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U.S. ECONOMIC SECURITY: ADDRESSING ECONOMIC COERCION AND INCREASING COMPETITIVENESS

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U.S. ECONOMIC SECURITY: ADDRESSING ECONOMIC COERCION AND INCREASING COMPETITIVENESS

WEDNESDAY, JULY 26, 2023

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:02 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Robert Menendez, chairman of the committee, presiding.

Present: Senators Menendez [presiding], Cardin, Shaheen, Coons, Murphy, Kaine, Merkley, Van Hollen, Duckworth, Risch, Ricketts, Young, and Hagerty.

OPENING STATEMENT OF HON. ROBERT MENENDEZ, U.S. SENATOR FROM NEW JERSEY

The CHAIRMAN. This hearing of the Senate Foreign Relations Committee will come to order.

In today's world, when it comes to defending national sovereignty against rivals and adversaries, a country's economic resilience is as important as its military might, which is why the United States stands unrivaled.

Despite the unprecedented global challenges in recent years, the United States economy is once again thriving. Inflation is easing. Wages are up. Unemployment is down.

Yet, while we are an economic powerhouse with the creativity and innovation to drive peace and prosperity worldwide, we are too often on the sidelines in bolstering American investment and helping to strengthen economies in Africa, Asia, and the Western Hemisphere.

Last April, I met with the former Foreign Minister of Panama, a nation that is no stranger to the threat of economic coercion from the People's Republic of China.

She told me, "No one doubts that the United States has the economic tools to punish its adversaries who violate the international rules-based order. But where are your tools for an affirmative global economic agenda that supports democratic governments?"

It is a great question. Our nation has risen to the occasion in the past. We built the foundations of global economic integration in the Bretton Woods Institutions. We led the Marshall Plan to rebuild Western Europe after World War II, one of the most expansive and successful development projects ever.

Our efforts lift people up and support the growth of strong middle classes which form the backbone of stable, market-oriented democracies. Today, certain nations seek to use economic tools to exploit nations to further their own autocratic ambitions.

We have to show our citizens and people all over the world that economic investment, diplomacy, and engagement can deliver real improvements in their daily lives, a stark contrast to authoritarian governments who use their economic power to punish and bully those who do not do their bidding.

We must reimagine our diplomatic toolbox to fully harness our economic might and at the same time we need to secure vulnerable supply chains and counter the threats of economic coercion.

Now, what makes economic coercion so insidious? In my view, it is not only the financial losses stemming, for example, from Beijing's retaliation against Taiwan's pineapple farmers or Norwegian salmon fishermen or Australian winemakers or Lithuanian chip makers or Canadian canola farmers, and it is not only the predatory lending that can burden governments with poor quality infrastructure at high costs, whether it is Sri Lanka's port contracts, Pakistan's electricity generation, or dams in Ecuador.

The threat of economic coercion also has a destructive, unseen cost—self-censorship. Nations, businesses, and individuals see how Beijing has punished other countries and industries and they say to themselves, I better not step out of line. I better do what Beijing wants. Otherwise, they will come for me.

How do we confront this? I appreciate the efforts of the Treasury Department and the State Department, but we have to find a way to do more with the tools we have at our disposal, and where we need new tools, we should seek them, whether it is export controls and sanctions or leveraging the power of international institutions to step up with financial support when our allies are under economic attack, or making our International Development Finance Corporation more focused and strategic, or funding initiatives like the Partnership for Global Infrastructure and Investment. Each of these efforts pack more of a punch when employed also in coordination with our allies and partners.

Because of our economic interconnectedness, coercion against one nation has repercussions across the world, and that is why a coordinated response is so essential. In the wake of Putin's invasion of Ukraine, his attempt to blackmail Europe into submission with energy exports failed because we came together in a united collective effort, but more needs to be done.

We need a comprehensive strategy rather than trying to tackle these issues in a piecemeal fashion. We need to formalize our economic alliances. We need mandatory appropriations for everything from building strategic infrastructure around the world to funding our Indo-Pacific strategy.

In my view, above all, we need a whole-of-government approach to thinking about economic statecraft. It is not just the State Department's job, not just Treasury's job. It is all of our financial institutions, all of the other agencies, because the bottom line is we need to start putting our money where our mouth is.

I look forward to hearing from our witnesses on how they think we can go about this task, and with that, let me turn to my dear friend, the ranking member, Senator Risch, for his comments.

STATEMENT OF HON. JAMES E. RISCH, U.S. SENATOR FROM IDAHO

Senator RISCH. Well, thank you very much, Mr. Chairman.

First of all, I want to associate myself with your remarks about how important economics is to the national security of the United States. I do not think that can be understated and, indeed, people first look to what their financial situation is when they make decisions about how they are going to proceed.

I do not think we can underestimate the importance of economics in the lane that we operate in. With an aggressive Russia and China seeking to rewrite the rules and norms of the international system, our world is rapidly changing.

Both seek to use economic coercion to pressure our friends and allies into concessions. U.S. policy must account for this rise of coercive economic practices and maintain our competitiveness in order to achieve what is best for our national interests.

For years, Russia weaponized energy exports to an energy dependent and energy hungry Europe. In the lead-up to Russia's war against Ukraine, the Biden administration enabled this dependence by waiving bipartisan congressional sanctions against Nord Stream 2.

Despite the war and Russia's throttling of gas supplies in Europe, the U.S. and our allies still attempt to maintain a consistent and strong approach to help the Europeans wean themselves off Russian gas.

The good news is Europe now clearly recognizes its mistake and will never go back to that situation again. Over the past 18 months, Russia has attempted to weaponize world grain supplies to hurt Ukraine.

After exiting the Black Sea grain deal last week, Russia has bombarded Ukrainian grain ports nightly, destroying infrastructure and thousands of tons of food. According to the *Financial Times*, Russia plans to offer cheap food and fertilizer to grain-consuming countries at this week's Russia-Africa summit in an attempt to gain support.

Using a similar strategy, but different tactics and admittedly less ham-handed, China has leveraged its massive economy, global trade, and financial ties to achieve its political goals.

We are all aware of instances of Chinese economic coercion against Taiwan, Vietnam, Canada, Australia, Lithuania, and many other countries through tactics like predatory lending or threatening market access and now China is directing its coercion at the United States.

In May, the Chinese Communist Party ordered Chinese operators of critical information infrastructure to stop using Micron products because of unfounded security risks. Make no mistake, this is retaliation for U.S. policies designed to keep advanced technology out of the hands of China's military.

Taiwan has long been a test bed for Beijing's coercive tactics. Xi Jinping is, of course, willing to use brute force to take Taiwan, but he would rather accomplish that through a combination of economic and political coercion.

In addition to supporting Taiwan on defense, we must also work to address key economic vulnerabilities China would exploit in a future conflict. Understanding how China and Russia use economic coercion is critical to developing appropriate strategies and responses.

We, with our friends and allies, must take steps now to reduce the supply chains dependence in sectors such as critical minerals and healthcare necessities. We need to grow our resilience by creating new trade and investment opportunities in friendlier countries so we can diversify and hedge against a sudden closing of Chinese markets and over the long term, we need to take steps to avoid a world where China dictates economic outcomes.

Part of our successful strategy to guard against economic coercion hinges on a more robust U.S. trade agenda. Withdrawing from TPP was a huge mistake. Sitting on the sidelines of the follow-on agreement, the CPTPP, continues that mistake.

China is going to push for entry into this agreement. U.S. allies warn me privately that the longer the U.S. stays out of the CPTPP, the harder it will be to keep China at bay.

Do we really want another huge Pacific trade bloc to be controlled by China's interests and not our own? Of course not.

What we are doing through the Indo-Pacific Economic Framework might help if there is real substance behind it, but it is not a substitute for embedding ourselves more deeply in the region's trade architecture with market access.

I hope the Biden administration is thinking about that. I would like to enter into the record the letter Senator Cantwell and I wrote to the President on this very issue last year.

China is trying to force countries to pick a side. We must give countries a choice to counter these efforts. Sitting on the sidelines does not help.

With our friends and allies, we have a lot of resources to counter economic coercion. The question is whether we can effectively create the resilient architecture and support networks that deter malign behavior. Do we have the focus and the long-term will to use these tools effectively?

Thank you very much. I think both the chairman and I, as he said in his opening statement, look forward to hearing answers to these questions.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Risch.

Our witnesses today are Under Secretary of State Jose Fernandez and Under Secretary of the Treasury Jay Shambaugh.

Under Secretary Fernandez was confirmed by the Senate as Under Secretary for Economic Growth, Energy, and the Environment on August 6, 2021. He leads the State Department's bureaus and offices that promote United States policies on climate change, clean energy, health, supply chain security, and other economic priorities.

He is also the United States alternate governor to the World Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank.

From 2009 to 2013, he served as the Assistant Secretary of State for Economic, Energy, and Business Affairs, one of the bureaus he now oversees.

Under Secretary Shambaugh was confirmed as the Under Secretary of the Treasury for International Affairs on December 13, 2022. He leads Treasury's international economic policies regarding the International Monetary Fund, World Bank, G–7, G–20, exchange rate issues, climate policies, and international financial regulation. You are not too busy.

He served as a member of the White House Council of Economic Advisers from 2015 to 2017, earlier served in the staff of the CEA as a senior economist for international economics and then as its chief economist. He is currently on leave as a professor of economics and international affairs at George Washington University.

Thank you both for appearing. Your full statements will be included in the record without objection, and I would ask you to try to summarize them in 5 minutes or so, so that the members of the committee can have a conversation with you.

Secretary Fernandez, we will start with you.

STATEMENT OF HON. JOSE FERNANDEZ, UNDER SECRETARY FOR ECONOMIC GROWTH, ENERGY, AND THE ENVIRONMENT, UNITED STATES DEPARTMENT OF STATE, WASHINGTON, DC

Mr. FERNANDEZ. Thank you, Chairman Menendez, Ranking Member Risch, and members of this committee for this opportunity to testify before you this morning.

The People's Republic of China is a formidable competitor and is a prolific user of economic coercion. Xi Jinping's ambitions are clear. As he stated in 2020, Beijing seeks to manipulate global supply chains, make other nations dependent on the PRC, and use that dependency to exert leverage over them.

My job is to counter that strategy through economic diplomacy, and we are making progress, but much remains to be done. What I would like to do in the remaining time is share three examples of our work.

First, we are focusing on critical minerals supply chain vulnerabilities. Beijing has used state-directed industrial targeting and massive subsidies to dominate global mineral supply chains and its recent export restrictions on gallium and germanium reveal its coercive intent.

We need to pursue new approaches to reduce dependence on this sector, but in responding we have two advantages, two advantages that the PRC lacks—our allies and our private sector.

Last fall, I launched the Minerals Security Partnership to address this challenge. We now have 14 partners plus the European Union collaborating to find projects and bring them to market. Last month, India joined. MSP now has a pipeline of deals that we are working on together to develop.

Second, thanks to many of you on this committee, thanks to Congress, we are using the *CHIPS and Science Act's* International Technology Security and Innovation Fund—ITSI, for short—to rewire global semiconductor supply chains, providing new American fabs with the international environment that they must have in order to succeed.

We are targeting their needs at each step of the value chain, specifically securing minerals for our fabs, coordinating policy with our allies and partners so that we do not face a subsidy race, and expanding downstream capacity so that fabs have options for final processing.

Third, we are working to combat PRC economic coercion. Beijing exploits economic vulnerabilities to threaten and coerce others into following its dictates, as you have both pointed out. Beijing's bullying undermines U.S. national security and the international rules-based order.

We are not standing on the sidelines. Last year, I led the effort to support Lithuania, which faced PRC-based trade retaliation for opening a Taiwan representative office. Beijing canceled a $300 million export credit, so we worked with our Ex-Im Bank colleagues to provide a $600 million export credit alternative.

We mobilized our embassies to find new markets for Lithuanian exports that were blocked by China. The Defense Department signed a reciprocal defense procurement agreement with Lithuania and other agencies and our government also provided support.

Today, a year later, less than half of 1 percent—less than half of 1 percent of Lithuania's exports go to China and overall trade has rebounded as the gap from PRC coercion has been filled by others.

