies and emerging economies of ASEAN. If it sounds a little bit like TPP, well, maybe there is something to that.

Mr. CHABOT. Thank you very much.

And I am almost out of time here, but let me raise one—and I will toss this to you, Mr. Stivers, since you brought it up. And that is Taiwan.

I happen to be one of the founders of the Congressional Taiwan Caucus and have been there 10, 11 times, something like that, over the years, very involved with Taiwan. And they have been interested, obviously, in a bilateral trade agreement with us or being in TPP, or, even prior to U.S. discussing TPP, they want to be more involved in this. And, obviously, the PRC does everything possible to suppress Taiwan because they consider them a territory and all the rest.

What can we do, what should we do, to make even closer our relationship with one of our key allies in the region, Taiwan, whether it is trade or other things? I know getting into the military is probably beyond the confines of this hearing, but anything you would like to say relative to Taiwan.

Mr. STIVERS. Absolutely. I mean, Taiwan has so much resources, so much expertise, when it comes to global health, when it comes to development. And they have this new southbound policy, so it is in their interest to diversify away from their dependence on China. So you have a confluence of interests here. And, of course, the Southeast Asian countries, they want Taiwan's economic activities. And so you have a confluence of interests here.

And I think that—I didn't include this in my testimony because I haven't really thought this out in too much detail. But if there are ways, consistent with the Taiwan Relations Act, for our entities, for our Government to help Taiwan join some of these—obviously, the international organizations, which, you know, you are a big supporter of Taiwan joining, but if we can do some more things bilaterally to help them do what they are already trying to do. I think they need some help diplomatically with some of the inroads in these countries. Again, they have so much to offer.

And could I mention TPP for a moment?

Mr. CHABOT. Yes.

Mr. STIVERS. As a member of the Obama administration, I was always concerned that TPP was not enough as an economic component of the Asian rebalance. You know, whether you are for it or against it, the Asia rebalance needed a better economic component to it.

And, also, not every country in Southeast Asia liked TPP. A lot of the countries were worried about losing market share to Vietnam. And so this is not something everyone in Asia wanted except for China.

But more groundwork needs to be done in the region so that these countries have the standards where they are able to enter into a high-standard agreement. Vietnam needs a labor sector. They don't have that. They don't have free association there. There are the beginnings of that now, but not at a point where I think we can connect them to our economy and meet the high standards that TPP set out.

Mr. CHABOT. Thank you very much.

And my time has expired.

Mr. Bera, if you would allow me just a couple seconds here to say one last thing. I am going to give you additional time too. It is not like there are others champing at the bit to get into this.

But I would also just put in a pitch here for legislation that I have introduced, along with some of my Democratic colleagues, and that is the Taiwan Travel Act.

Right now, the high leadership of Taiwan—President, Vice President, Foreign Minister, Defense Minister—cannot come to the United States. One of our strongest allies. They can transit through the U.S., but we can't meet in our Nation's capital, for example, with others that are—essentially, it is a de facto country. It is not a country in name, but it functions as a country. It has for a half-century. And it is a democracy. They freely elect their officials, unlike the PRC.

The PRC can come here. They get red-carpet treatment. Our close ally, the President can't come here. Twenty-six Members had to fly up after votes some years back to meet with President Chen Shui-bian in New York City after votes one evening, and we got back, like, 3 o'clock in the morning, because we couldn't meet with him here in our Nation's capital.

It is disgraceful. It is a slap in the face to our close ally. And we ought to change that, and we need to pass that legislation.

Thank you. And I am off my rant now. And I will now recognize the gentleman from California for as much time as he wants.

Mr. BERA. Well, thank you, Mr. Chabot.

And thank you to the witnesses. I am sorry I missed your opening statements. I had a conflict.

But if I just think about the post-war, post-World War II world order, it was a U.S.-led world order. And, you know, in many ways, the U.S. leadership, in helping rebuild Japan, helping rebuild Europe, you know, answering the call to protect South Korea, and helping rebuild South Korea, and the way we approached the world in the last 70 years made the world a more prosperous place, lifted a lot of people out of poverty, and made those 70 years much more peaceful than the prior 70 years, when two world wars and endless conflicts occurred.

