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CHINA'S BELT AND ROAD INITIATIVE

HEARING

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CHINA'S BELT AND ROAD INITIATIVE

WEDNESDAY, JUNE 12, 2019

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
CUSTOMS, AND GLOBAL COMPETITIVENESS,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 3:20 p.m., in room SD–215, Dirksen Senate Office Building, Hon. John Cornyn (chairman of the subcommittee) presiding.

Present: Senators Thune, Portman, Cassidy, Young, Cantwell, Menendez, Casey, Warner, and Cortez Masto.

Also present: Republican staff: Jeffrey Wrase, Deputy Staff Director and Chief Economist; and Madison Smith, Legislative Assistant for Senator Cornyn. Democratic staff: Sally Laing, Senior International Trade Counsel; and Livia Shmavonian, Legislative Assistant for Senator Casey.

OPENING STATEMENT OF HON. JOHN CORNYN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE, CUSTOMS, AND GLOBAL COMPETITIVENESS, COMMITTEE ON FINANCE

Senator CORNYN. The Senate Committee on Finance Subcommittee on International Trade, Customs, and Global Competitiveness will come to order.

Since its accession to the World Trade Organization, China has consistently engaged in unfair trade practices that bolster its domestic industries at the expense of free trade and global stability. China has weaponized foreign investment to force transfer of cutting-edge intellectual property to steal trade secrets, erode the technological gap, and create Chinese state-controlled competitors for American companies.

Last Congress I authored the Foreign Investment Risk Review Modernization Act, which gives an interagency body known as the Committee on Foreign Investment in the United States additional tools to combat these threats. I am proud that President Trump signed this important legislation into law last year as part of the National Defense Authorization Act.

While we have taken this important step to defend Americans against predatory Chinese investment practices, China's ambitions are much more broad. In 2013, the Chinese Government announced the Belt and Road Initiative, through which it aims to construct billions of dollars of infrastructure projects in countries around the world. Since the creation of the Belt and Road Initiative, China has strategically invested hundreds of billions of dollars in ports, railways, roads, and digital infrastructure. To date, China has entered into Belt and Road agreements with more than 70 countries covering nearly two-thirds of the world's population.

Belt and Road is a cornerstone of the Chinese Communist Party's aggressive foreign policy goals and expansionist goals. It has been billed by its leaders as a way to modernize infrastructure corridors and to construct "a community of common destiny."

Unfortunately, this community of common destiny referred to by the Communist Party members is one in which China reshapes the global order and imposes its authoritarian economic regime and controls on the rest of the world. China's Belt and Road Initiative poses three fundamental threats to the United States and our allies around the world: trade manipulation, economic exploitation, and security erosion.

At its core, the Belt and Road Initiative is fueled by China's mission to manipulate and undermine the global rules-based trading system for its own benefit. China's internal structures are predicated on the preferential treatment of its domestic industries, often at the expense of free and open competition.

This is further evidenced by the Made in China 2025 plan, which strategically compliments Belt and Road and seeks to make China dominant in a number of high-tech sectors of interest to the United States, including rail infrastructure, telecommunications, and artificial intelligence.

Belt and Road has not only exacerbated China's unfair trade practices, it is in clear violation of their commitments as a member of the World Trade Organization. That is because Belt and Road is rigged to empower and create monopolies for Chinese-owned entities like Huawei, ZTE, and CRRC to carry out these projects all over the world.

But China's strategic vision goes far beyond empowering its state-controlled companies. It also seeks to bend unwitting countries through their economic exploitation and "debt-trap" diplomacy. In numerous countries, China has financed projects resulting in partner nations accruing crippling foreign debt from which they cannot escape.

For example, when Sri Lanka was unable to service billions of dollars in Chinese-backed loans under Belt and Road, it had little choice but to grant China a 99-year lease allowing it to control a Sri Lankan port. In Venezuela, China reduced lending as the country's debt spiraled out of control. In order to renew China's interest, Venezuela agreed to sell nearly 10 percent of an additional stake in its state-owned oil enterprise.

But most concerning are the direct national security threats posed by Belt and Road. In 2017, China used construction of a Belt and Road seaport in the African nation of Djibouti as a Trojan horse to open its first overseas military base in the country. Because of Djibouti's strategic location on the Horn of Africa, it serves as a gateway to global shipping traffic through the Red Sea and the Middle East.

It is not hard to see why the presence of the Chinese military near the Middle East could destabilize the region and threaten our own national security interests. But that is exactly the objective of the Belt and Road Initiative.

A 2018 Department of Defense report highlighted the long-term implication of China's attempt to manage civilian ports, stating that China has made requests for military access and basing agreements which could allow the People's Liberation Army to preposition necessary logistics to protect its interests. Equally concerning is China's recent shift in focus from port and rail infrastructure projects to strategic plays in the world's digital infrastructure.

In Chile, the Chinese government is investing more than $650 million to build a subsea fiber-optic cable, which will become the largest data flow between Asia and Latin America. China has even begun providing certain countries, like Zimbabwe, with cutting-edge facial recognition software, which will give China control over additional troves of data.

Given the grave threats posed by the Belt and Road Initiative, it is not enough for Congress to simply express concern or opposition to China's efforts. Congress and the executive branch must work together to develop and implement a coordinated long-term strategy to ensure American trade and security policy can prevent the Belt and Road Initiative from achieving its stated objectives.

So I look forward to discussing the panel's perspectives on the Belt and Road Initiative and hope this hearing serves as a catalyst for the committee's efforts to address the threat.

At this time, I want to recognize the ranking member, Senator Casey, for his opening statement.

[The prepared statement of Senator Cornyn appears in the appendix.]

OPENING STATEMENT OF HON. ROBERT P. CASEY, JR., A U.S. SENATOR FROM PENNSYLVANIA

Senator CASEY. Thank you. I want to commend the administration for scheduling this hearing. It is a critically important set of issues.

So many of us know that China's version of chess is a game called "Go." The objective is to surround and control the most territory on the game board. Rather than being confined to set moves as they are in chess, pieces can be placed anywhere on the board. Often the strategy behind a move or a set of moves does not come to light until late in the game, by which time it is too late to respond.

Now certainly, a two-person strategy game cannot be directly correlated with a complex set of global relationships, but it is a helpful frame in viewing and understanding the objectives behind China's Belt and Road Initiative. The strategy China is now employing globally is not so much a set of linear actions with set positions, but rather a multi-faceted strategy to employ a set of tools available to influence the economic and geopolitical order in a manner that benefits its authoritarian and anti-competitive practices.

China's regional and global objectives are creating both direct and indirect economic and security challenges. The United Nations Conference on Trade and Development estimates that roughly one-third—one-third—of global shipping goes through the South China Sea. Almost half of global trade ships through Asia itself. Their increasing control of port infrastructure in the region and globally is cause for concern for all of us.

But the Belt and Road Initiative is not simply about ports and railroads—and we risk losing sight of the broader picture if we constrain our focus. Through the Belt and Road Initiative, China is employing a “debt-trap” strategy to ensure that developing countries are in a cycle of credit and deficit that only increases—increases—China’s economic control over governments and minimizes opportunities for development that actually put countries on a path towards workers’ rights, strong labor practices, rising standards of living, and participating meaningfully in the global economy and the broader, liberal democratic order.

Debt begets dependency. And the United States and western powers are not doing enough to offer an alternative path toward economic development to the fast-cash and fast-growth approach that China is promoting.

We know that June 4th marks 30 years since the Tiananmen Square protests, and the Chinese government has successfully continued to suppress democracy since that date. We have seen firsthand the cost of China’s authoritarian practices, the cost of its surveillance state, disregard for human rights and human dignity, and efforts to undermine democracy in the rules-based order.

The Department of State estimates that China has incarcerated somewhere between 800,000 to 2 million Uyghurs and other Muslims since April of 2017. Eleven million are residing in what is effectively a police state. To put that in perspective, that is the equivalent of almost the population of the State of Pennsylvania. Thinking about it this way, in a State that large, that many people—just imagine that number of people either incarcerated with no cause or under constant surveillance and repression by China.

Through Belt and Road, China is exporting techniques for repression, their labor practices, and disregard for human rights. We have seen the consequences of China’s assault on the rules-based order in its posture on trade, on intellectual property theft, on forced technology transfer, and of course at the World Trade Organization.

China’s theft of intellectual property has impacted numerous Pennsylvania firms, including others around the country, but just to mention a few: United States Steel, Alcoa, Allegheny Technologies, and Westinghouse. And their efforts are extending to our own academic research institutions, compromising U.S. national security.

The cost of China’s economic strategy and globalization, of course, has fallen most heavily on workers. Studies by the Economic Policy Institute and MIT economist David Autor and his coauthors David Dorn and Gordon Hanson, support the assertion. According to the study, 40 percent of the decline in U.S. manufacturing between 2000 and 2007 was due to a surge in imports from China—40 percent of the decline in U.S. manufacturing in just those 7 years, according to this study.

China has made no secret about a strategy to push the rules to their limit and, when advantageous, to actually break them outright. They know that redress to injured parties often is not available until the damage is irreparable.

China understands the central structures of our multilateral organizations: that they are based on the assumption that everyone intends to follow the rules, that guardrails are established to settle disputes between parties whose objective is to work within a rules-based system. The question for us today in going forward is, what do you do when a country with one-sixth of the world's population decides it does not want to play by the rules? Inaction is not an option. The economic and human consequences are too great.

Thank you, Mr. Chairman.

[The prepared statement of Senator Casey appears in the appendix.]

Senator CORNYN. Thank you, Senator Casey.

I want to take a minute to introduce our witnesses today. Our first is Carolyn Bartholomew, who currently serves as the Chair of the U.S.-China Economic and Security Review Commission.

Our second witness is Mr. Roy Kamphausen. Mr. Kamphausen is also a member of the U.S.-China Economic and Security Review Commission.

Our third witness is Dr. Daniel Kliman. Dr. Kliman is a senior fellow and the director of the Asia-Pacific Security Program at the Center for a New American Security.

Our final witness is Dr. Derek Scissors. Dr. Scissors is a resident scholar at the American Enterprise Institute.

I want to thank each of you for agreeing to be here today and to testify on this important topic. I would like to respectfully ask each of you to limit your opening statement to about 5 minutes. I know we want to have time for a lot of questions and a lot of answers. And as you can see, there is a significant interest in the topic we are discussing here today.

So, Ms. Bartholomew, I will recognize you for your opening statement.

STATEMENT OF CAROLYN BARTHOLOMEW, CHAIRMAN, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION, WASHINGTON, DC

Ms. BARTHOLOMEW. Thank you very much, Mr. Chairman, Ranking Member Casey, members of the committee. Thank you for the opportunity to testify today. Thank you also for your work on FIRRMA, which is taking really important steps to help protect the national security of the United States.

I am honored to appear alongside my Commission colleague Roy Kamphausen and the other distinguished witnesses on the panel. The views in this testimony are informed by the Commission's body of work on the subject, but they are, however, my own and do not necessarily reflect those of the full U.S.-China Commission.

I would like to diverge briefly from my comments to acknowledge the people of Hong Kong who, for the past few days, over a million of them have protested peacefully because they are trying to protect their own rule of law from an extradition law that would punch a hole in the one country, two systems. Very determined, very brave young people are continuing this protest. I think it is important for us to acknowledge them and do what we can.

The U.S.-China Commission was established by Congress when Congress voted to grant China Permanent Normal Trade Relations.

We were created to advise Congress on the national security implications of the U.S.-China economic relationship, and each year we release an annual report. This was the 2018 Annual Report. The 2019 one will come out in November, which is based on our extensive research.

I will speak today about China's broad objectives for the Belt and Road Initiative and focus more in depth on the economic and digital components. My colleague, Commissioner Kamphausen, will speak to the strategic and military components.

The Commission first discussed China's Belt and Road Initiative—which was originally called One Belt, One Road—in our 2015 Annual Report in a section on China and Central Asia. Indeed, when BRI was first introduced, most of its focus was on Asia. But much has changed since then.

China's vision for BRI now encompasses Latin America and the Caribbean, the Arctic, and even space and cyberspace, although plans for projects in these areas are less developed. I believe attached to my testimony is a map—the map needs to be constantly updated. But some of the locations there were Belt and Road projects.

The Digital Silk Road, China's plans for integrating digital sectors like telecommunications, the Internet of Things, and e-commerce into its vision for regional connectivity, is a less analyzed, but critically important component of BRI.

The most visible manifestations of BRI—the deal announcements and the official Chinese communiqués focus on economic objectives. These objectives include building hard and digital infrastructure; fueling domestic development; utilizing Chinese excess production capacity in, among other things, steel and cement; and increasing control in China's outer provinces as well as expanding markets and exporting standards, all to boost China's slowing economy.

According to the Chinese government, it has signed 171 BRI cooperation agreements with 29 international organizations and 123 countries. Projects just announced at the recent second Belt and Road forum were valued at around $64 billion, interestingly down from the $115 billion in funding announced at the first forum held in 2017.

Telecommunications is a particularly notable example of China's effort to sell technology in BRI markets and beyond. In particular, China is promoting the implementation of its national standards for 5G and smart cities and countries along the Belt and Road. Huawei, China Mobile, and ZTE are closely involved in developing 5G technology and have increased their participation in international standard-setting bodies for 5G.

The Digital Silk Road is China's plan for integrating digital sectors like telecommunications with ZTE, China Mobile, and Huawei, the Internet of Things, and e-commerce (Alibaba, and *JD.com,* for example), to create regional connectivity. The Digital Silk Road threatens U.S. businesses and market access in critical telecom and technology. Innovation, of course, is the driver of our economy we cannot afford to lose.

The Digital Silk Road projects also give the Chinese Government more of a foothold to export its authoritarian values, control of information, and surveillance right alongside the digital infrastructure. We are currently seeing the most extreme manifestation—which you both have noted—of the Chinese Government's digital authoritarianism in Xinjiang where over a million Uyghurs are being held in internment camps. The repression in Xinjiang is increasingly enabled by a broad array of technology, including surveillance cameras, artificial intelligence, and biometrics such as voice samples, DNA, and facial recognition profiling.

But all is not lost. There are steps the U.S. can and must take to address BRI's challenges to our economy and to the international order. We clearly cannot outspend the Chinese government in Belt and Road countries, but we can act to shape China's BRI efforts to meet international standards and offer targeted alternatives in key areas to counter emerging risks.

I commend the U.S. Congress for the passage of the BUILD Act, which is an important tool to support private-sector investment abroad. Going forward, we must work with our allies and partners like Japan, which are engaging in comprehensive development assistance programs. And we must strengthen our relationships with countries in Africa and Latin America, in Southeast Asia, indeed even in Europe, to counter the Chinese government's propaganda and spread of its authoritarian norms.

I speak more in my written testimony about opportunities for U.S. businesses with Belt and Road projects and how China uses investment in BRI projects as political and economic leverage in vulnerable countries.

Thank you again for the opportunity to testify. I look forward to your questions.

Senator CORNYN. Thank you very much.

[The prepared statement of Ms. Bartholomew appears in the appendix.]

Senator CORNYN. Mr. Kamphausen, you are now recognized.

STATEMENT OF ROY D. KAMPHAUSEN, COMMISSIONER, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION, WASHINGTON, DC

Mr. KAMPHAUSEN. Chairman Cornyn, Ranking Member Casey, distinguished members of the committee, thank you for the opportunity to appear before you today to share my views on China's BRI, building on my colleague Chairman Bartholomew's statement. And might I add what a privilege it is to appear with our Chair before your subcommittee, as well as the two other distinguished panelists whose work I have admired for a long time.

The views expressed are my own and do not necessarily reflect the views of the Commission, as the Chair noted. I am pleased to be a Commissioner and glad that my perspectives are informed by our body of past and ongoing work. The perspectives I offer reflect the studies we have undertaken, the National Bureau of Asian Research, including the seminal monograph on the BRI titled "China's Eurasian Century," authored by my colleague Nadege Rolland.

It is entirely fitting that the Senate Finance Committee's Subcommittee on Trade, Customs, and Global Competitiveness invite testimony on the strategic intentions and implications of the BRI to inform its own legislative policy work, given the enormous competitive issues at stake. To this end, the perspectives held by the

Chinese leaders on the strategic and security dimensions of the BRI are thus as essential as perspectives on the economic trade and development dimensions of the BRI towards our understanding Beijing's overall strategic intent.

By way of a bottom line up front, I am convinced that the Belt and Road Initiative is a strategic undertaking by the People's Republic of China defined in the broadest possible way to recast the international order in ways compatible and aligned with Chinese objectives and values, but which outcome is still ultimately in question.

And while fully strategic in scope, that does not mean that the BRI was designed to achieve military and security objectives alone. But it will certainly have military and security implications.

Let me focus briefly on strategic intent and then security implications. A year and a half ago in testimony before the House Committee on Foreign Affairs, I argued that the BRI represents a test case for China's vision for a new international order throughout Eurasia and possibly even the world. The contours of that desired order are now more clear and Beijing's ambitions even greater than they were even that short time ago.

Today China has demonstrated that it intends for the BRI to be not merely a regional initiative, but a global one, as the administration just stated. While Beijing routinely denies any strategic motivation behind the BRI, the projects' geopolitical significance is apparent nonetheless. Chinese leaders view the BRI as evidence of Beijing's increasing global influence and as an instrument to promote China's political and economic development models as worthy of respect and even emulation.

As such, Beijing uses promotion of the BRI to raise China's international status, enhance the legitimacy of the Chinese Communist Party both at home and abroad, and position China to lead global efforts to revise key features of the international order. Beijing has used the BRI to promote its influence in revising the rules of global economic governance.

Just last August, Chinese Communist Party General Secretary Xi Jinping declared that the initiative "serves as a solution for China to improve global economic governance and build a community of common human destiny," as referenced by the Chair, a term used by Chinese leaders with increasing frequency to refer to a global order aligned to Beijing's liking.

Security implications have also begun to emerge. BRI was not designed to serve purely military objectives, but it does serve strategic ends that include military purposes. This is an important distinction, I think. And while Chinese intent to secure overseas projects is not new, the importance of this mission for China's army, the People's Liberation Army, has grown.

One security aspect centers on the overseas facilities and infrastructure projects, ports and airfields, for instance, that might have dual military use. The PLA has also established at least one, and potentially more, overseas military bases including a naval base in Djibouti and a PLA-operated space station in Argentina. More Chinese-style overseas bases or facilities are likely.

A second security aspect looks at the ways in which the PLA moves to secure its BRI projects, either through enhanced security cooperation and capacity building with host nation forces, even the hiring of private security forces, and ultimately perhaps the deployment of PLA forces themselves.

In conclusion, China's BRI geographic and strategic ambition may make it seem like an insurmountable challenge to the global liberal order. While this is not yet true, the United States and its allies and partners must be vigilant in monitoring Chinese activities and relentless in protecting our interests. That is why the Commission in its report to Congress last year recommended that Congress require the Director of National Intelligence to produce a National Intelligence estimate that details the impact of existing and potential Chinese access in basing facilities along the Belt and Road and understand their implications for U.S. operations globally.

Thank you, and I look forward to your questions.

Senator CORNYN. Thank you very much.

[The prepared statement of Mr. Kamphausen appears in the appendix.]

Senator CORNYN. Dr. Kliman?

STATEMENT OF DANIEL KLIMAN, Ph.D., SENIOR FELLOW AND DIRECTOR, ASIA-PACIFIC SECURITY PROGRAM, CENTER FOR A NEW AMERICAN SECURITY, WASHINGTON, DC

Dr. KLIMAN. Chairman Cornyn, Ranking Member Casey, distinguished members of the subcommittee, I am grateful for this opportunity to address you.

At the Center for a New American Security, I have led several major studies on China's Belt and Road. This research has underscored that the Belt and Road, though framed by China as an initiative to build a more connected world, is fundamentally a geopolitical enterprise.

I want to highlight three key findings of this multi-year research. First, the Belt and Road will cement China's status as a global power as Beijing attains lasting diplomatic leverage over governments indebted to it, develops a network of overseas facilities that could support its future military operations, and expands its ability to manipulate global supply chains for geopolitical benefit.

Second, the Belt and Road will strengthen China's ability to compete economically by creating a commercial playing field in large parts of the developing world that favors Chinese enterprises and enabling Beijing to set technical standards and online standards, as well as tap data and talent overseas through a growing focus on digital infrastructure.

Third, the Belt and Road will radiate illiberalism as China's investment practices exacerbate ongoing corruption challenges in some countries. And under what it calls the Digital Silk Road, Beijing exports technologies for surveillance and censorship.

Accordingly, the Belt and Road poses a challenge to U.S. security, prosperity, and values. It will sharpen the emerging choice countries confront between their military ties with the United States and economic dependence on China. It will place U.S. companies at a disadvantage in key markets, and it will undermine American ideals of democracy and human rights.

The Belt and Road has encountered recent setbacks as countries voice growing concerns about the challenges associated with Chinese infrastructure projects. Yet Beijing still has momentum on its side, including support from the United Nations as well as some multilateral development banks, and China is unlikely to address the shortcomings of Belt and Road for recipient states.

Its commitments at the recent forum in Beijing were largely a public relations exercise. Since 2018, the United States has made progress toward competing with China's Belt and Road while offering positive alternatives. But its current approach still falls short.

Here are 10 steps that Congress could take to get America's approach right.

(1) Congress should create a reporting requirement for the executive branch to put forward a blueprint for a public diplomacy capability for the 21st century. The lack of such a capability is a critical deficit of America's current approach, given that China has played up the size of its Belt and Road investments and the positive impact while linking the Belt and Road and placing it as a symbol of China's inexorable rise.

(2) Congressional delegations should travel to countries where Beijing may parlay its Belt and Road projects into overseas military access and emphasize the downsides of a Chinese military presence to their counterparts.

(3) The U.S. Congress should task the U.S.-China Security and Economic Review Commission to publish a report on the China supply chain exposure of 20 major global U.S. companies. This report would help to catalyze a discussion on the supply chain dependence of U.S. companies and how to mitigate the risk as well as elevate public discussion on this critical issue.

(4) Congress should convene hearings to weigh the merits of a future high-quality multilateral trade and investment agreement.

(5) Congress, through its oversight function, should encourage the executive branch to come together with U.S. allies and partners around an international certification for high-quality infrastructure.

(6) Congress should appropriate resources to establish a U.S. digital development fund that would support information connectivity projects across the developing world. This fund, potentially through leveraging lines of credit, could drive down the price of American digital infrastructure in order to compete with Chinese enterprises.

(7) Congress should ensure that the new U.S. Development Finance Corporation is positioned to backstop a competitive approach toward China through encouraging a new office of strategic investments.

(8) Congress should convene a hearing on China's use of the UN to legitimize the Belt and Road as well as advance its broader geopolitical objectives.

(9) Congress should sufficiently resource U.S. efforts to enhance technical capacities in countries receiving Chinese investment under the umbrella of the Belt and Road.

(10) And lastly, Congress should appropriate additional resources for strengthening the rule of law, civil society, and freedom of the press in countries targeted by the Belt and Road. Even a modest

increase in U.S. funding would go a long way to enabling countries to avoid the most negative impacts of Chinese investment.

Thank you, and I look forward to your questions.

Senator CORNYN. Thank you very much.

[The prepared statement of Dr. Kliman appears in the appendix.]

Senator CORNYN. Dr. Scissors?

STATEMENT OF DEREK SCISSORS, Ph.D., RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. SCISSORS. I want to start by associating myself strongly with the opening comments by the chairman and the ranking member with regard to predatory Chinese IP practices, subsidies, and other harmful practices China undertakes that hurt the United States and our partners. I will add a disclaimer. I am not an expert on U.S. security policy, and the following remarks concern U.S. economic and financial interests.

With regard to the BRI, as a global economic and commercial program—as my written testimony states—the BRI is overrated. What is likely to happen going forward is that China simply will not have the money to make it a large global program. Further, the money that China does have now comes primarily from selling goods to the United States. So if the American government decided to curb the BRI, we have it directly within our power to do so.

Those conclusions are drawn from data published by the American Enterprise Institute under the name China Global Investment Tracker, which is the only fully public data on China's global investment and construction. The construction part will be important.

What qualifies as a BRI project is being left deliberately vague by the Chinese Government. And my testimony is intended to maximize the size of the BRI. Every figure I give you is too large on purpose, because we cannot tell what the Chinese actually designate as BRI projects. Their own goal is to keep that vague.

The maximum possible BRI investment from 2014 to 2018 in all countries was $190 billion. That is actually considerably larger than the Chinese Government figure. Chinese investment over the same period in the U.S., Australia, and Britain combined was larger than that. So a total Chinese investment in the BRI is smaller than Chinese investment in the U.S., Australia, and Britain over the most recent period. The high year for BRI investment, using the maximum possible figures, was 2015.

Construction is more important in the BRI than investment. And what I mean by construction is usually projects financed by Chinese lending, but there is no Chinese ownership of the project, so it does not qualify as investment. The maximum figure for BRI construction in the last 5 years is $388 billion, all countries. The high year for construction was 2016.

Why am I already talking about peak in the BRI, 2015–2016? Because in the last 8 or 9 months we have seen a clear drop-off in investment globally by state-owned enterprises. State-owned enterprises dominate the BRI. They account for almost all the construction and three-quarters of the investment. They are not getting money from the Chinese government to invest, and we know why.

When the BRI was launched, Chinese reserves had been rising for 20 years. Xi Jinping was told, "You have a ton of money. You can do anything you want with it."

Since then, Chinese reserves are officially $900 billion lower than they were. They are supposed to be stable, but it is almost guaranteed that the Chinese are borrowing to support their foreign exchange reserves. And in fact, the drain is continuing, perhaps at the level of $70 to $90 billion a year.

So summarizing the data, the data say that BRI is not that large. And more crucially, they say China does not have the money, because it launched the program when it was flush with foreign exchange. It is no longer flush with foreign exchange. That sets up U.S. policy.

All of these numbers are prior to the larger U.S. tariffs hitting. They are not—they do not—show effect of major U.S. trade action.

While China's reserves have dropped $900 billion, in the same period they ran a combined $1.5-trillion trade surplus with the United States, meaning they drew in on a net basis $1.5 trillion from us. But still the pile that they were drawing fell by $900 billion.

When they say they want a trade balance with the United States in our trade negotiations, that is not true, because they cannot afford a trade balance with the United States.

With regard to the BRI's future, if the President is successful in shrinking the bilateral trade balance, that could push the annual drain on China's foreign exchange reserves to about $200 billion annually. In those conditions, there is no global Belt and Road Initiative other than talk. They simply do not have the money.

Now the PRC in that situation is not going to abandon the Belt and Road. It will still talk about it. And it will focus on a few countries that are most important. And in my written testimony I indicated where most of their money has gone to. To this point, Pakistan is an obvious example.

The question then is, should we see our interest as similar to theirs in those countries? Our economic interests are quite different than China's. So I would argue that we should not be mirroring Chinese actions under any circumstances. And in particular, the point of U.S. policy is not to anticipate a giant BRI that is engulfing the world, it is to anticipate where it is actually going, which is going to be a few strategic countries where China sees its interest to be most important. And the U.S. has to evaluate, does this matter to us and how?

Thank you.

Senator CORNYN. Well, thank you very much for your opening statements. You have given us a lot to talk about.

[The prepared statement of Dr. Scissors appears in the appendix.]

Senator CORNYN. We will proceed with 5-minute rounds.

Let me ask you, Mr. Kamphausen—because we talked about the intersection of security and economics. And I think one of the things that confuses people about China is, because they tend to view them as a country that is creating all these businesses, they do not realize that there is no separation between the economic and the military or security approach in China.

For example, I understand they have a law on the books that says essentially if a state-owned or -operated enterprise gets access to certain intellectual property or information, they have to share that with their national security apparatus. Could you help us understand that a little bit better?

Mr. KAMPHAUSEN. I think the law on the books—and I can double check and make sure I get it straight with your staff, sir—is that if requested, they are compelled to provide answers to the national security apparatus. So it is not that they would provide it on a kind of supply-driven basis, but on a demand-driven approach. So if they are asked for it, they have to give it up.

I think it speaks more broadly to how the acquisition of foreign technology and IP is a fundamental component of China's suite of policies that make up the Made in China 2025 approach. They are inseparable. And so that speaks to the compellance nature of that law.

Senator CORNYN. Well, in a way China has done us a favor by telling us ahead of time what they intend to do. And they appear to be pretty far down the road to implementing it, subject of course to the financial considerations that some of you have talked about, whether they can actually execute those.

But at some point it seemed just that they were—I guess they do not have the same problems we have here in the U.S. Government appropriating taxpayer dollars for government programs. They seem to almost have an unlimited amount of money for these infrastructure projects in remote parts of the globe.

Dr. Scissors, you said that that money is drying up, and a lot of their stated objectives in the Belt and Road Initiative will never be completed or executed. Is that right?

Dr. SCISSORS. Yes it is. And the reason I think they made this mistake is when the Belt and Road was launched, they did seem to have an unlimited pile of money. That is, they had the world's largest foreign exchange reserve, which is what funds the Belt and Road, and it was rising every year.

I make a joke that whoever gave Xi Jinping this advice got into trouble—a lot of trouble—8 months later, because their foreign exchange reserves began dropping. Foreign money, hard currency began leaving China.

So they started off the Belt and Road plan with seemingly an unlimited amount of money. Now, they have less money, and the trend is entirely different. In particular, they are much more dependent on selling to the United States than they were when they started in 2013.

Senator CORNYN. Ms. Bartholomew, Senator Romney the other day gave his maiden speech as a U.S. Senator on the Senate floor. He talked expansively about China, but he made the point that China obviously is a very large, populous country. One of the things that he alluded to was, the United States has friends and allies around the world.

How important is it for the United States, in responding to the challenge of rising China, to make use of those friendships and those alliances around the world?

Ms. BARTHOLOMEW. Mr. Chairman, thank you. I think those friendships and alliances are critically important. You know, we always do better when we have force multipliers, and our force multipliers are the people whom we work with. Whether that is at the WTO, whether that is in development assistance, whether that is in having a productive presence on the continent of Africa, we do not have enough resources to outspend the Chinese when they determine that they are going to do something. And so we have to figure out ways to work together with other countries in order to address what we think the most critical problems are.

Mr. Chairman, if I could go back to one thing that you said, which is, sort of, the difference in the economies—because I think it is really important for people to understand that the Chinese Government knows what it wants to accomplish and has strategies to do that. And they are indeed transparent.

They do 5-year plans where they determine and talk about what their economic strategies are, the areas of the economy they want to grow, and of course Made in China 2025, which lists 10 different forward-leaning sectors where they intend to create indigenous companies. And we ignore that at our peril, I think. I mean they have a whole-of-government approach, and we do not necessarily do that.

So, in addition to working with our friends and allies, I think it is really important for us to pull different pieces of our own government together to try to address a whole-of-government approach to these challenges.

Senator CORNYN. And of course they have an advantage, in a sense, that they do not have to invest a lot of money in research and development because——

Ms. BARTHOLOMEW. Right, because they steal——

Senator CORNYN. Because they steal it from the United States or other friends and allies.

I want to ask one last question. Dr. Kliman, you alluded to your 10 steps of what the U.S. should do in response. You talk about trading arrangements, including TPP. And as you know, the administration says they prefer bilateral trading arrangements.

But it strikes me that a unified effort in Asia under the TPP would serve a very useful purpose in terms of setting the rules of the road in Asia and counterbalancing China. Could you give us your views on that?

Dr. KLIMAN. Absolutely, and thank you, Mr. Chairman. I think especially today—I mean, we all know that trade is a fraught political issue here. But I think if we separate out the impacts of trade with China, which, as was made quite apparent in some of the opening remarks has been massively dislocating for American workers and industry compared to trade and investment with allies and partners in which we all rise together, I think there is an opportunity now to make that case here in the United States, and certainly in Asia, when countries are looking for kind of a U.S. response to Belt and Road and the rise of China more generally. They are looking for more than bilateral agreements, even if those are a positive step forward. They are looking for high-quality trade and investment multilateral agreements. So whether it is TPP or called something else, I think at the end of the day, it will be a critical piece of any American approach.