At the State Department, we are now building a unit to help other countries that find themselves in a similar situation. We and our interagency partners are working with the G–7 to stand up a new counter coercion mechanism. This issue is one of my highest priorities and I am grateful for the committee's leadership and support on this effort.

If you take one thing away from my testimony today, it is this: Diplomacy is not enough. We also need to provide concrete alternatives to the PRC and its proposed deals.

When I joined the Department almost 2 years ago now, our diplomats in developing nations told me that if we did not put forward real economic alternatives in their countries, we simply would not be in the game.

We cannot and we should not compete with the PRC dollar for yuan, but we must deploy resources to level the playing field enough to give our companies and to give our workers a fighting chance.

That is why the Administration has asked for $6 billion in mandatory funding to out compete the PRC. We can compete. We can win, but we need your support to be more effective.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Fernandez follows:]

Prepared Statement of Mr. Jose Fernandez

Thank you, Chairman Menendez, Ranking Member Risch, and Members of the Committee for the opportunity to appear before you this morning.

This hearing focuses on addressing economic coercion and increasing U.S. competitiveness. The People's Republic of China (PRC) is currently our biggest economic competitor and a prolific user of economic coercion. Under Xi Jinping's leadership, Beijing's ambitions are clear. As he stated in April 2020: Beijing's goal is to manipulate global supply chains, force other nations into dependence on the PRC, and then use that dependence to exert leverage over Beijing's trading partners. Countering that effort is an Administration priority. My job at the State Department is to do so through economic diplomacy. We are making good progress, but much work remains to be done. I would like to share three concrete examples with you today.

First, we are working to address a vulnerability in critical mineral supply chains. Beijing has used a wide range of non-market policies and practices, driven by state-directed industrial targeting and including massive state funding, to dominate global mineral supply chains. Beijing's recent export restrictions on gallium and germanium expose some of these vulnerabilities. We need to pursue new approaches to address dependencies and vulnerabilities in the critical minerals sector, and we have an advantage they cannot match: our allies and partners. Last fall, I launched the Minerals Security Partnership (MSP) to address this challenge with key foreign counterparts. We are starting with minerals needed for the energy transition: lithium, graphite, and copper. We now have 14 partners—plus the European Union—working collaboratively to find possible critical mineral projects and bring them to market. Just last month, India joined. MSP now has a pipeline of projects, and we are working on them together.

Second, thanks to Congress, we are using the CHIPS & Science Act's International Technology Security and Innovation (ITSI) Fund to re- wire global semiconductor value chains, providing the new domestic semiconductor manufacturing fabs here in the United States with the international environment they will need to succeed. We are targeting the critical needs at each step of the semiconductor value chain, specifically: securing the critical minerals our fabs need to make chips; coordinating policy with allies and partners so we don't face a subsidy race; and expanding downstream production capacity so fabs have diverse options for final-stage processing. This is critical work. Congress passed the *CHIPS and Science Act* last August, and we have been racing to stand up this effort.

Those two initiatives are working to build diverse, secure, and resilient supply chains in critical minerals and chips—directly countering PRC efforts to dominate these same supply chains.

Which takes me to the third effort I'd like to highlight—our effort to combat PRC economic coercion. Across the globe, Beijing exploits economic vulnerabilities of our allies and partners to threaten and coerce them into following its dictates. Beijing's bullying undermines U.S. national security and foreign policy interests and the rules-based international order. But we are not standing idly by. When nations face coercion, the United States is willing and able to help. I led the effort to support Lithuania, which faced trade-based retaliation by China for opening a Taiwan representative office, and to use that case to develop a toolkit of actions to directly support other partners facing PRC coercion. With Lithuania, we provided concrete support, economic and otherwise. Beijing canceled roughly $300 million in export credit to Lithuanian companies, so we worked with the U.S. Export-Import Bank (EXIM) to provide a $600 million U.S. alternative. We mobilized U.S. posts across the Indo-Pacific to find new markets for Lithuanian goods after Beijing blocked imports from Lithuania. The U.S. Department of Defense signed a reciprocal defense procurement agreement with Lithuania. Other agencies also provided support. Today, Lithuania has survived the PRC's pressure, and it is thriving. Less than 0.5 percent of its exports currently go to the PRC, and its overall trade has rebounded as the gap from PRC coercion has been filled by other partners.

Since then, we are building a unit at State to help other countries that take sovereign decisions Beijing may not like. We and our interagency colleagues are working closely with G7 countries to operationalize the new counter-coercion mechanism and ensure that, when the next case happens, we are ready to respond. This is one of my highest priorities, and I am deeply grateful for this committee's leadership and support on economic coercion.

In closing, we are leveraging every diplomatic tool we have to bolster U.S. economic security. Across all initiatives, we are relying heavily on two comparative advantages the PRC cannot match: our innovative private sector, and our network of allies and partners.

But diplomacy is not enough. We have to show up with concrete economic alternatives to what the PRC is offering countries around the world, particularly in Africa, the Americas, Southeast Asia, and the Pacific Islands. When I first joined the Department, our frontline diplomats in developing nations were blunt. They told me: there is a lot of talk about competing with the PRC in the developing world, but we have to walk the walk. If we aren't going to put forward real economic alternatives, we will not be in the game. Hectoring will only get us so far. We can't and shouldn't try to compete with the PRC dollar for yuan, but we do need to deploy concrete resources to level the playing field enough to get our companies in the game. That is why the Administration asked for $6 billion in mandatory funding to out-compete the PRC. We want the U.S. in the game. We can compete and win, but we need your support to do that effectively.

Investing in the Indo-Pacific is not only critical for the U.S. to compete and win, but also to strengthen partner economies and support their efforts in pushing back against the PRC's predatory tactics. With our budget request, we would create a new infrastructure fund that would allow us to out-compete China, providing credible, reliable alternatives while expanding markets and opportunities for U.S. businesses. We would also be able to create a new revolving fund at the U.S. International Development Finance Corporation (DFC) to boost equity investments to counter predatory lending offered by China, advance our foreign policy priorities, and create long-term sustainable development.

These funds would also allow us to commit to long-term projects where we need funding upfront and where we need to show our unwavering commitment to our partners over a much longer period-of-time than discretionary funding, including the need to amend and extend the economic assistance provisions of the Compacts of Free Association with the Freely Associated States of the Federated States of Micronesia, the Marshall Islands, and Palau.

Thank you, and I look forward to your questions.

The CHAIRMAN. Thank you, Mr. Secretary.

Secretary Shambaugh.

STATEMENT OF HON. JAY SHAMBAUGH, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, UNITED STATES DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. SHAMBAUGH. Thank you. Chairman Menendez, Ranking Member Risch, and members of the committee, thank you for the opportunity to testify here today.

I want to share with you Treasury's perspective on addressing economic coercion and increasing U.S. competitiveness. Because the Secretary and I just came back from a trip to China, I will focus my opening remarks on our engagement with China and how Treasury uses our economic tools to promote U.S. national and foreign policy interests.

The U.S.-China relationship is among the most consequential in the world and its trajectory will impact the lives and livelihoods of people in our countries and beyond.

During the meetings with our counterparts, we had direct, substantive, and productive discussions. Secretary Yellen frankly and directly conveyed our areas of disagreement while opening up further dialogue as part of our effort to responsibly manage this relationship.

Our Administration has three objectives in the U.S.-China economic relationship: protecting national security and human rights, pursuing a healthy economic competition, and cooperating on areas of mutual concern.

First, the United States will not hesitate to take targeted actions to secure our national security interests and those of our allies and partners and we will protect human rights.

When necessary, we will use a suite of tools to achieve our national security goals. It is our core mission to protect the American people from national security risks while also clearly communicating our position and intent to China to reduce the risk of misunderstanding.

Second, we seek a healthy economic relationship with China that fosters growth and innovation in both countries. As Secretary Yellen has said publicly, we do not seek to decouple our economies.

That would be disastrous for both nations and as a practical matter nearly impossible to do.

We seek a fair and healthy economic relationship that benefits both countries and supports American workers and businesses, but healthy economic competition requires that American workers and businesses are able to compete on a level playing field.

In Beijing, Secretary Yellen pressed her Chinese counterparts on unfair economic practices that undercut this goal. China continues to use an extensive range of nonmarket policies and practices including widespread government support to gain market share at the expense of foreign competitors on a scope and scale that is simply different from other major advanced economies.

These policies and practices have harmed workers and firms in the U.S. and around the world. China has also in certain cases exploited its economic power to retaliate against or coerce its trading partners.

We often refer to it as economic coercion when a country cuts off supplies of inputs, or stops buying goods from a country for political purposes, in particular when it is done in a nontransparent way or as punishment for diplomatic actions.

We work frequently with our allies to both address instances of economic coercion or prepare for possible actions. For example, recent G–7 meetings have had extensive conversations on the topic.

We have also been troubled by recent punitive actions that have been taken against U.S. firms in recent months, and we are closely following recently announced export controls by China on two critical minerals.

Third, as the world's two largest economies, the U.S. and China need to cooperate on the urgent challenges of our day from climate finance to debt distress.

On debt, for example, the international community's concerted engagement with China has yielded some dividends as we have seen progress with China in certain cases, but much more needs to be done.

On climate finance, the U.S. and China co-chair the G–20 Sustainable Finance Working Group, an example of how we can work together on important issues.

Let me end on a broader point. Our ability to protect U.S. economic interest depends on our strong and reliable international leadership. This requires us to strengthen, not weaken, our engagement with our allies and partners, particularly low and middle income countries.

It also requires us to fulfill our commitment to international financial institutions like the IMF and World Bank, which includes making sure we adequately fund them.

Perhaps the most straightforward way to ensure that low income countries do not become dependent on loans from China or any other actor is to make sure there is a sufficient amount of high standards lending available to them. For example, through the IMF's Poverty Reduction and Growth Trust and Resilience and Sustainability Trust, we can provide an important counterweight to opaque lending.

Countries want to work with us. They want to access capital via our markets and via major international financial institutions. They look elsewhere when those options are closed.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Shambaugh follows:]

Prepared Statement of Mr. Jay Shambaugh

Chairman Menendez, Ranking Member Risch, and Members of the Committee, thank you for the opportunity to testify before you today. I want to share with you Treasury's perspective on addressing economic coercion and increasing U.S. competitiveness. Because the Secretary and I just returned from a trip to China, I will focus my opening remarks on our engagement with China and how Treasury uses our economic tools to promote U.S. national and foreign policy interests.

Earlier this month, I accompanied Secretary Yellen to China to build on President Biden's directive to deepen communication between our two countries and stabilize the relationship. The United States and China together represent 40 percent of the global economy. Our bilateral relationship is among the most consequential in the world, and its trajectory will impact the lives and livelihoods of people in our countries and beyond. During meetings with our counterparts, we had direct, substantive, and productive discussions. Secretary Yellen frankly and directly conveyed our areas of disagreement, while also opening up further dialogue as part of an effort to responsibly manage this relationship.

Our Administration has three objectives in the U.S.-China economic relationship: protecting national security and human rights, pursuing healthy economic competition, and cooperating on areas of mutual concern.

First, the United States will not hesitate to take targeted actions to secure our national security interests and those of our allies and partners, and we will protect human rights. Our Administration has clearly communicated our serious concerns to the PRC. When necessary, we will use a suite of tools to achieve our national security goals. It is our core mission to protect the American people from national security risks while also clearly communicating our position and intent to China to reduce the risk of misunderstanding.

Second, we seek a healthy economic relationship with China that fosters growth and innovation in both countries. As Secretary Yellen has said publicly, we do not seek to decouple our economies; that would be disastrous for both nations, and as a practical matter, nearly impossible to do. To be clear: neither targeted national security actions nor attempts to build diversified supply chains represent decoupling. We seek a fair and healthy economic relationship that benefits both countries and supports American workers and businesses. Healthy economic competition requires that American workers and businesses are able to operate on a level playing field.

In Beijing, Secretary Yellen pressed her Chinese counterparts on unfair economic practices that undercut that goal. China continues to use an extensive range of non-market policies and practices, including widespread government support, to gain market share at the expense of foreign competitors on a scope and scale different from other major economies. These policies and practices have harmed workers and firms in the U.S. and around the world.