So for us to start to withdraw from the world is a big mistake. And, you know, Mr. Chabot touched on pulling out of TPP. As a Democrat that supported the deal, I do think in our lifetime this potentially is our biggest foreign policy blunder. Because when we think about trade and engagement, it is not just about commerce and economic activity; we are also thinking strategically. And that is very different than how the Chinese necessarily think about this.

We think it is a good thing to help other countries develop their infrastructure, develop values, intrinsically, within their own country, of what democracy looks like. It does create competitors for us, but that is not necessarily a bad thing either, because it also creates markets for us to sell our goods and services.

The next 70 years may be a slightly different world order. It may not be America going alone. And I actually think it won't be an America alone. It will be America working with partner nations that share similar values of democracy, of free markets, of opportunity, of human rights, working together.

And, you know, I was in Japan a few weeks ago at the Mount Fuji Dialogue, and we were talking about that. And, you brought up, you know, how do we preserve TPP? One thing that we discussed with, you know, Prime Minister Abe, as well as the Diet members, they all get that they are going to have to keep moving forward. And we have seen the TPP 11 countries moving forward in this past week. But they also very much want the United States to reengage.

And there is a clear message, and, you know, if any of those TPP 11 countries are watching or listening, keep that deal intact. Keep as high standards as possible intact. Because I have to believe, 2 years from now or 4 years from now or at some point in the near future, we will realize that, you know, we have to do business with some of the most vibrant economies in the world. Our businesses, our farmers, they are all realizing this very rapidly. And, you know, they have to talk to their workers, they have to talk to the folks here back home.

By losing those markets, it doesn't mean those jobs are coming back here. It means we are going to have trouble selling our goods and services there. Once we lose market access, it is very hard to get that market access back.

So we do have to have a real conversation about trade and, you know, the impacts of trade here domestically but also the fact that 95 percent of the world's consumers live outside of the United States.

I would put our workers up against anyone else's workers, I would put the quality of our products up against the quality of products that, you know, China is making, and we will win. And we shouldn't be afraid of that competition, as long as it is a fair playing field.

I also am very critical of how China approaches things. Where we approached it in a benevolent way, wanting to lift those other countries up, China approaches investment in these other countries in a very China-centric way.

You know, there was a Member of Congress who was in Thailand recently and, you know, was traveling on a beautiful, brand-new road in Thailand and mentioned to the cab driver, "Hey, this is a great road." And, you know, the cab driver said, "Yeah, the Chinese built it." And he said, "Oh, you must feel great about it," and he said, "No. You know, they came here, they brought their workers, they built the road, and they left." They didn't do anything to build that sustainability, to help Thailand build—and that is a fundamental difference in how we engage in the world and how the Chinese engage in the world. And, you know, those Asian nations recognize that. So it is incredibly important.

You said I could go on as long as I wanted.

So I just—I think it is incredibly important. I get we have domestic issues that we have to address here. We have a lot of folks that are being left behind. But it is incredibly important for us not to withdraw from the world and to stay engaged in a different way.

You know, if there were, you know, one or two things that we as Congress ought to focus on, given the current political realities right now, you know—and maybe we will just go down the line—to not necessarily counter One Belt, One Road, because I also think the Asian nations know they have to do business with China, and they don't want to be considered a pawn in between China, but to offer an alternative to One Belt, One Road, what would those things be?

And maybe we will start with you, Mr. Runde.

Mr. RUNDE. Thank you, Mr. Bera. I broke my neck from nodding my head in agreement with everything you said. Thank you very much for your comments.

Sir, I think that this subcommittee has, I think, an opportunity to use its platform to—I think this has been a very important conversation. I really appreciate you all convening this. I think that having—every country I go to, they want more American engagement, not less American engagement.

The second thing is I think that we need to work as closely as possible with our allies. I agree with you, Mr. Bera. I think our first conversation in Asia should always be with Japan, a great ally, who wants to work with us on these issues. Obviously, we always want to work with Australia, you know, who has been with us in every conflict since World War I, and then, of course, India and South Korea and Taiwan, a great nation as well. So I think we have lots of friends, and we should use them.

The other thing I would just say is that the world is not going to wait on us. When we have fights, internal fights, between the Congress and the executive branch on things like the IMF quota reform, which is an obscure topic, the Chinese said, "I have $2 trillion in the bank. I am going to start my own bank." The AIB was a direct result of our disagreement in the United States on the obscure topic of IMF quota reform.