Senator CORNYN. Thank you.

Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman.

Thank you all for your testimony.

Senator CORNYN. Senator Menendez, if you will pardon me, I ignored the ranking member.

Senator MENENDEZ. I thought maybe somehow I had missed something, and he had gone already. So that is why I hesitated, Mr. Chairman.

Senator CORNYN. Thank you. If you would withhold, and I will recognize Senator Casey.

Senator CASEY. Do you need to go? Are you okay? Okay.

I want to hear your erudite remarks.

Senator MENENDEZ. Thanks.

Senator CASEY. I will keep within my time.

But I wanted to start with a principle enunciated, gosh, a century ago by the International Labor Organization: labor is not a commodity. We have heard that an individual has intrinsic value. They are not an entry in a balance sheet or anything of the kind. We know as well that, with these basic rights that workers have, they are not dependent upon a particular community's level of development and should not be up for debate.

So while every nation has challenges and should continue to strive to improve labor rights and raise wages, it is clear that China has a different approach. That is an understatement, as we all know. China's posture both at home and around the world is that the treatment of workers is in direct conflict with improving workers' lives or their livelihoods.

So, Chairman Bartholomew, I will start again with you. Can you discuss two things: (1) the ways in which China, number one, exports those labor practices; and (2) how that may further erode efforts to improve both labor rights and human rights in developing countries and actually do harm here in the United States in terms of both jobs and wages?

I know that is a lot in two questions. But take a shot at it.

Ms. BARTHOLOMEW. Senator Casey, thank you very much. And just a little bit of personal history as somebody who started working on U.S.-China policy on June 4, 1989, because of the Tiananmen Square massacre and lived through the 1990s and the fights over human rights and most-favored nation status.

I can tell you that labor rights was there right at the very beginning. If you go back to Tiananmen, there were a lot of students, yes, but there were a lot of workers fighting for rights and for the very freedoms that we think about.

So, I have spent a lot of time working on labor rights issues. It is important to recognize that China has no independent labor unions itself, which creates, of course, problems because there is no freedom of association and people cannot necessarily organize. That is changing a little bit in China, only because there are some labor shortages which give workers a little bit more leverage.

I am very concerned about China's practices being exported through the BRI and other ways. Right now there are not any comprehensive statistics on the number of Chinese laborers who are being brought in for Chinese BRI projects.

Prior to sort of the announcement of the BRI, a lot of Chinese projects overseas, particularly in Africa, were Chinese workers who were being brought in. Some of them stayed behind, and some of them got left.

But there are other examples where China's labor practices have been very very difficult and destructive. There was a casino project on Saipan, for example, where Chinese companies brought in thousands of Chinese construction workers, hired very few for—there were very few Saipan residents. The FBI actually charged the head contractor for that project with illegally importing and employing Chinese workers, including one who died.

So, hiring Chinese workers for that project—just as an example—allowed the employers to impose exploitative labor conditions that locals would never have tolerated. One of the more interesting ones, I think recently, is COSCO, the Chinese Maritime Company—its partial acquisition of two container terminals in Piraeus, Greece.

When COSCO acquired one of the terminals, there was a collective agreement between the union of port workers and the Greek port authority which included provisions on wages, tenure, hiring family members, pensions, working hours, and health and safety standards. But as projects to upgrade the port infrastructure began, Chinese workers were brought in by specialized employment agencies on temporary contracts. Does this sound familiar?

A number of senior managers were also brought in from China to supervise the projects. COSCO purposefully avoided hiring union workers.

So we are going to have to watch these projects. I think we certainly cannot assume that China has any interest really in workers' rights. But I think that we have to watch them.

And going back to the digital issues, I think that the digital authoritarianism and the export of that is a really serious problem for human rights and for human rights activists.

Senator CASEY. And how about—just if you can develop or delineate how that impacts us here at home in terms of jobs and wages.

Ms. BARTHOLOMEW. Yes. Well, I think anytime that you have a workforce that does not have the ability to have freedom of association, and have a decent wage and all of the other conditions, you are making it more difficult for American companies to compete. You know, we are and we should be proud of the labor standards that we have in this country.

I, as a Democrat here, am proud of the labor unions and the work that they have done in this country. And their work in American communities is being—they are undercut when Chinese companies are manufacturing goods with workers who are not getting paid on a wage scale that is sustainable, for example.

You mentioned steel. I mean, you can go through these, industry after industry, and see what happened. It happened to our textile industry, it happened to our shoemaking industry, that Chinese workers were being paid so little that American workers, no matter how successful they were, how efficient they were, did not stand a chance.

Senator CASEY. Thank you very much.

Senator CORNYN. Now, Senator Menendez. Thank you.

Senator MENENDEZ. Thank you, Mr. Chairman.

I want to salute you and the ranking member for holding this hearing. At the Senate Foreign Relations Committee, we have been doing a fair amount of work on China as a challenge in our national interests.

And I think as China's Belt and Road Initiative expands around the world and Beijing seeks a hegemonic role on the international stage, the United States and our allies have to work together to increase our own development capabilities, but also to leverage this giant investment project to benefit the public good, not just the Chinese Communist Party.

But I often view—and I would like to hear from the panelists—that it is not nearly enough merely to confront China about its malign activities. We also have to compete with China at the end of the day, as well as be able to, at the same time, lecture about the dangers of debt-trap diplomacy.

And that means we need to start at home in investments in education, research, training, and infrastructure for the 21st century. We have to work closely with the Belt and Road countries to strengthen their ability to negotiate Chinese investment on good terms. Otherwise, we will see the rule of law in developing countries washed away in a flood of Chinese cash.

And I think we have to reinvigorate the instruments of our economic diplomacy so that all elements of the U.S. Government are working in tandem to promote best practices for workers and businesses. We are not going to be in a position to counter dollar for Yen to the investments of Chinese state-owned enterprises, but I do not think that is where our competitive advantage lies at the end of the day.

So with that in mind, do you think that the BRI decisions by the PRC are driven primarily by commercial and economic considerations, or by strategic and geopolitical ones?

Mr. KAMPHAUSEN. I will start. It is clear that BRI is motivated by geostrategic considerations. It is intended to create a suite of programs, projects, initiatives, and supporting capacities that raise China to a global leadership position. I think that is the best way to think about that.

That means then that many projects are driven by political imperatives, not just whether there will be a globally competitive return on investment. And so I often say that, in 15 years, Eurasia may well be littered with failed or incomplete or abandoned BRI projects precisely because the measure of success was whether the investment was made more so than whether the project became fully functioning.

Senator MENENDEZ. So that has many different elements to it: votes at the United Nations, position as it relates to the South China Sea. So that is, I think, a key focus for us to keep in mind, that this is not just a strategic competition on economics.

How do we update our development tools and capabilities for this 21st century? The BUILD Act was an incredibly good bipartisan achievement and a great first step, but it is exactly that, in my mind: a first step. That is why I have been working on legislation that would strengthen our development finance institutions and give our diplomats the resources they need to not only champion

American business abroad, but to work with the private sector to create a unified American investment strategy.

In your view, what would legislation look like in order to respond to the BRI? What tools would you hope would be created? What existing tools need to be updated?

Dr. SCISSORS. Senator, can I just—I do not have an answer to that. I wanted to make one important, very quick point about your first question, security versus commerce. The BRI—there is a third element. The BRI is very heavily associated with Xi Jingping personally. It matters to his domestic political position.

And I agree, I think, with Roy's view that this is primarily geopolitical. It is certainly not to make money. We should all be clear about that. These are money-losing projects, largely.

But I also would just add, it matters to Xi himself. That has not been true with previous Chinese global initiatives.

And I do not want to sidetrack. So I will stop there.

Senator MENENDEZ. I appreciate that.

Does somebody have an answer to my question? Anybody want to——

Dr. KLIMAN. I am happy to jump in.

Senator MENENDEZ. Dr. Kliman.

Dr. KLIMAN. So, starting on public diplomacy. I mean a major part of the Belt and Road is not only the economic and the security aspects, but the kind of narrative that China projects. So in my view, we need the ability to have a comprehensive counter-narrative which centers on public diplomacy.

So as a start, I do not have the answer to what a kind of 21st-century public diplomacy tool kit looks like. But I think Congress could play a vital role in tasking the executive branch to develop a blueprint and then assess from there.

On the Development and Finance Corporation, I concur it is a major bipartisan step, a real important step forward. I think a lot remains to be determined, whether it is legislation or oversight. But we should ensure, for example, that the new DFC has adequate resourcing to manage the larger portfolio it will have, ensure that it has an office of strategic investments, that it does not kind of devolve back to a general focus on pure development assistance without a strategic China competition lens.

And exploring things like a fast-track authority for at least certain types of lending in cases where, perhaps, a government abroad wants to move away from China and there is an opening for the U.S., the DFC could move quickly.

Other areas I think that are important to emphasize would be building essentially technical capacity. And to highlight one area in particular, the Infrastructure Transaction and Assistance Network, ITAN, plussing that up.

My understanding now is, in theory there is about 25 million allocated to it, and you can imagine growing that tenfold. And that would begin to meet the demand internationally.

Senator MENENDEZ. Thank you.

Ms. BARTHOLOMEW. Can I just briefly add?

Senator Menendez, I do not know how long it has been since we have—if ever—had a sort of a survey of where our development assistance has been extremely successful, because that would identify the strengths that we have. And indeed we do have some. And one of the ones I think of—of course—is technical assistance, assistance with these countries that are trying to go through BRI contracts or other contracts with China, assistance on ensuring that there are OECD standards that are being met, assistance on transparency and accountability.

Just one short story. I have a friend who is Kenyan, and he spends 6 months of the year in Kenya. He came back about a month and a half ago, and he said to me he had never seen more billionaires in Nairobi. He said you cannot imagine how many billionaires there are. And it is Chinese money.

So the projects themselves might not be happening. But because of corruption, there is money being scattered all over the place. And we are going to have to figure out a way to deal with that too.

Senator MENENDEZ. All right. Thank you very much.

Senator CORNYN. I might add for committee members' awareness, one of the unique features of the Finance Committee is we do not go back and forth across the aisle based on the early bird rule. It is based on who gets here first on the entire committee. So that is the reason why we may follow up with a couple of Democrats succeeding each other, or a couple of Republicans, just by way of explanation. That is the only committee I am aware of where that happens. Usually we go back and forth across the aisle.

But at this time, I will recognize Dr. Cassidy, Senator Cassidy.

Senator CASSIDY. Sometimes we go back and forth. I am never quite sure why we decide, but I am always noting it to my disadvantage. [Laughter.]

Senator CORNYN. It is not personal.

Senator CASSIDY. This is like the Finance Committee of Belt and Road.

We are actually hearing—I am hearing—two different stories from you all. You three see this as existential. You, Dr. Scissors, think the engine is about to run out of gas.

With that context, it does seem that the legacy effect, even if it runs out of gas, is if there is institutional corruption, which has been established, that there might be future relationships that do not make meaningful economic sense to the host country, but because they have been corrupted, they point themselves in the direction of China, and therefore the relationship continues. Would you all four agree to that?

[Affirmative nods.]

Senator CASSIDY. The other thing—I forget which of you suggested this, but I am interested in you, Dr. Scissors. Because, Dr. Scissors, I kept on wondering where that money is coming from, and my assessment has been kind of as yours has been, that their foreign reserves are going to 0, so how do they continue this?

Nonetheless, one of you spoke about if they, in the digital Belt and Road, establish standards which their companies meet but ours do not—that, coupled with potentially them, the Chinese, integrating ways to monitor and survey the host country does seem to have an existential element to it.

Dr. Scissors, would you agree with that?

Dr. SCISSORS. I certainly agree that there are legacy effects. And I think you just identified an important one with regard to standards. I quite agree there, no hesitation.

When I think about Chinese IP theft compared to legacy effects from the Belt and Road, I think of Chinese IP predation as existential. And I do not think of legacy effects from the Belt and Road as existential.

Senator CASSIDY. Except that—I understand there are two standards for 5G. We have one different than they have, and there is another being deployed abroad.

I presume our companies—I do not know—easily adapt one to the other. You know the British, they still drive on the right side or the wrong side, and so do the Aussies. So I think they do—you see where I am going with that.

Dr. SCISSORS. Yes, I do. And I think I would say 5G, of course, is developed out of Chinese IP theft. They would not be where they are without the IP theft. If we had curbed it, we would not have this 5G problem.

The other part of it is, the Belt and Road does not extend, except in a very few cases, to our military allies. So the threat from 5G to our national security is there, but it is not really a Belt and Road threat. It is a——

Senator CASSIDY. I agree with that. There are some of the things you mentioned, Ms. Bartholomew, that are not part of Belt and Road. Low wages for Chinese laborers undermining ours is not part of BRI. That is just inherent in their economy. I get that.

But on the other hand, the digital initiative, in which their standards might become the standard, does seem to be, if not integral, still so much a part of it that we have to address it part and parcel.

Dr. SCISSORS. I do not mean to say there is nothing to address in Belt and Road. And I meant my disclaimer on the security side to cover that.

I agree with your point. Even if the Belt and Road dies next year, there are legacy effects—and it is not going to. But even if it did, there would be legacy effects. And I think the digital standards element of this is the most important.

Senator CASSIDY. Now, Dr. Scissors, because I agree with you so much, I am going to attack you, okay? [Laughter.]

And I say this only to learn. They are doing a currency swap with Argentina——

Dr. SCISSORS. Right.

Senator CASSIDY [continuing]. In which case they kind of bypass the law, the lack of foreign currency reserves. I can see this being set up with other countries. Does this pose a workaround on the absence of foreign currency reserves?

Dr. SCISSORS. Not for the foreseeable future. For the foreseeable future, the Chinese—first, I mentioned this in my written testimony. The Chinese renminbi is very unimportant globally.

Senator CASSIDY. Yes, but if you do a currency swap, it is just the Argentinean peso with their renminbi——

Dr. SCISSORS. But people do not want to hold yuan. They do not want to hold renminbi.

Senator CASSIDY. But does that matter in a currency swap? Because now the Argentines are going to sell their commodities and——

Dr. SCISSORS. Well, that is if you think you are going to be able to sell whatever you swap to the Chinese. The Chinese are not renowned for having an open market.

It will work in commodities producers, right? The Chinese want to buy commodities. Everywhere else, the countries are going to say, what can I do with this money?

So I do think it is a factor. I do not think it saves them from their foreign exchange problem.

Senator CASSIDY. Got it.

And, Ms. Bartholomew, I was specifically told by somebody in the State Department that they are not using Chinese concrete and steel in these overseas projects. And you specifically say that they are.

Ms. BARTHOLOMEW. Well, I think certainly, as the projects were moving through Central Asia, there was a lot of use of steel and cement.

Senator CASSIDY. And they were specifically referencing a Latin American project. So it is in Central Asia, but not in, say, Latin America?

Ms. BARTHOLOMEW. I think it was in Central Asia and not Latin America. I mean, your economic costs, of course, go up if you are having to use the freight costs of shipping things. But certainly in Central Asia that was a part of it. When the Chinese had extreme overcapacity in a lot of these products, they had to do something with that capacity other than just drive down the world cost, which of course had an adverse impact on our industries too.

Senator CASSIDY. Thank you all very much for your testimony.

Ms. BARTHOLOMEW. Thank you.

Senator CASSIDY. I yield back.

Senator CORNYN. Senator Portman?

Senator PORTMAN. Thank you, Mr. Chairman, and thank you for this really important hearing and all our witnesses today. You have all been very informative.

I came earlier and got to hear some of your testimony. Sorry we are running between hearings today.

Let me just tell you a story. Yesterday I was meeting with the U.S. Ambassador to Italy, and I thought we would be talking more about EU matters, but in fact that topic shifted to China. And he told me that China is very involved in Italy, and that Italy has recently chosen to sign over 20 separate BRI deals with China totaling over $2.8 billion.

I am also hearing that Switzerland—again, I met with a Swiss representative from the business community this week, talking about doing a trade agreement with Switzerland. I am told that Switzerland is also working with China on projects in third countries.

A comment was made earlier that our strategic partners are not really part of Belt and Road, and our military partners are not—and Italy is certainly a strategic partner and a military partner. And so, I just say this only to add to the litany of concerns that we should have about even some of our strongest allies engaging on this.

The Global Engagement Center, which is from legislation that we wrote in the Foreign Relations Committee, has given us some new information recently. And that is that China has been supplying video surveillance equipment to Belarus and had been doing it since 2011.

Back to Europe—in Europe alone, 17 countries have had Chinese telecommunications investments, 14 have had Chinese energy project investments, and 20 have had Chinese transportation and logistics investments.

So I appreciate the comments that were made today about how we push back on that, and how we reassert American investment and try to help set standards. In particular, the DFC I support strongly. The BUILD Act—I was one of the original six co-sponsors of that bill. I believe it is an important counterpoint to what is going on around the world.

And yet the BUILD Act is limited to lower- and middle-income countries, as you know. And that excludes some of those middle-income countries in southern and eastern Europe we have been talking about today that are part of Belt and Road.

So my question for you is—and maybe Ms. Bartholomew and Dr. Kliman, you might respond. Given that southern and eastern Europe have emerged as the strategic battleground between the United States and China, and I would also say vis-à-vis Russia, where there is significant influence of course, do you believe the BUILD Act should be expanded to include some of those countries and some of those regions as well?

Ms. BARTHOLOMEW. On that, I have to say I am giving my personal opinion rather than anything to do with what the Commission has done. I think it would be a great idea to expand it. I hope that any expansion is not done at the expense of the low- and middle-income countries though, so that it is an expansion, not a substitution.

A couple of other things you mentioned, if I may. One is, the Russia-China issues, of course. We actually held a hearing a month ago, 2 months ago, on Russia-China issues and watching the growth of the Russia-China alliance. It is something that is of real concern.

You mentioned surveillance in Belarus. Of course there is surveillance equipment being sold all over the place. We even had Chinese surveillance equipment cameras at—they are gone now—but outside some of our military bases and at the U.S. embassy in Kabul.

So there are supply chain issues that go along with that. But I think, you know, Russia—there was just this recent incident where a Russian Navy ship came very dangerously close to a U.S. Navy ship. Watching that Russia-China expanding relationship is going to be something very important that people focus on.

One more thing on Europe—two, actually. One is, I think it really——

Senator PORTMAN. Let me get on to my next question. I want to be sure to get an answer from you on this as well: standards.

Dr. Kliman, we can perhaps hear from you later on that first question.

A key non-tariff barrier, of course, for our exporters is standards. And we talked about that some today. Dr. Scissors talked a little about the importance of standards. They make it easier for businesses to do business overseas, particularly in familiar export markets; otherwise, regulations and so on make it very difficult for us to sell into some of those markets.

The World Trade Organization's Technical Barriers to Trade Agreement, in part, encourages governments to adopt international standards for that reason. So there are international standard-setting bodies, and we support that.

What I am troubled by is seeing China take such a keen interest in the standard-setting process. Next generation telecom technology, like 5G, is an instructive place to look. In 2018, China had 8 of the 39 available leadership positions in those standard-setting bodies, the most of any country, the International Telecommunications Union 5G-related bodies. So that is the ITU 5G-related bodies, 8 of the 39. The United States, by the way, has a single representative.

At the International Standards Organization last year, China was in third place among the representatives there. The United States was tied for 16th place with Finland for the most participants.

China also leads in standard-essential patents or SEPs for 5G. These SEPs are patents that are—for technology, they are essential for compliance with any given standard and can provide the owner global market share licensing revenues and advantage in tech development.

Unfortunately, Chinese companies now own 36 percent of all 5G SEPs, with Huawei alone leading with over 1,500 of these patents.

So the question for anyone of you, given that the private-sector technologies are so important and that the private sector manages U.S. membership in these standard-setting bodies, what should we be doing differently? Should the U.S. Government get involved in this? We allow the private sector to take the lead, and yet we are not represented.

Dr. KLIMAN. I am happy to jump in on that as well as the other question.

So I think the U.S. Government has to play a much more muscular and centralizing role and that the private sector, I think, is looking for, certainly, more resources on the USG side to plug into these convenings where the Chinese are flooding the zone. And it is very hard for the U.S. Government, without the resources and kind of the top-down direction, to compete on equal footing.

Very quickly on your Europe questions, I mean I do think it is—you could consider, again, having kind of a strategic mandate for the DFC where, in select cases, they could plug into maybe middle-income countries in south and eastern Europe.

I think one area that would really move the needle in these countries is U.S. support for NGOs that are focused on Chinese influence. This can really expose a lot of Chinese activities and bring, especially in countries that are democratic, increased scrutiny.

Lastly, in general for south Europe and eastern Europe, and more generally, I think, Congress could play a role in encouraging a new definition of diplomacy, so the State Department focusing much more on commercial diplomacy rather than more of a kind of reporting function.

Senator PORTMAN. Well, thank you. My time has expired. I just appreciate the hearing. And I am one of those who believes that we need a constructive relationship with China. It can be done; it should be done. But that is not the direction we are headed right now.

Senator CORNYN. Thank you.

Senator Casey?

Senator CASEY. I am jumping ahead a little bit because I have to go to the floor, but I want to—if I do not return, I want to thank the panel.

I just have one question, one broad question. It is really for the panel, anyone who wants to chime in.

Can you kind of walk through or discuss ways that China—and you have alluded to this in various ways—is currently exercising influence over either decisions or outcomes of international organizations, multilateral organizations, and how their efforts through the Belt and Road Initiative may tilt the balance in favor of their world view of either government or governance? Does anyone have a view on that?

Mr. KAMPHAUSEN. Senator, I will jump in.

First, let me say I grew up in Philadelphia.

Senator CASEY. Great.

Mr. KAMPHAUSEN. And so let me thank you and your family for your service to the Commonwealth.

Senator CASEY. Wow, thanks. You get extra time. [Laughter.]

Mr. KAMPHAUSEN. And I would be remiss if I did not say on my son's behalf, "Go Eagles."

Senator CASEY. Well said.

Mr. KAMPHAUSEN. China responds to the international system in at least three ways, right? One is, it breaks the rules that it encounters that were made before its rise was significant. And we have alluded to some of its functions in the WTO.

Let me focus on two other areas. In another set of circumstances, it takes the rules, meaning it says the existing system can be beneficial to its own aims. But it has to either co-opt it or take leadership.

And so this points to the point made just a minute ago by Senator Portman. I want to highlight a great study that our staff at the Commission has done on PRC representation in international organizations. It points to the ways in which the Chinese leadership says, "If we lead an organization, we can tilt its outcomes to our own interests."

The third way is when China makes rules, meaning the existing rules are not broken or they are not adjusted, but they have to create new systems or new structures. And here I think they have chosen an institutional approach. The Asian Infrastructure and Investment Bank, AIAB, is an important Chinese effort to address the $27 trillion in infrastructure needs that the ADB says Asia has before 2030.

But the BRI is a concept. It is not a program. But as a broader concept, it is also intended to create new norms which China can be the leader of.

So these are three ways in which they can respond.

Ms. BARTHOLOMEW. But there are some examples of Chinese leverage influencing decisions that are being made. Of course, China is using its influence in Southeast Asia to affect people—the countries' responses to the South China Sea.

We were just actually in Asia and heard a lot of concern in Australia about what is happening with the Pacific islands. In 2018, China's ambassador to Vanuatu actually said that China expects its Pacific island diplomatic partners to support Chinese positions at the UN in return for its assistance. And I am quoting him, noting "there is no free lunch."

Greece has actually done it by itself. I mean, there are very few examples you can point to where the Chinese are saying, "Do this." But because of so much money that has been invested in Greece, the head of the Foreign Affairs and Defense Committee and the Greek Parliament actually said, "If you are down and someone slaps you and someone else gives you an alm, when you can do something in return, whom will you help, the one who helped you, or the one who slapped you?"

So there are influences that are happening because of Chinese investment in countries, BRI and other investment.

Senator CASEY. Dr. Kliman, you had something?

Dr. KLIMAN. Sure. So kind of a flipside example is how China is essentially leveraging international multilateral organizations to advance the Belt and Road. And to give one very concrete example, the UN Department of Economic and Social Affairs, which China has populated with many of its senior officials, has become essentially a cheerleader for the Belt and Road and tried to conflate the Belt an Road with the UN's own sustainable development goals for 2030.

So you essentially see a pattern in the UN or at large with China taking the organization, often pieces of it that are, sort of, distressed or less well-known, and leveraging them to give legitimacy and enhance its Belt and Road and larger agenda. So you definitely see this at play.

Senator CASEY. Thanks so much. Doctor?

Dr. SCISSORS. Just quickly, connecting this to a larger issue, we even have with very close U.S. friends major debates over the extent of Chinese influence over their domestic policy. And I am thinking of Australia, which had a huge problem where they were tapping into university students and apparently trying to buy influence through the political system.

I want to reinforce your point by saying Australia is an extremely vigorous society. Most international organizations are not nearly as vigorous. And if the Chinese can, you know, affect policymaking in a country like Australia even to a small extent, they are undermining what should be the process of international organizations. We should just take that for granted. That is the starting point of what the U.S. should do.

Senator CASEY. Thanks very much.

Mr. Chairman, Thank you very much for your indulgence and courtesy.

Senator CORNYN. Certainly.

I just have a couple more things I would like to ask about. You touched on—some of you touched on this, but the administration is currently making WTO reform a priority. And China's practices are a major reason why that change is needed. What specific actions should the U.S. Government take through the WTO, other multilateral regimes, bilaterally, or on our own to help elevate the market access conversion and to drive structural change in China?

Ms. BARTHOLOMEW. All right; I will start with one thing, then give my colleagues a chance to——

Senator CORNYN. It is not a true or false question.

Ms. BARTHOLOMEW. No. No, I know it would be easier if it were.

First, I want to note, of course, that the U.S. ambassador to the WTO, Dennis Shea, was a longstanding member of this Commission. So we have confidence that he is very aware of China's practices and how the WTO rules are not up to it.

I would say that one of the major weaknesses has to do with addressing state-owned enterprises. And I cannot give you right now any specific language about what needs to be done, but the WTO is not prepared to deal with the kinds of economies like China where state-owned enterprises play such a significant role as is being done. So I would highlight that as one of the issues that needs to be addressed.

Dr. SCISSORS. Let me just follow, because it is directly connected. A big thing in U.S. policy in terms of market access is also not being done by the WTO.

The Chinese will not even disclose their list of subsidies. They do not commit to saying, "This is all our subsidies." They will disclose some subsidies. And they say, "Those are not all our subsidies."

If we act, if we negotiate those subsidies, they just replace them with something else. As you know, sir, they have a lot of instruments to intervene in the economy. So saying, "Hey, we stopped subsidy A and subsidy B" does not do any good.

It is, in fact, a WTO principle that you should disclose all these subsidies, which is how they support their state-owned enterprises. We cannot even get them to do that, either on a multilateral basis or a bilateral basis.

So I know people have sweeping goals for WTO reform. I would just start with the transparency that is required of WTO members.

Ms. BARTHOLOMEW. Mr. Chairman, could we submit an answer to the record?

Senator CORNYN. That would be welcome.

Ms. BARTHOLOMEW. We have some trade experts who are not here at the table with us.

Senator CORNYN. No, that would be welcome. And there will be an opportunity for committee members to ask written questions of you. And there will be a period of time for you to respond. Some of this gets pretty technical, and so we need to get the best minds and the best answers we can possibly get. So certainly that would be fine.

Dr. Scissors, let me start with you. I am just curious. This is not necessarily directly on topic, but we are all very much aware of the negotiations that are underway with China on the tariffs, and not only the tariffs being issued by the United States, but the retaliatory actions by China on certain sectors of the U.S. economy, particularly the agriculture sector and some anxiety about that.

I am curious what your assessment is of the Chinese economy. You talked about the reduction of $900 billion in reserves, and they may be writing checks they cannot cash, more or less, on the Belt and Road Initiative.

But I also read that, because of the uncertainty of the trading relationship between the United States and China and how long these negotiations or this tit-for-tat will go on, literally companies are leaving China as part of the supply chain because they cannot predict what sort of disruption might occur and they just want to play it safe, which I understand is by going to Taiwan or Vietnam, for example.

Could you comment on that and what the impact is, generally, on the Chinese economy?

Dr. SCISSORS. My colleagues on the panel are all saying, "Oh God. We are going to be here for another hour." [Laughter.]

I will comment very briefly, sir. Thank you.

The Chinese economy is structurally weakening on the reserve side. They are running down their reserves. At home, they are running up enormous debt, right? So they have already written checks they cannot cash, and they are just borrowing the necessary money. They are an aging society. That is a long-term effect.

With regard to trade in particular, if the administration has the strategy—I do not know how to say this. I am not sure of the administration's strategy, and I feel like I talk to them every day. I am still not sure.

If they have a strategy of creating uncertainty with regard to U.S.-China trade and pushing production out of China, that to me is a welcome strategy, in my personal opinion. That is having some effect. That strategy is undermined if we pick fights with our other trade partners and create uncertainty about where you might relocate.

So I would break your question up into two parts. The Chinese economy is absolutely weakening. It is a medium-term threat to Xi Jinping's position in the trade negotiations. Trade then, itself, is creating uncertainty in China to add to that. If we want more leverage, we want the uncertainty to be confined to China, not to extend to Mexico, to Europe, to Japan, and so on.

Mr. KAMPHAUSEN. Mr. Chairman, if I may?

Senator CORNYN. Please.

Mr. KAMPHAUSEN. There are political realities that ensue from the economic realities that Dr. Scissors talked about. By virtue of the anti-corruption campaign and the consolidation of power that Xi Jinping has brought about, he now stands alone as responsible for these economic circumstances and the fragility of the trade relationship with the United States.

I was struck, as a participating member in the Commission's trip to Asia 3 weeks ago, including several days in Beijing, with the perspectives offered by a number of interlocutors in China who say he has a politically vulnerable position by virtue of the fact that this—he has put this trading relationship with the U.S. at stake. And there are many of the elites behind the scene who say he is potentially the leader who has killed the goose that lays the 500-billion-dollar-a-year golden egg with the United States.

And so there is enormous domestic pressure on him as well, for political reasons, that arise or ensue from the economic ones.

Ms. BARTHOLOMEW. Just to put a fine point on it, we were surprised how much we heard that Xi is not as strong as people outside like to think he is. But people were also very careful to say, it is not as though there is any impending coup. He is politically shaky, but there is no organized opposition to him that would be pushing him out. So he is on a balancing act, but it is not as though anything is necessarily going to happen that would push him out and make some sort of change. So I just wanted to be clear about that.

Senator CORNYN. Well, I always assume that for authoritarian governments, the most important thing for them is staying in power. And to the extent the economy is weakening, people are feeling uncertain, there is political unrest, that would seem to me to threaten or at least cause some concern about maintenance of that authoritarian position of power.

So it is hard for me to imagine that, in the negotiations with China, we are going to get China to change its stripes. Maybe there will be some marginal changes. I hope there are changes that benefit the United States, and this is one area where there do not seem to be a lot of political differences between Republicans and Democrats on the Hill. We all recognize China has had its way for a long time. It does not treat us, or investors, or employers that are reciprocal in a way in which we would treat them here in the United States.

But of course in a country headed by the Communist Party, where the state-owned enterprises have the members of the Party in their boardroom, they are not like American companies, as you pointed out. And the WTO, if they are not prepared to deal with those, that strikes me as a real challenge.

Well, you have all been very very helpful, and thank you for offering your expertise. This is obviously a topic that is going to continue to be of interest. We want to make sure that we elevate the discussion and the visibility of the China rivalry.

The Rand Corporation recently, in a publication I saw, said that China is a rival, not a rogue. Russia is a rogue, not a rival, or as Senator John McCain liked to say, Russia is a gas station masquerading as a country. That is another topic altogether.