China has also, in certain cases, exploited its economic power to retaliate against or coerce its trading partners. We often refer to it as economic coercion when a country cuts off supplies of inputs or stops buying goods from a country for political purposes, in particular when it is done in nontransparent ways or as punishment for diplomatic actions. We work frequently with our allies to both address instances of economic coercion or prepare for possible actions. For example, recent G7 meetings have had extensive conversations on the topic. We also have been troubled by punitive actions that have been taken against U.S. firms in recent months. We are also closely following recently announced export controls by China on two critical minerals. While we are still assessing their impact, these actions reinforce the importance of our Administration's efforts to build resilient and diversified supply chains.

Third, as the world's two largest economies, the U.S. and China need to cooperate on the urgent challenges of our day—from climate finance to debt distress. On debt, for example, the international community's concerted engagement with China has yielded some dividends, as we've seen progress with China in certain cases such as Zambia, Ghana, and Sri Lanka. More needs to be done. On climate finance, the United States and China co-chair the G20 Sustainable Finance Working Group, an example of how we can work together on important issues. The U.S. and China need to build on this existing cooperation to address global challenges.

Let me end with a broader point. Our ability to protect U.S. economic interests depends on our strong and reliable international leadership. This requires us to strengthen—not weaken—our engagement with our allies and partners, particularly low- and middle-income countries. It also requires us to fulfill our commitment to international financial institutions like the IMF and World Bank, which includes making sure that we adequately fund them.

Perhaps the most straightforward way to ensure that low-income countries do not become dependent on loans from China or any other actor is to make sure there is a sufficient amount of high standards lending available. Treasury is leading efforts to evolve the multilateral development banks to equip them to better address the challenges countries now face. Also, through the IMF's Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust, we can provide an important counterweight to opaque lending. We already have appropriations from prior years for lending to these two trust funds, so providing lending authorization is an easy way to increase support for developing countries at no additional budget cost.

Similarly, to promote U.S. interests in emerging and developing countries around the world, including in Africa and Latin America and the Caribbean, we must support institutions like the African Development Fund and IDB Invest, the Inter-American Development Bank's private sector arm.

Countries want to work with us. They want to access capital via our markets and via major international financial institutions. They look elsewhere when those options are closed.

Thank you, and I look forward to your questions.

The CHAIRMAN. Well, thank you both. We will start a series of 5-minute rounds and I will recognize myself and this is, really, for both of you.

In the last 5 years, the PRC employed economic coercion against several of our closest allies and partners. When governments made decisions that the PRC did not like, Beijing pursued, as the secretary mentioned, an embargo on Lithuania.

It levied tariffs and trade restrictions on Australian agricultural products—coal, beef, and timber. It imposed trade restrictions on Canadian products and even jailed two Canadian citizens. The list goes on.

The People's Republic of China has also made efforts to intimidate and coerce the private sector, even threatening American companies if they did not lobby against legislation in the United States that Congress was promoting and that Beijing did not like.

This is something that always drives me crazy, is when I have business people come and talk to me and basically they are espousing the views of another country. As I said to one of these business leaders, that is rather un-American.

Given the gravity of these challenges, I would ask that you both clearly define the scope of the PRC economic coercion and the specific tactics that Beijing employs. What is our foreign policy playbook to address—you have each touched upon it—but to address PRC coercion?

I know that this—what we are discussing is a broad policy, but the People's Republic of China is probably the biggest entity that uses economic coercion in a way that is really consequential to foreign policy and national interests.

Mr. SHAMBAUGH. Thank you for the question, Senator. When we think about economic coercion, we are thinking typically of practices where it is illegitimate or arbitrary use of economic restrictions, typically under false pretense.

We often see it as it is a claim that it is a commercial dispute or it is something else, but it is really about a diplomatic action. We know that it is a pernicious force. I think your—in your opening remarks, you referred to the subtle economic coercion where it is not—we have the cases, we can all list them, as you say, but it is also countries that worry about being cut off, whether it is from inputs or foreign direct investment.

I think when we try to deal with this, we do it in a variety of ways. I think one place we start is with analysis, trying to look at our own vulnerabilities to make sure we are not vulnerable to these types of coercion, and where we might and how we might address that, and so one way we can address that is through the efforts we have been taking to build out resilient supply chains to make sure that we are not vulnerable to a particular cutoff of a particular choke point, and that is a very important one for our own economic security.

It also means as long as we are building out diversified supply chains that works for the rest of the world, as well to make sure that there are options outside of 100 percent dependency on China for a particular choke point of an input.

I think we also do a lot of coordination. As I mentioned, the G–7 has taken up this issue quite strongly this year and tried to work through how we might coordinate in potential actions against one of us, but also, to your point earlier about your conversation with the Minister from Panama, how we can help our friends, which I think is crucial.

I think we have also taken it up with the—what are referred as the five finance ministers, the finance ministers that are from the Five Eyes countries where we can share intelligence, and that lets us have these conversations in a more detailed way where we can do so using intelligence products as well.

This is something Treasury takes incredibly seriously. We know it is a risk both to our ability to engage in foreign policy because they can threaten our friends, but also it can be a threat to our economy, and so we are working on it quite actively.

The CHAIRMAN. I want to hear from Secretary Fernandez, but while I have you——

Mr. SHAMBAUGH. Sure.

The CHAIRMAN. —one of the concerns I have is that we do not necessarily, from my perspective, use our vote—our voice and our vote at some of these international financial institutions in a way that I think is important.

We saw the COVID pandemic and Russia's war of aggression against Ukraine exacerbate debt crises and create more unsustainable debt for low-income nations with many of them turning to the IMF as the lender of last resort. Ghana, Sri Lanka, Pakistan were just some.

Also here in our hemisphere, we have countries who are coming out of the post-pandemic era and with other challenges, and we are not looking—I am not an advocate of forgiveness, at least—depends on the nation. I am an advocate, of course, of a smoothing out period of time so these people can get through it.

Many of these nations, including those that are aligned with us in values and are democracies, say, but you leave us hanging. You are not an advocate of a smoothing out process so that I can meet my obligation, but do it in a way that does not create civil unrest in my country.

I think about the Dominican Republic, as an example, who has problems with Haiti next door, who is aligned with us in terms of democratic values, but they are in the midst of a vise with the IMF.

I would hope that we—I think Treasury has a very important role to play here, and it needs—from my perspective—needs to be more robust.

Let me give Secretary Fernandez an opportunity to address the question. Then I will turn to Senator Risch.

Mr. FERNANDEZ. Thank you, Mr. Chairman.

I would define—we would define economic coercion as when a country weaponizes the economic vulnerabilities of the target in order to punish it for the exercise of its sovereignty.

As you noted, we have seen it certainly for the last 10, 12 years starting with Korea and the last one was Lithuania. All of these actions have three things in common, I would say.

Number one, they take advantage of a vulnerability of an economic dependency. Secondly, they are opaque. It is not as if the PRC says, we are going to impose coercion on you. They use phytosanitary reasons.

Sometimes they do not even announce that they are imposing measures and that is quite common. They obfuscate, so the obfuscation piece is important.

Third, the idea is to change behavior—to impose a cost for changing behavior. That is why I think—and you noted this in your remarks—that is why I think we will see this over and over again. Even when they are not used, just the threat of sanctions is a deterrence.

In terms of a playbook, we are—we have put one together. It is a work in progress. It is—we learned from experience. We learned from Lithuania that Ex-Im Bank had tools, that DoD had tools, USDA had tools, Commerce as well.

We have had several discussions with allies and partners on this. We have also had internal tabletop exercises just to prepare. We are learning as we go along and a couple of things we have learned is we need speed. This we cannot—this cannot be a 30-, 40-day exercise. There are governments that may fall if they are coerced.

Secondly, we need flexibility. The types of measures that are taken by the PRC will depend on the country. It will depend on the sectors that they are targeting. We need to be able to be nimble.

Something we have identified, for example, is what happens if you have agricultural goods that may be perishable—bananas on a dock waiting for permits. All of these are items that we would very much welcome working with your staff and everyone else's to make sure that we have got the tools, but this is something we are putting a lot of effort into together with our colleagues at Treasury and together with the G–7.

The CHAIRMAN. Well, I appreciate that. Let me just make an observation. I very much hope that what we can do is have a whole-of-government approach that is planned versus simply reactive and, of course, one cannot foresee every possibility, but one can have a pretty good idea what the PRC does in broad bases.

If we had a comprehensive all-of-government approach plan—you mentioned several entities, not just Treasury and State, but Commerce, and our international financial institutions as well as our development institutions. That needs a cohesive all-of-government approach.

I am glad you mentioned nimbleness because I have tried sometimes to intercede with the Administration when a country is really on the ropes, but they are aligned with us in values, and if we were on the basketball court, we would be losing really badly because we are far from nimble.

I understand the interagency process, but that can be a death knell, at the end of the day, so——

Senator Risch.

Senator RISCH. Thank you, Mr. Chairman.

Just let me say I could not agree with the whole-of-government approach more. We do get way too much piecemeal as we try to solve these problems.

I made reference to a letter that Senator Cantwell and I sent to the Administration on May 19, 2022. I would like to include that in the record on this same subject.

Obviously, our place on the West Coast is very vulnerable to the—what happens in the Indo-Pacific and this letter addresses that. I would like to put that in the record, please, Mr. Chairman.

The CHAIRMAN. Without objection.

[EDITOR'S NOTE.—The information referred to above can be found in the "Additional Material Submitted for the Record" section at the end of this hearing.]

Senator RISCH. First of all, this is a question for each of you and this is an issue that I know the chairman is interested in, too. Other members of Congress have been and so far we have—we are working on it, but we are running into issues and that is the fact that most people in America do not understand that we have hundreds of thousands of U.S.—of Chinese nationals studying in our universities and colleges.

In addition to that, China has pumped billions of dollars and continues into our universities and colleges, and this type of input gives them access to U.S. technology, both on developing technology and really on the ground floor of some of these things, and it causes us great concern.

Look, we do not allow foreign countries, especially China, to contribute to our people who are running for political office, and there is a reason we do not. We do not want them to have the influence that money brings, and we have been trying to do the same thing with the colleges and universities. It is difficult. We are getting at least some transparency on this, but it needs a better handle than what it has.

This ties right in with their ability to get into our economic institutions. I would like each of you to tell me what your thoughts on this might be, briefly, please. Secretary, starting with you.

Mr. FERNANDEZ. Thank you. I understand that concern. This is a little bit outside of my bailiwick at State, but I will say we have about—we almost—we have almost 300,000 Chinese students at any one time in the U.S. I would say——

Senator RISCH. We have—in China, we have under 2,000.

Mr. FERNANDEZ. Yes. It is a handful. It is even less than——

Senator RISCH. The Chinese students over here, I am told, are not studying ancient Greek history. They are——

Mr. FERNANDEZ. No. They tend to study STEM and STEM subjects, but let us also understand that the 80 percent or so of the engineering students or the science and technology students stay in the U.S. and they become part of the economy.

This is a complex subject. This is one that I think we have to be clear-eyed about. On the one hand, our universities benefit from this kind of exchange. On the other hand, we have to be clear-eyed on the danger and this is something that we would welcome a much longer conversation on it.

I have had—at the State Department, I have had Asian-American groups come and talk to us about this issue. This is one that we welcome a conversation on.

Senator RISCH. Thank you.

Mr. SHAMBAUGH. Senator, I would just say I very much understand the concerns there. I would say I agree with you and hear less from my role at Treasury than—prior to Treasury, I was a professor—and that I agree there has been progress on transparency and funding, and I think—I agree that it is really important to make sure that there are not groups that are funding things, tilting viewpoints in ways that run counter to our interest in a non-transparent way.

I agree with you there. I would agree with Under Secretary Fernandez that the people-to-people contact can be helpful to us also. I think it is actually useful for us to have Chinese people seeing what America is about. I think that is actually quite productive for us.

I think the concerns around technology are very valid and ones that my understanding is that there is work to think through how one has to safeguard technologies because I think that is a serious concern.

Senator RISCH. Thank you.

Secretary, you mentioned the critical minerals issue, which I think most everyone is coming to the realization that we have real issues in that regard, both as it relates to China and as it relates to Russia.