They will not wait for us. If we don't meet the hopes and aspirations of countries, they are going to turn to China. And it is not necessarily because they want to; because it is the only game in town. So we have to offer a counter-narrative and counter-alternative.

A mix of that are things, yes, like trade. Like I said earlier, I think we should be beginning a U.S.-Japan free trade agreement discussion. I think that is a start. But I think we should look at other allies and how do we deepen our trade and investment relations. Let's start with on a bilateral basis, given that that seems to be the Trump administration's preference for the moment.

But then we need a strengthened OPIC. We need a stronger, larger OPIC. We need to strengthen USTDA. We need a functioning Ex-Im Bank. It absurd that it is not fully functioning.

I will stop there, sir.

Mr. KAMPHAUSEN. Well, I, too, agreed, Mr. Bera, with almost everything you said, with perhaps one amplification. The Chinese absolutely think in terms of Belt and Road and their broader set of investment and development initiatives as having a strategic orientation. The Chinese are intent to avoid direct confrontation with the United States, on the one hand. On the other, they are also equally intent on building their own comprehensive national power in ways that would, at a future point, allow them to challenge us.

So the first point is to absolutely understand that we are in a strategic competition with China now and to behave accordingly.

The second is that we can sometimes, in our system, take that first point and, as a policy response, blame China for what it has accomplished. And this plays very poorly in the region. It sounds a lot like sour grapes and a country that is in a great power decline. And so we need to pair a constructive message with an accurate assessment about the competition that we are in.

And then the third point is, my two colleagues who are experts in the field have talked about the institutional streamlining that we can and need to do in order to make our delivery of development and investment aid more effective, and I think those make a lot of sense.

And the last point is just an observation. We are still early in the process of what China is becoming. And to the point about the cab driver observing that the Chinese had done it and left, in a broader sense, there are still a lot of questions about Chinese staying power once they have initiated and completed projects, or even not completed projects. And so there is an opportunity for us there, as well

Mr. STIVERS. I would say that I think strategic competition is the right frame for China these days. I mean, we talked about a responsible stakeholder, and we tried to get China to be a better player and to work better with international institutions through the years. They are pursuing their own interests, and they are not going to deviate from their own interests, no matter how much we want to try to influence them to go a certain direction.

And so, understanding that, it is a strategic competition, and we have to recognize that. And we have to make sure that what we do best, which I think is development. USAID is the preeminent development agency in the entire world. We do global health better than anyone. We do infectious disease better than anyone. We do education, we do food security, we do disaster relief better than anybody. Humanitarian assistance. Nobody can compete with the United States on these things.

But we don't have the resources to do them at a high level, so we are not even funding what we do best. We don't need to start building infrastructure in Asia. The U.S. doesn't need to do that. We should support the institutions that do do that. And Japan and Korea and others, the Asian Development Bank in particular, they need to be well-resourced, and they haven't been.

Mr. CHABOT. Thank you.

The gentleman's time has expired.

The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. First, it is the Financial Services Committee that decided to have 20 rollcall votes just as this group was meeting.

Second, I want to make the point that this is not a zero-sum game. We want people in the world to live better. Development is good, and if China will make that happen, that is helpful. But China is not for really giving aid. China is selling infrastructure on favorable financing terms. That isn't aid; that is loans.

And if the projects are not helpful to the country's economy, it is a lose situation for the country. And if the project is so bad that the country can't find a way to pay the debt, then it is a lose-lose situation for both the Chinese banks and the developing country.

From a standpoint of our global relations, trade is good. But from the standpoint of our economy, trade is good when it is balanced or even favors us in the trade balance.

I think it was my first quarter here back long ago—I had hair, I was new—and the USTR testified that if we could sign an agreement that increased our exports by a billion and increased our imports by $2 billion, that would be great because it would be $3 billion of additional trade. That is not the policy we should have now.

Looking at China's Road and Belt, you know, some of these have had setbacks, both financial and logistical. It will be interesting to see how viable it is. Second, we need to see whether it hurts our interests. It may hurt our national security interests if China is obtaining naval bases, in particular, or bases from which they could do intelligence gathering. Third, how is this all going to be financed? It is not aid, it is sales, and seems to be more analogous to the Import-Export Bank than to USAID, maybe halfway between OPIC and the Export-Import Bank.