But I have shared Senator Portman's hope that we do not—our future does not necessarily guarantee conflict with China, but we do have to manage this relationship, particularly the trading relationship, in a better way that benefits the American people and the American economy. And that is our goal.

So with that, the hearing will be adjourned.

[Whereupon, at 4:45 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF CAROLYN BARTHOLOMEW, CHAIRMAN, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Senator Cornyn, Ranking Member Casey, members of the committee, thank you for the opportunity to testify at today's hearing on China's Belt and Road Initiative. I am honored to appear today with my Commission colleague, Roy Kamphausen, and the other distinguished witnesses. The views in this testimony are informed by the Commission's body of work on this subject. They are, however, my own and do not necessarily reflect those of the full U.S.-China Economic and Security Review Commission.

I. OVERVIEW OF THE COMMISSION AND ITS STUDY OF BRI

The U.S.-China Commission was established by Congress when Congress voted to grant China Permanent Normal Trade Relations (PNTR). We were created to advise Congress on the national security implications of the U.S.-China economic relationship. We are bipartisan, with 12 Commissioners, three each appointed by the House and Senate Democratic and Republican leaders.

Our Annual Report to the Congress, released each November, is based on the hearings we hold (generally around six to eight each year), roundtables, contracted research, staff papers, and responses to requests for information and analysis from congressional offices. We generally travel to the region once each year and recently returned from 2 weeks in Asia where we held meetings in Canberra, Sydney, Singapore, Hong Kong, and Beijing.

We first discussed China's Belt and Road Initiative (BRI), originally called One Belt One Road (OBOR), in our 2015 Annual Report in a section on China and Central Asia. Indeed, when BRI was first introduced, most of its focus was on Asia. Much has changed since then.

II. THE HISTORY AND CURRENT STATE OF THE BELT AND ROAD INITIATIVE

BRI, President Xi Jinping's signature foreign policy initiative, was formally launched in 2013 during a speech by Xi at Kazakhstan's Nazarbayev University. The BRI is not a new concept. It is a culmination and rebranding of previous policies and projects aimed at linking China with its trading partners.[1] It is, however, so important now that Chinese leaders call it the "Project of the Century" and have written it into China's constitution.

With BRI, China has made a definitive break from Deng Xiaoping's era of "hide your capabilities and bide your time." BRI is an important pillar in the foundation of China's move on to the global stage with economic, diplomatic, geopolitical, and national security implications for the United States.

Broadly, BRI's land-based "Belt" crosses from China to Central and South Asia, to the Middle East, and then to Europe. The sea-based "Road" connects China with South Asia, the Middle East, East Africa, and Europe via sea lanes that traverse

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[1] Kazakhstan Ministry of Investment and Development, discussion with Commission, Astana, Kazakhstan, July 27, 2015; U.S.-China Economic and Security Review Commission, *Hearing on Looking West: China and Central Asia,* written testimony of S. Frederick Starr, March 18, 2015; U.S.-China Economic and Security Review Commission, *Hearing on Looking West: China and Central Asia,* written testimony of Raffaello Pantucci, March 18, 2015.

the South China Sea, Indian Ocean, Red Sea, Suez Canal, and eastern Mediterranean.[2] (See map in Appendix 1.)

However, BRI's ambitions are not confined to just two geographic paths. China's vision for BRI includes Latin America and the Caribbean, the Arctic, and even space and cyberspace—although plans for projects in these areas are less developed.[3] The Digital Silk Road—China's plans for integrating digital sectors like telecommunications, the Internet of Things, and e-commerce into its vision for regional connectivity—is a less analyzed but critically important component of BRI.

The most visible manifestations of BRI—the deal announcements and official Chinese communiqués—focus on economic objectives. These objectives include building hard and digital infrastructure, fueling domestic development (utilizing Chinese excess production capacity in, among other things, steel and cement) and increasing control in China's outer provinces, as well as expanding markets, and exporting standards, all boosting China's slowing economy.

And, indeed, the needs are great. The Asian Development Bank estimates that developing countries in Asia—and in Asia alone—will need $26 trillion in infrastructure development through 2030.[4] Hundreds of billions of dollars have been invested so far in BRI projects, but a large proportion of the projects remains in planning and will take years to complete.

But BRI has clear strategic intent. The strategic benefits for China include securing energy supplies, broadening the reach of the PLA, which Commissioner Kamphausen will address, and increasing China's influence over global politics and governance.

Chinese leaders want to use BRI to revise the global political and economic order to align with Chinese strategic interests. In an often-cited quote, in a speech marking BRI's fifth anniversary in August 2018, President Xi emphasized that the initiative "serves as a solution for China to participate in global opening up and cooperation, improve global economic governance, promote common development and prosperity, and build a community of common human destiny."[5]

According to the Chinese government, it has signed 171 BRI cooperation agreements with 29 international organizations and 123 countries.[6] Others estimate between 70 and 90 participating countries. The second Belt and Road Forum took place in Beijing in late April. A reported 5,000 delegates, including leaders from 37 countries, delegations from more than 150 countries and 90 international organizations, participated. One-third of the participating heads of state were from Europe.[7] Projects announced at the second Belt and Road Forum were valued at around $64 billion, down from the $115 billion in funding announced at the first Forum.[8]

In the month leading up to the second Belt and Road Forum, four countries announced major Chinese investments.

- Italy officially "joined" BRI, the first G7 member and western country to do so. Italian firms signed deals with Chinese counterparts worth $2.8 billion.[9]

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[2] National Development and Reform Commission, China's Ministry of Foreign Affairs, and China's Ministry of Commerce, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,* March 28, 2015.

[3] China's Ministry of Foreign Affairs, *Remarks by Foreign Minister Wang Yi at the Opening Ceremony of China-CELAC Economic and Trade Cooperation Forum and China-LAC Business Council Annual Meeting 2018,* January 23, 2018; China's State Council Information Office, *China's Arctic Policy,* January 2018; China's State Council Information Office, *Full Text of White Paper on China's Space Activities in 2016,* December 28, 2016.

[4] Asian Development Bank, "Meeting Asia's Infrastructure Needs," February 2017.

[5] *Xinhua,* "Xi Pledges to Bring Benefits to People Through Belt and Road Initiative," August 27, 2018.

[6] *China Daily,* "China Has Signed 171 B&R Cooperation Documents," March 7, 2019. *https://eng.yidaiyilu.gov.cn/qwyw/rdxw/81686.htm.*

[7] Shannon Tiezzi, "Who Is (and Who Isn't) Attending China's 2nd Belt and Road Forum?", *Diplomat,* April 27, 2019. *https://thediplomat.com/2019/04/who-is-and-who-isnt-attending-chinas-2nd-belt-and-road-forum/; Diplomat,* "Belt and Road Attendees List," May 12, 2017. *https://thediplomat.com/2017/05/belt-and-road-attendees-list/; China Tibet News,* "List of Results of the 'Belt and Road' International Cooperation Summit Forum," May 16, 2017. Translation. *http://epaper.chinatibetnews.com/xzrb/page/1/2017-05/16/04/2017051604_pdf.pdf.*

[8] Shannon Tiezzi, "What Does the Belt and Road Forum Say about the Health of China's Initiative?", *Diplomat Asia Geopolitics Podcast,* Podcast, May 3, 2019.

[9] Miles Johnson, "Italy Endorses China's Belt and Road Initiative," *Financial Times,* March 23, 2019. *https://www.ft.com/content/fda398ac-4d72-11e9-b401-8d9ef1626294.*

Among the BRI projects in Italy are Chinese investments in the ports of Genoa and Trieste.

- Kenya announced at the second Belt and Road Forum three agreements and two MOUs on education, science, technology and innovation.[10]
- Argentina (a "member" of BRI) and China renewed talks on Chinese financing for a stalled nuclear power plant and announced a $28-million deal with ZTE to help build fiber-optic cable systems.[11]
- Interestingly, President Macron of France announced 15 business deals worth about $45 billion including 300 Airbus planes, but carefully noted France was not "joining" the BRI and, in fact, pushed back against it, noting that Silk Road cooperation must work in both directions and meet international norms.[12]

It is difficult to quantify the full impact of BRI on U.S. companies and workers because there is no official definition of a BRI project, there is a lack of information about projects and it may be too early for impacts to be observable. However, we can identify looming economic challenges and problems. One major economic challenge for American companies is lost opportunity and lost market share.

A major goal of BRI is to open more markets for Chinese goods, displacing goods currently provided by the U.S. and other countries, particularly in higher-end manufactured goods. While BRI is characterized as a boon to global development, it is, in large part, designed to boost the competitiveness and innovative capacity of Chinese companies. BRI is aligned with China's economic development plans, such as the 13th Five-Year Plan and the Made in China 2025 initiative. For example, BRI directly targets at least half of ten key high-technology sectors in the Made in China 2025 strategy: aerospace equipment, power equipment, new information technology, rail equipment, and marine technologies.[13]

III. THE DIGITAL SILK ROAD

Telecommunications is a particularly notable example of China's effort to sell technology in BRI markets and beyond. Chinese telecommunications companies are expanding their efforts to build telecommunications infrastructure, provide network services, and sell communications equipment in BRI countries. In particular, China is promoting the implementation of its national standards for 5G and smart cities in countries along the Belt and Road.* Huawei, China Mobile, and ZTE are closely involved in developing 5G technology and have increased their participation in international standard-setting bodies for 5G.[14] According to research by the Australian Strategic Policy Institute (ASPI), as of April 2019, Chinese companies were involved in 52 5G initiatives in 34 countries.[15]

The issue of standards is important. BRI is intended to advance the adoption of Chinese technology standards. BRI can create new barriers to U.S. exports and investment to the extent that China is able to get participating countries to accept Chinese technical standards, for example in high-speed rail, telecommunication, and energy. If these efforts are successful, they will create long-term reliance on Chinese intellectual property and technology, while disadvantaging U.S. and other foreign companies.

The Digital Silk Road is China's plan for integrating digital sectors like telecommunications (ZTE, China Mobile, and Huawei), the Internet of Things, and e-commerce (Alibaba and *JD.com*) to create regional connectivity. The Digital Silk Road threatens U.S. businesses and market access in critical telecom and tech-

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[10] *Daily Active Kenya,* "Kenya and China to Sign Three Agreements and Two MOUs Worth Shs.300 Million Dollars," March 25, 2019.

[11] Shen Weiduo and Bai Yunyi, "Argentina Secures ZTE Deal Amid U.S. Assault Against Chinese Tech Companies," *Global Times,* March 27, 2019.

[12] Noemie Bisserbe, "In Delicate Courtship, France and China Make Deals," *Wall Street Journal,* March 26, 2019. *https://www.wsj.com/articles/in-delicate-courtship-france-and-china-make-deals-11553542187.*

[13] U.S.-China Economic and Security Review Commission, *Hearing on China's Belt and Road Initiative: Five Years Later,* written testimony of Nadège Rolland, January 25, 2018, 5.

* For discussion of Chinese entity participation in 5G standards-setting bodies, see U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress,* November 2018, 453–455.

[14] U.S.-China Economic and Security Review Commission, *Hearing on China, The United States, and Next-Generation Connectivity,* written testimony of Doug Brake, March 8, 2018, 5–6.

[15] Danielle Cave et al., "Mapping China's Technology Giants," *Australian Strategic Policy Institute,* April 18, 2019, 3. *https://www.aspi.org.au/report/mapping-chinas-tech-giants.*

nology. The plan calls for construction of cross-border optical cables and other communications networks. According to Chen Zhaoxiong, China's Vice Minister of Industry and Information Technology, the Digital Silk Road will help "construct a community of common destiny in cyberspace," a phrase mirroring language China uses to describe its preferred vision for a global order aligned to Beijing's liking.[16]

President Xi said at the first Belt and Road Forum in May 2017, "We should advance the development of big data, cloud computing, and smart cities."[17] In addition to creating obstacles for U.S. technology companies in BRI countries, the Digital Silk Road raises serious concerns about both information security and the expansion of the surveillance state. The Chinese government's plans and activities undermine the broader expansion of free markets and democratic governance.

Digital Silk Road projects give the Chinese government more of a foothold to export its authoritarian values, control of information, and surveillance right alongside the digital infrastructure. We are currently seeing the most extreme manifestation of the Chinese government's digital authoritarianism in Xinjiang, where over a million Uyghurs are being held in internment camps. The repression in Xinjiang is increasingly enabled by a broad array of technology, including surveillance cameras, artificial intelligence, biometrics (such as voice samples and DNA), and facial recognition profiling.

According to a 2018 Freedom House report, of 65 countries surveyed, 18 had purchased surveillance equipment, including AI-enabled facial recognition systems, from China. Freedom House found that 38 countries have purchased internet and mobile network equipment from China. Many African countries depend on China for network equipment and other high-tech products.[18] Huawei and ZTE have reportedly built most of Africa's telecommunications infrastructure.[19] China's activities don't stop there. In Latin America, Bolivia, Panama, Venezuela, and Argentina have purchased Chinese surveillance systems or other technology to identify and collect data on their populations.[20]

IV. OPPORTUNITIES FOR U.S. FIRMS

On a more positive note, some U.S. companies see sizable BRI-related opportunities. As noted earlier, the infrastructure needs in the developing world are vast. If structured in accordance with international standards for transparency, accountability and sustainability, including environmental protection and workers' rights, China's BRI projects could make a real contribution. Yet, most Chinese-financed BRI infrastructure projects are not open tender and are awarded to Chinese contractors.[21] The lion's share of the contracts is going to Chinese state-owned enterprises (SOEs) and U.S. companies are facing an unlevel playing field.[22] Nonetheless, some U.S. companies predominantly in engineering, procurement, and construction, as well as financial services are participating in BRI projects—mostly as sub-contractors to Chinese companies. (See Appendix 2 for examples of some U.S. firms participating in BRI.)

Through financing BRI projects, Beijing is creating leverage over loan recipients in a number of ways. Some of that leverage can be used to pressure participating countries to purchase Chinese-made high-end industrial goods (power generation equipment, telecommunications equipment) where U.S. companies are currently competitive.

The U.S. has sizable manufacturing exports to major BRI countries. For example, in 2017:

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16 Andrew Moody and Cheng Yu, "Digital Silk Road Forges Strong Links," *China Daily,* December 5, 2017. *http://www.chinadaily.com.cn/business/4thwic/2017-12/05/content_35207841.htm.*

17 *Xinhua,* "Full Text of President Xi's Speech at Opening of Belt and Road Forum," May 14, 2017. *http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm*

18 Freedom House, *Freedom on the Net 2018,* October 2018, 8.

19 McKinsey and Company, "Dance of the Lions and Dragons," June 2017, 17. *https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Middle%20East%20and%20Africa/The%20closest%20look%20yet%20at%20Chinese%20economic%20engagement%20in%20Africa/Dance-of-the-lions-and-dragons.ashx.*

20 Evan Ellis, "Chinese Surveillance Complex Advancing in Latin America," *Newsmax,* April 12, 2019.

21 *Financial Times,* "China's Belt and Road Initiative Is Falling Short," July 29, 2018; Jonathan E. Hillman, "The Belt and Road's Barriers to Participation," *Center for Strategic and International Studies,* February 7, 2018.

22 U.S.-China Economic and Security Review Commission, *Hearing on China's Belt and Road Initiative,* written testimony of Randy Phillips, January 25, 2018, 5.

- Malaysia: U.S. goods exports totaled almost $13 billion. Top exports were aerospace products, machinery, and electrical equipment;
- Indonesia: U.S. goods exports were almost $6.9 billion. Top exports were aircraft and machinery;
- Pakistan: U.S. goods exports totaled $2.8 billion. Top exports were machinery, iron and steel, and railway vehicles and equipment.[23]

V. CHINA'S POLITICAL AND ECONOMIC LEVERAGE

China's projects may not come with explicit requirements for transparency and human rights protections, but there are conditions nonetheless. China often expects recipient countries to source from Chinese companies, employ Chinese workers, and support China's diplomatic and political positions. For example, China is using is influence in the South Pacific* to garner "support for China's position in the South China Sea and, in some cases, support for Beijing's One China Policy."[24] In a 2018 interview with the *Vanuatu Daily Post,* China's ambassador to Vanuatu Liu Quan said that China expects its Pacific Island diplomatic partners to support Chinese positions at the UN in return for its assistance, noting, "There is no free lunch."[25]

In another example, Greece, struggling with debt and eager to attract Chinese investment, has scuppered the European Union's efforts to put out joint statements condemning China's aggression in the South China Sea or human rights conduct.[26] According to Costas Douzinas, the head of the foreign affairs and defense committee in the Greek parliament, Beijing never made explicit requests for support; instead, Greece backed China's positions proactively. Mr. Douzinas said, "If you're down and someone slaps you and someone else gives you an alm . . . when you can do something in return, whom will you help, the one who helped you or the one who slapped you?"[27]

The Chinese government seems to have become particularly sensitive recently to the issue of debt distress. The sovereign debt of 27 BRI countries is regarded as "junk" while another 14 have no rating at all.[28] This lending raises concerns about necessary debt relief down the road, as well as the use of leverage to take over sovereign assets, including ports in critical chokepoints. I believe my colleague will focus more on this issue.

VI. THE NEXT STEPS

All is not lost. There are steps the United States can and must take to address BRI's challenges to our economy and to the international order. We clearly cannot outspend the Chinese government in Belt and Road countries, but we can act to shape China's BRI efforts to meet international standards and offer targeted alternatives in key areas to counter emerging risks.

I commend the U.S. Congress for the passage of the BUILD Act, which is an important tool to support vitally needed private-sector investment in low- and lower-middle-income countries, particularly to small and medium-size enterprises. We have expertise in technical assistance to ensure transparency and accountability in BRI lending and in the construction of BRI projects. We must work with our allies and partners, like Japan, which are engaging in comprehensive development assistance programs. And we must strengthen our relationships with countries in Africa, in Latin America, in Southeast Asia, indeed in Europe, to counter the Chinese government's propaganda and spread of its authoritarian norms.

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[23] MIT Atlas of Economic Complexity. *https://atlas.media.mit.edu/en/profile/country/usa/*.

* For an in-depth discussion of China's activities in the South Pacific, see Ethan Meick, Michelle Ker, and Han May Chan, "China's Engagement in the Pacific Islands: Implications for the United States," *U.S.-China Economic and Security Review Commission,* June 14, 2018.

[24] Graeme Smith, "Should Pacific Island Nations Be Wary of Chinese Influence?", *ChinaFile,* February 1, 2018. *http://www.chinafile.com/conversation/should-pacific-island-nations-be-wary-of-chinese-influence;* Glenda Willie, "Vanuatu Reaffirms Stand on South China Sea," *Daily Post,* August 31, 2017. *http://dailypost.vu/news/vanuatu-reaffirms-stand-on-south-china-sea/article_94a1c49d-f82d-59d3-86ef-f2ad89dc541e.html.*

[25] Anthony Klan, "Chinese Envoy Tells Vanuatu it Expects Support in Return for Aid," *Australian,* January 31, 2018. *https://www.theaustralian.com.au/national-affairs/foreign-affairs/chinese-envoy-tells-vanuatu-it-expects-support-in-return-for-aid/news-story/44fd8ded4a475a2a247e54d9dcf46344.*

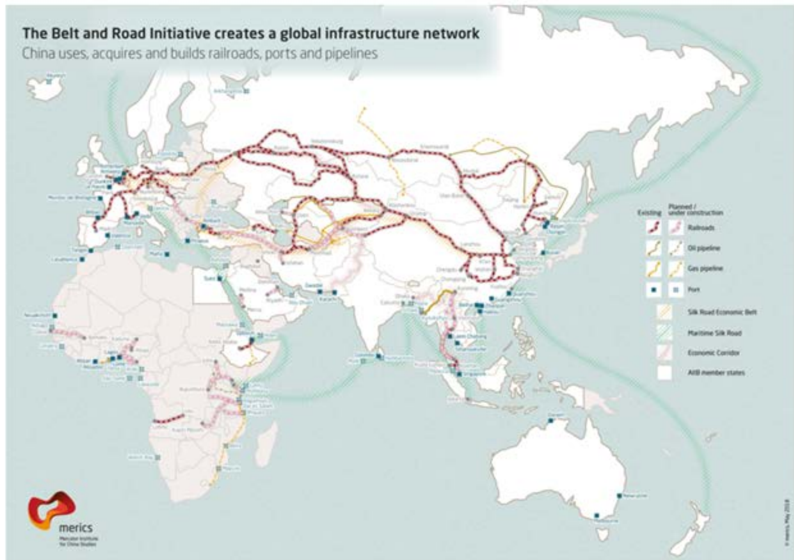
[26] Jason Horowitz and Liz Alderman, "Chastised by E.U., a Resentful Greece Embraces China's Cash and Interests," *New York Times,* August 26, 2017.

[27] Jason Horowitz and Liz Alderman, "Chastised by E.U., a Resentful Greece Embraces China's Cash and Interests," *New York Times,* August 26, 2017.

[28] Deloitte, "Embracing the BRI Ecosystem in 2018," February 12, 2018.

Thank you, again, for the opportunity to testify. I look forward to your questions.

Appendix 1: Map of BRI



Appendix 2: Select U.S. Firms Participating in BRI

Firm	Participation
AECOM (Engineering, procurement, and construction)	**Partnerships in engineering, procurement, and construction (EPC):** In May 2017, AECOM signed a memorandum of understanding with Chinese construction 3-D printing company WinSun. Under the agreement, the companies will explore opportunities to collaborate on 3D printing for building design and construction projects, particularly in the Middle East, for a 3-year period. In January 2018, AECOM was selected by China Communications Construction Company to provide site supervision services for the stations, viaducts, tunnels, and depots of the East Coast Rail Link project in Malaysia.
Black and Veatch (Engineering, procurement, and construction)	**Partnerships in EPC:** In October 2017, Black and Veatch and China Tianchen Engineering Corporation (TCC) signed a memorandum of understanding to cooperate on developing gas, chemical, and fertilizer infrastructure projects throughout Asia, including in Indonesia, Thailand, Vietnam, Singapore, Burma, Bangladesh, Pakistan, Kazakhstan, and Tajikistan.

Appendix 2: Select U.S. Firms Participating in BRI—Continued

Firm	Participation
Caterpillar (Engineering, procurement, and construction)	**Supplying construction machinery:** In 2016, Caterpillar released a white paper on its "vision and commitment for the shared success of [BRI]" in which the company outlined potential areas of cooperation with Chinese companies in BRI countries, including partnering on infrastructure projects and providing project finance. In September 2017 Caterpillar CEO Jim Umpleby said the company "[is] working with Chinese SOEs in 20 [BRI] countries on projects ranging from roads, ports, mines and oil fields." This includes supplying machinery, training, and maintenance services to China Communications Construction Company for the renovation of the Zhrobin-Bobruisk expressway in Belarus, which was completed in July 2016. In November 2017, Caterpillar and Chinese SOE China Energy Investment Corporation signed a 5-year strategic cooperation framework agreement outlining future agreements for mining equipment sales and rentals, technology applications, and product support provided by Caterpillar. **Financing:** Caterpillar is providing project finance for Chinese companies to boost BRI sales, according to company executives. The company does not disclose data for such lending.
Fluor (Engineering, procurement, and construction)	**Partnerships in EPC:** Lu Yaming, general manager of Fluor China, noted in a May 2017 interview with an energy industry publication that Fluor and a Chinese EPC company were recently awarded a project for a gas-fired power plant in the Middle East. "We're also working on a project in Indonesia that has been fueled by [BRI] and we have a number of very exciting prospects in the pipeline in other countries. All of these projects have Chinese investment or use Chinese financing," he said. Information on these projects is not available on the company's website or in other news reports.
Honeywell (Engineering, procurement, and construction)	**Partnerships in EPC:** In May 2017, Honeywell signed a partnership agreement with China's Wison Engineering Ltd. to jointly provide methanol-to-olefin technologies and EPC services to customers outside of China, particularly in countries included in BRI.
General Electric (GE) (Engineering, procurement, and construction)	**Supplying power equipment:** In 2016, GE received $2.3 billion in orders for natural gas turbines and other power equipment from Chinese EPC firms to install overseas, including in Pakistan, Bangladesh, Kenya, and Laos. In 2014, GE received $400 million in orders from Chinese firms for equipment to install overseas. According to GE China CEO Rachel Duan, "Africa is the market offering the greatest market potential for GE and Chinese EPC firms, followed by the Middle East, South Asia, Southeast Asia, and Latin America." **Financing:** In November 2017, GE Energy Financial Services and China's Silk Road Fund signed a cooperation agreement to launch an energy infrastructure investment platform to invest in power grid, renewable energy, and oil and gas infrastructure in BRI countries. Separately, Jay Ireland, CEO of GE Africa, said that the company had set up a $1-billion infrastructure fund to help finance projects in Africa. According to Mr. Ireland, one-third of Chinese EPC companies' equipment orders with GE in 2016 were destined for projects in Africa.

Appendix 2: Select U.S. Firms Participating in BRI—Continued

Firm	Participation
Citigroup (Financial services)	**Financial services:** Citigroup provides a range of financial services (*i.e.,* mergers and acquisitions, cash management, trade finance, and hedging) to Chinese firms and multinational corporations operating in 58 BRI countries. In June 2015, Bank of China launched the first public bond issue to fund BRI projects, raising $3.55 billion. Citigroup was one of four global financial services companies that led the deal alongside Bank of China. In April 2018, Citigroup signed memorandums of understanding with Bank of China and China Merchants Bank to strengthen cooperation on supporting clients' investments and projects related to BRI.
Goldman Sachs (Financial services)	**Financing:** In September 2016, Goldman Sachs—along with Bank of China, DBS Bank, and Standard Chartered—formed a working group to support the development of a standardized "Silk Road bond" that can be traded internationally to help BRI countries tap a wider source of funds.

Source: Various;[29] compiled by Commission staff.

QUESTIONS SUBMITTED FOR THE RECORD TO CAROLYN BARTHOLOMEW

QUESTIONS SUBMITTED BY HON. JOHN CORNYN

Question. The administration is currently making WTO reform a priority, and China's practices are major reason that change is needed. What specific actions should the U.S. Government take through the WTO, other multilateral regimes, bilaterally or on our own to help elevate the market access conversation and drive change?

Answer. The administration's approach to WTO reform has been driven by broad concerns, including its ineffectiveness in meeting the challenges posed by China. Ambassador Lighthizer has been working to address the concern, shared by many members of Congress, that the WTO's Appellate Body has overreached in terms of its decision making, often deciding cases not simply on the facts presented, but by imposing obligations on the parties that were never agreed to as part of the WTO negotiations. The U.S. Ambassador to the WTO, Dennis Shea, served on the China Commission for a number of years and is well-versed on the China challenges.

There is clearly a need for the WTO's approach to non-market economies like China to be revised and reformed. The stated goal of allowing China to accede to the WTO was that it would accelerate the reform of the Chinese economy and advance its adherence to market-based principles. That simply has not happened.

China's state-capitalist model is antithetical to many of the rules and strictures of the WTO. The consensus-based approach for reform at the WTO limits any opportunity to have a negotiated approach to addressing China's subsidies, state-owned enterprise-led and industrial policy-based competitive challenges. China's predatory

[29] Citigroup, "Citigroup Continues Momentum for Supporting Clients on Belt and Road Initiative," April 20, 2018; William Hennelly, "Caterpillar's Tractors Helping Power Belt and Road," *China Daily,* March 10, 2018; Rajesh Kumar Singh and Brenda Goh, "Caterpillar Drives Sales on China's New Silk Road," *Reuters,* March 4, 2018; AECOM, "AECOM to Provide Site Supervision Services for Malaysia's East Coast Rail Link Project," January 8, 2018; *Reuters,* "General Electric, China's Silk Road Fund to Launch Energy Investment Platform," November 9, 2017; Caterpillar, "Caterpillar Set to Fly With its Chinese Partners," *China Daily,* April 25, 2017; Yang Ziman, "Caterpillar Seeks to Deepen Ties With Chinese Companies," *China Daily Asia,* December 9, 2016; Cai Xiao, "GE Reaps Belt and Road Dividend," *China Daily,* October 25, 2016; Brian Spegele, "GE Rides the Coattails of China's Global Dream," *Wall Street Journal,* October 16, 2016; Liz Mak, "Global Bankers Pledge Expertise to Foster Standardized Silk Road Bond," *South China Morning Post,* September 9, 2016; Caterpillar, "The Belt and Road Ahead: Caterpillar's Vision and Commitment for Shared Success," 2016; Frances Yoon, "Update 1-Bank of China Raises USD 3.55 Bn for Silk Road Push," *Reuters,* June 25, 2015; Jennifer Hughes, "Bank of China Set for Four-Currency Bond Sale," *Financial Times,* June 23, 2015.

and protectionist policies, to date, have only been addressed in limited "surgical" case-based challenges.

Last year, in the USCC's annual report, the Commission recommended that:

> Congress examine whether the Office of the U.S. Trade Representative should bring, in coordination with U.S. allies and partners, a "non-violation nullification or impairment" case—along-side violations of specific commitments—against China at the World Trade Organization under Article 23(b) of the General Agreement on Tariffs and Trade.

Such an effort would allow for a broader examination of whether the Chinese model is compatible with the underlying tenets of the WTO and, if the case were to be successful, what the remedy would be.

In addition, accelerated efforts on cases such as the joint effort between the U.S., EU, and Japan to address Chinese subsidies via action at the WTO should be a high priority. Eighteen years have passed since China's accession to the WTO and the Chinese government has still failed to abide by its original WTO protocol of accession on subsidies.

In terms of other institutions and venues, there are a variety of initiatives that should be advanced. Most important would be to expand and enhance multilateral efforts via the OECD Steel Committee and the G20's Global Steel Forum to address global overcapacity in steel, largely fueled by Chinese industrial policies. Despite repeated commitments by China that it would reduce productive capacity in this sector, production and exports continue to rise. The effort to reduce global overcapacity in steel should be coupled with efforts to impose disciplines on other critical sectors that are also in overcapacity including aluminum, solar, glass, rubber, shipbuilding, cement and a variety of other sectors. Overcapacity, again largely fueled by China's industrial policies, has undermined the operation of global markets.

Question. Do you believe that the WTO has been an effective multilateral forum to combat China's anti-competitive behavior?

Answer. After 18 years of membership in the WTO, it is clear that the Chinese government has failed to faithfully live up to its commitments. The original terms of its protocol of accession and the rules of the WTO itself are insufficient to meet the challenge of China's predatory and protectionist policies.

The recent decision by China to withdraw its non-market economy dispute with the EU at the WTO has, unfortunately, eliminated the opportunity to review the decision by that body and means that the decision will be kept secret. China has sought to impose market-economy methodologies in the context of other country's laws against unfair trade (primarily antidumping and countervailing duty laws) despite the fact that it continues to engage in non-market economic activities and policies. The ability to block the broader debate about this threat to world trade rules highlights a WTO deficiency.

The WTO must find ways to address the China challenge through multilateral efforts or we will continue to see unilateral efforts, such as those utilized by our own country, to ensure that domestic producers and workers have a fair chance to compete. To date, the WTO has had limited impact in this arena.

Questions Submitted by Hon. Robert Menendez

Question. Which BRI projects, or types of projects, pose the biggest threat to U.S. interests? Which are the ones that we can leverage for the common good?

Answer. Generally, BRI projects that are not financially viable (*e.g.,* the Kunming-Vientiane Railway connecting Laos to China's southern Yunnan province), facilitate corruption (*e.g.,* Malaysia's East Coast Rail Link), or have strategic, rather than economic goals (*e.g.,* Sri Lanka's Hambantota Port and Myanmar's Kyaukpyu Port) pose the greatest threats to U.S. interests. Projects under China's Digital Silk Road (*e.g.,* telecommunications, smart city, and e-commerce projects) can also threaten U.S. interests by expanding China's influence over the global digital economy and exporting China's digital authoritarianism. The United States can leverage BRI projects that address real infrastructure needs and are subject to fair and open competition.