You have probably seen the information in open source about the actions that Brazil is taking regarding lithium, and the other South American countries, and, of course, their connections with China seem to be growing. What are your thoughts on that?

Mr. FERNANDEZ. This is a perfect example of why we need to get more involved and why we have created the Minerals Security Partnership, 14 countries plus the EU, to work on a number of things—share information, invest, and finance work on recycling and also make sure that our calling card is the ESG principles.

We actually have worked on a number of critical mineral projects in Brazil. A couple of them have gone forward. We have got to do more, and I think what we are doing now is we have a dialogue with Brazil.

We have technical assistance that we provide to Brazil, and we intend, going forward with the new Brazilian administration, to explore ways to pursue critical mineral projects, going forward.

Brazil could be a very valuable partner in finding critical minerals. Right now, those critical minerals for the most part, 80 to 90 percent of them, come from the PRC. We have alternative sources. It is not only Brazil—Argentina, Chile, Peru. We have got to do more in this hemisphere.

Senator RISCH. My time is up. Thank you, Mr. Chair.

The CHAIRMAN. Senator Van Hollen.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Thank both of you for your testimony today.

I have been trying to listen-in virtually and appreciate the efforts that are being taken through the G–7 with respect to coordinating responses to economic coercion.

Obviously, a lot more meat needs to be put on that bone, going forward. I appreciated, Mr. Fernandez, the example you gave of Lithuania, but, clearly, what we are trying to do is establish a multilateral mechanism so that we are not responding after the—well, we are prepared in advance to respond to economic coercion.

Mr. Shambaugh, let me ask you about the U.S. role in international financial institutions because we have all witnessed China's engagement in many other countries that leads to debt traps.

Obviously, U.S. investment through Ex-Im Bank and other tools is important, but so is—multilateral lending institutions play a huge role in this. Could you talk a little bit about how the United States is using its influence to make sure that those high standards loans are made available to countries as an alternative to China's debt trap diplomacy?

Mr. SHAMBAUGH. Sure. Thank you, Senator.

I think it has been a huge priority of this Administration and of Treasury to do what we are referring to as evolve the multilateral development bank system to try to make them more responsive, more nimble, to make sure they are meeting countries where their needs are, and, frankly, to also make sure they use their balance sheet much more effectively so that they can substantially expand their presence and their lending to make sure that high standards lending is available to countries.

This has been something we spend a lot of time on. I think there is also kind of more specific initiatives, some through the World Bank, actually cutting back to Senator Risch's question, about critical minerals of trying to use—have the G–7 work together with the World Bank to help low income countries kind of prepare themselves, do project preparation to get things ready for lending there. It is called the RISE Initiative.

There are a number of ways in which we are trying to make sure that countries are not dependent on Chinese lending, that they are not dependent, not just on the lending because of the problem it can bring, but because they are not dependent on Chinese direct investment at all so that they are not vulnerable to coercion where they could be cut off from something.

I would say there is also the Partnership for Growth and Infrastructure Investment, or PGII, where the G–7, again, are trying to commit on their own, and also through the multilateral development banks to commit a lot of money for infrastructure investment in these countries so that they are not at risk of China either, making bad loans with bad collateral attached to it or just threatening to cut off loans.

I think there is a huge scope for using the international financial institutions because they do present kind of to the world in the way we would like, which is high standards lending with transparency that operate in the interests of the countries involved.

Senator VAN HOLLEN. Well, no, I appreciate that and, obviously, the U.S. initiatives and multilateral initiatives, the infrastructure lending, infrastructure partnership you talked about.

It does seem to me that we could better reform these international financial institutions so that they can also assist in the area you just talked about, preparing projects, because many of these countries just need a little bit of help on that, and China is often willing to step in to try to fill those gaps, so I appreciate that.

We have all seen how China, through a concerted strategy for over 15, 20 years, sought to dominate the critical minerals business, not just extraction, but very importantly the processing piece of it and then processing the critical minerals and then trying to dominate the electric battery industry.

Could you talk, Mr. Shambaugh, about the importance of the provisions in the *Inflation Reduction Act* in combating that whole effort—China's effort to corner the market entirely when it comes to electric batteries and critical minerals processing?

Mr. SHAMBAUGH. Sure. Thank you, Senator.

The foreign entity of concern rule is one crucial part of this. It shows up in a number of pieces of legislation. I believe it is in the bilateral—bipartisan infrastructure law. It is in the *CHIPS Act*. It is in the IRA.

It is something where incentives and tax incentives that could go to companies will only go to them if their supply chains are clear of foreign entities of concern, so businesses either operating out of China or that are under Chinese control.

I think that is a way that we are providing very direct incentives to businesses to say, I should clean up my supply chain if I want to have access to the incentives, and that has provided a very clear financial incentive and we are seeing businesses respond.

Senator VAN HOLLEN. People are responding in a big way, right?

Mr. SHAMBAUGH. Yes, they are.

Senator VAN HOLLEN. Thank you. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Ricketts.

Senator RICKETTS. Thank you, Mr. Chairman, and I would also like to thank our witnesses for being here today.

Secretary Fernandez, you said in your opening remarks the People's Republic of China was a competitor. With all due respect, they are an adversary.

President Xi has said that he wants to be the global dominating power by 2049. That means displacing us. We should take him seriously. They are an adversary.

I want to talk specifically about Taiwan. They have a very consequential presidential election coming up January 13 of next year, and the PRC knows this and is looking to influence Taiwanese politics, and it is done—one of the ways they are doing it is through that economic coercion that you were talking about.

They have launched an investigation into trade barriers on 2,000 Taiwanese products and that investigation was supposed to end October 12, and now they have said it could go on until January 12, obviously a day before the Taiwanese go to the polls.

Now, I know that the Administration has been working on a trade initiative, which is a good step. I was also proud to support the Taiwan trade agreement there, but Taiwan is still dependent on—about, I think, 25 percent of its exports go to the People's Republic of China and about 20 percent of its imports coming from that.

What is the Biden administration doing to counter what China is doing to influence these presidential elections, to be involved in these politics, and also what is the Administration doing with regard to preventing this economic coercion?

Mr. FERNANDEZ. Thank you for your question. This is—this issue is a little bit personal to me. Actually, when I was assistant secretary, I was the highest ranked State Department official to visit Taiwan in the first term of the Obama administration.

Taiwan is a constant reminder to the PRC that you do not have to trade personal freedom for economic growth. It punches above its weight. It is our ninth largest trading partner in our agricultural space. It is the sixth largest market for the U.S. Ninety percent of advanced semiconductors come from Taiwan.

What we have been doing at the State Department is, first of all, I lead our dialogue with Taiwan and there we meet at least once a year. We talk economic coercion. We talk supply chains. We talk energy. We talk trade. We have also launched a science and technology dialogue.

We are helping Taiwan weather these kinds of threats. Our colleagues at Treasury can talk about the tax situation. I know that the USTR is also discussing a trade agreement with Taiwan.

I am committed to supporting Taiwan and that is what we are doing at the State Department.

Senator RICKETTS. You mentioned the negotiations with Taiwan and I know there is more work being done on the trade initiative. Has lowering tariffs on Taiwanese products been a part of those conversations?

Mr. FERNANDEZ. Sir, I am not privy to the details of that, but I know that that is one of the issues that Taiwan was planning to raise, but I do not know.

Senator RICKETTS. Yes. Obviously, that would be one of the things we could do to kind of lessen the economic coercion or the economic leverage that the People's Republic of China has on Taiwan.

Mr. FERNANDEZ. That is correct. They are—as I said, 90 percent of our advanced chips right now come from Taiwan. They are also very interested in the IRA, the possibilities that are out there, and they are taking advantage of it.

I think everything is on the table to support this kind of an effort.

Senator RICKETTS. Great.

Let me switch gears on you just a minute. You mentioned Lithuania and, again, I think that is a great example of how the U.S. can counter the PRC's economic coercion.

I was in Lithuania not too long ago, and we were speaking with the Foreign Minister Landsbergis, and he had mentioned that one of the things that the People's Republic of China was doing was not only targeting Lithuania, but, for example, I think he mentioned German car companies that were using Lithuanian parts.

What is your analysis of this kind of secondary coercion on German companies and how effective it has been, and what kind of things can we do as the United States to counter it?

Mr. FERNANDEZ. Well, it shows the creativity of the PRC and this is something that was hard to predict. What they had done in the past is go after direct product. When they realized that this was not working with Lithuania, they ratcheted it up and they included components in automobiles or actually in any EU products.

This got the EU into the act and what they did is they alienated the EU. The EU started a WTO case against the PRC that we joined. They also came out with an anti-coercion instrument, a piece of legislation on it.

This backfired, but the lesson here is we cannot underestimate the ability of the PRC to look for weaknesses and I think we have got to prepare for that.

Senator RICKETTS. Yes. Thank you, Secretary Fernandez. Again, cannot underestimate them. That is why they are an adversary and [inaudible] better.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Coons.

Senator COONS. Thank you, Mr. Chairman, Ranking Member.

Thank you, Chairman Menendez, for leading this effort to focus on the tools that we need to help strengthen our ability to respond to economic coercion, coercion that targets countries that seek to achieve their own place in the world.

You have done a lot of focusing on Lithuania here. I was at another hearing and I may have missed the conversation about Australia as well. There is many other cases of economic coercion.

One of the things I think we need to do is to provide rapid and targeted support. In the case of Australia, which I have followed in some detail, it was mostly perishable agricultural products from lobster tails to beef that were the subject of abrupt changes in import patterns, and it can take quite a while for us to move to respond to economic coercion.

Senator Young and I have introduced the bipartisan *Countering Economic Coercion Act*, which would provide new authorities for rapid and targeted support to allies and to punish countries carrying out malign behavior.

My goal here, frankly, is when China causes economic pain for us, to be able to step in with support, creating time for supply chains to shift and markets to adjust.

Under Secretary Fernandez, thank you for your leadership in coordinating the response to the use of economic coercion against Lithuania.

What existing tools have been the most effective with economic coercion and, briefly, what additional tools would be most helpful?

Mr. FERNANDEZ. Thank you for your question and, really, thank you for your thought leadership on this. This is very much appreciated.

A number of things that we learned along the way. One was that—one response was just to make sure that countries understood that we have their back. One of the first things we did with respect to Lithuania is Secretary Blinken and several other government—U.S. Government officials actually spoke out against coercion.

Just the ability to support another country was something that was quite welcome and that did not take long. There was something we could do in a couple of days.

I do agree with you that flexibility and speed are important and I think we have discussed it with your staff as well. We have tools. You have given us a number of tools and some of them actually we discovered along the way—Ex-Im, DoD, Commerce, USTA, and others.

The issue of perishable goods is one that I noted earlier. I think there is some discussion. That is one that has been—was used by the PRC with respect to Australia. Lessons—speed, flexibility, political support.

We have also put together an economics—our economists—an economics vulnerability study that we can use to try and see what the PRC are targeted—is targeting, realizing that they are always going to throw us a curveball——

Senator COONS. Thank you.

Mr. FERNANDEZ. —and so we have got to be prepared for that.

Senator COONS. Thank you, Under Secretary.

The FY24 State and Foreign Operations appropriations bill just got voted out of the Appropriations Committee by a broad bipartisan margin, and it includes a $560 million new economic resilience initiative to expand investments in critical minerals, to secure supply chains, and to invest in high-quality infrastructure.

It includes a $200 million account for Treasury to increase financing through international financial institutions for infrastructure that will help mitigate partner nation reliance on substandard or coercive lending.

I would be interested, Under Secretary Shambaugh, if you have any comments for me about how we can increase our competitive engagement in this front and in particular one of the things I have been trying to fix is the Development Finance Corporation and the equity scoring, which limits its scope and reach.

From your perspective, are there other authority gaps that you have identified where we could be doing more?

Mr. SHAMBAUGH. Thank you, Senator.

I would say the account you mentioned would be incredibly helpful to us because it is flexible and as we have talked about being able to be nimble here, it is going to be very important.

I think it is also because it lets us try to make countries less vulnerable to this. There is one thing to talk about how we are going to respond. Another thing is to make these countries less vulnerable to being cut off from China. To make sure that they do not need Chinese funding for their infrastructure, to make sure they do not need Chinese funding to keep their businesses going, is one of the things we can do and using the multilateral development banks, other international financial institutions, as well as, as you said, the DFC.