So how can we deal with infrastructure? First, we have the multilateral development banks, including the World Bank and the Asian Development Bank. We have our direct foreign bilateral aid. I have mentioned OPIC, which doesn't really cost us much compared to what it is able to finance but exists to help development as much as it does to be an arm of our economy. And then the flip side of that is the Export-Import Bank, which is primarily focused on building jobs in the United States but also finances infrastructure and development.

And then we can do joint ventures with others in the—what is the new term?—Indo-Pacific region. I am going to have to learn how to pronounce that quickly.

I should note that our annual funding of OPIC and the Asian Development Bank is about $100 million each. In contrast, China is doing several billions of dollars. Also, our bilateral foreign aid to Asian countries is not large. It was $1.3 billion for South Asia and East Asia and a similar amount if you look separately for Afghanistan, Pakistan. About half the aid goes to economic development, the other half for social development, health, education.

And I will want to look at aid in particular areas. And I will kind of preview the questions, and then I will ask them, believing that I have not only an opening statement but time to ask some questions.

I will want to look at Pakistan in the sense of whether an appropriate amount of our aid is going to the non-Urdu-speaking areas, particularly Sindh; will want to ask whether Burma should be getting any aid of any kind, given their treatment of the Rohingya. Speaking of the Rohingya, are we doing enough to help Bangladesh deal with the—I believe it is 500,000 refugees.

So let me first ask Mr. Stivers, are we doing enough to make sure that a proportionate part of our aid in Pakistan goes to Sindh? I realize you are no longer getting a paycheck focused on that, you have left government, but I will still ask you the question.

Mr. STIVERS. I will have to defer the Pakistan question. Pakistan is not in my wheelhouse. I apologize for that.

Mr. SHERMAN. I understand.

Do either of the other two witnesses—then that will be a question for the record for whoever wants to respond.

And let's—who wants to respond to the issue, I know we not giving much aid to Burma, but should we be giving any, given their treatment?

Mr. Stivers?

Mr. STIVERS. Yeah, I was hoping I wouldn't be asked that question today, because it is—I worked at USAID. I was the Assistant Administrator of the Asia Bureau, and we worked very hard on the democratic reform that we had there. And we spent a lot of money empowering civil society in terms of running the election there. Very proud of the steps that country had made. It is extremely disconcerting, the issues that have happened with the Rohingya and the ethnic cleansing or genocide or whatever the appropriate term is.

I think that the administration has taken some real steps and put some real resources into helping that refugee community in Bangladesh. I can't think of a worse country for refugees to go to than the most densely populated, one of the poorest countries in the world. And there is no question that Bangladesh does not have the capacity to handle this kind of influx of people. I don't think you can think of a higher number that Bangladesh would need to improve conditions for these people there.

In terms of——

Mr. SHERMAN. Does anybody have a recommendation as to what—I call it a supplemental appropriation. Obviously, it wouldn't be a separate bill. But how much more should the United States be giving to Bangladesh to focus on the refugee issue? Does anybody have an opinion?

Mr. STIVERS. I don't think Congress can come up with a high enough number, to be honest with you.

Mr. SHERMAN. Well——

Mr. STIVERS. I think as much as Congress could do. Because the needs are infinite.

Mr. SHERMAN. I understand.

Mr. STIVERS. But——

Mr. SHERMAN. I want to go on to Sri Lanka, what examples where we have a limited return on Chinese infrastructure investment, such as the seaports, related to debt problems. What lessons should we learn from some of the financial difficulties of the seaport development problem in Sri Lanka? Does anybody have any focus on that?

Mr. STIVERS. I mentioned earlier that the two big democratic breakthroughs that have happened in the Asia-Pacific region have been in Burma and Sri Lanka over the last few years, and both have a direct China component to it. Two countries where there has been a popular backlash to Chinese investment on projects, on major OBOR—they would call them OBOR; we call everything OBOR now—but two major Chinese projects. And I think Burma opened up their country because they didn't want to be dependent on China. And I think Sri Lanka was a similar situation.

And I think that goes to show the power of the backlash to the Chinese on projects. And I think that is important to watch. And

I think it is a sense of how much concern there is in the region about dependence on Chinese.

Mr. SHERMAN. Uh-huh.

The flip side of this is the effect it could have on China. The sovereign debt of more than half of the countries China is targeting under the One Belt, One Road program are not rated as investment-grade securities. Chinese lenders are nevertheless extending tens of billions of dollars of credit toward the One Belt, One Road projects.