Question. What do you assess the real infrastructure financing needs are in countries where BRI is active?

Answer. China is developing BRI in regions with enormous infrastructure needs. The Asian Development Bank estimates developing countries in Asia collectively will need $26 trillion in infrastructure investment from 2016 through 2030. The African Development Bank estimates Africa faces an infrastructure funding gap of $87 billion to $112 billion a year.[1] The Inter-American Development Bank estimates Latin America and the Caribbean have an infrastructure financing gap of $150 billion per year.[2]

Question. What is the level of economic statecraft and economic engagement that the U.S. and our allies and partners are bringing to bear to address these needs?

Answer. The BUILD Act is an important step toward strengthening and modernizing U.S. international development finance, notably more than doubling our development finance lending capacity Technical assistance is another important element of the U.S. economic toolkit.

As noted in testimony, U.S. allies and partners—including Japan, India, and European countries—have increased their economic engagement to provide countries in need of infrastructure assistance with alternatives to BRI. For example, Japan—a longtime infrastructure player in Asia with decades of experience investing in Southeast and Central Asia—has increased funding to expand "high-quality and sustainable infrastructure" in the region through its Partnership for Quality Infrastructure.

The United States is working with our allies and partners to offer high-quality development financing to developing countries. Following the passage of the BUILD Act, the U.S. Overseas Private Investment Corporation signed multilateral cooperation agreements with the development finance agencies of Australia, Canada, the European Union, and Japan to support high standard projects that drive growth in emerging markets and provide alternatives to "unsustainable state-led models."[3]

Question. If the U.S. is not providing an alternative, is it sufficient to merely tell others not to accept BRI?

Answer. It is not sufficient to tell others not to accept BRI funding. Many of the countries targeted by BRI have significant infrastructure needs. Projects that are sustainable and transparent can provide important benefits to the citizens of those countries. Instead of saying "no" to involvement and development assistance, the United States must take important steps such as fully funding the BUILD Act, providing technical support, and aid where it can provide the most good. We cannot outspend the Chinese government. We must target our efforts and work with our allies and friendly countries to maximize our success and increase the value of our assistance.

Question. BRI has gotten lots of blowback for inflating debt, damaging the environment, not creating local jobs, and the like. Should we assume its going to fail? What if the Chinese clean up their act—can we relax?

Answer. In response to growing pushback to BRI, Beijing says that it has been rethinking how it selects and implements projects and presents BRI to overseas audiences. For example, there has been a recent announcement by Beijing that it will place anti-corruption officers in BRI projects. Such a step could be effective, but must be monitored to ensure these officers are targeting all possible corruption, not just corruption by Chinese officials involved in the projects. Moreover, controls must be in place to ensure the anti-graft officials will not be tempted to enrich themselves.

At a world summit for BRI participants in April 2019, President Xi sought to assuage countries' concerns over BRI, announcing the creation of a debt sustainability assessment framework, multiple initiatives to improve the environmental sustainability of BRI projects, and seminars on anticorruption and business integrity. However, he also restated China's view of the project's significance as a new model for global economic governance. With the continued addition of new signatories to the

[1] Rene Vollgraaff and Ntando Thukwana, "AfDB Seeks to Plug Africa $170 Billion Infrastructure Needs," *Bloomberg,* May 8, 2018.

[2] Inter-American Development Bank, "IDB Study Estimates Big GDP Impacts From Low Infrastructure Investments in Latin America," April 15, 2019. *https://www.iadb.org/en/news/idb-study-estimates-big-gdp-impacts-low-infrastructure-investments-latin-america.*

[3] Overseas Private Investment Corporation, "OPIC Signs MOU Establishing DFI Alliance With Key Allies," April 11, 2019; Overseas Private Investment Corporation, "U.S., Japan, Australia Sign First Trilateral Agreement on Development Finance Collaboration," November 12, 2018.

BRI, Beijing may have grounds to remain confident in the prospects for the project's viability. Despite protests over their BRI debts, countries have refrained from canceling projects outright and opted instead to renegotiate better terms. This suggests the ultimate fate of China's model may hinge on the ability of the United States and its allies and partners to reinvigorate alternative programs to address the vast global development needs, as well as to provide technical assistance to help recipient countries evaluate and implement infrastructure projects that uphold sound fiscal, economic, and environmental standards.

We cannot afford to relax no matter the success level of BRI. As I noted in my testimony, Beijing does not appear to have fundamentally altered BRI's most problematic components nor has it diminished its efforts to gain acceptance of BRI as a legitimate model for extending China's political, economic, and military influence abroad.

Question. What sort of risk does a "clean" BRI pose to U.S. interests? If our strategy is for a "free and open indo-Pacific," what is the response to a "free and open BRI"?

Answer. Greater transparency and fair competition would certainly be welcome, but BRI demonstrably has not been "free and open." Chinese state-owned enterprises are winning the lion's share of contracts, despite Beijing's rhetoric about BRI being open and inclusive. CSIS's Reconnecting Asia Project examined the degree to which BRI projects are subject to fair competition and found that 89 percent of Chinese-funded transportation infrastructure projects are awarded to Chinese contractors, compared to 29 percent in multilateral development bank-funded projects.[4]

A "clean" BRI would allow Beijing to more effectively promote Chinese standards and norms while increasing Beijing's political influence in regions that are strategically important to the United States. It remains a platform for the export of the surveillance state and for a Chinese model of economic growth with authoritarian government.

The response to a "free and open BRI" remains a "free and open Indo-Pacific" featuring "connectivity that advances national sovereignty, regional integration, and trust."[5]

Question. Just recently, we saw the failure of the Baoshang Bank and its subsequent takeover by the government. For years, the commercial banking industry in China has been fueled by an implicit guarantee of repayment in the event of failure, allowing banks to finance large scale, high risk investment projects. What does the failure of the Baoshang Bank signal about the state of China's banking sector? What is the commercial banking system's exposure to the BRI? What is the possibility that other banks may wake up to the risks associated with the Belt and Road, and do they believe that the failure of Baoshang Bank is a warning?

Answer. The takeover of Baoshang Bank ("Baoshang") signals the high degree of complexity that now characterizes China's banking and financial system, which will challenge Chinese policymakers' ability to identify and control systemic risk. Small and mid-sized banks are playing a growing role in China's financial system, comprising 43 percent of total banking system assets in 2018.[6] Regional banks have less access to deposit funding since they are not allowed to operate outside of their local area, so they often act as intermediary lenders, borrowing from larger banks to lend to local governments, property developers, and other nonbank financial actors. Larger banks have been willing to lend to smaller banks because of implicit government guarantees on the liabilities of small banks. While Beijing says it wants to see a reduction in debt, it also compels local banks to lend to local governments and other entities—often without regard to their creditworthiness—to keep the economy afloat.

As a private city commercial bank, Baoshang was a central-to-local intermediary: it borrowed from larger banks to lend to local non-bank financial institutions, funding property developers and local government projects. As such, it does not appear to have played a significant role in BRI projects or financing. As the Commission noted in its 2018 Annual Report, China's policy banks and major state-owned com-

[4] U.S.-China Economic and Security Review Commission, *Hearing on China's Belt and Road Initiative: Five Years Later,* written testimony of Jonathan Hillman, January 25, 2018, 3.
[5] Michael R. Pompeo, "Remarks on 'America's Indo-Pacific Economic Vision,'" Indo-Pacific Business Forum, U.S. Chamber of Commerce, Washington, DC, July 30, 2018.
[6] Gabriel Wildau and Yizhen Jia, "Regional Lenders: China's Most Dangerous Banks," *Financial Times,* July 30, 2018.

mercial banks have “shouldered the brunt of financing for BRI.”[7] Though it is challenging to know with certainty as Baoshang has not released financial statements since late 2016, the takeover of Baoshang is unlikely to indicate any warning about BRI to other financial actors.

Chinese economic policymakers’ response to Baoshang’s weakness highlights the contradictory nature of China’s current deleveraging efforts. On the one hand, they have sought to mitigate systemic risk in interbank lending by stepping in to support Baoshang and another regional actor, Jinzhou Bank. On the other hand, economic policymakers seek control over credit growth, which means by necessity reducing the size of the “shadow banking” activities Baoshang and other local banks engage in (*i.e.,* financial activities that do not appear on bank balance sheets and so are challenging to identify and monitor). Policymakers also see this circumstance as a way to force financial actors to accept losses on risky investments. Baoshang creditors had to accept “haircuts,” or markdowns in asset value such that creditors will not recoup their expected returns. In other words, the PBOC would like to allow enough risk to dent financial actors’ expectation of an “implicit guarantee” that all credit is backstopped by the government, forcing market actors to better evaluate and price risk, while also mitigating risks with the potential to cause systemic problems. The question for international observers remains whether the PBOC can successfully manage this balance.

Question. How can the U.S. work to counter the impact of BRI on medium-sized countries like Greece, where the China Ocean Shipping Company has a majority ownership stake in the Port of Piraeus and the Chinese government has expressed interest in other projects across the country?

Answer. The United States can pursue several strategies to counter BRI’s impact on medium-sized countries.[8] As I noted in my testimony, Beijing has sometimes used debts, including those incurred by BRI projects, to pressure host countries into ceding sovereign control over territory or even hosting a Chinese military presence. The United States can mitigate this pressure by offering medium-sized countries alternatives to BRI, particularly through private sector-led development projects backed by the U.S. International Development Finance Corporation,[9] technical assistance [10] and multilateral agreements with the development finance agencies of our allies and partners.[11] Congress can also create a fund to provide bilateral economic assistance for countries vulnerable to Chinese economic or diplomatic pressure, as recommended in the Commission’s 2018 Annual Report.[12] Steps to reduce BRI’s economic and military impact on medium-sized countries must be accompanied by measures to mitigate its political effect. For example, Beijing has sought to stifle international criticism and “tell China’s story” by using BRI projects to expand its involvement in local media markets, according to a 2019 Reporters Without Borders report.[13] The United States can oppose such efforts to export Chinese censorship and propaganda practices to medium-sized countries by countering Chinese messaging about BRI with its own alternative, fact-based narrative.[14]

Question. As many of you pointed out in your testimonies, many recipient countries may struggle to service their BRI debt. When that happens, international fi-

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[7] U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, “Belt and Road Initiative,” in *2018 Annual Report to Congress,* November 2018, 276.

[8] “Medium”-sized countries can be defined either with reference to their population and landmass, or to their classification as a lower-middle-income (GNI per capita of $1,026 to $3,995) or upper-middle-income (GNI per capita of $3,996 to $12,375) economy. For the first approach see as Joao Antonio Brito, *Defining Country Size: A Descriptive Analysis of Small and Large States,* February 2015, p. 6–10. For the second, see the World Bank’s classification of economies by size: “World Bank Country and Lending Groups,” *World Bank. https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.*

[9] “USIDFC Plan,” Overseas Private Investment Corporation, March 8, 2019. *https://www.opic.gov/sites/default/files/files/Shelby_Letter_USIDFC_Reorg_Plan_08032019.pdf.*

[10] Ben Kesling and Jon Emont, “U.S. Goes on the Offensive Against China’s Empire-Building Funding Plan,” *Wall Street Journal,* April 9, 2019. *https://www.wsj.com/articles/u-s-goes-on-the-offensive-against-chinas-empire-building-megaplan-11554809402.*

[11] “U.S., Japan, Australia Sign First Trilateral Agreement on Development Finance Collaboration,” Overseas Private Investment Corporation, November 12, 2018.

[12] U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, “Belt and Road Initiative,” in *2018 Annual Report to Congress,* November 2018, 260.

[13] Reporters Without Borders, “China’s Pursuit of a New World Media Order,” March 22, 2019.

[14] U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, “Belt and Road Initiative,” in *2018 Annual Report to Congress,* November 2018, 260.

nancial institutions like the IMF or World Bank may be called upon to rescue countries from a payments crisis. How should we encourage recipient countries to disclose the terms of China's BRI financing to make sure that U.S. taxpayers aren't one day called upon to bail out a country who can't repay a Chinese loan?

Answer. The United States can leverage its influence in the IMF and World Bank to ensure that IMF and World Bank loans are not used to repay Chinese loans.[15] For example, in the case of Pakistan, which is facing a balance of payments crisis, U.S. Secretary of State Mike Pompeo has warned that any potential IMF bailout should not be used to repay Chinese loans.[16] Pakistan has borrowed heavily from China to fund the China-Pakistan Economic Corridor, a flagship BRI project. In May 2019, Pakistan reached a deal with the International Monetary Fund to borrow $6 billion over 3 years, pending formal approval from the IMF's management and executive board.[17] A condition of IMF lending is that recipient countries have to fully disclose all borrowing; accordingly, Pakistan has disclosed the financing terms of existing foreign loans, including Chinese loans.[18]

In addition to working through international financial institutions, the United States can provide technical assistance to help countries negotiating with China over BRI projects and funding.

QUESTIONS SUBMITTED BY HON. JOHNNY ISAKSON

Question. I'm concerned with China's continued use of "debt diplomacy," or the practice of coercing developing countries into increased dependence on China through large loans and unsustainable debt. Through debt diplomacy, China is able to obtain strategic assets and resources, such as access to mineral deposits, ports, and land rights for military installations. Though these practices are certainly nefarious, they aren't necessary illegal. What can the United States do in response to these actions?

Answer. The United States can best respond by reinvigorating efforts—in collaboration with our allies and partners—to offer developing countries high quality development financing. The BUILD Act has been a hugely positive step in that direction. In addition, the United States can provide technical assistance to countries participating in BRI to help them vet, negotiate, and implement infrastructure projects through programs like the Infrastructure Transaction Assistance Network and Indo-Pacific Transaction Advisory Fund launched in July 2018. One recent example of U.S. technical assistance's positive impact can be found in Myanmar. As I noted in my testimony to the committee, in 2018 USAID provided a team of technical experts to assist Myanmar in renegotiating the cost and scope of a major BRI port deal from $7.3 billion to $1.3 billion, helping the country avoid falling into a debt trap.[19]

Question. One area in which China has had a surprising level of success with BRI is the European Union. Do China's efforts in the EU threaten the United States' hopes of negotiating new trade deals with the EU?

Answer. While many European countries welcome BRI in principle, some major European states and the EU as a supranational entity remain concerned about BRI's commercial feasibility, transparency, and environmental impact, as well as its strategic implications for the EU's economic, political, and security interests abroad. Notably, in April 2018, 27 of 28 EU ambassadors to Beijing signed an internal EU report saying BRI "runs counter to the EU agenda for liberalizing trade and pushes

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[15] International Monetary Fund, "IMF Executive Directors and Voting Power," June 27, 2019. *https://www.imf.org/external/np/sec/memdir/eds.aspx.*

[16] *Reuters,* "U.S.' Pompeo Warns Against IMF Bailout for Pakistan That Aids China," July 30, 2018. *https://www.reuters.com/article/us-imf-pakistan/us-pompeo-warns-against-imf-bailout-for-pakistan-that-aids-china-idUSKBN1KK2G5.*

[17] Farhan Bokhari, "Pakistan and IMF Negotiators Reach $6 Billion Loan Deal," *Financial Times,* May 12, 2019. *https://www.ft.com/content/8b666bcc-74d5-11e9-bbad-7c18c0ea0201.*

[18] Shahbaz Rana, "China Leads With 75 Percent of Share in Total Foreign Loans," *Express Tribune,* May 23, 2019. *https://tribune.com.pk/story/1978533/2-pakistan-discloses-borrowing-china/#.*

[19] Ben Kesling and Jon Emont, "U.S. Goes on the Offensive Against China's Empire-Building Funding Plan," *Wall Street Journal,* April 9, 2019. *https://www.wsj.com/articles/u-s-goes-on-the-offensive-against-chinas-empire-building-megaplan-11554809402.*

the balance of power in favor of subsidized Chinese companies."[20] In March 2019, the European Commission released a landmark paper on EU-China relations that labeled China an "economic competitor" and a "systemic rival promoting alternative models of governance."[21]

China's efforts in the EU do raise some concern that certain EU member states could be more supportive of Chinese policies abroad. However, U.S.-EU trade talks remain in the early stages and Chinese efforts in the EU do not yet appear likely to sway the negotiations.

QUESTIONS SUBMITTED BY HON. ROBERT P. CASEY, JR.

Question. If you could provide Congress and the administration one or two top-line recommendations on appropriately addressing the challenges outlined in this hearing, what would those be?

Answer. In the Commission's 2018 Annual Report to Congress, the Commission recommended:

- Congress create a fund to provide bilateral economic assistance for countries that are a target of or vulnerable to Chinese economic or diplomatic pressure, especially in the Indo-Pacific region. The fund should be used to promote digital connectivity, infrastructure, and energy access. The fund could also be used to promote sustainable development, combat corruption, promote transparency, improve rule of law, respond to humanitarian crises, and build the capacity of civil society and the media.
- Congress require the U.S. Department of State to prepare a report to Congress on the actions it is taking to provide an alternative, fact-based narrative to counter Chinese messaging on BRI. Such a report should also examine where BRI projects fail to meet international standards and highlight the links between BRI and China's attempts to suppress information about and misrepresent reporting of its human rights abuses of Uyghurs in Xinjiang.
- Congress require the Director of National Intelligence to produce a National Intelligence Estimate (NIE), with a classified annex, that details the impact of existing and potential Chinese access and basing facilities along the Belt and Road on freedom of navigation and sea control, both in peacetime and during a conflict. The NIE should cover the impact on U.S., allied, and regional political and security interests.

Question. The State Department 2018 Human Rights Report documents continuing abuses against China's ethnic and religious minorities, highlighting internment of Uyghurs, often subject to forced labor and other abuses. Congress is speaking out—I am a proud co-sponsor of Senator Rubio's Uyghur Human Rights Policy Act, which promotes high-level U.S. engagement on the continuing mass internment of Uyghurs in Xinjiang province in China. How does China's treatment of ethnic and religious minorities fit into its broader doctrine underlying BRI?

Answer. Beijing is particularly interested in reinforcing its control over its western Xinjiang region due in large part to its important location as the hub of the BRI's land-based "belt" economic corridors. The wholesale imprisonment of Uyghurs and other ethnic minorities in the region has been documented. China has had significant success in persuading other countries to at minimum not oppose—and in many cases, openly support—its Xinjiang policy. In July, responding to a letter from mostly Western countries criticizing the CCP's treatment of Muslims, 37 African, Eurasian, and Middle Eastern countries—including several Muslim-majority countries—sent a letter to the UN parroting Beijing's justification of its policies, vividly demonstrating China's ability to leverage economic ties to achieve its preferred geo-

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[20] Dana Heide et al., "EU Ambassadors Band Together Against Silk Road," Handelsblatt Global, April 17, 2018. *https://www.handelsblatt.com/today/politics/china-first-eu-ambassadors-band-together-against-silk-road/23581860.html.*

[21] Joint Communication to the European Parliament, the European Council, and the Council, "EU-China—A Strategic Outlook," JOIN(2019), 1. *https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf.*

political outcomes.[22, 23] For example, Pakistan, which signed the letter defending Beijing, has never been more dependent on continued good relations with China, since the China-Pakistan Economic Corridor component of the BRI remains central to Pakistan's economic growth and infrastructure plans.[24] China has also invested significantly in Saudi Arabia, another Muslim-majority country that signed the letter defending Beijing; Beijing and Riyadh agreed in 2017 to establish a $20 billion joint investment fund, and Saudi Arabia's $300 billion Public Investment fund plans to open a new office in Asia specifically to focus on courting funds from China.[25] General Secretary Xi Jinping originally announced the BRI during a speech in Kazakhstan in 2013, and Kazakhstan has continued to participate in it since then, despite the fact that Chinese authorities have detained Kazakh citizens in the Xinjiang camps.[26] In March 2019, based on questionable charges, Kazakhstan placed under house arrest Serikzhan Bilash, a prominent Kazakh human rights activist, silencing a major source of information on the conditions in the camps.[27]

BRI projects are intended to promote stability and help combat what Beijing calls extremism that the Chinese government fears could spill over its own borders or influence its domestic population.[28] As a component of these partnerships, and especially through its Digital Silk Road initiatives, Beijing is exporting the systematic, technology-enabled repression it has used in Xinjiang—to include surveillance cameras, artificial intelligence, biometrics, and facial recognition profiling—to other countries around the world such as Kazakhstan, Pakistan, Venezuela, and Zimbabwe.[29]

These developments led the Commission to recommend in its 2018 Annual Report to Congress that Congress require the U.S. Department of State to prepare a report to Congress on the actions it is taking to provide an alternative, fact-based narrative to counter Chinese messaging on BRI. Such a report should also examine where BRI projects fail to meet international standards and highlight the links between BRI and China's attempts to suppress information about and misrepresent reporting of its human rights abuses of Uyghurs in Xinjiang.

QUESTIONS SUBMITTED BY HON. BENJAMIN L. CARDIN

Question. Israel has a flourishing start-up business and entrepreneurial community. In particular, the country generates companies that are innovators in surveil-

[22] Signatories of the letter defending Beijing's policies included: Algeria, Angola, Bahrain, Belarus, Bolivia, Burkina Faso, Burundi, Cambodia, Cameroon, Comoros, Congo, Cuba, Democratic Republic of the Congo, Egypt, Eritrea, Gabon, Kuwait, Laos, Myanmar, Nigeria, North Korea, Oman, Pakistan, Philippines, Qatar, Russia, Saudi Arabia, Somalia, South Sudan, Sudan, Syria, Tajikistan, Togo, Turkmenistan, United Arab Emirates, Venezuela, and Zimbabwe. Signing the original letter criticizing China's policy in Xinjiang were: Australia, Austria, Belgium, Canada, Denmark, Estonia, Finland, France, Germany, Iceland, Ireland, Japan, Latvia, Lithuania, Luxembourg, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, and the UK.

[23] Catherine Putz, "Which Countries Are For or Against China's Xinjiang Policies?", *Diplomat,* July 15, 2019. *https://thediplomat.com/2019/07/which-countries-are-for-or-against-chinas-xinjiang-policies/;* Tom Miles, "Saudi Arabia and Russia Among 37 States Backing China's Xinjiang Policy," *Reuters,* July 12, 2019. *https://www.reuters.com/article/us-china-xinjiang-rights/china-says-almost-40-states-openly-back-its-xinjiang-policy-idUSKCN1U721X.*

[24] U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress,* November 2018, 167.

[25] Natasha Turak, "Massive Saudi Wealth Fund Zeros in on China, Plans to Open New Asia Office," *CNBC,* May 1, 2019. *https://www.cnbc.com/2019/05/01/saudi-public-investment-fund-zeros-in-on-china-despite-us-investments.html;* Sarah Zheng, "China and Saudi Arabia to Team up on US$20 Billion Investment Fund," *South China Morning Post,* August 24, 2017. *https://www.scmp.com/news/china/diplomacy-defence/article/2108175/china-and-saudi-arabia-team-us20-billion-investment.*

[26] Reid Standish and Aigerim Toleukhanova, "Kazakhs Won't Be Silenced on China's Internment Camps," *Foreign Policy,* March 4, 2019. *https://foreignpolicy.com/2019/03/04/961387-concentrationcamps-china-xinjiang-internment-kazakh-muslim/; Xinhua,* "China, Kazakhstan Agree to Work Together for Respective National Rejuvenation," June 8, 2018. *https://eng.yidaiyilu.gov.cn/qwyw/rdxw/57403.htm.*

[27] Massimo Introvigne, "Kazakhstan: Serikzhan Bilash Remains Under House Arrest," *Bitter Winter,* June 8, 2019. *https://bitterwinter.org/kazakhstan-serikzhan-bilash-remains-under-house-arrest/;* Daniel Balson, "Who Will Speak for Serikzhan Bilash? Not Washington," *Diplomat,* May 20, 2019. *https://thediplomat.com/2019/05/who-will-speak-for-serikzhan-bilash-not-washington/.*

[28] *See* U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "Belt and Road Initiative," in *2018 Annual Report to Congress,* November 2018, 271.

[29] Freedom House, Freedom on the Net 2018, October 2018, 8–10. *https://freedomhouse.org/sites/default/files/FOTN_2018_Final%20Booklet_11_1_2018.pdf.*

lance products and service, aircraft parts, electronic components for land, air and sea military platforms, electro-mechanical devices, microwave components and sensors. Many of these technologies are inherently dual-use. Some Israeli officials have suggested that they are open to easing the restrictions on dual-use and defense technology exports, while Israel's Ministry of Defense have resisted thus far, even though its bilateral military ties with China have been increasing. China has taken an interest in acquiring Israeli surveillance start-ups. Some estimate China has bought into as much as 25 percent of Israel's technology sector over the past decade. Investment can help Israel diversify its sources of capital, and links with Chinese businesspeople can help Israeli companies enter the rapidly growing Chinese market. Collaboration on technology and innovation can accelerate discoveries and technology improvements. However, Chinese investment and construction activity in Israel could lead to transfers of military or dual-use technologies to China, threats to Israeli IP and potentially to the competitive advantage of Israel's tech companies, and surveillance opportunities and threats to consumer data privacy. What are the major concerns regarding the potential transfer of key Israeli dual-use technologies—such as semiconductors, AI, satellite communications, cybersecurity, and robotics—and how can those concerns be mitigated?

Answer. The Commission has not recently looked at Israel-China technology cooperation. The views expressed in this answer are therefore my own. Two key concerns regarding Chinese investment in the Israeli high-tech sector are the ties that certain Chinese firms have to the Chinese government and the potential for these firms to transfer sensitive, dual-use technologies to the Chinese government or adversaries of Israel or the United States, such as Iran. The goal of knowledge transfer is openly spoken of by Chinese business leaders; for example, Li Kashing, Hong Kong's richest man and the main figure behind Horizon Ventures Ltd.—a firm invested heavily in the Israeli tech sector—has said that his goal is to "foster knowledge transfer between China and Israel." Other companies investing in Israel such as China Communications Construction Company (engaged in military construction projects in the South China Sea), Tencent (ties to China's censorship regime), and Huawei (ties to the Chinese government and military and accused of violating sanctions on Iran by selling it surveillance and other restricted equipment) all raise particular concerns that Israeli technology may ultimately benefit the Chinese Communist Party.

In order to mitigate such concerns, Israel could follow the United States' lead and create a mechanism modeled on the Committee on Foreign Investment in the United States (CFIUS) designed to screen foreign investment in sensitive sectors, something currently under consideration by the Israeli government. A panel commissioned by Israeli Prime Minister Benjamin Netanyahu has studied the viability and value of forming a CFIUS-like organ, and according to reports might advise against establishing a formal entity modeled on CFIUS, though the government has not yet rendered a final judgment on the issue.[30]

The Senate version of the National Defense Authorization Act for Fiscal Year 2020, passed on June 27th, contains a provision noting security concerns about the leasing arrangements at the Port of Haifa, without specifically mentioning China. A Chinese state-owned enterprise has a long-term contract to operate the port. The provision also states "the United States should urge the Government of Israel to consider the security implications of foreign investment in Israel." Congress might want to consider urging the administration to discuss cooperation on investment screening and export controls during U.S.-Israel bilateral exchanges.

PREPARED STATEMENT OF HON. ROBERT P. CASEY, JR., A U.S. SENATOR FROM PENNSYLVANIA

Before we begin today's hearing, I want recognize the current unrest in Hong Kong. Tens of thousands of demonstrators are protesting an extradition bill under review by Hong Kong's Legislative Council which would potentially result in democ-

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[30] Efron, Shira, Howard J. Shatz, Arthur Chan, Emily Haskel, Lyle J. Morris, and Andrew Scobell. *The Evolving Israel-China Relationship.* Santa Monica, CA: Rand Corporation, 2019. Pages 86–90. Harel, Amos. "Israel Is Giving China the Keys to Its Largest Port—and the U.S. Navy May Abandon Israel." Haaretz. September 17, 2018. *https://www.haaretz.com/us-news/.premium-israel-is-giving-china-the-keys-to-its-largest-port-and-the-u-s-navy-may-abandon-israel-1.6470527.* Peretz, Sami. "Israel Won't Vet Chinese Investment, Risking U.S. Ire." Haaretz. May 20, 2019. *https://www.haaretz.com/israel-news/.premium-resisting-u-s-israel-won-t-form-body-to-vet-foreign-investment-1.7269239?=&ts=_1562079891930.*

racy activists and journalists being forced to stand trial in China, where due process protections are lacking. Violence is escalating, and as of this hearing, over 20 people have been injured. I urge all parties to exercise restraint and respect the people of Hong Kong's right to peaceful protest.

The events in Hong Kong are a stark reminder of the reign of fear and oppression China has imposed on its own people, and the potential it has to export this abroad. Which brings us to today's hearing.

China's version of chess is a game called "Go." The objective is to surround and control the most territory on the game board. Rather than being confined to set moves, as they are in chess, pieces can be placed anywhere on the board.

Often the strategy behind a move, or a set of moves, does not come to light until late in game play, by which time it's too late to respond.

While a two-person strategy game cannot directly correlate with complex global relationships, it is a helpful frame in viewing and understanding the objectives behind China's Belt and Road Initiative.

The strategy China is employing globally is not so much a set of linear actions with set positions, rather a multifaceted strategy to employ the suite of tools available to influence the economic and geopolitical order in a manner that benefits its authoritarian and anti-competitive practices.

China's regional and global objectives are creating both direct and indirect economic and security challenges. The United Nations Conference on Trade and Development (UNCTAD) estimates that roughly one-third of global shipping goes through the South China Sea.[1]

Almost half of global trade ships through Asia.[2] Their increasing control of port infrastructure in the region and globally is cause for concern to all of us.

But BRI is not simply about ports or railroads, and we risk losing sight of the broader picture if we constrain our focus.

Through BRI, China is employing a "debt-trap" strategy to ensnare developing countries in a cycle of credit and deficit that only increases China's economic control over governments and minimizes opportunities for development that actually put countries on a path toward worker rights, strong labor practices, rising standards of living, and participating meaningfully in the global economy and the broader, liberal democratic order.

Debt begets dependency, and the United States and western powers are not doing enough to offer an alternative path toward economic development to the fast-cash, fast-growth approach China is promoting.

June 4th marked 30 years since the Tiananmen Square protests, and the Chinese government has successfully continued to suppress democracy since.

We have seen firsthand the cost of China's authoritarian practices, the cost of its surveillance state, disregard for human rights and human dignity, and efforts to undermine democracy and the rules-based order.

The Department of State estimates that China has incarcerated somewhere between 800,000 to 2 million Uighurs and other Muslims since April 2017.[3] Eleven million Uighurs living in Xinjiang are residing in what is effectively a police state.

To put that in perspective, the equivalent of almost the population of Pennsylvania is either incarcerated with no cause or under constant surveillance and repression by China. Through Belt and Road, China is exporting techniques for repression, their labor practices, and their disregard for human rights.

We have seen the consequences of China's assault on the rules-based order in its posture on trade, on IP theft, on forced technology transfer, and at the WTO.

China's theft of intellectual property has impacted numerous Pennsylvania firms, including U.S. Steel, Alcoa, Allegheny Technologies, and Westinghouse, and their efforts are extending to our own academic research institutions—compromising U.S. national security.

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[1] *https://chinapower.csis.org/much-trade-transits-south-china-sea/#easy-footnote-bottom-1-3073.*

[2] *https://unctad.org/en/PublicationsLibrary/rmt2018_en.pdf.*

[3] *https://www.cfr.org/backgrounder/chinas-crackdown-uighurs-xinjiang, https://www.foreign.senate.gov/imo/media/doc/120418_Busby_Testimony.pdf.*

The costs of China's economic strategy and globalization have fallen heavily on workers.

Studies by the Economic Policy Institute and MIT economist David Autor, and his coauthors David Dorn and Gordon Hanson, lend support to the assertion. According to the MIT study, roughly 40 percent[4] of the decline in U.S. manufacturing between 2000 and 2007 was due to a surge in imports from China.