These are all different ways we can make it that China does not have the tools to try to be creative, as Under Secretary Fernandez said, about how they extract pain on countries.

Senator COONS. Thank you both. Thank you, Mr. Chairman. I look forward to working together on this.

The CHAIRMAN. Thank you.

Senator Shaheen.

Senator SHAHEEN. Good morning. Thank you both for being here.

As I said to you when I saw you, I very much appreciate your connections to Dartmouth. We assume that anybody who has a connection to Dartmouth is a Granite Stater, so we appreciate that.

I was pleased in the appropriations process last year to support a small increase—not as much as I would have liked—for the Foreign Commercial Service, and this year we are hoping to at least continue that flat funding.

As a former governor who took trade missions overseas, I can tell you that I found the Foreign Commercial Service really helpful in terms of working with our businesses to improve economic activity and trade.

How do you all work with the Foreign Commercial Service, since the Department of Commerce is not represented here this morning, and what is particularly effective in the work that you all do?

Mr. SHAMBAUGH. I could just say one place we definitely see their work at Treasury is through our engagement with the multilateral development banks where having Foreign Commercial Service team members working inside those executive directors' offices at every MDB is one way that we are able to make sure U.S. firms can bid on things coming out of the MDBs.

More broadly, I would say it is to the ways Under Secretary Fernandez mentioned of just making sure countries know we are there as a partner, if they suddenly lose markets that there are people on the ground who are able to try to help them understand where they could export, whether it is to the United States or to other partners of ours, to show that we care, to show that we are partners to these countries.

They are countries—as I mentioned, they very much want to work with us. They understand we are the better option to work with, and the key is that we have to be on the ground and we have to be able to be there.

Mr. FERNANDEZ. Thank you for the question.

One thing I would add is the Foreign Commercial Service is active in many of our posts and they provide—and, really, as someone who came from the private sector, the value for the money is just incredible and especially important to small and medium enterprises.

Large companies have their government relations types. They have their—they can get high-priced bankers and all that. Smaller companies do not have that option, and the knowledge, the experience, that they have is something that I have been astounded by. We need more of them.

They are not in every post and some of the posts—I am thinking now in Africa—where we are in a struggle for—to improve the U.S. brand in these countries where China is making inroads. We need more of them, especially in countries where in the past we have ignored.

Senator SHAHEEN. I certainly agree, and as we think about how do we best counter what the PRC is doing around the world, the fact that they now have more diplomatic embassies open than we do, that they have the kind of commercial activity that we are not combating as effectively as we need to, I think is really concerning.

The telecommunications area is another place where I think we have seen challenges, and I know that we have worked with many of our allied partners to encourage them not to adopt Huawei and Chinese telecommunications networks.

What more can we do to help countries that do not want to do that, that are looking to us, for example, the Development Finance Corporation?

I have had legislation to try and encourage them to look particularly at Eastern European countries on supporting their telecommunications infrastructure. What more can we do? Should we be asking the DFC to do that? Either of you.

Mr. SHAMBAUGH. I would just say one thing we have to do is make these countries less vulnerable. They know it is a better option and if—whether it is the Partnership for Growth in Infrastructure Investment, whether it is MDB lending, whether it is things at the IMF like the PRGT, or Poverty Reduction and Growth Trust, places they know they can borrow and that they are not going to be dependent on China so that if they make a very smart choice in their technology sector and in their communications sector, they do not suddenly face blowback and lose investment, I think it is crucial that they know they have options from us so that they are not vulnerable to China.

Senator SHAHEEN. Thank you.

Mr. FERNANDEZ. What I would add to that is, and this is a—I commend you for focusing on this question. This is an important question that for a long time has been discussed.

We have taken on the challenge by, first of all, talking to countries, informing them of the risks and the—and promoting a level playing field in the host countries.

We have actually brought a couple of regulators to DC and told them about why we are concerned about untrusted vendors. That changes the dialogue. They go home and they realize what the problem is.

Ex-Im Bank, we worked with. Ex-Im Bank clarified the tools on local content to support 5G purchases. Then we have also worked with individual companies to talk about opportunities.

Right now, we are—at the TTC, we are putting together a list of countries that this year will have auctions—5G auctions—and what we are going to do with the European Union as part of the Trade and Technology Council and with a number of companies as well as with Japan and with Korea, is to work together to see how we can encourage our companies and support our companies.

We can do more and we can do more in the short term and that is what I am looking forward to doing.

Senator SHAHEEN. Just to clarify, we can do more and it is in our interest if we do more.

Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hagerty.

Senator HAGERTY. Thank you, Mr. Chairman, and good to see both of you here today.

Under Secretary Fernandez, I would like to start with you, if I might, and share with you an experience that I have had. I think we let your team know that I would be checking in with you on this, but this has to do with something I experienced when I was serving as U.S. Ambassador to Japan in the region.

It came to my attention that a deep-water shipyard, the Hanjin shipyard at Subic Bay, was under bankruptcy and as I read about it, the two bidders in the bankruptcy process were both Chinese names—I had my team check into it—both CCP-affiliated bidders for this deep-water shipyard in a very strategic location in the South China Sea.

That evening, I called up the Secretary of the Navy and I asked him if he wanted to be the secretary that got Subic Bay back for America—because I lived in the region when we lost it—or was he going to be the one that allowed it to go to the Chinese Communist Party?

He said, I will do whatever we need to do. There was no existing infrastructure to deal with this. We had to be very creative, but working together with our State Department, of course, Japan, and the Philippines, and we had to go to all the way to Duterte to get this addressed.

A long story—we are able to go in and deal with this, but what concerned me is that our existing government structures are not in a posture to be forward-leaning on these types of things.

They were not even tracking this sort of activity and we really had to scramble, again, with multiple countries, with a private sector partner in Cerberus Capital, had to reach out to a former Vice President of the United States, Vice President Quayle, to get help with that.

There were a lot of levers that it took and it eventually, after a long period of time, we were eventually able to bring that strategic asset back away from the control of the CCP and back into friendly hands.

I wanted to find out your perspective, Under Secretary, and what we might have learned from that, and are there opportunities to be more forward-leaning to address these sorts of either opportunities or challenges, depending on how you perceive it?

Mr. FERNANDEZ. Thank you for your question and, really, thank you for reaching out on this. This is exactly the kind of cooperation that we are looking for.

Look, we have talked about it already. Countries are looking for alternatives. We can hector them. We can talk about values, but at the end of the day, we must be able to provide some funding.

We are working with the DFC on a number of items. We sit on the DFC board at the State Department streamlining their decision process. Sometimes—they are using American taxpayer dollars so they have to be careful, but there is a way to streamline it.

They are looking at also some of their restrictions and the types of countries that they could invest in—upper middle income countries.

There are some countries that qualify as UMIC countries and that is because they have a very wealthy capital and yet the countryside is quite poor. Those kinds of issues.

Senator HAGERTY. Yes. I was with the chairman in Uruguay. We had exactly this issue.

Mr. FERNANDEZ. Yes. That is——

Senator HAGERTY. It came up as we spoke with the President, who wants to do business with the United States, but our tool set is limited because we have been fairly prescriptive in terms of how it goes. I would just encourage you to find ways.

Mr. FERNANDEZ. Senator, if I may, that is one of the reasons why we have put together a budget request that provides for $6 billion over 5 years and long-term funding is important.

As you know, you just do not go in once. You have got to have a long-term commitment to some of these projects and one of the items in that budget request is an infrastructure fund for strategic investors, investments that may not necessarily be commercial investments, but they are strategic and they have to be targeted, as well as a DFC equity fund that will allow the DFC to provide equity—and I do not lead that—on some of these projects.

Senator HAGERTY. I appreciate your continuing to look into that creatively. Senator Kaine was on that trip with me as well and I think we saw the real—a real open need there.

I would like to turn to another issue that I think troubles a number of us, and that has to do with a GAO report that explained that CCP state-owned companies are participating in funding from the World Bank to do development projects from the World Bank, and during the period 2013–2022, the CCP secured roughly 30 percent of all World Bank funding.

I have got a report here from the GAO and, Mr. Chair, I would like to submit it for the record, if I might.

Senator KAINE [presiding]. Without objection.

[EDITOR'S NOTE.—The information referred to can be found in the "Additional Material Submitted for the Record" section at the end of this hearing.]

Senator HAGERTY. China uses these funds to enmesh itself into local economies, to gain favor, and to gain advantage. These projects can complement their Belt and Road Initiative.

Funds are fungible, and I can tell you from the standpoint of Tennessee taxpayers, there is a deep concern that we would allow the Chinese Communist Party to be able to access World Bank funding to the level that they have been able to do it.

Under Secretary Shambaugh, I think you probably share this perspective, but do you believe that the CCP and that China has now met the conditions to graduate from their status as a developing country?

Is there something that you can do to encourage the World Bank to get to that place that the CCP is not able to leverage World Bank funds as they have?

Mr. SHAMBAUGH. Thank you for the question, Senator.

First, I do share your view here and your concerns and so I would say on the two different issues here, first, on whether China should be graduated and no longer receiving MDB funding directly to them, we absolutely agree.

It is something that we raised with management of MDBs. The amount of lending going to China is declining. They have heard us on this issue, but in our view it is in no way declining fast enough and it needs to go to zero rapidly.

One hundred percent share your views and we communicate this regularly to the management of the MDBs. On the specific issue of procurement where Chinese SOEs are receiving a lot with regards to the GAO report you mentioned, this is something Treasury has been working very hard on.

What we have tried to push on all of the MDBs, on the one hand, is more of a value-based procurement method because this is one we think instead of looking only at the upfront cost, think of the true value to the project. That is something where U.S.——

Senator HAGERTY. Risk-weighted value, I might add.

Mr. SHAMBAUGH. Exactly. The U.S. firms, European firms, do really well on these metrics and if the MDBs use those type of scoring you would see a shift here.

We also try very hard, and this goes to having Commerce employees in every MDB office, to make sure they can let U.S. firms know where there are projects so that U.S. firms are bidding because I think that same report shows that when U.S. firms are bidding, they win quite often. They win 70 percent of the contracts they bid on.

We need to do more to get our firms in the game and we need to change the way the game is being scored to make sure that it actually does bring value to these countries, gets actual value out of the MDB funding, and gets it done in a way that matches our values better.

Senator HAGERTY. I think the opportunity is squarely in front of us. We checked with the former executive director of the World Bank. She advised us that the criteria are met to remove the CCP as a developing nation from this World Bank pool. I hope you will do everything in your authority to achieve that.

Thank you, Mr. Chair.

The CHAIRMAN [presiding]. Thank you.

Senator Kaine.

Senator KAINE. Thank you, Mr. Chair, and thanks to our witnesses. I want to focus on Latin America, following up on Senator Hagerty's reference to our recent trip with the chairman to the Americas in April.

It is one thing to talk about Chinese investment and coercion or competitiveness, but we got to have something on the table to counter it. The 34 countries in Latin America and the Caribbean—the Chinese Belt and Road Initiative are making significant investments in 21 of the 34 countries.

A lot of the investment are dual-use investments that could be both for civilian, but also for military and national security purposes—nuclear, power, space stations.

The Chinese have 40 port construction or upgrading projects in Latin America and the Caribbean, and I just struggle to see what this Administration is doing in Latin America that has any heft to it.

Ecuador threw out a pro-China government in 2021, and elected a pro-U.S. President who, within a few months after his election, when we visited, and he said, you do not have the big checkbook that China does. I get it, but just do a trade deal with us.

Ecuador is the only nation on the Pacific coast, from Yukon to Patagonia, that did not have a trade deal with the United States. They said, just add us into the Columbia trade deal. Or you just renegotiated NAFTA into USMCA with high labor and environmental standards. Democrats and Republicans supported that—add us into that, but just show us that if you cannot write us a big check like the Chinese can, at least you are interested in a pro-U.S. ally in South America.

We did not do it. That government has collapsed. It is likely to go back to a pro-China government in the elections that would happen between now and the end of the year.

We had 2 and a half years to try to show this erstwhile ally that wanted to lean toward the United States that there was some value in leaning that way, and we really did nothing. We did nothing and we probably have lost an opportunity there.