If those projects fail or if there is a default on the loan, could there be an effect on Chinese banks that is significant enough to affect the U.S. economy? And, in general, does China guarantee its banks against loss on these loans?

Mr. Stivers.

Mr. STIVERS. Yeah, in terms of the China Development Bank, they do guarantee their assets. And, you know, China has lost a lot of money on these projects. Venezuela is a great example. China is losing a lot of money with the situation there in Venezuela.

But, you know, authoritarian governments, this is a state-driven enterprise. So they are not trying to make profits, necessarily. Sometimes they do, sometimes they don't. They have foreign policy objectives and domestic economic objectives, which we talked about. Those are the priorities. And if they take a loss somewhere, they withstand it.

Mr. SHERMAN. Uh-huh.

I will just add a comment, because I know you will just be—on questions about southern Pakistan, you will be responding for the record. But the China-Pakistan Economic Corridor is the Pakistani component of the Belt and Road Initiative. It is seen in the Pakistan Sindh province as a strategic partnership between the Pakistani Armed Forces and Beijing to exploit Sindh's resources, particularly coal in the Thar region. And it causes a repression of local Sindhi voices of dissent against either the projects or injustices in general. And, of course, in Sindh, we have seen a number of disappearances.

So, for the record, if you can give us some guidance on what our policy ought to be with, it seems, the Pakistani Armed Forces turning over resources from Sindh to China without any beneficial impact to local people.

So I will wait to read your answer on that.

I want to thank the chair for indulging me and will not mention the name of the chairman who delayed me for 45 minutes without consulting with Mr. Yoho.

Mr. YOHO [presiding]. They are just not as—their etiquette is not as nice as ours here. No, I appreciate your input because you always come well-prepared, and I appreciate your input into that.

We are about at the close, if you can bear with me for a few more minutes.

You know, when we look at that ASEAN nations, that whole region, you know, we all know there are 630-million-plus people there, $2.5 trillion in trade, and we have pivoted our strategy, but it is time and we are seeing a pivot back.

You know, as we traveled to South Korea, Taiwan, Vietnam, Hong Kong, Singapore, everybody was saying how bad it was that we pulled out of the TPP, and I reminded them that, you know, not that we can vote on it in the House, but the Senate wasn't going to pass it, and candidate Clinton said she was not going to approve it. I think President Trump did a very smart thing, getting rid of it early.

And while we were over there, we were promoting FTAs with every country we went to—Vietnam. You know, of course, Singapore has a great one. South Korea has one. We mentioned it to Japan, all the other regions in there, Hong Kong and Taiwan, to have free trade agreements, to bolster our presence and the caliber—and the thing that people said that they want more than anything is rule of law—respect contracts, respect intellectual property. And that is what they are not getting when they see these other countries.

And, you know, being with a construction background somewhat before I was a veterinarian, what I saw were a lot of buildings being built where people built shopping malls, you know, they built infrastructures, but they couldn't maintain them. And so I think your recommendation is—I applaud China for doing what they are doing. And I think we ought to tag along and build businesses there and pick up the pieces, as we do other investments in those.

And my last question—and you guys can weigh in on this. In 2016, about a quarter of OPIC projects were in Asia. Is this an appropriate allocation? And should OPIC be funding more investments in Asia?

Mr. Runde?

Mr. RUNDE. Thank you, Chairman.

I want to first say I completely agree with you. We need to be thinking about our trade and investment relationships with all of our allies in Asia. I don't know, sir, if you were in when I said this earlier, but I encourage us to have a bilateral free trade agreement with Japan as well. And I hope this subcommittee will host a hearing on a bilateral free trade agreement with——

Mr. YOHO. I think you will see a resolution coming up in the not-too-distant future.

Mr. RUNDE. Thank you, Chairman.

So I think that OPIC is one of our greatest tools. It is not well understood. I would like to see OPIC—we have written for the record a number of reports about OPIC and how to use it better.

I certainly think that we should be spending at least 25 percent in Asia. And I think, if we are thinking about—I think we have to look at Asia not only as an economic and business opportunity for the United States—and China looks at Asia as an economic and business opportunity for them. We should be doing the same.

And I do think that we should have at least 25 percent of our portfolio of investments from OPIC in Asia. I do believe that is the case. I think we should be thinking about more, not less.

Mr. YOHO. Anybody else?