China has made no secret about its strategy to push the rules to their limit and, when advantageous, break them outright. They know that redress to injured parties often doesn't arise until after the damage is irreparable.

China understands that the central structures of our multilateral organizations are based on the assumption that everyone intends to follow the rules, that guardrails are established to settle disputes between parties whose objective is to work within a rules-based system.

The question for all of us today, and going forward, is what do you do when a country with one-sixth of the world's population decides it doesn't want to play by the rules?

Inaction is not an option. The economic and human consequences are too great.

PREPARED STATEMENT OF HON. JOHN CORNYN, A U.S. SENATOR FROM TEXAS

Since its accession to the World Trade Organization, China has consistently engaged in unfair trade practices that bolster its domestic industries at the expense of free trade and global stability. China has weaponized foreign investment to force the transfer of cutting-edge IP, steal trade secrets, erode the technological gap, and create Chinese state-controlled competitors for American companies.

Last Congress, I authored the Foreign Investment Risk Review Modernization Act, which gives an interagency body known as the Committee on Foreign Investment in the United States additional tools to combat these threats. I am proud that President Trump signed this important legislation into law last year as part of the National Defense Authorization Act.

While we have taken this important step to defend Americans against predatory Chinese investment practices, China's ambition is much more broad. In 2013, the Chinese Government announced the "Belt and Road Initiative," through which it aims to construct billions of dollars of infrastructure projects in countries around the world.

Since the creation of the Belt and Road, China has strategically invested hundreds of billions of dollars in ports, railways, roads, and digital infrastructure. To date, China has entered into Belt and Road agreements with more than 70 countries, covering nearly two-thirds of the world's population.

Belt and Road is a cornerstone of the Chinese Communist Party's aggressive foreign policy goals and expansionist goals. It has been billed by their leaders as a way to modernize infrastructure corridors and construct a "community of common destiny." Unfortunately, this "community of common destiny" referred to by Chinese Communist Party members is one in which China reshapes the global order and imposes its authoritarian economic regime and controls on the world.

China's Belt and Road plan poses three fundamental threats to the United States and our allies around the world: trade manipulation, economic exploitation, and security erosion. At its core, the Belt and Road Initiative is fueled by China's mission to manipulate and undermine the global rules-based trading system for its own benefit.

China's internal structures are predicated on the preferential treatment of its domestic industries, often at the expense of free and open competition. This is further evidenced by the Made in China 2025 plan, which strategically complements Belt and Road and seeks to make China dominant in a number of high-tech sectors of interest to the United States, including rail infrastructure, telecommunications, and artificial intelligence.

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[4] *https://www.nytimes.com/2018/03/13/opinion/trump-trade-china.html.*

Belt and Road has only exacerbated China's unfair trade practices, in clear violation of their commitments as a member of the WTO. That's because the Belt and Road is rigged to empower and create monopolies for Chinese-controlled entities like Huawei, ZTE, and CRRC to carry out these projects all over the world.

But China's strategic vision goes far beyond empowering its state-controlled companies—it also seeks to bend unwitting countries through their economic exploitation and "debt-trap" diplomacy. In numerous countries, China has financed projects resulting in "partner" nations accruing crippling foreign debt from which they cannot escape.

For example, when Sri Lanka was unable to service billions of dollars of Chinese-backed loans under Belt and Road, it had little choice but to grant China a 99-year lease allowing it to control a Sri Lankan port. In Venezuela, China reduced lending as the country's debt spiraled out of control. In order to renew China's interest, Venezuela agreed to sell a nearly 10-percent additional stake in its state-owned oil enterprise.

But most concerning are the direct national security threats posed by the Belt and Road. In 2017, China used construction of a Belt and Road seaport in the African nation of Djibouti as a Trojan horse to open its first overseas military base in the country. Because of Djibouti's strategic location on the Horn of Africa, it serves as a gateway to global shipping traffic through the Red Sea and the Middle East.

It is not hard to see why the presence of the Chinese military near the Middle East could destabilize the region and threaten our national security interests—but that is exactly the objective of the Belt and Road Initiative. A 2018 Department of Defense report highlighted the long-term implications of China's attempt to manage civilian ports, stating that China "has made requests for military access and basing agreements . . . which could allow the [People's Liberation Army] to pre-position necessary logistics to protect its interests."

Equally as concerning is China's recent shift in focus from port and rail infrastructure projects to strategic plays in the world's digital infrastructure. In Chile, the Chinese Government is investing more than $650 million to build a subsea fiber-optic cable, which will become the largest data flow between Asia and Latin America. China has even begun providing certain countries, like Zimbabwe, with cutting-edge facial recognition software, which will give the Chinese control over additional troves of data.

Given the grave threats posed by the Belt and Road Initiative, it is not enough for Congress to simply express concern or opposition to China's efforts. Congress and the executive branch must develop and implement a coordinated long-term strategy to ensure American trade and security policy can prevent the Belt and Road Initiative from achieving its objectives.

I look forward to discussing this panel's perspectives on the Belt and Road Initiative and hope this hearing can serve as a catalyst for the committee's efforts to address this threat.

PREPARED STATEMENT OF ROY D. KAMPHAUSEN, COMMISSIONER, U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Chairman Cornyn, Ranking Member Casey, distinguished members of the committee, thank you for the opportunity to appear before you today to share my views on the strategic as well as military and security components of China's Belt and Road Initiative (BRI), building on my colleague's statement. I want to recognize the committee's vigilance for bringing to the public's attention this important issue, which is the subject of my testimony today. These views are my own and do not necessarily reflect those of the U.S.-China Economic and Security Review Commission, where I serve as a Commissioner, although they are informed by the Commission's body of past and ongoing work on this subject.*

The perspectives I offer also reflect the studies we have undertaken at the National Bureau of Asian Research (NBR), including the seminal monograph on the BRI, titled *China's Eurasian Century,* authored by my colleague Nadege Rolland.

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*The U.S.-China Commission published a chapter on the BRI in its *2018 Annual Report to Congress.* The research and findings from that chapter are central to arguments made in this testimony, which draws heavily on that and other ongoing Commission analysis.

I. OVERVIEW OF THE BELT AND ROAD

It is entirely fitting that the Senate Finance Committee Subcommittee on Trade, Customs, and Global Competitiveness invite testimony on the strategic intentions and implications of the BRI. The Chinese response to Trump administration arguments that the U.S. is fully engaged in a strategic competition with China decry "Cold War" thinking on the part of the U.S. but do not deny that a competition is underway. Indeed, Beijing seems to have been waiting for the U.S. to join this competition well before our own acknowledgment of the process already underway. The perspectives held by Chinese leaders on the strategic and security dimensions of the BRI, as are readily available from their public statements and speeches, are thus as essential as PRC perspectives on the economic, trade and development dimensions of the BRI to grasping Beijing's overall intent. This understanding then is a necessary first step to informing Congress's own policy responses to maintaining American competitiveness.

A year and a half ago, in testimony before the House Committee on Foreign Affairs, I argued that the BRI represents a test case for China's vision for a new international order throughout Eurasia, and possibly even the world. The contours of that desired order are now more clear, and Beijing's ambitions even greater, than they were even that short time ago.

Today, China has demonstrated that it intends for the BRI to be not merely a regional initiative, but a global one, as the chairman just stated. China has extended the BRI into the Western Hemisphere, Europe, and the Arctic, and has launched what it calls a "Digital Silk Road" and a "Space Silk Road," seeking influence not only around the world, but also in the key domains of cyberspace and outer space.

More broadly, China has used the BRI to promote its influence in revising the rules of global economic governance and, even more fundamentally, the international order itself. In a speech marking the fifth anniversary of the BRI in August 2018, Chinese Communist Party (CCP) General Secretary Xi Jinping declared that the initiative "serves as a solution for China to improve global economic governance [. . .] and build a 'community of common human destiny' "—a term used by Chinese leaders with increasing frequency to refer to a global order aligned to Beijing's liking.[1] Beijing has also used the BRI to support its ambition to construct a "new world media order" to stifle independent journalism and criticism of China around the world.[2]

From the available evidence, it seems apparent that Beijing is trying to restructure the global governance system by realigning global supply chains, financial networks, technical standards, and Internet networks and governance to conform to China's preferences.

Military implications of the BRI have also begun to emerge. In recent years, Beijing has tasked its military to protect China's overseas interests and spoken openly about the military utility of BRI investments and the need to extend its military reach to protect these commitments. Ports and airfields constructed by Chinese state-owned enterprises span the globe, which Beijing has used in conjunction with other debts, including those incurred from BRI projects, to pressure host nations to cede sovereign control over territory or even host a Chinese military presence.[3] For these reasons, it is likely that China will continue to increase its global engagement; People's Liberation Army (PLA) bases in Djibouti and Argentina are unlikely to be their last.

While China has signaled it may be willing to make some rhetorical or tactical adjustments to the BRI in response to the mounting global criticism it has received, there is no indication it will fundamentally alter the project's most problematic practices. As China continues to add new BRI signatories and reinforces the scheme's centrality to Chinese foreign policy, we should expect instead that China will only redouble efforts to establish the BRI, along with the political, economic, and military

[1] *Xinhua,* "Xi Pledges to Bring Benefits to People Through Belt and Road Initiative," August 27, 2018.
[2] Reporters Without Borders, "China's Pursuit of a New World Media Order," March 22, 2019.
[3] Maria Abi-Habib, "How China Got Sri Lanka to Cough Up a Port," *New York Times,* June 25, 2018; David Hutt and Shawn W. Crispin, "Cambodia at Center of a New Cold War," *Asia Times,* November 14, 2018; U.S.-China Economic and Security Review Commission, "China's Engagement in the Pacific Islands: Implications for the United States," June 14, 2018; Elizabeth Economy, "China's Strategy in Djibouti: Mixing Commercial and Military Interests," Council on Foreign Relations, April 13, 2018.

implications of the scheme, as enduring and accepted features of the international order.

For the purposes of this hearing, I will focus on the strategic component of the BRI, especially how Beijing is using the BRI to extend its political and military influence around the world.

II. BRI AS AN INSTRUMENT OF GRAND STRATEGY

While China routinely denies any strategic motivation behind the BRI, the project's geopolitical significance is apparent. Chinese leaders view the BRI as evidence of Beijing's increasing global influence and as an instrument to promote China's political and economic development models as worthy of respect and even emulation. As such, Beijing uses its promotion of the BRI to raise China's international status, enhance the legitimacy of the Chinese Communist Party (CCP) both at home and abroad, and position China to lead global efforts to revise key features of the international order.

At its core, the BRI functions as a strategic instrument to shape and accelerate changes to the international order and balance of power. In Beijing's view, the world is currently experiencing epochal changes "not seen in a century," and the CCP is presently and must continue to play a central role in driving, and even leading, these changes.[4] According to CCP leaders, the BRI is a primary component of the "great struggle" China must carry out as it assumes a central role in global affairs and "takes the wheel" and provides a "Chinese approach" to revising global governance structures and norms.[5] The BRI is therefore both an important vehicle for China to promote these changes and a validation itself of China's progress toward achieving its goals.

In moves reflecting the project's strategic importance, the CCP enshrined the BRI in its constitution and as an official pillar of China's more assertive diplomacy under Xi Jinping.[6] The CCP traces the origins of the BRI to Xi's "profound reflections on the future of human destiny," which also produced the other signature component of China's foreign policy under Xi Jinping, the aforementioned "community of common human destiny." CCP leaders describe the BRI as the key test bed for the latter effort, which derives in turn from what the CCP identifies as its "historic mission" to not only govern China, but to profoundly influence global governance as well.[7] In a speech marking the fifth anniversary of the BRI in August 2018, Xi Jinping described the BRI both as a platform for economic cooperation and an "avenue [. . .] for perfecting the global development model and global governance."[8] In a further turn of phrase that could be considered absurd had it not come from China's highest leader, Xi went on to claim that the BRI "occupies the commanding height of international morality and justice."[9] As such, it should be clear that Beijing views the BRI not only as providing other countries with an economic and political model worth emulating, but as a morally justified endeavor.

In tandem with the BRI's problematic economic components, a number of the political and social initiatives China has advanced through the BRI offer a troubling preview of what a world reflecting the interests of China's political system might resemble. For instance, China has used the BRI to advance the CCP's broader and longstanding effort to export its state-controlled, authoritarian model for media and political discourse. In countries from Africa to Europe and the Western Hemisphere, China—ranked 176th out of 180 countries in the 2018 World Press Freedom Index

[4] *Xinhua,* "Xi Jinping: Promote the Successful Implementation of One Belt, One Road to Benefit the People," August 27, 2018. Translation; *Xinhua,* "Xi Jinping: Work Hard to Pioneer a New Phase for 'Major Power Diplomacy with Chinese Characteristics,'" June 23, 2018. Translation.

[5] Yang Jiechi, "Take 'Xi Jinping Diplomatic Thought' as the Guide, Deepen the Promotion of Foreign Affairs Work for the New Era," *Qiushi,* August 1, 2018. Translation; *Xinhua,* "Xi Jinping: Promote the Successful Implementation of One Belt, One Road to Benefit the People," August 27, 2018. Translation.

[6] Yang Jiechi, "Take 'Xi Jinping Diplomatic Thought' as the Guide, Deepen the Promotion of Foreign Affairs Work for the New Era," *Qiushi,* August 1, 2018. Translation.

[7] *Xinhua,* "Xi Jinping: Promote the Successful Implementation of One Belt, One Road to Benefit the People," August 27, 2018. Translation; Wang Yi, "Take 'Xi Jinping Thought on Socialism With Chinese Characteristics for a New Era' to Lead the Opening of New Frontiers for Chinese Diplomacy," *People's Daily,* December 19, 2017. Translation.

[8] *Xinhua,* "Xi Jinping: Promote the Successful Implementation of One Belt, One Road to Benefit the People," August 27, 2018. Translation.

[9] *Xinhua,* "Xi Jinping: Promote the Successful Implementation of One Belt, One Road to Benefit the People," August 27, 2018. Translation.

compiled by Reporters Without Borders (RSF)—has used BRI partnerships to expand its influence into local media markets to establish what it has termed a "new world media order."[10] According to a landmark 2018 RSF study, this effort represents Beijing's determination to stifle independent journalism and international criticism of China while legitimizing China's own "repressive vision of how media should function."[11] In April, China hosted the inaugural meeting of the Belt and Road News Network—an association consisting of 182 media outlets from South Africa to France—where Xi Jinping exhorted countries involved in the BRI to produce news stories boosting public support for the project.[12] The establishment of this network builds on the investments described in the RSF study that China has made to fund foreign journalists traveling to China for training in Chinese state-run media practices, purchase controlling stakes in foreign Chinese-language and other media, and promote China's concept of cyber sovereignty that would give governments the right to control Internet users and content within its territory.[13] The new media order is just part of a broader united front strategy—including in foreign academic circles—to shape the mindsets and perspectives of elites in the developing world and even in developed countries.

III. MILITARY AND SECURITY COMPONENT OF THE BRI

On the military and security side, while the BRI was not conceived to serve purely military objectives, it does serve strategic ends that include military purposes. Beijing has made clear it intends to guarantee the security of BRI projects, although the exact methods it might employ to do so remain under development. In private discussions, PLA officers have told me that the responsibility for security lies solely with the state owned enterprises which develop the projects. Such an argument rings hollow, however, when contrasted with the statements and acts of a PLA that is much more outwardly focused on defending Chinese interests and personnel abroad.

What is not known at present is whether China intends to protect the BRI through enhanced security cooperation with partner militaries, capacity building of host nation security forces, outsourcing of security to private security providers, or potentially through the deployment of active PLA forces in certain circumstances. Still, recent statements and writings from Chinese leaders reinforce the military significance of the BRI and suggest that serious deliberations are now underway about extending formal military protection for the BRI and China's other overseas commitments.

In recent years, Beijing has been increasingly open about its intent to regularize overseas military deployments to protect its expanding global interests. In its 12th Five-Year Plan issued in 2011, China publicly obligated the state to protect its "overseas interests," which built on the CCP's instructions since the discussion in the early 2000s of "new historic missions" for the PLA so as to assume a more active global role. Beijing formally codified this mission for the PLA in its defense white paper issued in 2015.[14] The PLA has also established at least one, and potentially more, overseas military bases, including a naval base in Djibouti and a PLA-operated space station in Argentina.[15] In so doing, China has shut the door firmly on its previous claim—notably expressed in its first defense white paper, issued in 1998—that China "does not station any troops or set up any military bases in any foreign country" as a matter of policy.[16] In addition, authoritative publications on China's military strategy have discussed the need for the PLA to achieve effective

[10] Reporters Without Borders, "China's Pursuit of a New World Media Order," March 22, 2019.

[11] Reporters Without Borders, "China's Pursuit of a New World Media Order," March 22, 2019.

[12] Abdi Latif Dahir, "China Wants to Use the Power of Global Media to Dispel Belt and Road Debt Risks," *Quartz Africa,* April 25, 2019.

[13] U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress,* November 2018, 314–317; U.S.-China Economic and Security Review Commission, *2017 Annual Report to Congress,* November 2017, 482–484.

[14] Ryan D. Martinson, "The 13th Five-Year Plan: A New Chapter in China's Maritime Transformation," *China Brief,* January 12, 2016.

[15] Ernesto Londono, "From a Space Station in Argentina, China Expands its Reach in Latin America," *New York Times,* July 28, 2018; Cassandra Garrison, "China's Military-Run Space Station in Argentina is a 'Black Box,'" Reuters, January 31, 2019.

[16] Information Office of the State Council, "China's National Defense," July 1998.

"forward defense" to protect China's expanding national interests and extend the country's strategic depth.[17]

In January, Xi Jinping called on China to improve the protection of its overseas economic interests, including through building what he called a "system of security guarantees" for the BRI. While he did not specify a role for China's military in this effort, the language Xi used was similar to a statement from China's minister of defense in 2018 announcing the PLA's interest in working with Pakistan to provide a security guarantee for BRI projects.[18] In publications in military journals, the PLA has described the BRI as itself an effort to expand China's strategic depth, which has generated new requirements and options for Beijing to use and station military forces overseas. In a recent article by several PLA Air Force officers, the authors reveal the existence of a military "going global" strategy that requires the PLA to routinize military activities outside China's borders while encouraging the use of BRI investments—especially in ports, airports, and railways—to support overseas power projection.[19] By developing a force that can rapidly deploy overseas, the authors claim, the PLA will be able to provide the "national security conditions for the ultimate fulfillment of the strategic objective of the BRI."[20] In an article published in 2018, a high-ranking PLA Navy officer similarly described the BRI as a justification for China to increase its overseas military presence and expand its strategic depth, including by establishing additional overseas military bases.[21]

Not all BRI projects have dual civilian and military purposes, and many provide some necessary resources for urgent infrastructure shortfalls in countries around the world. Still, certain BRI investments do hold potential military value for China, and others provide Beijing with leverage over host countries to potentially establish a future military presence. For instance, China secured rights to establish its military presence in Djibouti and Argentina through secret negotiations following major deals for infrastructure investments and other financial assistance with both countries.[22] In the case of Djibouti, the country has received financing from China worth nearly $1.4 billion, or around 75 percent of Djibouti's GDP, which almost certainly played a role in its agreement to approve the Chinese base.[23] Media reports suggest China may have pressured a number of other countries that have received significant BRI or other Chinese financing, including Cambodia, Vanuatu, and Namibia, to allow China to establish a similar military presence, and at least six African ports China has invested in have been visited by Chinese naval vessels or are dual-use civilian-military ports.[24] According to the U.S. Department of Defense, Beijing may believe that "a mixture of military logistics models, including preferred access to overseas commercial ports and a limited number of exclusive PLA logistics facilities, probably collocated with commercial ports, most closely aligns with China's overseas military logistics needs."[25]

Concerns have also arisen over the potential for host countries to cede sovereign control to Beijing over territory hosting Chinese-built infrastructure projects. While leasing arrangements would not necessarily enable China to use this infrastructure for military purposes, Beijing could potentially install dual-use support facilities on leased territory during peacetime or pressure host nations to allow the PLA to make

[17] Shou Xiaosong, ed., *The Science of Military Strategy,* Military Science Press, 2013, 103–107. Translation.

[18] *Xinhua,* "Xi Urges Major Risk Prevention to Ensure Healthy Economy, Social Stability," January 22, 2019; *China Military Online,* "Chinese Defense Minister Meets Pakistani Naval Chief of Staff," April 29, 2018.

[19] Chen Yu, Liang Si, and Zeng Yu, "Research on the Development of Overseas Strategic Airlift Capability," *Military Transportation University Journal,* February 2019. Translation.

[20] Chen Yu, Liang Si, and Zeng Yu, "Research on the Development of Overseas Strategic Airlift Capability," *Military Transportation University Journal,* February 2019. Translation.

[21] Jiang Ping, "Advancing Transformation of Naval Aviation With Forward-Looking Planning," *Renmin Haijun,* August 20, 2018. Translation.

[22] The Maritime Executive, "AFRICOM Chief Warns of Chinese Control at Port of Djibouti," March 15, 2018; Ernesto Londono, "From a Space Station in Argentina, China Expands its Reach in Latin America," *New York Times,* July 28, 2018.

[23] John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative From a Policy Perspective," *Center for Global Development Policy Paper,* March 2018, 16.

[24] David Hutt and Shawn W. Crispin, "Cambodia at Center of a New Cold War," *Asia Times,* November 14, 2018; U.S.-China Economic and Security Review Commission, "China's Engagement in the Pacific Islands: Implications for the United States," June 14, 2018; Robert C. O'Brien, "China's Next Move: A Naval Base in the South Atlantic?", *RealClear Defense,* March 24, 2015.

[25] U.S. Department of Defense, "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2019," May 2, 2019, 16.

use of their lease during an emerging crisis or conflict. For instance, China's 99-year lease over Hambantota Port in Sri Lanka—the most notable example of Beijing converting debt into a controlling equity stake on a Chinese-built infrastructure project—forbids China from using the port for military purposes without permission. Still, Beijing could conceivably leverage Sri Lanka's remaining debt to China, which totaled approximately $8 billion in 2018 by one estimate, to persuade Colombo to grant Beijing this consent under duress.[26]

IV. EXAMPLES OF PUSHBACK TO THE BRI AND CHINA'S RESPONSE

Almost from its inception, BRI has raised concerns about debt sustainability in recipient countries. China does not follow international development finance standards, and does not disclose the amounts or the terms for loans it offers.[27] Analysis by Aid Data, a research lab at the College of William and Mary, shows that most of China's state lending overseas is based on commercial, nonconcessional terms.[28] A March 2018 report from the Center for Global Development assessed the current debt vulnerabilities of countries identified as potential BRI borrowers. Out of 23 countries determined to be significantly or highly vulnerable to debt distress, the authors identified eight countries—one of these being Djibouti—"where BRI appears to create the potential for debt sustainability problems, and where China is a dominant creditor in the key position to address those problems."[29]

Although China often makes deals with countries vulnerable to economic distress and political coercion due to poor governance, weak financial regulations, and corruption, a number have spoken out about their concerns over the debt and sovereignty risks associated with BRI loans.[30] In a notable example of pushback, Malaysian Prime Minister Mahathir Mohamad spoke out during a trip to Beijing last year about his concern over the exorbitant costs of BRI projects in his country, warning against BRI partnerships giving way to a "new version of colonialism."[31] As a result of this pushback, Malaysia successfully lowered the price tag of its largest BRI project by a third, while it was revealed that in 2018 a team of U.S. experts dispatched by the U.S. Agency for International Development assisted Myanmar in renegotiating the cost of a major BRI port deal from $7.3 billion to $1.3 billion, suggesting other BRI recipients may be interested in similar outside assistance.[32] During Mr. Mahathir's campaign in 2018, the then candidate specifically connected Malaysia's growing indebtedness to China with a potential loss of sovereignty, obliquely referring to the case of Sri Lanka while warning that Malaysia did not want to similarly "lose chunks of [its] country."[33] Recognizing the need to reinforce global norms and best practices for development aid and investment, a number of countries—including the United States, Japan, India, and European countries—have announced new projects to provide countries in need of infrastructure assistance with alternatives to the terms of China's BRI.[34] More recently, following the passage of the BUILD Act, Australia, Canada, the European Union, and Japan signed multilateral cooperation agreements with the revitalized U.S. Overseas Private Investment Cor-

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[26] U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress,* November 2018, 174, 273–274; Kai Schultz, "Sri Lanka, Struggling With Debt, Hands a Major Port to China." *New York Times,* December 12, 2017.

[27] John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative From a Policy Perspective," *Center for Global Development Policy Paper,* March 2018, 4; David Dollar, "Is China's Development Finance a Challenge to the International Order?", Brookings Institution, October 2017, 6; U.S.-China Economic and Security Review Commission, *Hearing on China's Belt and Road Initiative: Five Years Later,* written testimony of Daniel Kliman, January 25, 2018, 3; AidData, "How to Use Global Chinese Official Finance Data."

[28] Axel Dreher et al., "Aid, China, and Growth: Evidence From a New Global Development Finance Dataset," Aid Data Working Paper, October 2017, 14.

[29] John Hurley, Scott Morris, and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative From a Policy Perspective," *Center for Global Development Policy Paper,* March 2018, 8, 11.

[31] Hannah Beech, "'We Cannot Afford This': Malaysia Pushes Back Against China's Vision," *New York Times,* August 20, 2018.

[32] *Channel News Asia,* "The Belt and Road Initiative Is Great: Malaysia PM Mahathir," April 26, 2019; Ben Kesling and Jon Emont, "U.S. Goes on the Offensive Against China's Empire-Building Funding Plan," *Wall Street Journal,* April 9, 2019.

[33] James Hookway and Yantoultra Ngui, "Malaysia's Mahathir Mohamad Is Sworn in, Signals Tougher Line on China," *Wall Street Journal,* May 10, 2018.

[34] U.S.-China Economic and Security Review Commission, *2018 Annual Report to Congress,* November 2018, 282–287.

poration to drive growth in emerging markets that adhere to high standards and provide alternatives to "unsustainable state-led models."[35]

Still, while China has been sensitive to the growing backlash against the BRI, it does not appear to have fundamentally altered the initiative's most problematic components or diminished its efforts to gain acceptance of the BRI as a legitimate model for extending China's political, economic, and military influence abroad. At a world summit for BRI participants in April, Xi Jinping sought to assuage countries' concerns over the BRI but restated China's view of the project's significance as a new model for global economic governance.[36] With the continued addition of new signatories to the BRI, including Italy's accession over the strong protests of the United States and European Union, Beijing may have grounds to remain confident in the prospects for the project's viability. Despite protests over their BRI debts, countries have refrained from canceling projects outright and opted instead to renegotiate better terms, suggesting the ultimate fate of China's model may hinge on the ability of the United States and its allies and partners to reinvigorate alternative programs to address the vast global development needs.

Similar to the ways in which countries have responded to the economic dimensions of the BRI, there have been different reactions to the military dimensions of BRI investments, ranging from working more closely with China to strengthening partnerships with the United States and its allies and partners. For instance, BRI recipients Thailand and Cambodia have both increased military cooperation with Beijing in recent years, and Pakistan launched a 15,000-strong security force in 2016 dedicated to protecting BRI investments along the China-Pakistan Economic Corridor.[37] At the same time, countries in receipt of BRI investments, including many in South and Southeast Asia, have also opted to enhance their security partnerships with the United States and its partners in the Indo Pacific.[38]

V. CONCLUSION AND RECOMMENDATIONS

BRI's geographic ambition and variety and scale of projects may make it seem like an insurmountable challenge to the global liberal order. While this is not yet true, the United States and its allies and partners must be vigilant in monitoring Chinese activities and relentless in protecting our interests. More than anything, we should be proactive—not reactive—when formulating the U.S. response to the BRI. The first step is to ensure that we have a clear-eyed view of Chinese strategic intent in its promotion of the BRI and formulate a comprehensive response ourselves spanning the political, economic, and security components of U.S. national power. Central to this response must be a recognition that the BRI is not a stand-alone project that can be isolated, but an embodiment of China's broader strategic aims.

The U.S.-China Commission made 26 recommendations in its *2018 Annual Report to Congress* to help bolster U.S. economic, security, and diplomatic capabilities pertinent to our relationship with China. Excerpted below is a key recommendation from the Commission that is particularly relevant to understanding Chinese intent:

- Congress require the Director of National Intelligence to produce a National Intelligence Estimate (NIE), with a classified annex, that details the impact of existing and potential Chinese access and basing facilities along the Belt and Road on freedom of navigation and sea control, both in peacetime and during a conflict. The NIE should cover the impact on U.S., allied, and regional political and security interests.

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[35] Overseas Private Investment Corporation, "U.S., Japan, Australia Sign First Trilateral Agreement on Development Finance Collaboration," November 12, 2018; Overseas Private Investment Corporation, "OPIC Signs MOU Establishing DFI Alliance With Key Allies," April 11, 2019.

[36] *Xinhua,* "Xi's Keynote Speech at the Opening Ceremony of the Second Belt and Road Forum for International Cooperation," April 27, 2019.

[37] *China Military Online,* "Chinese-Thai Marines Conduct Joint Beach-landing Operation." May 13, 2019; Prashanth Parameswaran, "China and Cambodia Hold Their Biggest Military Exercise Yet," *Diplomat,* March 21, 2019; Sarah Zheng, "China Seeks Security Guarantees for Pakistan Belt and Road Projects After Terror Attacks," *South China Morning Post,* May 28, 2019.

[38] Shishir Upadhyaya, "Australia Expands its Maritime Power in the Indian Ocean," *Diplomat,* March 19, 2019; Marwaan Macan-Markar, "Thailand Mends US Military Ties After Post-Coup Tilt to China," *Nikkei Asian Review,* July 30, 2018.

QUESTIONS SUBMITTED FOR THE RECORD TO ROY D. KAMPHAUSEN

QUESTIONS SUBMITTED BY HON. ROBERT P. CASEY, JR.

Question. Can you discuss some of the ways China is currently exercising influence over decisions and outcomes at multilateral organizations and how their efforts through BRI may tilt the balance in favor of their own worldview of government and governance?

Answer. China has secured leadership positions in a number of multilateral organizations and sought to use its leadership influence in these bodies, including at the United Nations, to downplay the importance of human rights and internationally accepted development norms to better align with its views. For instance, Beijing has attempted to increase these organizations' emphasis on state sovereignty, in keeping with the Chinese priority to diminish foreign interference in PRC domestic affairs and shift the UN Human Rights Council's focus on human rights from emphasizing "political and individual rights" to "economic and social rights."[1] (See USCC Report on PRC leadership of multilateral organizations.) The BRI is one of Beijing's primary instruments to recast elements of the rules-based international order, including reshaping the structure and norms of global governance. To this end, Beijing has tied the BRI to existing international institutions and established new, BRI-related institutions such as the Belt and Road Forum and Asian Infrastructure Investment Bank. Chinese officials have also successfully lobbied to incorporate references to BRI or establish formal linkages with several UN organizations, including the UN Department of Economic and Social Affairs, the UN Development Program, and the World Health Organization.[2] For example, the statements by some UN officials, including Secretary-General António Guterres, have echoed Chinese government talking points that BRI will be a vital pillar in the UN's effort to solve global poverty by 2030.[3]

Question. What are some specific examples that raise distinct concern, and how should China's actions inform our own posture and strategy going forward?