Uruguay, a nation that has been a strong ally of the United States, had to practically beg to get the President, when he was in the United States, to have a few minutes with President Biden in the Oval Office.

If we are not willing to pay attention and be responsive to allies in even modest ways, well, then we can lecture people all we want about not accepting Chinese largesse, but it is hardly a persuasive position.

I have had meetings with the U.S. trade rep asking about, what about trade deals in the Americas? I get told that politically they are a bad idea, and I—and my response was, well, wait a minute, you are the trade rep. Let me worry about politics. I am the elected official. You are the trade rep. Why are not we exploring trade?

What we are doing in the Americas is the—is APEP. The President announced America's Partnership for Economic Prosperity in June of 2022. That was 13 months ago.

We have received in my office—I am chairman of the Americas Subcommittee—a list of countries participating an initial concept, but now we are being told that the Administration is pivoting APEP to a new revamped approach. We have gotten no information on the approach. No firm agreements have come out of APEP, no multilateral work on specific issues, no announced partnerships to compare.

The President also announced the Indo-Pacific Economic Framework in May 2022, 1 month before APEP, and on that framework we have seen multiple rounds of talks. The Administration has launched a Workforce Development Partnership and recently the countries signed an initial agreement on a supply chain pillar, which I think can be very helpful.

Why are we not in our own neighborhood investing more with nations that are our allies and want to deepen the relationship and allowing China to just run roughshod?

Mr. FERNANDEZ. Thank you for your question.

The CHAIRMAN. I want to thank him for the question, too, and I echo all of his sentiments, and I am thrilled that there is a colleague other than me who cares about Latin America. I know Senator Hagerty does as well.

Mr. FERNANDEZ. I care, too, a lot, Senator. I have spent a lifetime working on Latin America.

Look, I will let USTR deal with the trade issue. We have done a number of things that I am very happy we have been able to accomplish with Ecuador. We are working now on a port PGII. We had a historic debt-for-nature swap. Obviously, we could do more.

On APEP, I co-lead that with our colleagues at USTR. We have been talking to countries and getting input from them. We now have a negotiator who is in Colombia right now making sure that what we offer—what we are talking about is something that is welcome. I take your criticism, but let me just, if I may, just point——

Senator KAINE. Yes, I want you to push back if I am wrong. I want you to tell me if I am wrong or——

Mr. FERNANDEZ. Let me push back slightly and I realize that I do that at my peril, perhaps, but if—tariffs is not what is keeping Latin America from growing and the private sector from investing.

If tariffs were all that it took, this would not be an issue. Twelve of the 20 FTAs that we have are with Latin America. Eight of the APEP countries have FTAs already. Our average MFN tariffs with Latin America are less than 1 percent.

It is not about market access. It is about corruption. It is about lack of transparency. It is about lack of infrastructure. It is about health frameworks that do not work. It is government instability.

Those are the things that we are trying to work on in APEP. We are looking at labor rights so the—so you do not have the instability, so you do not have the gangs. It is talking about rule of law so that investors can go in.

Those are the things that we are going to focus on realizing that there are other things we could do as well, but I——

Senator KAINE. I want you to focus on those things, but, look, if China's offer is, we are not demanding any reform, here is some money, here is an investment and our offer is, yes, once we help you improve all these aspects of yourself, then we are open to more interaction. That is just such an imbalance and we will fall farther and farther and farther behind.

I am going to give one bit of good news here, and I am over time and I am sorry for that.

The CHAIRMAN. [Inaudible.]

Senator KAINE. Yes. The *CHIPS Act* had an international investment fund and there was just an announcement of a U.S.-Costa Rica partnership because there are chips manufactured in Costa Rica.

Actually, the plant that closed down went to China, reopened, and the U.S. is partnering with Costa Rica on that. That is a really good thing and Costa Rica is forward-leaning the Alliance for Democracy and Development.

I can see some instances where we are strategically using resources, but I just feel the imbalance is so significant and it is going to get worse and worse and worse until we decide that we ought to prioritize our own neighborhood and make investments.

I have a hard time understanding why this Indo-Pacific partnership has moved out a lot faster than APEP has. I am over my time, but just—I am going to ask this question every time I have got a State Department or USAID or Administration official before me in this setting until I start hearing not just plans, but results.

Thank you, Mr. Chair.

The CHAIRMAN. Well, thank you, Senator Kaine.

Mr. Secretary, I have to say, and you know I have a great deal of respect for you. I have supported your nominations, but that answer—we want all those things to happen.

If China comes in and says, here [puts binder on table], I have all this to offer you, and we come in and say, here [puts piece of paper on table], we are going to talk about your structural reforms—I do not know what world in which we are living in, but the world in which I have served in public life for 50 years tells me that if I am really in tough times, this [taps binder] is going to be a lot more appealing to me than this [taps paper].

Now, we would have a lot more power to do this [holds up paper] if we had a little bit more of this [taps binder], and that is all we are saying here. We need—you cannot—I travel the hemisphere. I am so embarrassed because I cannot—when I meet these heads of states, I cannot tell them that they are wrong.

I can tell them, look, you got a problem with corruption, you got a problem with your economy in terms of how you are conducting it, whether it is command or control, whatever, but I cannot honestly look at them in the face and say, you have all of these challenges, some of which are inherited, particularly by democratic-leaning presidents—Lasso in Ecuador, the President of Uruguay, others—and say, we want you to share our values [picks up binder], but all we have for you is this [puts paper on table].

That is just not going to work, and so we need to do a lot better than that. All those things you said, we want those things. I do not want any country to get our largesse or assistance who is not willing to reform when reform is needed, but I would be a lot more capable of getting reform done if I am offering something with it, and that is not just as it relates to proactive. It is also with our financial institutions.

For example, right now we have Argentina. Argentina can go various different ways. They have an economic challenge at the moment. They got somebody who I think is doing a pretty decent job of trying to right the ship and meet their responsibilities, but we are in the midst of creating pressures before an election that can dictate that the end—the persons we end up with are adversaries instead of allies. Just an example of how we have the wherewithal to do much better. I just—I commend it to Treasury. I spoke to Under Secretary Adeyemo. This is one example of many that we can be doing.

Senator Young.

Senator YOUNG. Thank you, Chairman. I want to thank our witnesses for being here at such an important hearing.

Under Secretary Fernandez, can you identify the specific Australian economic action that prompted China to block imports of Australian beef, wine, barley, and coal in 2020?

Mr. FERNANDEZ. [Inaudible] identify——

Senator YOUNG. The specific economic action, the economic action that prompted China to take those actions to block imports from Australia in 2020.

Mr. FERNANDEZ. I believe that—the one that I remember, Senator, is asking for an investigation of the origins of COVID–19.

Senator YOUNG. That is not an economic action. What economic action prompted that?

Mr. FERNANDEZ. I would have to go back and——

Senator YOUNG. Relatedly, can you identify the specific South Korean economic action that prompted China to boycott Hyundai and Kia and to stifle tourism to South Korea in 2016?

Mr. FERNANDEZ. You are testing my history now, but I think it is THAADs.

Senator YOUNG. Yes. Also not economic in nature. That is my point. I am not playing a game here. I am trying to illustrate through these cases that Chinese economic coercion is not about economics. It is about weaponizing economic interdependence in furtherance of geopolitical aims, right—geopolitics through other means.

It is a policy to systematically deter, where possible, governments from exercising the full scope of their sovereignty. It is an assault on the liberal order, more broadly, by a state authoritarian government bent on shaping the 21st century to its ends, and failure to respond and to deter coercion begets more coercion. I think you would probably agree with that.

We must see Beijing's actions not in isolation, but as part of a larger plan.

Under Secretary Fernandez, as you noted, your office leads the Department's efforts to understand and develop responses to economic coercion like those cases I mentioned.

How have you specifically utilized the frontline experiences and input of our State Department's diplomats in developing our Department's tools to counter economic coercion especially in countries that have recently experienced coercion?

Mr. FERNANDEZ. Thank you for your question. This has been one of my priorities, Senator, building on Lithuania, but also looking back on the history at how we put together a toolbox in order to address it, going forward, because as you well point out, it is going to happen again.

Senator YOUNG. Have you sought the input of frontline diplomats as you focused on that?

Mr. FERNANDEZ. Of course. I have been in a number of the countries you mentioned—as well as in Lithuania. We have had several consultations with allies and partners in the G–7 and other countries as well to see what they have so that we can coordinate because speed and coordination is important.

We have had tabletop exercises internally in our own interagency—15 agencies. We were spending a—and we will continue to do this—we were spending a lot of time talking to both our allies and partners as well as some of the victims.

Senator YOUNG. Well, I think that is real important—and my time is very limited here—so those consultations because this is a hydra-headed threat and it continues to evolve.

The PRC approach is evolving of late, especially in its more aggressive approach towards less vulnerable countries like the United States—large economy countries.

This could be described as a—their most recent approach—a company-specific coercion versus a country-specific coercion. For example, the Chinese Communist Party has recently acted against Micron, a company, not a country.

Given this shift, how—since you are in charge of this portfolio, sir, how are U.S. practices and responses evolving to counter this most recent shift by the Chinese?

Mr. FERNANDEZ. Well, I will tell you one of the things we have done specifically is we have spoken to business groups all the time. I have—and my personal belief—my statement is that they cannot bank on the—well, the PRC is banking on the fact that foreign investors will ignore the coercion to follow the siren song of markets and we have seen—for example, you can take the counter espionage law that has been passed by the PRC that expands the definition of espionage and what they have done to put in jail some consultants on the basis of counter espionage.

This is an issue. We continue to talk to them. In the case of Micron, we think it also may be an attempt to dissuade other countries.

Senator YOUNG. Okay.

Mr. FERNANDEZ. We are—and our ambassador in the PRC in Beijing has reached out to—has been talking to the government about this and we are all over this.

Senator YOUNG. I believe you are attempting to answer my question. I do not feel satisfied that you have answered it, Mr. Under Secretary. Number one, about the consultation, how that has informed your toolkit of different economic coercion counter measures, and then number two, how you have responded, based on those consultations that you alluded to, by changing our strategy as the Chinese Communist Party has changed their approach to economic coercion. I think it is really important that you answer those at some point in short order.

My time is—I am over time. The only thing I would say if the chairman will allow is I think we need to ensure—we need to do our work to empower the State Department, not just through additional resourcing, though I understand the importance of that, but ensuring there is an enduring legal framework to counter acts of economic coercion as administrations change. Who knows what will happen a couple of years from now?

The bill that Senator Coons and I have put forward remains the only working piece of legislation this body has before it on countering economic coercion and we hope to involve the chairman and ranking member and working across the committee either through that legislative effort or another in fairly short order to empower the State Department to ensure this is an enduring and transparent effort.

Thank you so much, Chairman.

Mr. FERNANDEZ. Senator, just briefly, I very much appreciate your comments. Everything is on the table. We have been working with your team on providing some comments to that piece of legislation and others, and we would very much welcome the opportunity to continue doing that.

The CHAIRMAN. Thank you.

Senator Merkley.

Senator MERKLEY. Thank you all for joining us. Thank you, Mr. Chairman.

I wanted to start by noting that last year's defense authorization bill included a bill that was rolled into it, a bill I had advocated for to establish an interagency task force called the China Censorship Monitor and Action Group and that task force would be responsible for addressing China's censorship and intimidation of American companies.

According to the law, there were milestones for setting up this task force. It is supposed to have been implemented by now. Has it been?

Mr. FERNANDEZ. Thank you, Senator.

That is somewhat outside of my responsibilities at the State Department. I will tell you that we have institutionalized a new focus on transnational repression at the State Department to protect Uyghurs and other targeted communities from harassment abroad.

Some of the things we have done is we have issued visa restrictions against PRC nationals involved in transnational repression. That is the—I can go back and get further information on this.

Senator MERKLEY. Yes. I do so appreciate the work on transnational repression because I am really championing a massive increase in our effort. Freedom of speech is not freedom of speech if people are threatening to harm those you love abroad if you exercise your right to share opinions.