Mr. Kamphausen, you said that the Belt/Road Initiative is China's stimulus initiative, increases China's military footprint. It is a way secure China's periphery and a way to consolidate China's initiatives and investment. And I think it is a smart business move for them. But I just think, again, going back to Xi Jinping's comments after the 19th Congress, I think that shows their strategy.

And, you know, with the ASEAN nations or any of the regions in that area that we decide to do FTAs, what I would see is a structure. And I had mentioned this, and I guess you guys mentioned it too, about: Have countries being able to plug in and out. You know, if we are in agreement, kind of like a Lego block model, where they plug in, and they just build upon that. And if a country where members say, you know, it is not working, you need to leave, they can be removed too.

And I think that is something that we need to look at, as we revamp how we do foreign policy, how we do our trade agreements. And what I can assure you is there are going to be some strong initiatives coming out on economic growth and development aid, and the restructuring of some of these organizations to streamline them, or requesting more money when we roll these out to be put in there. Because this is an investment in our future, and we want to focus on national security, economics, trade, and cultural exchanges.

Go ahead, Mr. Kamphausen.

Mr. KAMPHAUSEN. If I may offer a quick comment since you raised the topic, it is clear that this is an experimental field for the Chinese as they think about how they secure the Belt and Road.

Mr. YOHO. Yeah.

Mr. KAMPHAUSEN. And there are at least three different models that they are thinking about.

In Pakistan, they are essentially outsourcing the security problem. So they are funding the fielding of essentially a Pakistani Army division to secure the Belt and Road projects. That is one model. And it works. The Pakistani Army is an effective and coherent force, and so it makes sense in that context.

The other two are perhaps a little more sketchy. One is to essentially take demobilized PLA troops, because China has been in the process over the last several years of demobilizing its armed forces—downsizing, I should say—taking those troops and then making them private security entities. And we understand the challenges we have had with that system. Imagine the Chinese trying to implement a coherent approach to that.

The third is to look at even more hybrid forms of security and really imagine that the problems will sort themselves out and leave them to the industries or the companies that are imagining them themselves.

My broader point is to suggest, if we were to think in a forward-looking way, consistent with your view that there are pieces that we might need to pick up and make sense of, a lot of this could go south. The Chinese bets about how to secure their own initiative might not work. They have not done this before. And there are potentially not obligations we might sense but there are opportunities that we might be in a position to respond to consistent with our own goals.

Mr. YOHO. Go ahead, Mr. Stivers.

Mr. STIVERS. There are some major changes going on in the Chinese economy now. They are trying to rebalance their economy from going from this export-led dynamo to a consumption-oriented economy. And I would argue that when they do these OBOR projects and they export these raw materials, this overcapacity, what that is doing is propping up these inefficient state-owned enterprises and delaying real reform in their economy.

And I think that is really bad for the United States, because they are not opening up their economy to the United States, and that is why I don't worry so much about trade issues in terms of vis-a-vis China, because China is not going to sign some major trade agreement, they are not opening up their economy. And I think, by going down this road with the way they are implementing OBOR, it is delaying reform and it is delaying a lot of the needed reforms that their economy needs to make that would be good for China and the U.S. and the world economy.

Mr. YOHO. One quick question, and then I have a statement. What funding levels would be needed for an effective development institution? Just real quickly.

Mr. RUNDE. So I believe OPIC does about $4 billion a year. I would like to see it do double that amount. As I said earlier, we need to raise the credit card limit on OPIC, A. USTA does around $70 million a year in terms of what the Congress allocates, and I would double that.

And then I think we ought to be thinking—so I would say it is not necessarily about additional—there are only marginal appropriations, but the Congress has within its power to, you know, put its foot on the gas in terms of giving additional authorities and strengthening these institutions that already exist.

Mr. YOHO. Anybody else?

You guys brought this up, and so I have to comment on it. China is new at this, in the development. They have been around for a long time as a nation, as a culture. We can't hold a candle to that. But the thing that we do have is 241 years of developing a nation, trade, and working in a market economy. And there are a lot of trials and tribulations that we have learned over 241 years. And I think it will work out well. We will not allow ourselves to be supplanted from the world stage.

And I appreciate your input. I look forward to sharing our bill with you when they do come out and get your feedback on it.

With that, this meeting is adjourned, and thank you for your time.

[Whereupon, at 4:07 p.m., the subcommittee was adjourned.]