Answer. BRI, in addition to providing China a tool for political influence, constitutes the leading edge of a more assertive, global Chinese foreign policy intended to revise—if not replace—the U.S.-led rules-based international order. Some potential areas of concern include:

- *Investment and influence:* Beijing is increasingly using infrastructure investments as a tool of geopolitical influence around the globe. In Greece, Beijing has used its investment in the port of Piraeus as well as developed relationships with Greek politicians to increase its influence over Greek and European policy toward China, successfully influencing Athens's response to China's human rights practices and sovereignty claims in the South China Sea. China has also courted the United Kingdom by offering potential investments and trade agreements as London tries to formulate its post-Brexit foreign trade policies. In Latin America, China has used BRI and other investments to convince Taiwan's diplomatic partners in the region to cut ties with Taiwan and officially endorse China's "one China" principle.[4]
- *Dual-use infrastructure:* Even if not their original intent, some BRI investments will result in dual-use facilities—airfields, ports, road and rail net-

[1] Maaike Okano-Heijmans, Frans-Paul Van Der Putten, and Louise Van Schaik, "Welcoming and Resisting China's Growing Role in the UN," *Clingendael,* February 8, 2019. *https://www.clingendael.org/publication/welcoming-and-resisting-chinas-growing-role-un;* U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "Belt and Road Initiative," in *2018 Annual Report to Congress,* November 2018, 274.

[2] U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "Belt and Road Initiative," in *2018 Annual Report to Congress,* November 2018, 274; Colum Lynch, "China Enlists UN to Promote its Belt and Road Project," *Foreign Policy,* May 10, 2018. *https://foreignpolicy.com/2018/05/10/china-enlists-u-n-to-promote-its-belt-and-road-project/; Xinhua,* "China Signs Cooperation Agreements With 69 Entities Under Belt and Road," August 18, 2017. *www.xinhuanet.com/english/2017-08/17/c_136534087.htm.*

[3] United Nations, "'United Nations Poised to Support Alignment of China's Belt and Road Initiative With Sustainable Development Goals,' Secretary-General Says at Opening Ceremony," April 26, 2019. *https://www.un.org/press/en/2019/sgsm19556.doc.htm;* Colum Lynch, "China Enlists UN to Promote its Belt and Road Project," *Foreign Policy,* May 10, 2018. *https://foreignpolicy.com/2018/05/10/china-enlists-u-n-to-promote-its-belt-and-road-project/.*

[4] Katherine Koleski and Alec Blivas, "China's Engagement With Latin America and the Caribbean," U.S.-China Economic and Security Review Commission, October 17, 2018, 3, 6, 18. *https://www.uscc.gov/sites/default/files/Research/China%27s%20Engagement%20with%20Latin%20America%20and%20the%20Caribbean_.pdf.*

works—that could enhance access for an expanded People's Liberation Army presence across Eurasia and the Indian Ocean region. For instance, the PLA's influence and presence in the Indo-Pacific can be bolstered through access to port facilities and other bases to refuel and resupply its navy, including through establishing its first overseas military base in Djibouti—a country which is significantly indebted to China.

- *Digital Silk Road:* Beijing is using Chinese companies to lay fiber-optic cables, install telecommunications networks, and develop smart city projects to expand China's influence over the global digital economy and align it more closely with Beijing's vision of Internet governance.[5] With the expansion of what China calls its "Digital Silk Road," Beijing has also used these digital partnerships, in conjunction with the Chinese domestic model of security control, to export its state-controlled media model and surveillance technology abroad.[6]

These and other concerns led the Commission to recommend in its *2018 Annual Report to Congress* that Congress study the potential impact of Chinese global infrastructure investment on U.S. national security, including by requiring the Director of National Intelligence to produce a National Intelligence Estimate, with a classified annex, that details the impact of existing and potential Chinese access and basing facilities along the Belt and Road on freedom of navigation and sea control, both in peacetime and during a conflict.

QUESTION SUBMITTED BY HON. CHUCK GRASSLEY

Question. Many of the countries China is investing in are countries that have a poor record of managing debt. It seems foolish for the United States to try and compete with China by spending Federal funds or encouraging the private sector to spend money on risky infrastructure projects. What else can the United States do to create options for these countries other than taking loans from China?

Answer. The United States should not seek to compete dollar for dollar with China but rather play to our strengths. I commend Congress for the passage of the BUILD Act, which is an important step toward boosting vitally needed private sector investment in low and lower-middle income countries, particularly to small and medium-sized enterprises.

Technical assistance is also a key element of the U.S. economic toolkit. Through programs such as the Infrastructure Transaction Assistance Network and Indo-Pacific Transaction Advisory Fund launched in July 2018, the United States can help partner countries vet, negotiate, and implement infrastructure projects. One recent example of U.S. technical assistance's positive impact can be found in Myanmar. As I noted in my testimony to the committee, in 2018 USAID provided a team of technical experts to assist Myanmar in renegotiating the cost and scope of a major BRI port deal from $7.3 billion to $1.3 billion.[7]

Finally, our allies and partners are important force multipliers in this effort. The United States should continue to offer high-quality development financing to developing countries while urging our allies and partners to make complementary efforts. Following the passage of the BUILD Act, the U.S. Overseas Private Investment Corporation signed multilateral cooperation agreements with the development finance agencies of Australia, Canada, the European Union, and Japan to support high standard projects that drive growth in emerging markets and provide alternatives to "unsustainable state-led models."[8]

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[5] *See* U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "Belt and Road Initiative," in *2018 Annual Report to Congress,* November 2018, 260, 266, 288.

[6] Dalibor Rohac, "The digital silk road," AEI, June 10, 2019. *http://www.aei.org/publication/digital-silk-road/;* Rob Marvin, "How China's Techno-Imperialism Is Reshaping Global Economies," *PCMag,* March 29, 2019. *https://www.pcmag.com/news/367366/how-chinas-techno-imperialism-is-reshaping-global-economies.*

[7] Ben Kesling and Jon Emont, "U.S. Goes on the Offensive Against China's Empire-Building Funding Plan," *Wall Street Journal,* April 9, 2019. *https://www.wsj.com/articles/u-s-goes-on-the-offensive-against-chinas-empire-building-megaplan-11554809402.*

[8] Overseas Private Investment Corporation, "OPIC Signs MOU Establishing DFI Alliance with Key Allies," April 11, 2019; Overseas Private Investment Corporation, "U.S., Japan, Australia Sign First Trilateral Agreement on Development Finance Collaboration, November 12, 2018.

QUESTION SUBMITTED BY HON. BENJAMIN L. CARDIN

Question. A 2015 agreement between Israel's Transportation Ministry and Shanghai International Port Group (SIPG)—a company in which the Chinese government has a majority stake—to grant SIPG control over a Haifa port in 2021 for 25 years has raised intelligence and security concerns in the United States and it has been reported that the United States Navy may stop docking in Haifa as a result. What are the dual-use functions of Haifa? Is there tension between the Israeli national security community and the business community over this and other forms of Chinese investment in Israel?

Answer. The agreement between Israel's Transportation Ministry and SIPG stipulates that SIPG won the rights to operate the new Bayport Terminal within Haifa's port for 25 years beginning in 2021. According to Yigal Maor, the director-general at Israel's Transportation Ministry's Administration of Shipping and Ports, the port container amounts to less than 10 percent of the total Haifa port area. However, Haifa's dual function as a military port—it currently hosts Israeli submarines and is a regular port call destination for the U.S. Navy's Sixth Fleet—has raised concerns that China could use the proximity of its commercial investment to both Israeli and United States military assets for espionage purposes. Although Israeli officials such as Mr. Maor have sought to downplay such concerns, others, such as Rear Admiral (Ret.) Shaul Horev, have said Israel was putting its security relationship with the United States in jeopardy by letting the deal go forward, indicating there is a degree of tension between the national security establishment and officials aligned more with business interests. Additionally, as the *Times of Israel* has noted, the Transportation Ministry apparently did not consult the National Security Council before agreeing to the deal.[9]

PREPARED STATEMENT OF DANIEL KLIMAN,* PH.D., SENIOR FELLOW AND DIRECTOR, ASIA-PACIFIC SECURITY PROGRAM, CENTER FOR A NEW AMERICAN SECURITY

Chairman Cornyn, Ranking Member Casey, distinguished members of this subcommittee, I am grateful for this opportunity to address you about China's Belt and Road. At my home institution, the Center for a New American Security (CNAS), I have led several major studies on the Belt and Road. This research has underscored that the Belt and Road is largely antithetical to American interests and values. If China succeeds in realizing its vision for the Belt and Road, U.S. security, prosperity, and values will all come under pressure. Beijing will sharpen the emerging choice countries confront between their military ties with the United States and economic dependence on China. U.S. companies will compete on an uneven playing field in large parts of the developing world as China increasingly sets commercial standards and uses coopted local elites to advantage its enterprises. And American ideals of democracy and human rights will lose influence globally as Beijing radiates illiberalism through its investments in physical and digital infrastructure overseas.

In the remainder of my testimony, I will address the current state of play, assess the implications of the Belt and Road, and advance a series of recommendations by which Congress can help to ensure that the United States is positioned to compete

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[9] Efron, Shira, Howard J. Shatz, Arthur Chan, Emily Haskel, Lyle J. Morris, and Andrew Scobell. *The Evolving Israel-China Relationship.* Santa Monica, CA: Rand Corporation, 2019. Pages xvii, 107–109. Ahren, Raphael. "Has Israel Made a Huge Mistake Letting a Chinese Firm Run Part of Haifa Port?", *Times of Israel.* December 20, 2018. *https://www.timesofisrael.com/has-israel-make-a-huge-mistake-letting-a-chinese-firm-run-part-of-haifa-port/.*

* The views presented in this testimony are mine alone and do not represent those of CNAS or any other organizations with which I hold an affiliation. My testimony draws heavily on language, analysis, and ideas from the following CNAS publications: Daniel Kliman and Abigail Grace, "Power Play: Addressing China's Belt and Road Strategy" (Center for a New American Security, September 2018), *https://s3.amazonaws.com/files.cnas.org/documents/CNASReport-Power-Play-Addressing-Chinas-Belt-and-Road-Strategy.pdf?mtime=20180920093003;* and Daniel Kliman, Rush Doshi, Kristine Lee, and Zack Cooper, "Grading China's Belt and Road" (Center for a New American Security, April 2019), *https://s3.amazonaws.com/files.cnas.org/CNAS+Report_China+Belt+and+Road_final.pdf.* I am indebted to all of my coauthors. My research at CNAS on the Belt and Road has received support from a number of funders, including the Sasakawa Peace Foundation, the U.S. State Department, and the Quadrivium Foundation. CNAS is a national security research and policy institution committed to the highest standards of organizational, intellectual, and personal integrity. The Center retains sole editorial control over its ideas, projects, and productions, and the content of its publications reflects only the views of their authors.

with China while simultaneously offering a positive vision of global infrastructure connectivity and economic development.

I. CURRENT STATE OF PLAY

Here are five observations about the Belt and Road today.

(1) *The Belt and Road is fundamentally a geopolitical enterprise.* Since its launch in 2013, what Beijing calls "One Belt, One Road" has emerged as the cornerstone of China's economic statecraft. Under the umbrella of the Belt and Road, Beijing seeks to promote a more connected world brought together by a web of Chinese-funded physical and digital infrastructure. The world's infrastructure needs are significant, but the Belt and Road is more than just an economic initiative; it is a central tool for advancing China's geopolitical ambitions. Through the economic activities bundled under the Belt and Road, Beijing is pursuing a vision of the 21st century defined by great power spheres of influence, state-directed economic interactions, and creeping authoritarianism.[1]

(2) *China is placing growing emphasis on digital infrastructure.* When initially launched, the Belt and Road largely focused on physical infrastructure, such as ports, pipelines, railways, and power plants. However, Beijing under the banner of what it labels the "Digital Silk Road" is now prioritizing information connectivity projects. Although 5G wireless networks and Huawei have tended to dominate recent public discussions on China's digital expansion, the Digital Silk Road encompasses a much broader set of technologies and projects, including undersea cables, telecommunications equipment, data centers, and research partnerships, and involves at least a dozen key Chinese technology companies, according to one recent study.[2] The geographic scope is vast: for example, China is building or operating telecommunications infrastructure in countries as varied as Burma, Kyrgyzstan, Nepal, Bangladesh, Mexico, and Kenya, along with dozens of others.[3]

(3) *The reality of the Belt and Road differs sharply from the beneficent vision advanced by Beijing.* When initially unveiled by China, the Belt and Road met with a warm reception across large parts of the globe. For developing countries eager for new sources of investment, it held significant appeal. Yet the downsides of Chinese-led infrastructure projects have become increasingly apparent to many recipient states. These challenges include the erosion of national sovereignty; lack of transparency; unsustainable financial burdens; disengagement from local economic needs; geopolitical risks; negative environmental impacts; and significant potential for corruption.

(4) *Despite resistance to the Belt and Road in some countries, China has momentum on its side.* The challenges associated with Beijing's infrastructure projects have provoked international backlash, most acutely in the Indo-Pacific. In select cases, such as Malaysia, countries have successfully renegotiated projects with China. But many states find themselves unable to pull away from China, both for fiscal reasons as well as domestic political ones—with Beijing frequently exercising lingering influence while awaiting and abetting the restoration of sympathetic elites.[4] Most critically, even countries that have become relatively skeptical about the Belt and Road still perceive few meaningful alternatives to infrastructure projects involving China.[5]

(5) *Recent commitments by China to address the Belt and Road's shortcomings are largely a public relations exercise.* The backlash against the Belt and Road has not gone unnoticed in Beijing. At the recent Belt and Road Forum, President Xi Jinping pledged to focus on high-quality projects and to fight corruption by Chinese companies operating overseas. In tandem with the forum, the Chinese government released a new framework for debt sustainability, ostensibly to ensure that Belt and Road projects do not leave recipient states with a massive financial hangover. Yet this debt framework is voluntary, and many of Xi's promises at the forum reiterated unfulfilled commitments made during a 2018 speech marking the 5th anniversary of the Belt and Road. Ultimately, the sheer number and size of China's overseas

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[1] Daniel Kliman et al., "Grading China's Belt and Road."

[2] Samantha Hoffman et al., "Mapping China's Tech Giants" (Australian Strategic Policy Institute, April 2019), *https://www.aspi.org.au/report/mapping-chinas-tech-giants.*

[3] Kliman et al, "Grading China's Belt and Road."

[4] Daniel Twining, "China Profits From Southeast Asia's Democratic Deficits," Nikkei Asian Review, *https://asia.nikkei.com/Politics/International-relations/China-profits-from-Southeast-Asia-s-democratic-deficits.*

[5] Kliman et al, "Grading China's Belt and Road."

infrastructure projects render a fundamental change to the Belt and Road's implementation unlikely. More importantly still, many of the practices associated with the Belt and Road that pose a concern to recipient states, such as loss of control, opaque contracting, debt, dual civilian-military infrastructure, and corruption, are often strategic assets for Beijing.[6]

II. HOW THE BELT AND ROAD IS RESHAPING THE WORLD

China's Belt and Road is eroding the foundation of the existing international order. Already, the effects of the Belt and Road are increasingly visible and extend from geopolitics to commerce to international and domestic governance. This section evaluates the implications of the Belt and Road in each of these areas.

GEOPOLITICS

- *The People's Liberation Army (PLA) will become more global and the U.S. military will confront new risks.* With Chinese investment and workers fanning out to distant and sometimes dangerous regions, Beijing will increasingly grapple with circumstances that warrant deploying the PLA overseas. At the same time, the construction of dual purpose, civilian-military infrastructure under the umbrella of the Belt and Road will provide a more durable foundation for PLA operations in the Indian Ocean and beyond. This will create new risks for the U.S. military. The PLA's presence in Djibouti and potential future locations overseas poses an intelligence threat and raises the possibility that American forces operating far from the Western Pacific will be harassed by China. Lastly, Beijing's involvement in the digital ecosystems of a large set of countries could compromise the networks of U.S. allies and partners and constrain future opportunities to enhance military interoperability.[7]
- *China will attain lasting diplomatic leverage.* By lending to some governments at a level beyond their ability to repay, China has placed recipient countries in a position of dependence and vulnerability. The diplomatic leverage that China obtains from this approach is long-term. Financial obligations transcend changes in political leadership and constrain the room to maneuver of successive governments—even those inclined to move away from Beijing. Further, debt burdens translate into a flexible form of influence that China can wield to obtain control of foreign assets, press for military access, and compel support—or at least curtail opposition—to its positions on issues ranging from maritime disputes in the South China Sea to human rights.[8]
- *China's ability to manipulate global supply chains for geopolitical benefit will grow.* Through its overseas investment activities, Beijing will play an increasingly influential role in the distribution networks linking suppliers to consumers worldwide. This is most pronounced in major container ports, but China also plays a leading role in the shipping industry. With multiple points of leverage over global supply chains, if economic tensions further escalate, or in the event of a military crisis or conflict, China would have the ability to influence market prices by limiting the availability of manufactured goods and nonrenewable commodities such as critical minerals. In this way, the Belt and Road will expand Beijing's coercive economic toolkit. China could also more subtly leverage its growing presence in global supply chains for advantage, for example, by introducing inefficiencies into the supply chains of a geopolitically significant foreign company to reduce its competitiveness.[9]

COMMERCE

- *International commercial standards will come under pressure.* As China races to fund and execute infrastructure projects across Asia, the Middle East, Africa, Europe, and Latin America, its activities often deviate from existing commercial standards. These standards—such as transparent investment procedures, align-

[6] "Xi Jinping's Second Belt and Road Forum: Three Key Takeaways," *Bloomberg,* April 27, 2019, *https://www.bloomberg.com/news/articles/2019-04-28/xi-jinping-s-wins-and-losses-at-his-second-belt-and-road-forum;* Ministry of Finance of People's Republic of China, *Debt Sustainability Framework for Participating Countries of the Belt and Road Initiative* (April 25, 2019), *http://m.mof.gov.cn/czxw/201904/P020190425513990982189.pdf;* Daniel Kliman, "Don't Be Fooled by China's Belt and Road Rebrand," Center for a New American Security (April 2019), *https://www.cnas.org/publications/commentary/dont-be-fooled-by-chinas-belt-and-road-rebrand.*

[7] Kliman and Grace, "Power Play."

[8] Kliman and Grace, "Power Play."

[9] Kliman and Grace, "Power Play." I am indebted to Elizabeth Rosenberg, CNAS senior fellow and director, Energy, Economics, and Security Program, for this insight.

ment with social and environmental responsibility guidelines, and debt sustainability—reflect decades of lessons learned both by investors and recipient countries. Beijing's intent to establish a new Belt and Road dispute settlement mechanism indicates that its strategy will also pose a growing challenge to existing international legal standards. As proposed, this mechanism would sit under China's Supreme People's Court and provide Beijing with a more malleable tool to resolve Belt and Road legal disputes than local courts in recipient countries or established international arbitration frameworks.[10]

- *China's ability to compete in the digital domain will improve.* The Belt and Road is advancing Beijing's ambition to become the world's leading information technology power. As China's national technology champions go abroad to construct its "Digital Silk Road," Beijing's audacious bid to set international technical standards and establish new platforms for online connectivity will gain additional momentum. To compete globally, China's technology companies require greater access to foreign data. The "Digital Silk Road" potentially could yield large amounts of data that ultimately will enable Chinese companies to more effectively target consumers in overseas markets and boost China's artificial intelligence (AI) industry, reinforcing the advantage it already enjoys given China's population size and supportive government regulations. Beyond data, the Belt and Road likely will serve as a mechanism for China to enlist foreign scientists and engineers in cooperative technical projects. Through such technology cooperation arrangements, China could harness talent across a large part of the globe even as it remains a relatively unattractive destination for high-skilled immigration.[11]
- *Key countries will struggle to service their Belt and Road-related debt.* Most of China's financing for Belt and Road projects involves loans rather than grants. Many of the countries receiving Chinese investment also lack the technical capacity to assess their repayment ability—a particular challenge given Beijing's willingness to ignore debt sustainability standards, which normally serve as guardrails for investors and recipient countries. According to a recent study, future financing related to Belt and Road projects puts eight countries at significant risk of debt distress: Djibouti, the Maldives, Laos, Montenegro, Mongolia, Tajikistan, Kyrgyzstan, and Pakistan. China is the only major global lender that is not a member of the Paris Club, which finds coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. In a restructuring scenario involving these eight countries—among others—China could potentially extract nonstandard concessions that infringe upon debtor countries' sovereignty.[12]
- *China will try to externalize some of the financial risk of the Belt and Road.* Beijing is encouraging U.S. and European investment banks and institutional investors to put capital into Belt and Road projects. Some Western firms have responded favorably, holding conferences on the Belt and Road and designating senior personnel to lead their work on it. In addition, Western banks have become directly involved in Belt and Road financing. An emerging phenomenon is China's attempts to establish investment instruments to finance the Belt and Road that bundle together many projects, potentially obscuring the underlying risk. Although financing for the Belt and Road will remain overwhelmingly Chinese in the near term, these attempts to enlist Western capital warrant close scrutiny.[13]

INTERNATIONAL AND DOMESTIC GOVERNANCE

- *The development arm of the United Nations will work to legitimize the Belt and Road.* China has leveraged the UN Department of Economic and Social Affairs (DESA) in which its nationals hold leadership positions to closely link the Belt and Road to the UN's 2030 Agenda for Sustainable Development, more commonly known as the Sustainable Development Goals (SDGs). DESA has sought to conflate the Belt and Road and the SDGs through a high-level convening, of-

[10] Kliman and Grace, "Power Play."
[11] Kliman and Grace, "Power Play."
[12] John Hurley et al., "Examining Debt Implications of the Belt and Road Initiative From a Policy Perspective" (Center for Global Development, March 2018), *https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf;* Kliman and Grace, "Power Play."
[13] Kliman and Grace, "Power Play."

ficial statements, and a new program [14] to promote networking among countries that have signed Belt and Road cooperation memorandums with China. The UN's leadership—both the Secretary General and the Deputy Secretary General—have also endorsed the Belt and Road, in effect reinforcing DESA's legitimization campaign. As of the second Belt and Road Forum in April 2019, at least 25 UN agencies have initiated joint research projects and signed agreements and memorandums of cooperation with China.[15]

- *Multilateral development banks (MDBs) will largely cooperate with China on the Belt and Road.* The world's major MDBs will not serve as a counterweight to the Belt and Road. Many support the Belt and Road given Western countries' limited interest in participating in MDB recapitalization efforts. The World Bank has been especially forward-leaning: its last president offered a full-throated endorsement of Beijing's signature effort. The Asian Development Bank and the European Bank for Reconstruction and Development likewise seek to cooperate with China on the Belt and Road. Provided that MDBs insist on upholding international standards, their future co-financing of Belt and Road projects could raise the bar and help promote transparency and debt sustainability. Yet given the comparatively modest resources that MDBs currently dedicate to infrastructure—though they are beginning to spend more in this area—co-financing of some projects is unlikely to fundamentally change the character of the Belt and Road, which derives the majority of its funding from Chinese state institutions.[16]
- *The quality of domestic governance in some countries taking Belt and Road investment will decline.* Many of the countries involved in the Belt and Road feature high levels of corruption and low levels of democracy. Despite enacting an anti-foreign bribery law in 2011, China has demonstrated minimal interest in enforcing compliance by its companies operating overseas. In states with weak governance, Chinese enterprises will face a strong temptation to engage in graft and other dishonest business practices. The geopolitical dimension of the Belt and Road will further exacerbate the problem of corruption; the capture of political elites potentially can serve as a potent tool in countries where China seeks control of strategic commercial assets or military access. Hardly a champion of democracy and human rights, China has shown a willingness to defend authoritarian and anti-democratic leaders in increasingly far-flung locations closely linked to the Belt and Road.
- *China is becoming an exporter of high-tech illiberalism.* Domestically, China has harnessed technology for illiberal aims to make repression and social control more pervasive and effective than ever before. Examples of this include ubiquitous surveillance cameras coupled with facial recognition software, the introduction of a social credit score, pervasive online censorship, and more. As China has reoriented the Belt and Road to focus more on digital connectivity, it is exporting infrastructure not only for communications but also surveillance and censorship. Beijing's "Digital Silk Road" is especially pernicious because through the provision of technology, funding, and know-how, China is making repression easier and more attractive to governments that have weak democratic institutions and enabling fragile authoritarian regimes to become more effective and cost-efficient. Moreover, China's high-tech illiberalism has repercussions that go beyond eroding human rights and freedom of speech in particular countries. As China's role in the digital ecosystems of developing countries spreads, it is leveraging its influence to encourage a shift globally toward a less democratic model of Internet governance.[17]

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[14] "Jointly Advancing the Belt and Road Initiative to Achieve the SDGs," UN Development Program press release, February 27, 2019, *http://www.cn.undp.org/content/china/en/home/presscenter/pressreleases/2019/jointly-advancing-the-belt-and-road-initiative-to-achieve-the-sd.html.*

[15] Kristine Lee and Alexander Sullivan, "People's Republic of the United Nations" (Center for a New American Security, May 2019), *https://www.cnas.org/publications/reports/peoples-republic-of-the-united-nations;* "List of Deliverables of the Second Belt and Road Forum for International Cooperation," Ministry of Foreign Affairs of the People's Republic of China, April 27, 2019, *https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1658767.shtml;* "UN Agencies Belt and Road Initiative Involvement," United Nations Environment Program, *http://wedocs.unep.org/bitstream/handle/20.500.11822/26318/UN%20Agencies%20BRI%20Involvement%2002%20%2801%20Oct%202018%29.pdf?sequence=17&isAllowed=y.*

[16] Kliman and Grace, "Power Play."

[17] Kliman and Grace, "Power Play."

III. GETTING AMERICA'S APPROACH RIGHT

In 2018, the United States formulated and began to implement a response to the Belt and Road. Nested within a larger competitive U.S. strategy toward China spanning the diplomatic, economic, military, and informational domains, this response has focused on U.S. areas of comparative advantage such as energy and digital connectivity, promoted capacity building in countries considering Chinese investment, and emphasized cooperation with high-capability American allies and partners. Congress in turn has played a critical role in resourcing America's approach to the Belt and Road through the passage of the bipartisan Better Utilization of Investment Leading to Development (BUILD) Act in October 2018, which will result in the establishment of a new U.S. Development Finance Corporation (DFC) late this year.[18]

All this is a positive start, but America's current approach still falls short of addressing the challenge posed by China's Belt and Road. The DFC remains a work in progress, and depending on its future focus, organization, and staffing, could ultimately fail to backstop U.S. economic alternatives to the Belt and Road. Cooperation with U.S. allies and partners, though a bright spot, has yielded meager results thus far in terms of joint infrastructure projects. In the information domain, the United States has successfully propagated the concept of "debt-trap diplomacy," crystallizing concerns about China's unsustainable financing practices. Nonetheless, large parts of the globe continue to regard the Belt and Road as symbolic of China's inevitable rise. With Italy's recent signature of a Belt and Road cooperation memorandum, and Malaysia's walk-back of its criticism,[19] Beijing is well on its way to demonstrating that recent setbacks to the Belt and Road are mere speedbumps, rather than insurmountable obstacles. Lastly, the U.S. approach to addressing the Digital Silk Road has largely taken a security perspective, with a focus on blocking Chinese 5G investments in key allied countries. Washington has only partially succeeded in achieving this narrow objective, with Australia and Japan committed to 5G solutions that do not involve Huawei, while Europe continues to deliberate.[20] Meanwhile, China's larger promotion of high-tech illiberalism goes largely unchecked.

Although the executive branch bears primary responsibility for American foreign policy, Congress can play a vital role in shaping how the United States addresses China's Belt and Road. This section advances ten targeted recommendations that directly involve Congress.

GEOPOLITICS

(1) Congress should support the creation of a U.S. public diplomacy toolkit for the 21st century.

The U.S. approach to the Belt and Road must focus squarely on the informational domain, where Beijing has effectively played up the size and positive impact of its infrastructure investments and worked to portray the Belt and Road as emblematic of its inevitable rise to global primacy. Congress should create a reporting requirement for the executive branch to put forward a blueprint for a robust non-military public diplomacy capability that would re-create aims and functions of the U.S. Information Agency during the Cold War, but for the 21st century. To backstop a more robust U.S. public diplomacy toolkit, Congress should review declassification processes and authorities to ensure that American officials can more easily furnish evidence of Chinese corrupt business practices to media and civil society organizations globally and in countries where Beijing is involved in infrastructure projects under

[18] Daniel Kliman, "To Compete With China, Get the New U.S. Development Finance Corporation Right" (Center for a New American Security, February 2019), *https://www.cnas.org/publications/commentary/to-compete-with-china-get-the-new-u-s-development-finance-corporation-right#fn6.*

[19] Giselda Vagnoni, "Italy endorses China's Belt and Road plan in first for a G7 nation," Reuters, March 23, 2019, *https://www.reuters.com/article/us-italy-china-president/italy-endorses-chinas-belt-and-road-plan-in-first-for-a-g7-nation-idUSKCN1R40DV;* Tom Mitchell and Archie Zhang, "Malaysia to resume China-built Belt and Road rail project," *The Financial Times,* April 12, 2019, *https://www.ft.com/content/8bc8cb02-5ceb-11e9-9dde-7aedca0a081a.*

[20] Ellen Nakashima, "U.S. pushes hard for a ban on Huawei in Europe, but the firm's 5G prices are nearly irresistible," *The Washington Post,* May 29, 2019, *https://www.washingtonpost.com/world/national-security/for-huawei-the-5g-play-is-in-europe--and-the-us-is-pushing-hard-for-a-ban-there/2019/05/28/582a8ff6-78d4-11e9-b7ae-390de4259661_story.html?noredirect=on&utm_term=.33c0ffe7021d.*

the umbrella of the Belt and Road.[21] Congress should also fund the State Department's adoption of commercial tools such as artificial intelligence-powered sentiment analysisof newsand social media that would both track local attitudes toward Chinese investment and help to tailor U.S. messaging in specific countries. Winning the narrative contest is essential; if countries accept that Belt and Road is the wave of the future, they are unlikely to align with the United States in ways that will ultimately secure their economic freedom and sovereignty.[22]

(2) Congressional delegations should travel to countries where China may parlay its Belt and Road projects into overseas military access and emphasize the downsides of a PLA presence.

Congress should partner with the Executive Branch to constrain China's military access where possible and block it where absolutely necessary. Delegations by members of Congress provide an opportunity for the United States to communicate to senior political and military leader in foreign countries what PLA capabilities on their soil would prove most destabilizing and the potential impact on their sovereignty that could accompany opening the door to China's military. Congressional delegations are also positioned to credibly convey to foreign governments that a decision to offer the PLA access to their territory would result in punitive U.S. legislation. To ensure alignment with the executive branch and identify priority countries for future delegations, Congress should send a letter to the Secretary of Defense to request a classified briefing on the U.S. approach to countering China's pursuit of overseas military access.

(3) Congress should task the U.S.-China Security and Economic Review Commission (USCC) to publish a report on the China supply chain exposure of 20 large U.S. companies.

China's growing control over global supply chains presents a geopolitical risk. Congress should direct the USCC to produce a report estimating the degree to which 20 large U.S. companies across industrial sectors source from China and use Chinese-operated global distribution networks. This report would help to catalyze a discussion in boardrooms on how to mitigate the risk of excessive supply chain dependence on China, elevate public discussion on this issue, and provide a methodology by which a broader set of companies could evaluate their own exposure.[23]

COMMERCE

(4) Congress should convene hearings to weigh the merits of the United States rejoining the TPP—now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).[24]

For countries in the Indo-Pacific, the absence of U.S. participation in multilateral trade and investment agreements remains a major gap in America's approach to the Belt and Road. With bipartisan recognition of the China challenge, there is a unique opportunity for members of Congress on both sides of the aisle to draw a sharp distinction for domestic audiences between China's unfair trading practices, which have directly undermined the livelihoods of large numbers of Americans, and the overwhelming benefits derived from economic engagement with U.S. allies and partners.[25]

(5) Congress through its oversight function should encourage the executive branch to come together with U.S. ally and partner governments around an international certification for high-quality infrastructure.