Because this is an interagency task force, I would ask both of you to go back and check on it because I think understanding how U.S. companies are being pressured is a very important part of our economic life and, certainly, of the dynamic in economic relations with China, and now we have Congress saying you have a responsibility set up and focus on this and share ideas between the agencies and it seems like a good idea and it is required by law.

If both of you could check on that and then get back to me and let me know. Maybe this will serve as a little spark to make it happen.

Mr. FERNANDEZ. Appreciate it. Thank you.

Senator MERKLEY. Thank you. Thank you. I appreciate that.

Regardless of that interagency action group, I hope the Administration will work urgently to protect U.S. businesses from censorship, from intimidation, from coercion so that they can exercise the opinions that they would like to have. Do you all share that opinion?

Mr. SHAMBAUGH. I do.

Mr. FERNANDEZ. Could not agree more.

Senator MERKLEY. I suspected. It has been really troubling to see the examples of PRC's Republic, the People's Republic of China's suppression of free expression in the United States in the film industry.

We have seen it in universities and we have seen it in a host of other businesses including, for example, the response to a tweet by the Houston Rockets executive Daryl Morey, who endangered the NBA's business in China.

It is my perception that this economic coercion strategy by China, which is not just about the U.S.—it is about a number of other nations as well—is getting more aggressive and more frequent.

Is that—but what have you all—what have you all seen? Is it getting more aggressive and more frequent and is there hope for us to really accentuate strategies to respond to this?

Mr. SHAMBAUGH. Senator, I would agree that yes, it seems to be more frequent and more aggressive. I do think—I would echo one thing that Under Secretary Fernandez said before, though, which is in many cases I think it is starting to backfire.

I think when it was an isolated incident it was easy enough for either a country or a company to say, well, that is over there and I am safe where I am, but the greater the frequency more people look and recognize what the risks are. I think it is why you see more businesses try to set up their supply chains in ways that they could pivot if they need to very quickly.

It is why you see countries talk to each other about how they would deal with these issues and I think it is why both countries and companies are taking second thoughts about how they engage here.

I think it is something that as we have been talking about today, we need to use a whole range of tools to make both countries and companies less vulnerable here and be ready to respond when there are actions like this.

I also think it is something that China is doing damage to itself and as it tries to—as it worries about its own economy and tries to say they are a business friendly investment place that wants private investment to lead the way, these types of actions are not helpful and I think we—all we can do is make sure everyone is aware of that.

Mr. FERNANDEZ. It is backfiring, but it is our job to push back against it anyway, and I would add to your list Enes Kanter, another basketball player who also spoke out.

Senator MERKLEY. Former Trailblazer, I might note.

Mr. FERNANDEZ. I am sorry?

Senator MERKLEY. Former Trailblazer, it is important to note.

Mr. FERNANDEZ. Former New York Knick, as well. Thank you.

Senator MERKLEY. Thank you. We have before the Congressional Executive Commission on China invited Enes to testify—Enes Freedom as he renamed himself, and it is a real example in that case of oppression coming from Turkey.

In terms of doing business in China, do I—I have another question, but I am over my time.

In June, China placed into action a new espionage law. It puts greater restrictions than before on U.S. companies' ability to operate in China, and I reflect back on—I visited China just before Xi came into power and there were a group of 10 senators that Harry Reid led—bipartisan group—and the conversation very much was about a lightening of restrictions and by that I mean reporters were saying for the first time they were allowed to live where they wanted.

They did not have to have a companion with them. They could actually walk behind a factory and see if they were dumping waste directly into the river. They could report on that. More tolerance for labor activists to report on abuses, more religious freedom, especially in the southern part of China.

Now, under the last 10 years under Xi, it has been the other direction and in this case a real expansion of its definition of espionage and further limits on U.S. businesses.

Have we seen this kick into action yet? How much should U.S. businesses be concerned about this? Are individuals facing the potential for risk if they express themselves freely under the argument that it is espionage or if they travel in the wrong place and so forth?

Mr. SHAMBAUGH. Senator, I would say we have seen a handful of cases where it has been employed. To a large extent, I would say it is still an ambiguous law and it is very nontransparent and it has not been used in a widespread fashion yet.

We had—when I was in China with Secretary Yellen, we had a number of conversations with U.S. firms to understand how it might be impacting them yet. I think in most cases the answer was they are watching.

There are a particular number of due diligence firms and consulting firms that have faced negative aspects of this where there have been arrests or investigations. It is something that we raised with the Chinese directly.

It is something we discussed with—I discussed with China's Ambassador when I met with him, making clear that this is not how a country runs a business-friendly investment environment, and if they say they want investment from U.S. businesses, it is not our policies preventing that when they do things like this.

We have tried to advocate for U.S. firms and to advocate for why policies like this are not productive for China or certainly run counter to our interests and we have engaged with U.S. firms quite a bit to understand exactly how it is being employed.

The CHAIRMAN. Thank you.

Mr. FERNANDEZ. The only thing I would add to what the under secretary just said is it is ambiguous by design. Ambiguity has a deterrence and that is important to keep in mind.

I said earlier that the PRC is banking on businesses being—following the allure of the market and it is a huge marketing and they want to see what they can do there.

We have welcomed the warnings by the Chamber of Commerce. They have been very vocal on this and we have welcomed that. We have also issued a number of travel warnings as well.

We will continue monitoring. This is why we need to work on diversifying supply chains and giving alternatives, not just to other countries, but also to our companies.

Senator MERKLEY. Thank you. Thank you both very much.

The CHAIRMAN. Senator Duckworth.

Senator DUCKWORTH. Thank you, Mr. Chairman. I would like to thank both Under Secretary Fernandez and Under Secretary Shambaugh for appearing here today.

My first question, though, is for Under Secretary Shambaugh. You have spoken a lot recently about the importance of multilateral development banks including the World Bank and the necessity of modernizing them and fitting them to the challenges of today's world.

I do want to follow up. I know Senator Van Hollen asked about this as well. I am going to be going to Manila here during the August break—Manila, Jakarta, Bangkok. I am going to be meeting with Chantale Wong and she is going to walk me through some projects in Manila itself.

How would you assess the current relative strength of the Asian Development Bank in comparison with the PRC-led Asian Infrastructure Investment Bank?

What are the weaknesses of the ADB compared to the AIIB, and what can we do to address these weaknesses, and are there any opportunities for us to perhaps adjust our participation so that we can be more effective?

Mr. SHAMBAUGH. Thank you for the question, Senator. I think it is an extremely important one.

The Asian Development Bank plays a really important role to exactly this issue we have been discussing today of making sure there are high standards lending options available to countries so that they do not turn to options that are not as high standards and not in their interest.

I would say in our efforts to evolve the multilateral development banks, much of that work started at the World Bank, but a big part of what we have been trying to do over the last few months and certainly over the next 6 months is to push that work out across all the multilateral development banks.

We think there is a huge amount of opportunity at the Asian Development Bank in terms of using their balance sheet more effectively, which would expand the amount of lending they could do in a way that maintains their status and their ability to make lends at good rates, but do quite a bit more.

We think there is a huge opportunity to push out that work. We also think making it a more nimble bank to change the way the operational incentives functions such that they can work better with countries on the needs they have. They can work towards global challenges better.

We think there is a lot that can be done. You mentioned Ambassador Wong. We think she is terrific and doing a lot of work there and I think there is great opportunity and I am glad to hear that you are going because I think it will be a terrific visit.

Senator DUCKWORTH. Are there things that are pushing folks towards the AIIB as opposed to the ADB? Are there restrictions on ADB that they—why would a nation choose one or the other?

Maybe they are not in direct competition with each other and especially when you think to places like the Pacific Islands, Palau, Marshall Islands, those kinds of places where there are very few resources, are there things that sort of advantage AIIB or maybe push them in desperation towards AIIB?

Mr. SHAMBAUGH. I think the key is the last word you used there. It is in desperation, honestly. I think it is—in my experience with almost any Finance Minister I have spoken to, and I have spoken to a lot in the last 12 months, they would much rather work with us or work with the international financial institutions of which we are a member.

They are better run, they are cleaner, they are transparent, and they are high standards and that is what they would like to do, and so that is why when we talk about opening up more headroom and more lending room at the ADB, it is so important because the more funding it has available at very good rates for countries, the more likely they are to work with the ADB, which is a better option for them and it is more in our interest as well.

I do not think it is something specifically—I will actually check with Ambassador Wong and our team if we think there is anything that is a block for some countries on ADB versus AIIB, but in my experience it has probably been a question of opportunity, and countries need funding. Many of these countries are locked out of private financial markets and so they are looking for funding where it is and making sure that we have high standards lending available is crucial.

Senator DUCKWORTH. Thank you. My second question is for Under Secretary Fernandez.

I know you are working on the Minerals Security Partnership, which I think will be an incredibly powerful tool for a more sustainable and resilient critical minerals supply chain.

As of now, participation in the Minerals Security Partnership in the Asia Pacific region is limited to Japan and South Korea. How does the State Department continue to deepen engagement on critical minerals in the Asia Pacific region beyond those countries and what are the criteria for expansion of the MSP in the Asia Pacific?

I have had multiple conversations with nation leaders who feel like their minerals are being exploited by PRC-led firms and they want somebody else in there, whether it is Australians or other partnerships, and they feel very much limited that there is only one country really leading the effort.

Mr. FERNANDEZ. Thank you for the question. The MSP has been a priority of mine now for—since we started it in June of last year. India just joined and now we have 14 countries as well as the European Union.

We reach out constantly to producing countries as well. We have spoken to a number of countries in the region. We are trying to also do more with Indonesia, which has a number of critical minerals that will be important, going forward.

That is—what we do is we have had meetings at the United Nations with a number of these countries. I have traveled to Africa several times. I intend to go to Indonesia within—in the next 6 months and part of what I will do there is talk about the Minerals Security Partnership. We are in constant contact with the producing countries because that is where the struggle will be won or lost.

Senator DUCKWORTH. Thank you. Mr. Chairman, may I ask one additional question or am I out of time?

The CHAIRMAN. Please go ahead.

Senator DUCKWORTH. Thank you, Mr. Chairman. I just want to follow up on that.

In instances where critical minerals projects might face a choice, again, similar to my earlier question, when there is a choice between pursuing support through the MSP versus pursuing support through Chinese investments or PRC investments, what are the tools that we have at our disposal to persuade them that it is worth following our higher transparency, environmental, and labor standards and how do we win that competition?

Mr. FERNANDEZ. One of our tools is our combined—the combined strength of the allies and partners. We started doing it because we found that individually we were missing out on opportunities.

With the 14 countries we are—on a weekly basis we discuss specific projects. We discuss specific ways for our financing entities to cooperate, also to get our private sector involved, but that is also part of the reason why we have proposed a $6 billion, 5-year that we think will be transformational—a budget request and one of the things that we intend to do with that is find critical minerals.

We are doing it also as part of the ITSI Fund, which is the—where the State Department received a 5-year, $100 million per year. That is transformational. We can do something in the long term.

We are working now, but we could do more. I can just cite one example. South Korea has announced that they will devote $1.7 billion to critical minerals through the Minerals Security Partnership. That is the kind of commitment that we are looking for from our partners and that is why we put together our budget request.

Senator DUCKWORTH. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Cardin.

Senator CARDIN. Well, let me thank both of our witnesses and, Mr. Chairman, thank you for conducting this hearing.

I have traveled with the chairman to countries in our hemisphere that were hooked into China's debt because there is no other option, they thought. The reason there is no other option is it did not make a lot of good business sense to do those types of debt financing and China was doing it not for the economics of it, but for the leverage that it would receive in those countries.

It is not unique to our hemisphere. We see it all over when we see how many countries China now has debt—that hold debt and there is a lot of misgivings by these countries and they are clearly being used in coercion from China to do certain other policies that are against our national security interests.

We could talk about critical minerals and the supply chain challenges—the questions that you just had—but we need a strategy that allows us to counter the coercive practices of China and certain other countries that are using their minerals to coerce national security issues and it has got to go beyond just the business sense of the transaction. That is the normal way we judge issues.

If we leave it just to market forces, China is going to win. Russia is going to win, but if we are strategic in the way that we counter for a level playing field, then we can make a difference here.

I know that there is legislation that has been filed by my colleagues. I am sure it has been talked about during this hearing, but I just really want to underscore the importance for U.S. leadership here. I know EU is doing things. We should be in the forefront in leadership.