APPENDIX

Material Submitted for the Record

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Subcommittee on Asia and the Pacific
Ted Yoho (R-FL), Chairman

November 8, 2017

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held by the Subcommittee on Asia and the Pacific in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at http://www.ForeignAffairs.house.gov):

DATE: Wednesday, November 15, 2017

TIME: 2:30 p.m.

SUBJECT: Development Finance in Asia: U.S. Economic Strategy Amid China's Belt and Road

WITNESSES:

Mr. Daniel F. Runde
William A. Schreyer Chair and Director of the Project on Prosperity and Development
Center for Strategic and International Studies

Mr. Roy Kamphausen
Senior Vice President for Research
The National Bureau of Asian Research

The Honorable Jonathan N. Stivers
Commissioner
U.S.-China Economic and Security Review Commission
(*Former Assistant Administrator, Bureau for Asia, U.S. Agency for International Development*)

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON *Asia and the Pacific* HEARING

Day *Wednesday* **Date** *November 15, 2017* **Room** *Rayburn 2172*

Starting Time *2:42 p.m.* **Ending Time** *4:05 p.m.*

Recesses ☐ (__ to __) (__ to __) (__ to __) (__ to __) (__ to __) (__ to __)

Presiding Member(s)

Rep. Ted Yoho, Rep. Steve Chabot

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☐

Electronically Recorded (taped) ☐
Stenographic Record ☐

TITLE OF HEARING:

"Development Finance in Asia: U.S. Economic Strategy Amid China's Belt and Road"

SUBCOMMITTEE MEMBERS PRESENT:

Rep. Ted Yoho, Rep. Steve Chabot
Rep. Brad Sherman, Rep. Ted Deutch, Rep. Ami Bera,

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

Rep. Brian Fitzpatrick

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Rep. Brad Sherman QFR

TIME SCHEDULED TO RECONVENE ________
or
TIME ADJOURNED *4:05 p.m.*

Subcommittee Staff Associate

The following documents, submitted for the record by Mr. Daniel F. Runde, William A. Schreyer Chair and director of the Project on Prosperity and Development, Center for Strategic and International Studies, are not reprinted here but may be found at: http://docs.house.gov/Committee/Calendar/ByEvent.aspx?EventID=106635

- "A New Development Agenda"
- "A Path to US Leadership in the Asia-Pacific: Revitalizing the Multilateral Financial Institutions"
- "Closing Aid Programs in Middle-Income Countries: A Big Opportunity"
- "Development Finance Institutions Come of Age"
- "English Language Proficiency and Development"
- "Fixing Trade Facilitation: The Trillion-Dollar Development Windfall"
- "Global Infrastructure Development"
- "Implementing the Forthcoming WTO Trade Facilitation Agreement"
- "Pay to Play Leadership: Why Investment in the Multilateral Development Banks Is Critical to U.S. National Security"
- "Quality Infrastructure: Ensuring Sustainable Economic Growth"
- "Shaping the Asia-Pacific Future"
- "The Clock Has Started on TFA Implementation"
- "The Role of U.S. Soft-Infrastructure in Influencing the Reconnecting of Asia"
- "The WTO Trade Facilitation Agenda: 2015's Biggest Development Opportunity"

Questions for the Record
Ranking Member Brad Sherman
AP Subcommittee Hearing: "Development Finance in Asia: U.S. Economic Strategy Amid China's Belt and Road"
November 15, 2017

Questions for all the witnesses: Daniel F. Runde, Roy Kamphausen, Jonathan N. Stivers

1. The China-Pakistan Economic Corridor (CPEC) is the Pakistani component of China's Belt and Road Initiative. It is seen in Pakistan's Sindh province as a strategic partnership between the Pakistani armed forces and Beijing to exploit Sindh's raw energy resources (such as coal in the Thar region), and it causes a repression of Sindhi voice of dissent against these injustices. What are appropriate policy recommendations on this issue?