An internationally recognized certification that builds on the Group of 20 Principles for Quality Infrastructure Investment would establish a benchmark whereby developing countries could assess the pros and cons of future projects involving

[21] Ely Ratner makes a similar recommendation in his testimony before the Senate Armed Services Committee. *See* Ely Ratner, "Blunting China's Illiberal Order: The Vital Role of Congress in U.S. Strategic Competition With China," statement to the Senate Armed Services Committee, hearing on "China and Russia," January 29, 2019, *https://www.armed-services.senate.gov/imo/media/doc/Ratner_01-29-19.pdf.*

[22] Kliman and Grace, "Power Play."

[23] I am indebted to CNAS adjunct senior fellow Peter Harrell for this recommendation.

[24] Ely Ratner also makes this recommendation in his testimony before the Senate Armed Services Committee. *See* "Blunting China's Illiberal Order: The Vital Role of Congress in U.S. Strategic Competition With China," statement to the Senate Armed Services Committee, hearing on "China and Russia," January 29, 2019, *https://www.armed-services.senate.gov/imo/media/doc/Ratner_01-29-19.pdf.*

[25] Kliman and Grace, "Power Play."

China. This certification could be operationalized through standing up a new international organization that would vet proposed infrastructure projects and support oversight efforts during the construction phase. With international buy-in, this certification might ultimately encourage a race to the top by companies and investors, including those from China.[26]

(6) Congress should appropriate resources to establish a new U.S. digital development fund that would support information connectivity projects across the developing world.

With the Digital Silk Road as a vector for spreading China's high-tech authoritarianism and compromising the telecommunications security of American allies and partners, it is imperative that the United States respond. In the developing world, this means driving down the price of American digital infrastructure in order to compete with subsidized Chinese firms such as Huawei. Congress could play a vital role by enacting legislation to stand up a new U.S. digital development fund that would support—potentially with lines of credit—information connectivity projects in the developing world undertaken by companies that are headquartered in countries committed to rule of law and globally recognized norms of online freedom and privacy.[27]

(7) Congress should work closely with the executive branch to ensure the new U.S. Development Finance Corporation is positioned to backstop a competitive approach toward China.

Through a combination of hearings, oversight, and legislation, Congress should shape the new DFC to ensure it will sharpen America's strategic edge. Congress should: encourage the creation of an office for strategic investments led by a new member of the DFC's executive team; grant the DFC a "surge financing" authority to capitalize on emerging windows of opportunity generated by blowback against Chinese investment in some recipient countries; provide the DFC with the political space to make somewhat riskier investments in countries with weaker regulatory environments where China is actively competing; and encourage linkages between U.S. public diplomacy and projects catalyzed by the DFC.[28]

INTERNATIONAL AND DOMESTIC GOVERNANCE

(8) Congress should convene a hearing on China's use of the UN to legitimize the Belt and Road and advance its broader geopolitical objectives.

Beijing's growing influence within the UN system and what this means for the United States remains inadequately understood in Washington. Congress could elevate this issue by holding a hearing that would bring together senior American officials serving at the United States Mission to the United Nations (USUN) and outside experts tracking China's activities in the world's preeminent multilateral organization. The hearing would also provide an opportunity for members of Congress to discuss how to navigate the increasingly sharp tradeoffs between downgrading America's participation in the UN in response to its hostile track record on Israel and competing with China.

(9) Congress should sufficiently resource U.S. efforts to enhance technical capacity in countries receiving Chinese investment under the umbrella of the Belt and Road.

Some governments lack the ability to assess Chinese contracts—for example, in terms of debt repayment and infrastructure life-cycle costs—and have insufficient human resources to oversee projects during the implementation phase. This amplifies the challenges associated with the Belt and Road. U.S. efforts to build technical capacity in states that have welcomed Chinese infrastructure projects remain deeply underfunded. Congress should appropriate $250 million for the State Department's new Infrastructure Transaction Advisory Network—not the currently requested $25 million—and also plus-up complementary efforts by the U.S. Treasury Department's Office of Technical Assistance (OTA) and the U.S. Trade Development Agency's Global Procurement Initiative.[29]

(10) Congress should appropriate additional resources for the National Endowment for Democracy, the National Democratic Institute, and the

[26] Kliman and Grace, "Power Play."
[27] Kliman and Grace, "Power Play."
[28] Kliman, "To Compete With China, Get the New U.S. Development Finance Corporation Right."
[29] Kliman and Grace, "Power Play."

International Republican Institute, expressly for strengthening good governance in countries targeted by the Belt and Road.

Beijing has a relatively freer hand in countries where it can capture elites and make backroom deals. Conversely, countries with robust domestic institutions are best positioned to engage the Belt and Road on their terms. Even a modest increase in U.S. funding to support rule of law, transparency, accountability, freedom of the press, and civil society would go a long way toward enabling countries to avoid the most negative impacts associated with Chinese infrastructure projects. Although the United States should tailor efforts to promote good governance to each country, it should wherever possible seek to direct funds to local non-governmental organizations that track China's activities and influence, as this type of investigative work is essential to ensuring that societies can have an informed debate on whether and how to cooperate with Beijing on the Belt and Road.[30]

PREPARED STATEMENT OF DEREK SCISSORS, PH.D.,
RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE

There are a number of easy myths to dispel about China's Belt and Road Initiative. It's worth trillions—false. China is buying up the participating countries—if so, only in self-defeating fashion. The Belt and Road Initiative (BRI) is primarily about transportation—reasonable but still mostly wrong.

Perhaps the most important mistake is that the BRI represents a growing Chinese footprint globally. It did in 2016, not now. More countries are joining the BRI in name but the extent of activity is shrinking. Moreover, inadequate foreign currency reserves means Beijing will be hard pressed to keep the BRI afloat as a global commercial effort. It is therefore likely to devolve toward a talk shop with substantial resources assigned only to a small set of priority countries.

The first implication for American policy of this likely BRI trajectory is: do not overreact. The second is to identify the much smaller group of countries China will favor going to forward. Our interests are very different than the PRC's and the BRI does not appear to call for any substantial American response on economic grounds (only).

FACTS ON THE BRI'S PAST AND PRESENT

Data on the BRI are drawn from the American Enterprise Institute's China Global Investment Tracker, the only publicly available compilation of Chinese investment and construction globally.[1] The Tracker presently includes over 3,000 transactions compiled from 2005–2018, each valued at $95 million or more. It does not capture the lending which usually supports the investment and construction transactions.

What countries are actually in the BRI and which subset of projects should be counted are open questions, as Beijing has deliberately left the BRI ill-defined. "BRI projects are only the good ones" is not far off from the Chinese position. When the initiative was launched in 2013, it was said to include 64 countries. More have been added, most famously Italy. In statistical notes, the Ministry of Commerce never uses even the original 64, the number instead bizarrely varying between 49 and 55 or not mentioned at all.[2]

The Tracker's view of the BRI is based on the official Chinese government website, using all projects in all countries profiled.[3] The intention is to get the largest numbers possible, numbers which can only overstate the impact of the BRI to date, yet still turn out to be on the small side. At time of writing, 137 countries were profiled on the BRI site.

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[30] Kliman and Grace, "Power Play."

[1] American Enterprise Institute and Heritage Foundation, "China Global Investment Tracker," *http://www.aei.org/china-global-investment-tracker/*.

[2] Belt and Road Portal, "China's non-financial ODI in B&R countries rose to 3.76 billion dollars in Q1," April 17, 2019, *https://eng.yidaiyilu.gov.cn/qwyw/rdxw/86102.htm;* and Ministry of Commerce, People's Republic of China, "Investment and Cooperation With Countries Along Belt and Road Routes in January–October of 2018," November 23, 2018, *http://english.mofcom.gov.cn/article/statistic/foreigntradecooperation/201812/20181202815840.shtml.*

[3] Belt and Road Portal, International Cooperation Profiles, *https://eng.yidaiyilu.gov.cn/info/iList.jsp?cat_id=10076.*

From 2014 to 2018, total Chinese investment in all BRI countries was $190 billion. Again, this is a deliberately high estimate. At this rate, it will take until 2040 for investment to reach the $1 trillion goal often bandied about—if this is a new Marshall Plan, it's a slow one. It's also not especially vital to the PRC. Sizing it as aggressively as possible, the BRI comprised less than 30 percent of total investment and less than combined Chinese investment in the U.S., Australia, and United Kingdom over this period.

Investment is not the main economic activity in the BRI, construction is. Chinese construction activity in the full set of BRI countries was worth twice as much, at $388 billion for 2014–8. (While construction is heavily financed by Chinese loans, it does not involve any ownership of assets and therefore does not qualify as investment. It is properly categorized as part of services trade.) The construction figures are impressive but, at this pace, it would still take 50 years for the BRI to be the $6-trillion program some anticipate.[4]

What is being built and, to a lesser extent, bought? Road-, rail-, and port-building win the most attention but are nosed out by power plant construction. In investment, energy dominates.

BRI by Sector

($ billion 2014–8)

Construction	Investment
1. Power 152.4	1. Power 71.7
2. Transport 137.7	2. Metals 26.0
3. Property 43.3	3. Transport 18.1
4. Utilities 13.5	4. Property 15.9
5. Metals 10.4	5. Logistics 11.3

Source: China Global Investment Tracker.

By country, the investment pattern within the BRI reflects that of Chinese investment in all countries: greater foreign wealth draws more Chinese money. Tiny Singapore leads by a substantial margin because it is rich and there is money to be made there. Construction goes first to heavily populated developing economies, which naturally have the most available projects.

BRI by Country

($ billion 2014–8)

Construction	Investment
1. Pakistan 31.9	1. Singapore 24.3
2. Nigeria 23.2	2. Malaysia 14.1
3. Bangladesh 17.5	3. Russian Federation 10.4
4. Indonesia 16.8	4. Indonesia 9.4
5. Malaysia 15.8	5. South Korea 8.1
6. Egypt 15.3	6. Israel 7.9
7. UAE 14.7	7. Pakistan 7.6

Source: China Global Investment Tracker.

[4] Lihuan Zhou, et al., "Moving the Green Belt and Road Initiative: From Words to Actions," World Resources Institute and Boston University Global Development Policy Center working paper, October 2018, *https://www.bu.edu/gdp/files/2018/11/GDP-and-WRI-BRI-Movingthe Greenbelt.pdf.*

THE BRI'S FUTURE

What the BRI has been to now is often mildly exaggerated, where it is headed is in some cases greatly exaggerated. Investment volume and growth peaked in 2015. Though construction transactions are publicized more gradually and 2018 figures are certainly not final, volume and growth looks to have peaked in 2016. Rather than building toward global transformation, the BRI may have already seen its most dynamic days.

BRI by Year

($ billion)

	Construction	Investment
2014	67.6	36.9
2015	77.4	45.3
2016	96.7	34.4
2017	83.3	34.0
2018	67.2	39.7

Source: China Global Investment Tracker.

For the first half of 2019, all results are of course incomplete for investment and nowhere close to complete for construction. But Chinese investment around the world appears to have dropped again, after dropping sharply in the second half of 2018. The reason is plunging investment by state-owned enterprises (SOEs), which had until last autumn unfailingly outspent private Chinese enterprises. For roughly eight months, major state investors have either reported drastically less global investment for some reason or actually cut their spending.

While that is a global trend, it is telling for the BRI. In 2014–8, SOEs accounted for about 73 percent of BRI investment. They accounted for about 96 percent of construction, which is utterly dominated by giants such as State Construction Engineering and PowerChina and their many subsidiaries. The BRI is a program of SOEs. Private companies avoid BRI construction because there's no financial return to often-difficult projects in what are mostly poorer countries. The same is true to a lesser extent for investment.

It is no surprise, then, that the official BRI investment tally for January through April 2019 was tallied for just 50 countries and stood at just $4.6 billion.[5] No on-year growth was given, which is Chinese for "it's declining and we don't want to say that." If SOEs have stopped disclosing some BRI activities, it obviously harms transparency and raises questions about Beijing's commitment. If SOEs have stopped investing, the questions become pointed: the PRC is a reliable partner, until it needs a break?

The SOE pause has weight because it can be traced back to serious problems in Chinese external finance. When Xi Jinping launched the BRI in September 2013, China's foreign exchange reserves were valued at $3.66 trillion.[6] They rose to $3.99 trillion in June 2014, then began falling, standing at $3.09 trillion at the end of April 2019. There is also a smaller amount of foreign currency held in the state banking system which appears to have fallen more steeply. The BRI was launched under conditions of not only abundant but also fast-rising reserves. They are still abundant but the trend has reversed.

Reserves are what make the BRI go. While China and others fuss over the yuan becoming a globally used currency, the share of the yuan in global transactions is about 2 percent, with most of those in Hong Kong. For global reserve holdings, the

[5] "China's non-financial ODI up 3.3 pct in first four months," *Xinhua,* May 16, 2019, *http://www.xinhuanet.com/english/2019-05/16/c_138063770.htm.*

[6] Ministry of Foreign Affairs of the People's Republic of China, "President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt With Central Asian Countries," September 7, 2013, *https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml;* and State Administration of Foreign Exchange, "Data and Statistics," *https://www.safe.gov.cn/en/DataandStatistics/index.html* (accessed June 2, 2019).

yuan is about as important as the Canadian dollar.[7] BRI governments and local businesses want dollars or other hard currency from Beijing, hard currency which it increasingly cannot spare. Unless the foreign exchange pattern of the past 5 years is flipped, the BRI as a global program will slowly starve to death.

Adding a bit more pressure, if only a bit, is internal financial failure. The PRC pushed domestic outstanding credit—an aggregate debt measure—from $6.5 trillion in 2008 to $33.2 trillion in 2018, mocking all claims of recent economic success.[8] But this is not money used for the BRI. To protect fragile banks, Beijing still employs a closed capital account, which keeps domestic and foreign funds separate (and money from freely leaving the country). A secondary impact: weak growth from heavy debt gradually undermines the BRI by making it politically sensitive.

U.S. POLICY ON THE BRI

The first question for American policy-makers is a surprise but follows directly from current conditions: what is it worth to the U.S. to kill the BRI? In most situations, for instance with regard to intellectual property, the U.S. does not have the ability to halt Chinese actions outright. With the BRI, we effectively do.

Balance of payments weakness since 2014 has made the PRC extremely dependent on sales to the U.S. The PRC's cumulative goods and services surplus with the U.S. from 1999 through 2018 was close to $4.6 trillion, more than its foreign exchange holdings at their peak.[9] Moreover, from June 2014 to April 2019, when China's reserves dropped $900 billion, it still ran a $1.5-trillion goods and services surplus with the U.S. Without that, Beijing cannot avoid a balance of payments crisis, much less fund a global BRI.

Enter the trade dispute. Available 2019 data show goods imports from the PRC falling $17 billion from January to March.[10] The U.S. has since hiked from 10 to 25 percent tariffs on $200 billion of Chinese imports, pending exclusions, and a tariff of unknown rate is possible on $300 billion more. Neither action is yet reflected in trade or reserves. Nearly-across-the-board U.S. tariffs, perhaps half 25 percent and half 10 percent, would cost Beijing at least $150 billion in hard currency annually, a loss the PRC can afford for a while but the BRI cannot.

The BRI presently depends on American consumers buying Chinese products and can be paralyzed for an extended period just by making those products more expensive. Such actions of course have costs for the U.S., though they are not especially large (unless combined with 25-percent across-the-board tariffs on Mexico). Is the BRI a sufficient threat on its own to justify fairly minor sanctions against China? Not on the commercial side.

With regard to frequently cited "debt traps," Beijing can no longer afford the billions in hard currency needed to spring a trap. The clearest illustration: there turns out to be nothing Venezuela can provide worth what China has risked. A deeper answer involves assets the PRC might acquire for debt forgiveness. In most cases, there are no commercially valuable assets available, hence the initial involvement of heavily subsidized SOEs instead of profit-motivated multinationals. In Sri Lanka, for example, the obvious pieces for China to gain are infrastructure projects for which there is little supporting demand.[11]

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[7] China Global Television Network, "Share of Chinese RMB in global payments rose to 3-year high in Jan.," March 1, 2019, *https://news.cgtn.com/news/3d3d414d3449444d33457a6333566d54/index.html;* and International Monetary Fund, "Currency Composition of Official Foreign Exchange Reserves, *https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4* (updated March 29, 2019).

[8] The equivalent U.S. rise was a disturbing but considerably smaller $17.4 trillion. Bank of International Settlements, "Credit to the Non-Financial Sector," *https://www.bis.org/statistics/totcredit.htm?m=6%7C380%7C669* (updated June 4, 2019).

[9] Bureau of Economic Analysis, "U.S. International Trade in Goods and Services, April 2019," June 6, 2019, *https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services.*

[10] United States Census Bureau, "Trade in Goods With China," *https://www.census.gov/foreign-trade/balance/c5700.html* (accessed June 3, 2019).

[11] Nick Miroff, "China strengthens ties to cash-strapped Venezula with $5 billion loan," *Washington Post,* September 3, 2015, *https://www.washingtonpost.com/news/worldviews/wp/2015/09/03/china-strengthens-ties-to-cash-strapped-venezuela-with-5-billion-loan/?utm_term=.6272849a6ce1;* and Iain Marlow, "China's $1 Billion White Elephant," *Bloomberg,* April 17, 2018, *https://www.bloomberg.com/news/articles/2018-04-17/china-s-1-billion-white-elephant-the-port-ships-don-t-use.*

The idea behind debt traps, however, is relevant more broadly: what does Beijing gain from the BRI to justify devoting (increasingly) precious resources? The PRC faces rising labor and land costs, making its exports particularly less competitive in lower-income countries that dominate the BRI. Better transport and logistics can boost demand there. The stress on energy reinforces China's interest in commodities extraction and shipment, from Russia and other oil suppliers primarily and metal ore suppliers such as Vietnam and Chile secondarily.

The U.S. should care little about either exports to poor BRI countries or competitive commodities extraction. American exports skew heavily to NAFTA partners and Europe. Net American oil and oil products imports in the first quarter of 2019 were less than 10 percent of those in the first quarter of 2009 and metals imports have never been sizable.[12] It makes no sense for the U.S. to mirror Chinese economic priorities, much less dubious actions like subsidizing power plant construction in Laos.

This discussion is limited to economic issues and security concerns may be much sharper. Economics can inform those concerns, as well. China cannot fund a truly global BRI and odds are better that financial constraints will tighten rather than loosen. Beijing will inevitably focus on what it sees as the most important countries. On economic grounds, these are the richer countries in Southeast Asia for export markets and the Arab world for oil. American policy should anticipate where China's gaze will finally land and evaluate to what extent this very select set of countries calls for a U.S. response. The BRI as a whole has become a red herring.

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[12] United States Energy Information Administration, "U.S. Net Imports of Crude Oil and Petroleum Products," May 31, 2019, *https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=mttntus2&f=m.*

Communications

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Statement of Michael Bindner

Chairman Cornyn and Ranking Member Casey, thank you for the opportunity to submit these comments, which will put this matter into long-term context.

News reports on this project indicate that China's partners in this endeavor are adopting more authoritarian means to quell dissent. Where, in the American system, the government will provide compensation for land seizure, I doubt that current residents receive compensation, assuming they held title in the first place.

Like the Slave Power in the antebellum South, even speaking out against the project is not allowed. This is an extension of the despotism of Chinese state capitalism. While recent events in China have the appearance of a free market, the reality is that Party Members are at the Center of most enterprise.

This is not terribly different than the progress of economic and political freedom in the Global North of the Western World. While a Marxist revolution has never occurred in a Marxist state, a Marxian analysis (not the elevator speech that Stalin and Mao implemented), society moves forward in largely predictable ways.

Aristocracy (or Party) brings about industrialization under a capitalistic despotism, which includes militarism and imperialism. As the peasantry is forced into slave like conditions in urban factories, they soon acquire skills and savings. Eventually, they demand civil and union rights, which their capitalist masters resist until a consumer surplus is required to match the labor surplus, usually because production exceeds worker income.

Marx posited that this would lead to a boom-bust cycle. We now know that this cycle actually helps the working class, so unionization, social and political democracy exist, despite capitalist resistance. Indeed, it is often the fear of socialism that forces concessions, thus delaying revolution.

Marx was not familiar with how public spending and debt control the business cycle, as opposed to imbalances in production and consumption. Keynes got close and Hayek and von Mises thought that the cycle was a healthy thing, yielding both innovation and removing failed enterprise. Their contention was that aiding failed enterprise let recession linger, the hindmost be damned.

This dynamic still plays out in our polity, where discredited supply side tax cuts fuel a boom bust cycle, while neo-liberal regimes increase taxation to remove excess savings, asset inflation and speculation in questionable investments and channel funds to activities that actually result in increased gross domestic product.

The other alternative is deficit spending, which also limits asset inflation, et al., channeling tax cuts toward bond sales. This usually includes high military spending and the need for global hegemony to justify it.

The current example of this dynamic is the recovery, which really took off when President Obama successfully forced Speaker Boehner and Leader McConnell to accept higher taxes on the savings sector and when the ironically named Balanced Budget Act of 2018 ate the liquidity produced by the Tax Cut and Jobs Act if 2017.

A more robust recovery would have resulted save for neo-liberal limitations on transfer payments, which could be destabilizing to capitalism, as the rise of the

Democratic Socialism among the Millennial generation demonstrates. The drive toward employee ownership and cooperatives is another trend toward a more socialistic economy, not by rage but by arbitrage.

This has everything to do with China and the Belt and Road. One possible future is that expanding Chinese militarism will face American Hegemony in the same way that emerging Japanese and German militarism (both of which occurred in states with a vigorous industrial middle class) clashed with British and American imperialism, leading to the Second World War (or the Great Patriotic War as it was and is known in Russia—which has replaced political imperialism with economic imperialism and private capitalist and political corruption which would have made Nelson Rockefeller and Boss Tweed proud). Knowledge can help us to avoid another super-power conflict, at least for now. Nuclear weaponry adds some urgency toward finding another alternative.

Resisting the evolution of China will no more work than attempts to preserve our imperialism in the Pacific against Japanese expansion, which was ended through nuclear blackmail (and without an adequate arsenal of such weapons, we were bluffing) and the extension of hegemony absorb Germany and Japan, expanding of late into Eastern Europe, as well as recent wars in the Middle East and South Asia. We have reached our limit and China will anti them, thanks to their new silk road and belt.

At some point, inevitable economic and political change will overcome Chinese authoritarianism. Until them, deterrence, rather than conflict is essential. Indeed, continuing engagement helped bring the Soviet empire to its knees. This is also something we should try in Cuba.

Creating demand for our goods will have Chinese workers and workers in their new client states demand more, leading to either evolution or revolution. It will not be perfect, but neither is the American system, which depends on undocumented labor from the Global south (often with slave-like conditions replacing violence with threats of deportation) and exploitative contracts with farmers to keep food growing and processing cheap.

Oddly, the best alternative is more democracy and ownership in the American workplace. To protect themselves from job loss from their own supply chain and subsidiaries, such firms will assure that overseas workers have the same standard of living and workplace democracy that they enjoy, thus subverting authoritarianism in the Global South and East. Change in American companies cannot come from governmental action.

American workers must seek this for themselves, starting with the cooperative and employee owned sector. As this evolves, personal accounts in Social Security owning employer voting stock will accelerate workplace democratization, which is a measure that this Committee could enact, along with the Subtraction VAT that we have long suggested in our previous comments. In this way, real American cooperative socialism can overcome Chinese stat e capitalism, which is both faux socialism and faux free market rolled into one.

Thank you for the opportunity to comment. As always, we are available to answer questions from members and staff and to provide direct testimony.

Attachment—Employee Ownership from Improving Retirement Security for America's Workers, Center for Fiscal Equity, June 6, 2018

In the January 2003 issue of *Labor and Corporate Governance,* we proposed that Congress should equalize the employer contribution based on average income rather than personal income. It should also increase or eliminate the cap on contributions. The higher the income cap is raised, the more likely it is that personal retirement accounts are necessary. A major strength of Social Security is its income redistribution function. We suspect that much of the support for personal accounts is to subvert that function—so any proposal for such accounts must move redistribution to account accumulation by equalizing the employer contribution.

We propose directing personal account investments to employer voting stock, rather than an index funds or any fund managed by outside brokers. There are no Index Fund billionaires (except those who operate them). People become rich by owning and controlling their own companies. Additionally, keeping funds in-house is the cheapest option administratively. I suspect it is even cheaper than the Social Security system—which operates at a much lower administrative cost than any defined contribution plan in existence.

If employer voting stock is used, the Net Business Receipts Tax/Subtraction VAT would fund it. If there are no personal accounts, then the employer contribution would be VAT funded.

Safety is, of course, a concern with personal accounts. Rather than diversifying through investment, however, we propose diversifying through insurance. A portion of the employer stock purchased would be traded to an insurance fund holding shares from all such employers. Additionally, any personal retirement accounts shifted from employee payroll taxes or from payroll taxes from non-corporate employers would go to this fund.

The insurance fund will save as a safeguard against bad management. If a third of shares were held by the insurance fund than dissident employees holding 25.1% of the employee-held shares (16.7% of the total) could combine with the insurance fund held shares to fire management if the insurance fund agreed there was cause to do so. Such a fund would make sure no one loses money should their employer fail and would serve as a sword of Damocles' to keep management in line. This is in contrast to the Cato/PCSSS approach, which would continue the trend of management accountable to no one. The other part of my proposal that does so is representative voting by occupation on corporate boards, with either professional or union personnel providing such representation.

The suggestions made here are much less complicated than the current mix of proposals to change bend points and make OASI more of a needs based program. If the personal account provisions are adopted, there is no need to address the question of the retirement age. Workers will retire when their dividend income is adequate to meet their retirement income needs, with or even without a separate Social Security program.

No other proposal for personal retirement accounts is appropriate. Personal accounts should not be used to develop a new income stream for investment advisors and stock traders. It should certainly not result in more "trust fund socialism" with management that is accountable to no cause but short term gain. Such management often ignores the long-term interests of American workers and leaves CEOs both over-paid and unaccountable to anyone but themselves.

If funding comes through an NBRT, there need not be any income cap on employer contributions, which can be set high enough to fund current retirees and the establishing of personal accounts. Again, these contributions should be credited to employees regardless of their salary level.

Conceivably a firm could reduce their NBRT liability if they made all former workers and retirees whole with the equity they would have otherwise received if they had started their careers under a reformed system. Using Employee Stock Ownership Programs can further accelerate that transition. This would be welcome if ESOPs became more democratic than they are currently, with open auction for management and executive positions and an expansion of cooperative consumption arrangements to meet the needs of the new owners.

We also suggest a floor in the employer contribution to OASI, ending the need for an EITC—the loss would be more than up by gains from an equalized employer contribution—as well as lowering the ceiling on benefits. Since there will be no cap on the employer contribution, we can put in a lower cap for the employee contribution so that benefit calculations can be lower for wealthier beneficiaries, again reducing the need for bend points.

The new Majority should not run away from this proposal to enact personal accounts. If the proposals above are used as conditions for enactment, we suspect that it won't have to. The investment sector will run away from them instead and will mobilize the next version of the Tea Party against them. Let us hope that the rise of Democratic Socialism in the party invests workers in the possibilities of employee ownership.

Attachment—Tax Reform, Center for Fiscal Equity, May 22, 2019

For the past eight years, we have had a standard plan with four elements followed by explanatory paragraphs. The following is a different presentation with the same concepts.

Individual payroll taxes. These are optional taxes for Old-Age and Survivors Insurance after age 60 (or 62). These will be collection of these taxes occurs if an income sensitive retirement income is deemed necessary for program acceptance. The ceiling should be lowered to reduce benefits paid to wealthier individuals and a floor should be established so that Earned Income Tax Credits are no longer needed. Subsidies for single workers should be abandoned in favor of radically higher minimum wages.

Income Surtaxes. Individual income taxes, which exclude business taxes, above an individual standard deduction of $50,000 per year. It will include initial cash distributions from inheritance (except those from the sale of estate assets, see below). This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction.

Asset Value-Added Tax (A–VAT). A replacement for capital gains taxes and the estate tax. It will apply to assets held for a longer period of time, exercised options, inherited assets and the profits from short sales. Tax payments for option exercises and inherited assets will be reset, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. Free assets to the seller will be counted as such. As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as income or S–VAT surtaxes. This tax will end Tax Gap issues owed by high income individuals.

Subtraction Value-Added Tax (S–VAT). These are employer paid Net Business Receipts Taxes that allow multiple rates for higher incomes, rather than collection of income surtaxes. They are also used as a vehicle for tax expenditures including healthcare (if a private coverage option is maintained), veterans' health care for non-battlefield injuries, educational costs borne by employers in lieu of taxes as either contributors, for employee children or for workers (including ESL and remedial skills) and an expanded child tax credit.

The last allows ending state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). An inflation adjustable credit should reflect the cost of raising a child through the completion of junior college or technical training. To assure child subsidies are distributed, S–VAT will not be border adjustable.

The S–VAT is also used for personal accounts in Social Security, provided that these accounts are insured through an insurance fund for all such accounts, that accounts go toward employee-ownership rather than for a subsidy for the investment industry. Both employers and employees must consent to a shift to these accounts, which will occur if corporate democracy in existing ESOPs is given a thorough test. So far it has not.

Regardless, S–VAT funded retirement savings will be credited equally for every worker, which allows for funding both the current program and personal accounts and lessens the need for bend points in benefit calculations. It also has the advantage of drawing on both payroll and profit, making it less regressive.

Invoice Value-Added Tax (I–VAT). Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S–VAT, then they would be funded by the I–VAT to take advantage of border adjustability. I–VAT also forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. Enactment of both the A–VAT and I–VAT ends the need for capital gains and inheritance taxes (apart from any initial payout). This tax would take care of the low income Tax Gap.

I–VAT will fund domestic discretionary spending, disability and survivors insurance (which will no longer be tied to income and shall be raised to the increased minimum wage rate and adjusted for inflation), and OASI employer contributions if personal accounts are not enacted and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I–VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs.

As part of enactment, gross wages will be reduced to take into account the shift to S–VAT and I–VAT, however net income will be increased by the same percentage as the I–VAT. Adoption of S–VAT and I–VAT will replace pass-through and proprietary business and corporate income taxes.

Carbon Value-Added Tax (C–VAT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C–VAT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels (including fusion). This tax would not be border adjustable.

RAIL SECURITY ALLIANCE

June 11, 2019

The Honorable John Cornyn
Chairman
Subcommittee on International Trade, Customs, and Global Competitiveness
U.S. Senate
Committee on Finance
Washington, DC 20510

Dear Chairman Cornyn:

The Rail Security Alliance appreciates you convening the hearing "China's Belt and Road Initiative," a timely topic that is vital to both the economic and national security interests of the United States. We welcome the opportunity to communicate to you the work of the Rail Security Alliance and the importance of protecting U.S. competitiveness and national security from the unfair trade practices from the People's Republic of China.

The Rail Security Alliance is a coalition of North American freight rail manufacturers, suppliers, unions, and steel interests that is committed to ensuring the economic and national security of passenger and freight rail systems. This alliance was formed in response to the merging of China's two rail manufacturers into one super state-owned enterprise (SOE), the China Railroad Rolling Stock Corporation (CRRC). CRRC, by their own calculation, controls roughly 83 percent of the global rail market. As a state-owned enterprise, CRRC has access to unlimited state funding that allows them to win contracts around the world by underbidding every other competitor, jeopardizing the future of this industry.

Over the past 5 years, CRRC has aggressively targeted the U.S. market with the intent of overtaking the United States and other nation's critical industries like passenger and freight railcar manufacturing. Using state-backed financing and other anti-competitive tactics, CRRC has now secured $2.6 billion in contracts to build metro transit cars in Boston, Chicago, Philadelphia, and Los Angeles, sometimes underbidding its competitors by as much as several hundred million dollars, which translates from 7% to as much as 50% below other bidders. With its Belt and Road Initiative highlighted today, you are seeing similar practices in 152 other nations with one goal in mind—major Chinese influence in every major nation on the globe.

According to a June 2019 Oxford Economics study, which is attached for your review and consideration, for each job created by a Chinese SOE in the rail sector, the United States loses between 3.5 to 5.4 net jobs, which factors out to a net loss of over 5,000 U.S. jobs for every $1 billion won in contracts by China. CRRC should not be able to hide behind the facade of American job creation while putting hardworking Americans out of work with our own taxpayer dollars. For this reason, we commend you on the introduction of S. 846, the Transit Infrastructure Vehicle Security Act alongside Senators Baldwin, Crapo, and Brown. This legislation is vital in protecting American transit rail from the unfair, and anti-competitive practices of China and its SOEs.

This threat is now knocking on the doors of Washington. WM ATA, Washington's metro system, is seeking to procure new metro cars this year and it is becoming increasingly clear that CRRC could win this contract. With no Buy America or Disadvantaged Business Enterprise (DBE) requirements for this contract, CRRC is well positioned to submit a compelling bid. Needless to say, the prospect of metro cars manufactured by the Government of China running under or near the Pentagon, the Capitol, the White House, and other sensitive installations should raise serious concerns.

Relating to the national security of the nation's capital and country at large, in testimony before a recent House Transportation and Infrastructure hearing on China's impact on American's rail system, Brigadier General John Adams (USA, Ret.) stated, "CRRC's bylaws direct that the company seek guidance from the Communist Party of China on significant matters affecting the company's operations. Three of CRRC's current board members previously held high-level positions at several state-owned defense companies including, Aviation Industry Corporation of China (AVIC), which produces fighter and bomber aircraft, helicopters, and unmanned aerial vehicles for the Chinese Army, and China Shipbuilding Industry Corporation (CSIC), which produces submarines, warships, and other naval equipment for the Chinese Navy. Furthermore, two former CRRC board members held positions at AVIC and China North Industries Group Corporation Limited (NORINCO), a state-owned defense company that supplies tanks, aircraft, missiles, firearms, and related products for the Chinese military."

The fact that a state-owned company with deep ties to China's defense industrial base is winning rail contacts around the United States should frighten concern us all because it unequivocally puts every American at risk.

The freight system is not immune to CRRC either. CRRC has also attempted to enter the North American freight rail manufacturing sector with a joint venture in North Carolina. Fortunately, that effort failed. Nonetheless we cannot discount the fact that we have seen this pattern before by the Chinese. Indeed, CRRC entered the Australian market in 2008 and decimated its domestic manufacturing capabilities in just nine years. We would be naive to think that cannot and will not happen here.

Allowing Chinese SOEs to continue expanding and operating in the United States presents major risks to the economic and national security of our country.

We look forward to continuing our work together to protect the United States and its rail operators, manufacturers, and suppliers.

Respectfully submitted,

Erik Robert Olson
Vice President, Rail Security Alliance

OXFORD ECONOMICS

ASSESSING HOW FOREIGN STATE-OWNED ENTERPRISES' U.S.-BASED OPERATIONS DISRUPT U.S. JOBS

Measuring the Effects of Supply-Chain Loss Due to Expansion of Foreign State-Owned Enterprises in the U.S.

JUNE 2019

EXECUTIVE SUMMARY

Independent research conducted by Oxford Economics assesses the net economic impact of Chinese State-Owned Enterprises (SOEs) in U.S. passenger railcar manufacturing. Because Chinese SOE railcar production relies more on imported parts and subsystems in its supply chain, compared to legacy producers operating in the U.S., we estimate that **for each U.S. job created by a Chinese SOE, the U.S. loses between 3.5 to 5.4 jobs** when factoring in the direct, indirect, and induced economic impact. The following analysis provides a more thorough explanation of this dynamic.

U.S. passenger railcar manufacturing is currently experiencing unprecedented competition from the Chinese state-owned railcar manufacturer, CRRC. This SOE recently won four contracts to supply passenger railcars in Boston, Philadelphia, Chicago, and Los Angeles; altogether totaling approximately $2.7 billion. The winning bids on these four contracts were between 7% and 21% lower than the next lowest bidder, raising concerns of anti-competitive pricing behavior. In part, this is because SOEs are not like traditional commercial enterprises. SOEs enjoy a variety of implicit and explicit government subsidies, do not face the same hard budget constraints that private firms do, and are responsive to various non-commercial policy objectives of their home governments.

As a result of these factors, U.S.-based passenger railcar production by Chinese SOEs is widely perceived by industry experts to differ from that of legacy U.S.-based producers, which are privately held companies. Chinese SOEs are thought to do less value-add production in the U.S., and to rely more on imported railcar parts and subsystems. This behavior echoes similar strategies undertaken in other countries, such as Australia.[1] The ramifications of this change in production behavior include lost jobs, GDP, and labor income in the U.S.—effectively shifting this value abroad. **Under a worst-case scenario, we estimate the economic cost of this shift to be a net loss of more than 5,000 U.S. jobs for every $1 billion in contracts won by Chinese SOEs.**

Oxford Economics studied the effects of Chinese SOE penetration of the U.S. passenger railcar market. Two specific scenarios are modeled: good faith adherence to Buy America provisions, and a "high impact" scenario where Buy America provisions are assumed not to apply. This was then compared to a baseline scenario of existing, well-integrated current railcar manufacturers (Legacy Producers).[2] Three types of economic impacts are included in the estimates: direct (impacts by the railcar manufacturer itself), indirect (supply chain impacts), and induced (impact supported by spending out of wages of workers employed directly or indirectly).

Each scenario assumes a hypothetical $1 billion in passenger railcar output. Impacts from smaller or larger projects would scale linearly. Our analysis found that:

- Under the **Legacy Producers** scenario, this production has an impact of approximately 11,600 jobs, $1.2 billion in GDP, and $275 million in taxes generated (federal, state, and local).
- Under the **Chinese SOE Buy America** scenario, this production has an impact of approximately 8,300 jobs, $880 million in GDP, and $205 million in taxes generated. Thus, relative to the Legacy Producers scenario, job impacts are 28 percent lower, and GDP impacts 26 percent lower.
- Under the **Chinese SOE High Disruption** scenario, this production has an impact of approximately 6,500 jobs, $690 million in GDP, and $162 million in taxes generated. Thus, relative to the Legacy Producers scenario, job impacts are 44 percent lower, and GDP impacts 42 percent lower.

[1] Oxford Economics. *Will We Derail U.S. Freight Rolling Stock Production?* May 2017.

[2] **Legacy Producers scenario.** This is based on economic data for the railroad rolling stock manufacturing industry, adjusted to better reflect passenger railcar manufacturing by privately held companies. Although legacy producers are foreign owned, they typically localize production and sourcing of materials and subsystems.

Chinese SOE Buy America scenario. This is a lower-displacement Chinese SOE scenario with a 70 percent "Buy America" domestic content restriction on parts and subsystems.

Chinese SOE High Disruption scenario. This model assumes no domestic content requirement and quantifies.

The assumptions underlying all three scenarios are carefully laid out in section 2.3.

1. INTRODUCTION

This report focuses on passenger rolling stock manufacturing in the U.S., and the recent entry of foreign state-owned enterprises (SOEs) into the industry. In particular, we consider impacts on the U.S. economy from the entry of Chinese state-owned railcar manufacturers into the U.S. passenger railcar market.

Likely because the U.S. is not a large purchaser of passenger railcars on the global stage, most passenger railcar manufacturing in the U.S. (unlike other segments of the U.S. railroad rolling stock industry) is already undertaken by foreign-owned enterprises operating with extensive supply chains and investments in the U.S.[3] However, the entry of foreign SOEs present new challenges and concerns for U.S. policymakers. Unlike other firms, SOEs often receive implicit or explicit subsidies from their home governments, which allow them to engage in long-run strategic pricing behavior with anti-competitive effects.[4] Additionally, SOEs are responsive to non-commercial policy objectives of their home governments.[5]

Essentially all passenger rolling stock in the U.S. is purchased by governmental or quasi-governmental local transportation authorities through competitive bidding processes. As shown in Figure 1, Chinese state-owned railcar producer, CRRC, has won several high-profile passenger railcar projects for some of the largest public transportation providers in the U.S., substantially undercutting the second-place leading bidders by 7–21 percent. As a condition of these projects to date, final assembly of the train cars has or will be done in the U.S., much of it at the company's existing facility in Springfield, MA.[6]

Either because of the characteristics of SOEs described above, or because of other factors specific to the Chinese railcar manufacturing industry (*e.g.,* an overhang of excess capacity), it is widely perceived by U.S.-based manufacturers that Chinese SOE railcar production in the U.S. is qualitatively different from that of the other, privately held railcar manufacturers—hereinafter referred to as "legacy producers." Specifically, within the limits prescribed by bidding requirements, Chinese SOE railcar production is thought to rely less on U.S.-based value-added production, and more heavily on imported pre-fabricated train parts and subsystems.

FIG. 1: Summary of CRRC Winning Bids for Passenger Railcar Projects

Buyer	Winning bid ($ m)	Second place bid ($ m)	Difference (% of 2nd place bid)	Number of cars ordered	Buy America requirement
MBTA (Boston)	$567	$721	21%	284	No
SEPTA (Philadelphia)	$138	$172	20%	45	Yes
CTA (Chicago)	$1,309	$1,536	15%	846	No
LA Metro (Los Angeles)	$637	$683	7%	282	No *
Total	**$2,651**	**$3,112**	**15%**	**1,457**	

Source: News reports and industry interviews, collated by Oxford Economics.

* The LA Metro did not require Buy America provisions, however CRRC stated that it has met the Buy America standards with 60 percent of components to be made in the U.S.

In this report, based on available public materials and interviews with industry experts from major U.S.-based passenger and other railcar manufacturers, Oxford Economics modeled the full economic impacts of Chinese SOE passenger railcar manufacturing in the U.S., as compared with legacy U.S.-based passenger railcar manu-

[3] Some of the largest firms include Bombardier (Canada), Hyundai Rotem (South Korea), Siemens (Germany), Alstom (France), and Kawasaki (Japan).

[4] *See,* for example: OECD (2016), "State-Owned Enterprises as Global Competitors: A Challenge or an Opportunity?", OECD Publishing, Paris. *http://dx.doi.org/10.1787/9789264262096-en.* This report discusses preferential financing obtained by SOEs and "special advantages granted by governments in return for public policy obligations at home," as well as the obstacles that foreign non-SOEs face in competing with an SOE in the latter's home market.

[5] CRRC's articles of incorporation acknowledge the company's non-commercial pollical obligations. (*See,* for example, article 161.) *http://www.crrcgc.cc/Portals/73/Uploads/Files/2018/6-4/636637164457871915.pdf.*

[6] The winning bid for the CTA contract was submitted by China South Locomotive and Rolling Stock Corp. (CSR), a predecessor to CRRC. As part of this bid, CSR agreed to open a Chicago assembly plant that would directly employ about 170 people.

facturers. This analysis quantifies the net economic impact, in jobs, GDP, labor income, and taxes, of Chinese SOE passenger railcar manufacturing in the U.S. Section 2 presents the assumptions underlying this modeling work. Section 3 presents the results of this modeling. Section 4 summarizes of our findings and offers concluding statements.

2. MODEL AND ASSUMPTIONS

In this section, we lay out the assumptions behind three economic models of passenger railcar production—Legacy Producers, Chinese SOE Buy America, and Chinese SOE High Disruption.

The basic structure of the input-output model used in this work, which traces the supply chain linkages of various industries through the U.S. economy, is described below. In Section 2.2, we present a brief discussion of the Buy America Act and its impact on our modeling. In Section 2.3, we present the assumptions for the three scenarios.

2.1 MODEL STRUCTURE

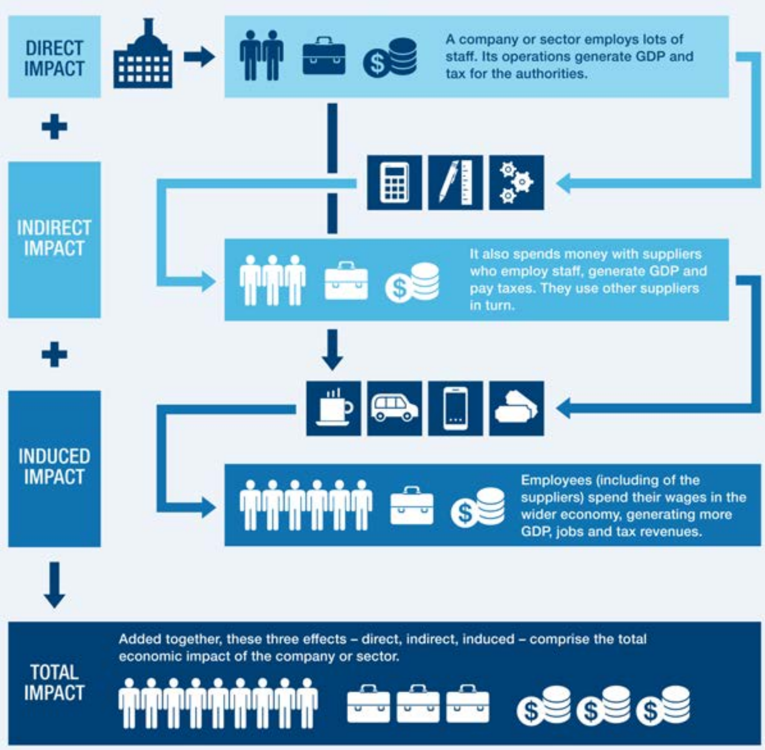
This analysis uses IMPLAN economic impact software. IMPLAN is widely used and recognized by government organizations, nonprofits, economic development organizations, workforce planners, education institutions, and consultants across the U.S. and Canada.

The model is designed to capture the inter-industry relationships, consumer spending, and ripple effects that result from the direct economic activity generated by passenger railcar manufacturers. The impacts are measured across three channels:

1. **Direct Impact:** direct employment and spending by the industry's business operations
2. **Indirect Impact:** supply-chain effects, stemming from industry's operations (e.g. legal services, utilities, etc.)
3. **Induced Impact:** describes impact resulting from employees spending their incomes in the U.S. economy

Fig. 2, on the following page, characterizes the impact model structure.

FIG. 2: The channels of economic impact



2.2 BUY AMERICA ACT

In some cases (generally when federal funds are involved),[7] local transportation authorities looking to purchase new passenger rolling stock are required to comply with domestic content provisions under the Buy America Act.[8] Historically, in addition to requiring final assembly to take place in the U.S., the Buy America Act has required at least 60 percent of the value of parts to be domestically sourced. For FY 2018 and FY 2019, this threshold has been raised to 65 percent, and to 70 percent from FY 2020 onward. Because U.S. taxpayers are the source of funds for railcar purchases, the provisions are designed to ensure that the value generated from railcar manufacturing accrues to Americans.

The precise details of the accounting behind Buy America Act domestic content provisions are complex and well beyond the scope of this report. However, it is worth noting that a variety of accounting practices (*e.g.,* the manipulation of transfer prices) can be used to meet Buy America Act requirements while importing a larger share of real economic value than the Act intends.

[7] For context, three of these four contracts presented in Fig. 1 above are entirely funded by state and local governments, meaning that Buy America provisions requiring a significant percentage of parts to be of U.S. origin do not apply. However, other municipality-mandated provisions may be stipulated.

[8] *See* Congressional Research Service (September 12, 2016). "Domestic Content Restrictions: The Buy America Act and Complementary Provisions of Federal Law."

With this understanding, our economic impact modeling below for the Chinese SOE Buy America scenario takes the 70 percent domestic content provision literally and assigns domestic shares to Chinese production that allows it to meet this threshold.

2.3 OUR ASSUMPTIONS

The underlying basis for our assumptions about U.S. and Chinese passenger railcar manufacturing supply chains is the Input-Output data on the railroad rolling stock industry collected by the Bureau of Economic Analysis (BEA), as aggregated by IMPLAN for 2016.[9] The production process for any industry is a profile breaking the total value of the final output of that industry into spend on intermediate goods and services, and industry value-add (the last of which can be broken down into employee compensation, capital income, and directly paid taxes). To reflect the key categories of inputs used in railcar manufacturing, we have categorized the intermediate goods into four categories (metallic parts, non-metallic parts, motors and electrical equipment, trade and transport margins on parts; the last of which is a service but is capitalized into the cost of goods), and the intermediate services into two categories (utilities and business services). Each of these inputs is also associated with a domestic content share, which is the share of the spend in that category spent on parts sourced in the U.S.[10]

Fig. 3 and Fig. 4 present the assumptions used for the core economic modeling in this report. Fig. 3 presents the production process associated with different types of manufacturing; that is, each row represents the share of final output accounted for by production inputs of a particular type. Fig. 4 presents the domestic content share of each of the intermediate parts and services used.

The columns labeled (1) in Fig. 3 and Fig. 4 present the raw economic data for the railroad rolling stock industry as a whole. From this, we make slight adjustments in columns (2) to better reflect the legacy passenger railcar manufacturing subindustry, increasing the share of non-metallic components for components such as signage and seating. In columns (3) and (4), we present assumptions for two scenarios for Chinese railcar manufacturing. In both, we decrease the share of domestic value-add and increase the share of differentiated railcar parts and subsystems to reflect less real value-added manufacturing work occurring in the U.S. relative to legacy non-SOE manufacturers. Additionally, to reflect a greater share of imports, we decrease the domestic share of parts. In column (3), under the Chinese SOE Buy America scenario, we approximate binding requirements of the Buy America Act (see Section 2.2 above), requiring the domestic share of intermediate parts and subsystems to be at least 70 percent. In column (4), under the Chinese SOE High Disruption scenario, we assume the Buy America Act is not binding (perhaps because a particular project does not fall under its scope) and increase the SOE's import shares significantly. The image below further illustrates the origin of content for railcars under the Buy America scenario and the High Disruption Scenario.

[9] The U.S. railroad rolling stock industry (NAICS code 336510) is a roughly $20 billion industry (in annual output) directly employing approximately 21,000 workers in the U.S. It consists of the following activities: railcar manufacturing, which includes passenger, freight, and locomotive; railcar parts and subsystem manufacturing (for downstream use in the industry); and railcar rebuilds.

[10] It's worth noting that, while these domestic shares ("regional purchase coefficients" in IMPLAN terminology) are being used as a proxy for Buy America requirements here, they are not synonymous. In particular, Buy America places additional restrictions on the domestic content of U.S.-assembled parts. It's also worth noting that the domestic shares of the railroad rolling stock industry (column 1) presented in Fig. 4 on p. 11 are based on cross-industry economic data specific to the parts categories, and are not specific to the railroad rolling parts industry except in the shares of different detailed parts categories it uses.

FIG. 3: Production Assumptions, Shares of Intermediate Goods and Services and Value-Add as a Share of Final Output

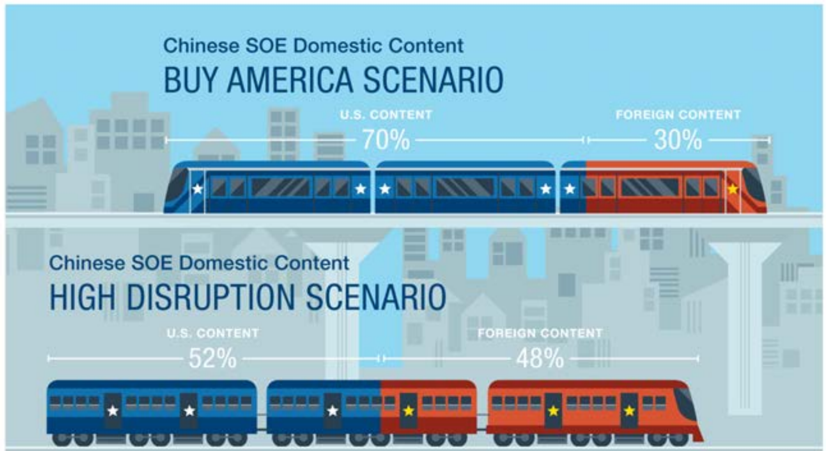
Category	Production inputs	Railroad rolling stock 2016 industry data (1)	Passenger car manufacturing assumptions		
			U.S. legacy producers (2)	Chinese SOE Buy America scenario (3)	Chinese SOE High Disruption scenario (4)
INTERMEDIATE PARTS	Metallic parts	28%	26%	20%	20%
	Non-metallic parts	5%	7%	5%	5%
	Motors and electrical equipment	7%	6%	5%	5%
	Differentiated train parts (rolling stock)	17%	17%	30%	30%
	Trade and transport margins on parts	9%	9%	9%	9%
INTERMEDIATE SERVICES	Utilities	1%	1%	1%	1%
	Business services	19%	19%	19%	19%
VALUE-ADD	Employee compensation	11%	11%	8%	8%
	Capital income	3%	3%	2%	2%
	Directly paid taxes	1%	1%	1%	1%

Source: Industry data from IMPLAN, based on BEA data; assumption by Oxford Economics.

FIG. 4: Domestic Content Assumptions

Category	Production inputs	Railroad rolling stock 2016 industry data (1)	Passenger car manufacturing assumptions		
			U.S. legacy producers (2)	Chinese SOE Buy America scenario (3)	Chinese SOE High Disruption scenario (4)
INTERMEDIATE PARTS	Metallic parts	77%	77%	67%	50%
	Non-metallic parts	70%	70%	67%	50%
	Motors and electrical equipment	56%	56%	56%	50%
	Differentiated train parts (rolling stock)	95%	95%	67%	30%
	Trade and transport margins on parts	98%	98%	98%	98%
	Overall parts	**82%**	**82%**	**70%**	**48%**
INTERMEDIATE SERVICES	Utilities	99%	99%	99%	99%
	Business services	97%	97%	25%	25%

Source: Industry data from IMPLAN, based on BEA data; assumption by Oxford Economics.



3. IMPLICATIONS FOR PUBLIC TRANSIT AND PASSENGER RAILCAR MANUFACTURING

Because the impact results presented here are general purpose, and not specific to a particular project, all results are scaled to $1 billion in final output of passenger railcars. That is, the impacts reflect the full annual[11] economic impacts of $1 billion of passenger railcar output by one of the three types (scenarios) of producers—legacy U.S.-based producers, Chinese SOEs operating under binding Buy America 70 percent domestic content provisions, or Chinese SOEs operating without such provisions ("High Impact"). If a particular project, or set of projects, were larger or smaller than this $1 billion assumption, the total impacts could then be scaled linearly (*e.g.,* impacts for a $3 billion project would be three times as large).

Fig. 5 presents the impacts—direct, indirect, induced, and total[12]—of the three scenarios described above, as measured in employment, GDP, labor income, and taxes generated (federal, state, and local) for $1 billion of hypothetical output. Figure 6 presents the differences (losses) in economic impacts in each category under the two Chinese SOE scenarios relative to the Legacy Producers scenario.

3.1 LEGACY PRODUCERS

As shown in Fig. 5, the total economic impact of $1 billion of railcar production completed by private sector, non-SOE businesses under the Legacy Producers scenario is $1.2 billion of GDP, 11,570 jobs paying a total of $760 million in labor income, and $275 million in federal, state, and local tax impacts.

FIG. 5: Economic Impacts of a Hypothetical $1 Billion of Passenger Railcar Production Under Three Scenarios

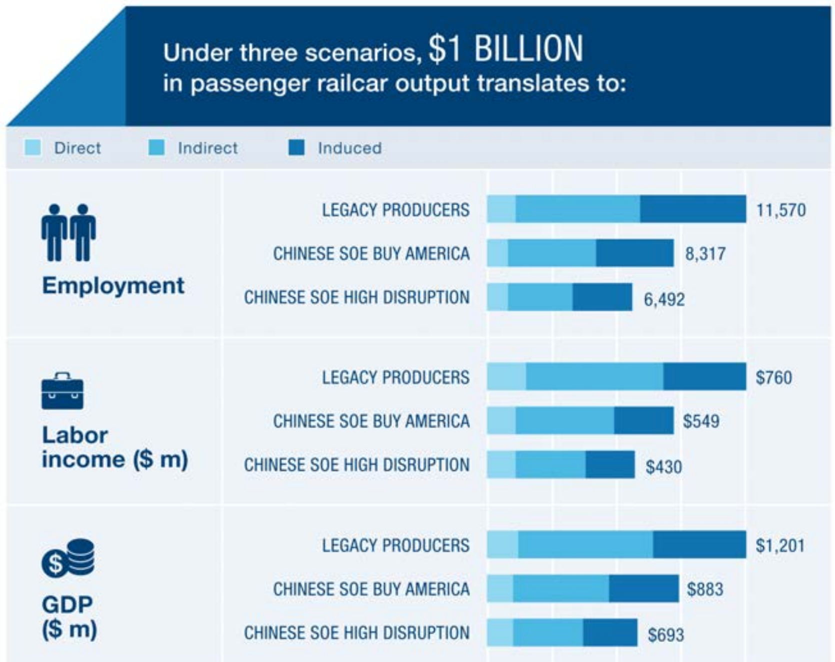
Scenario	Impact type	Direct	Indirect	Induced	Total
LEGACY PRODUCERS	Employment	1,301	5,514	4,756	**11,570**
	GDP ($ m)	$147	$618	$436	**$1,201**
	Labor income ($ m)	$111	$404	$245	**$760**
	Taxes ($ m)	$34	$140	$101	**$275**
CHINESE SOE BUY AMERICA	Employment	938	3,943	3,436	**8,317**
	GDP ($ m)	$116	$452	$315	**$883**
	Labor income ($ m)	$80	$292	$177	**$549**

[11] *I.e.,* each job reflects one person-year of employment. If $1 billion of output were produced in 6 months instead of a year, the raw number of jobs would double but would only last half as long. Note that employment impacts are measured by headcount jobs, not full-time equivalents.

[12] *See* Section 2.1 for a description of these terms.

FIG. 5: Economic Impacts of a Hypothetical $1 Billion of Passenger Railcar Production Under Three Scenarios—Continued

Scenario	Impact type	Direct	Indirect	Induced	Total
	Taxes ($ m)	$27	$105	$73	**$205**
	Employment	938	2,866	2,688	**6,492**
CHINESE SOE HIGH DISRUPTION	GDP ($ m)	$116	$331	$246	**$693**
	Labor income ($ m)	$80	$211	$139	**$430**
	Taxes ($ m)	$27	$78	$57	**$162**



Source: Oxford Economics calculations using IMPLAN software

3.2 CHINA BUY AMERICA

As shown in Fig. 5, the total economic impact of $1 billion under the China Buy America scenario is $883 million of GDP, 8,317 jobs paying a total of $549 million in labor income, and $205 million in federal, state, and local tax impacts. This represents approximately 28 percent less employment impact relative to the legacy producers, and approximately 26 percent less GDP impact (see Fig. 6).

Relative to the Legacy Producers total employment impacts of 11,570, **total employment impacts under this scenario are 3,253 fewer jobs** for every $1 billion of production output lost to an SOE. Thus, for every one of the 938 direct jobs created under this scenario, we estimate approximately 3.5 fewer U.S. jobs on net.

FIG. 6: Impact Differences Relative to Impacts Under Legacy Producers Scenario

Scenario	Impact type	Direct	Indirect	Induced	Total
CHINA BUY AMERICA	Employment	−28%	−28%	−28%	**−28%**
	GDP	−21%	−27%	−28%	**−26%**
	Labor income	−28%	−28%	−28%	**−28%**
	Taxes	−21%	−25%	−28%	**−26%**
CHINA HIGH DISRUPTION	Employment	−28%	−48%	−43%	**−44%**
	GDP	−21%	−46%	−43%	**−42%**
	Federal tax	−28%	−48%	−43%	**−43%**
	State/local tax	−21%	−45%	−43%	**−41%**

Source: Oxford Economics calculations using IMPLAN software.

FIG. 7: Net Job Loss from $1 Billion in Chinese SOE Disruption

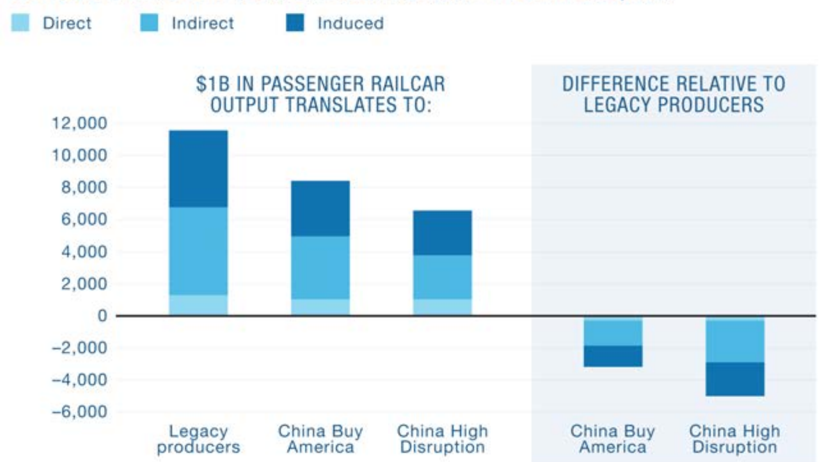


Fig. 7 illustrates the net loss of jobs associated with each of the two China impact scenarios relative to the Legacy Producers scenario. While the Buy America scenario preserves more U.S. jobs, modeling results still show a net loss of 28%. The High Disruption scenario results in still more net loss of U.S. jobs (44), as more of the U.S. supply chain is moved overseas.

3.3 CHINA HIGH DISRUPTION

As shown in Fig. 5, the total economic impact of $1 billion of impact under the China High Disruption scenario is $693 million of GDP, 6,492 jobs paying a total of $430 million in labor income, and $162 million in federal, state, and local tax impacts. This represents approximately 44 percent lower employment impacts relative to the Legacy Producers scenario and approximately 42 percent lower GDP impact (see Fig. 6).

Relative to the total employment impacts under the Legacy Producers scenario, total employment impacts under this scenario are lower by 5,078 jobs. Thus, for every one of the 938 direct jobs created under this scenario, we estimate approximately 5.4 fewer U.S. jobs on net.

4. CONCLUSION

Chinese state-owned railcar manufacturer, CRRC, has recently won several major bids for passenger railcar manufacturing in the U.S., significantly undercutting its competition. This is potentially concerning to U.S. policymakers for several reasons:

- **SOEs do not face the same budget constraints as other manufacturers and thus have a greater ability to engage in anti-competitive strategic pricing behavior.**

- **SOEs are responsive to non-commercial objectives of their home governments.**
- Notwithstanding Buy America Act provisions (see Section 2.2) in many passenger railcar contracts, industry experts widely perceive **Chinese SOE passenger railcar production to perform less value-add manufacturing in the U.S.,** relying instead on imported semi-finished railcar parts, resulting in less economic activity in the U.S.
- Losses in the domestic U.S. passenger railcar manufacturing industry will **affect other U.S. industries** that rely on some of the same supplier industries.

Based on a hypothetical output of $1 billion of passenger railcars, **we modeled the full economic impact (direct, indirect, and induced—see Section 2.1) of three types of passenger railcar production:** production by legacy (non-SOE) U.S. manufacturers, production by Chinese SOEs under a binding Buy America 70 percent domestic-content threshold, and production by Chinese SOEs without a domestic-content requirement. Assumptions for this modeling are clearly laid out in Section 2.3; full results are presented in Section 3.

We find that total (*i.e.,* direct plus indirect plus induced) **job impacts under the China SOE scenario with a binding 70 percent domestic content threshold modeled on the Buy America Act are 28 percent lower than those in the Legacy Producers scenario, and GDP impacts are 26 percent lower.** Under the China High Disruption scenario with no binding domestic content requirement, job impacts are 44 percent lower than those in the Legacy Producers Scenario, and GDP impacts 42 percent lower.

Relative to the Legacy Producers, for each direct (*i.e.,* directly employed by the SOE itself) U.S. job created under the Buy America scenario, we estimate approximately 3.5 fewer total (direct plus indirect plus induced) U.S. jobs on net. Relative to the Legacy Producers, for each direct U.S. job created under the China High Disruption scenario, we estimate approximately 5.4 fewer total U.S. jobs on net.