Mr. Runde: The United States continues to view Pakistan solely as a security partner. China, for all of the imperfections in its model, sees Pakistan as an opportunity. With 195 million people, Pakistan is world's sixth largest country by population, and is well on its way to become the fifth largest. We need to broaden our aperture of realization with Pakistan, and note that it has the potential to become the Saudi Arabia of hydroelectric power. Pakistan also has a growing middle class, and is home to the most urbanizing society in South Asia. Pakistan, naturally, doesn't only want to work with China, but a large number of partners. It is prepared to have an economic relationship with the United States and the United States should (and could) do more with other parts of Pakistani society to seize these potential opportunities. One of the reasons China-Pakistan Economic Corridor (CPEC) has happened is because the United States was unable to offer an alternative in the near term. Anyone in Pakistan's shoes would have pursued the same opportunity. Of course, we should be cognizant of human rights and marginalized communities (including with Pakistan). But given that our relationship with Pakistan has primarily been a "military-to-military" and "intelligence service-to-intelligence service" one, we are not engaging them enough. Nor are we offering a better alternative right now. If we had a larger economic relationship with Pakistan, and we saw some of the opportunities in its economy that China sees, I think it would allow us to have a conversation with more influence in the country – including on issues such as human rights.

Mr. Stivers: The $54 billion China-Pakistan Economic Corridor (CPEC) is probably best articulated project under the Belt and Road Initiative. It aims to connect Kashgar, Xinjiang, with Gwador, Pakistan, located at the edge of the Strait of Hormuz in the Arabian Sea, via 2,000 miles of rail, road, and oil and natural gas pipelines. CPEC faces a host of challenges and controversial issues including being built through disputed territories between India and Pakistan, insurgency threats, debt accumulation, corruption, and human rights abuses. In Sindh province, local officials and citizens have expressed serious concerns about CPEC's coal and gas exploration, land grabbing, and further marginalization of the most vulnerable people in Pakistan.

There are no easy answers and the U.S. already provides a disproportionate share of its foreign assistance budget in Pakistan. I would argue that one of the best investments the U.S. can make is support for good governance and tolerant civil society. There are reformers in Pakistan and it is essential that those voices receive the support they need to push back against government policy that harms the Pakistani people. In addition, stronger U.S. support for better alternatives to the

Belt and Road Initiative such as the World Bank and Asian Development Bank projects make the most sense.

2. How can the United States draw upon its Asian allies and partners in the IndoPacific—Japan, Australia, South Korea, and India—to enhance US economic engagement in Asia? Please provide examples of current or potential viable joint initiatives in development or development finance between the US and its Asian allies and partners that would advance US interests in Asia?

Mr. Runde: In an ideal world, we would have a Trans-Pacific Partnership (TPP). It is clear that we would not have that any time within the short or medium term. Perhaps we can have a variation of it soon. But we must have series of bilateral trade treaties starting with Japan. It is my belief that this Subcommittee should hold a hearing on the benefits of bilateral trade agreements with Japan. Second, Overseas Private Investment Corporation (OPIC), which is the development finance institution (DFI) of the United States, is not fully interoperable with Japan's DFI. OPIC doesn't have equity authority (*as referred to in my written testimony*). Enhancing and strengthening OPIC will make it more interoperable with the DFIs of Japan and our other allies in the region, as our national soft power. The United States should consult closely with Japan and multilateral development banks such as the Asian Development Bank, the World Bank, the European Bank for Reconstruction and Development. Fourth, the United States, in consultation with Japan and others, should be pursuing a quality infrastructure agenda (*the relevant paper I have submitted for the record*). One of the things is to insist on quality and caliber in developing countries' purchasing decisions. Many of the developing countries in Asia should go for higher quality while making procurement decisions. In that context, it will mean more jobs and trade opportunities that would benefit the U.S. economy. I do request that the committee to hold a separate hearing to discuss on how to achieve quality infrastructure in Asia.

Mr. Stivers: There are a number of concrete actions the U.S. can take to better partner with our friends and allies on economic engagement in Asia. First, the Trump Administration is on the right track in making India a focal point of our Asia engagement policy. The resuscitation of the Quadrilateral Dialogue (the Quad) with democratic partners Japan, Australia and India makes sense but it should address economic as well as security issues. The Quad would be an excellent forum to discuss a set of policies to compete and/or counter China's economic policies in the region.

Second, there are already many other entities and endeavors for the U.S. to engage on economic and development issues in Asia. Examples include the Asian Development Bank, the Lower Mekong Initiative, and the U.S.-ASEAN Connect initiative to name a few. The problem is that all of these initiatives have seen drastically declining budgets in recent years. Each of these entities and endeavors have critical components of addressing poverty, health and infectious disease, environmental protection and sustainable and inclusive economic growth.

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