Give me some sense of confidence that we understand the challenge that we have and that we are not just going to use the traditional evaluation procedures or funding procedures, that we recognize that we have to fight this on a more level playing field than is currently being given to us through our adversaries.

Mr. FERNANDEZ. Senator, thank you for the question. That—I could not agree with you more.

What is our competitive strength? Our partners, the ability—our ability to pursue high standards and in the Minerals Security Partnership, to take one example, we have actually published what we mean by environmental, social, and governance standards, what we mean about working with communities, observing labor rights and the like, and that is important and we cannot engage in the race to the bottom, frankly, because we just will not win. We have to raise the standards.

Also, we have put together a budget request that has three components that go exactly to what you are talking about, creating an international infrastructure fund to work on projects that may not necessarily attract private investment and I use the example of the Pacific Islands, a small island—incredibly strategic, but there is no market for—but that is part of our request.

We have also talked about strengthening the DFC by including a $2 billion equity fund that they can do for equity. Right now, that is their most sought after type of investment and it is the most expensive, and so we need to do that as well.

Then the last one is to focus on the Indo-Pacific. That is where the competition is the hardest with the PRC, and that is where we are asking for an Indo-Pacific focused fund that will work on submarine cables, roads, ports, 5G, and the like.

Those are the things that we are aiming for because we will continue pushing our values, but we have got to back that up with funding.

Senator CARDIN. I agree. We have to be proactive in being there in the first instance, but then when the PRC is taking punitive action against a country because of its geopolitical stance that is consistent with U.S. policy, we certainly do not want them to be intimidated by PRC.

How do we deal with reacting to those types of negative stands by PRC?

Mr. FERNANDEZ. We actually have a—and I will not mention the country for obvious reasons. We actually had a couple of countries that have come to us recently and said, we are not going to allow the PRC companies to enter our country for whatever reason—will you—what can the U.S. do.

Well, one of the things we have done is we have economists that have put together vulnerability studies to try and forecast what the PRC is likely to do.

That is the kind of cooperation that we are doing with countries as well as, as I mentioned earlier, working on our toolbox in case that the economic coercion materializes.

Senator CARDIN. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you, Senator Cardin.

I just have—since we are going to close out this record, I want to have a couple things for the record that I would like to accomplish. Let me go through them as quickly as possible.

The United States is competing against an adversary who is willing to mobilize significant resources in a highly coordinated fashion in conjunction with their own state-owned enterprises, and when I travel, I hear that we need to be more agile. We have talked about that. We need better tools, more resources to be successful.

Also, far too often, partisan brinkmanship damages our appropriations process and prevents us from making the investments necessary to effectively compete with the PRC. Our budgeting process thwarts the strategic long-term planning that Beijing employs.

The Biden administration in its FY24 budget requested $6 billion over 5 years in mandatory funding to "outcompete China." The vast majority of these funds would go to the things that members on both sides have talked about—economic initiatives, including a new equity fund at the DFC, and an international infrastructure fund at the State Department.

Secretary Fernandez, how critical are these resources to effectively compete with Beijing? What details can you give us as it relates to the mandatory funding proposal? What type of initiatives would be considered?

Mr. FERNANDEZ. Thank you for the question. This could be transformative. A 5-year program can allow us to make long-term commitments to countries and the best example I can give you right now is what you have done on the ITSI Fund where we have received $100 million for each of the next 5 years.

We are working on that now to support our domestic semiconductor industry and by working on the international supply chains.

Senator Kaine just talked about Costa Rica. We also just announced that Panama—and I do not know if the Ambassador mentioned this to you, but Panama just received an ITSI Fund grant for the same purpose.

Going back now to the—to our request, it is 5 years, $6 billion for three items, creating an international infrastructure fund to work on projects that may not necessarily attract at the start, private investors, and the best example which I gave earlier was a—what we are trying to do in the Pacific Islands on infrastructure. There is no market really to justify this at the beginning for a private investor, but our funding can be the seed money that pushes that forward.

The second one is $2 billion for the DFC. The DFC gets constant requests for equity, and in my discussions with other governments they are not looking for additional loans. They would like to get equity which is—as a way of derisking the investment. That is another $2 billion.

Then, thirdly, for the Indo-Pacific where we are in a great competition with the PRC and where infrastructure and U.S. investment has been lacking. We are looking at, as I said earlier, telecommunications, submarine cables, ports, roads, and the like.

That is how we compete and that, going back to our discussion on Latin America where you had the two choices, our approach—our desire through this—through this budget request is to bulk up that second notebook that you had because just values—as I said earlier at the beginning, this has already started in my statement, values are not enough. We have got to put some money on the table.

The CHAIRMAN. Well, I appreciate your answer. I am a supporter because you need to have longer-term strategic ability to compete with the Chinese and for other purposes as well. We will continue to work to try to get the Senate to be supportive.

Secretary Shambaugh, earlier this year I introduced the *Taiwan Tax Agreement Act* with Senators Risch, Van Hollen, and Romney to provide the President with the authority to negotiate and conclude an avoidance of double taxation agreement with Taipei.

The bill demonstrates the deep respect the United States shows Taiwan, approaching it like some of our closest partners, and is consistent with long-standing U.S. policy and practice for concluding agreements with Taiwan under the *Taiwan Relations Act*.

I understand that Taiwan is the only top 10 trading partner of the United States without a tax agreement and the U.S. is the only G–7 country without a tax agreement with Taiwan.

As you know, the Senate Finance Committee has a proposal that would unilaterally amend the U.S. tax code and deliver, in my view—and I am a member of that committee as well—but in an unprecedented manner, some relief, but still short of a comprehensive tax agreement with Taiwan.

The Taiwan Government and the U.S. and Taiwan businesses have been clear that a comprehensive agreement is what is required.

Additionally, the Finance Committee's approach may open up the United States and perhaps, more significantly, to Taiwan to challenges under the general agreement on tariffs and trade related to preferential tax treatment. A tax agreement would avoid all of that.

Now, I have talked to Chairman Wyden. I think we have come to a conclusion to work together. Will you commit to working with the Senate on a joint approach that would, in accordance with the *Taiwan Relations Act*, show Taiwan the same respect we show other trading partners?

Mr. SHAMBAUGH. Senator, we absolutely commit to work with you. We very much share your goal to make sure that firms that are engaged between U.S. and Taiwan are not subject to double taxation.

It is an incredibly important supply chain. It is an incredibly important trading relationship and it is important that we do not have double taxation issues, and I know the Office of Tax Policy has already been engaged with staff in the Senate to deal with this.

They have also been engaged quite a bit with their counterparts in Taiwan to sort through where the issues lie and what needs to be done and I note that they would—they will absolutely be working with you. We at Treasury will be working with you to make sure we can resolve this.

The CHAIRMAN. I appreciate that commitment.

Now, finally, I am increasingly of the view that the United States has to lead in creating an economic alliance among like-minded countries that can provide a framework to deter and respond to aggression by our adversaries.

That can include military aggression, violations of sovereignty, economic coercion. In addition, this cooperation should seek to reduce vulnerabilities by deepening economic ties with our partners.

I welcomed the G–7 leaders' statement calling for the creation of a new coordination platform on economic coercion to promote cooperation within and beyond the G–7 as a first step.

At a time when our adversaries are all too willing to leverage the economic dependencies and vulnerabilities of other nations that we have talked about here, we need to rethink how we work with our allies and partners in this domain.

I am currently drafting legislation that would direct the Administration to create a common economic defense mechanism that would not only counter economic coercion, but would build supply chain resilience with key allies, coordinate sanctions in response to military aggression and other destabilizing behaviors, as well as promote strong export controls with like-minded partners and protect critical technologies and resources.

I view this as a tool for democracies to collectively deter and respond to acts of aggression or coercion that is short of military action, but amplifies our effectiveness to a coordinated response—in essence, an Article 4 type provision of NATO, but an economic context, which I think can be extraordinarily powerful.

Do you think that a coordinated mechanism of this type would enhance the U.S.' and our partners' ability to deter and respond to actions of our adversaries?

Mr. SHAMBAUGH. Senator, I can say that I would be happy to look into the specific mechanism you have in mind. I can tell you that these are issues we are deeply engaged in already because we agree that—I 100 percent agree with your sentiment here that this is an important issue.

As I mentioned earlier, the finance ministers within the G–7, as you mentioned, the leaders within the G–7, the finance ministers within the Five Eyes countries who can share intelligence, are actively engaged in sharing analysis and working together to think through how we would act both in terms of reducing vulnerability, as you say, for ourselves and our partners and also being ready to act, but happy to look into it, and I do not know if Under Secretary Fernandez has more.

Mr. FERNANDEZ. Thank you. Look, we welcome very much attention to this issue and we are engaged with your team on this and we very much welcome the ability and we look forward to doing so.

A couple of nuances to keep in mind, Senator. Article 5 is a self-defense mechanism to deter or to respond to military aggression. As I mentioned earlier, economic coercion tends to be a lot more obtuse, obfuscated, so we got to keep those differences in mind, but absolutely, coordinating internally within the USG with our partners and allies and looking at this issue is something that we are very much interested in pursuing because, as I said earlier, it is going to happen again.

The CHAIRMAN. I appreciate that. I think we could all agree that what the People's Republic of China did to Lithuania was economic coercion. I do not think we would have a problem coming together and saying there needed to be a response to that.

We did. I was one of those who was urging the Administration early-on that needs—you need to have a response here because otherwise the message will be to others: do not stand up to the Chinese.

That is an example of where, of course, you have to make a factual determination as to whether coercion has taken place, but there are plenty of examples where the coercion is so crystal clear that it would not take a lot to invoke such a provision. I will look forward to working with both departments on that.

Let me close by saying two-thirds of the members of this committee have appeared at this hearing. That is a rarity. We get 10 percent. Sometimes we get half and we go "woo-hoo." Two-thirds have appeared here, which just goes to speak to the importance that members on a bipartisan basis think about this issue.

We look forward to working with you and engaging you as we proceed.

Let me thank our witnesses for appearing before the committee. The record for this hearing will remain open until the close of business on Friday, July 28, of this year. Please ensure that questions for the record are submitted no later than that day.

With the thanks of the committee, this hearing is adjourned.

[Whereupon, at 12:01 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSES OF MR. JOSE FERNANDEZ TO QUESTIONS SUBMITTED BY SENATOR ROBERT MENENDEZ

Question. U/S Fernandez, can you provide us a progress update on the PGII work? Are there any new authorities or resources you believe you need in order to ensure its continued success?

Answer. The PGII Coordinator's Office (S/PGII) is focused on building out the economic corridor approach by strategically targeting and aligning U.S. and G7+ investments and looking for opportunities for private sector engagement. PGII's flagship investment is the development of the Lobito Corridor—a corridor initially consisting of Angola, the Democratic Republic of Congo (DRC) and Zambia to better connect the copper and cobalt region to the west. Work is ongoing to identify similar corridors in PGII priority areas: the Western Hemisphere and the Indo-Pacific.

The additional resources needed to accomplish the goals of PGII are contained within the 2024 budget request. I welcome your support and advocacy for fulfilling that request.

Question. How will the Administration's $2 billion mandatory funding request for an "International Infrastructure Fund" aid the work of the State Department in distinguishing the United States as the global infrastructure partner of choice?

Answer. The International Infrastructure Fund (IIF) would allow the United States to provide credible, reliable alternatives to out-compete the People's Republic of China (PRC), while also expanding opportunities for U.S. businesses in strategically important countries, particularly in the Indo-Pacific and the Global South. The IIF will align with U.S. national security interests to secure clean energy supply chains, including critical minerals, trusted information and communications technology networks, and critical infrastructure with a focus on ports and railroads.

The IIF will foster effective and transparent procurement processes, reduce predatory credit financing, and leverage private sector entities and likeminded partners to advance projects aligned with strategic priorities. It will also strengthen enabling environments, including through policy and regulatory reforms, to ensure resilient economic growth.

Question. What has the Mineral Security Partnership done to counter Beijing's predatory practices on critical minerals and advance more U.S.-led mineral security partnerships?

Answer. The Minerals Security Partnership (MSP) is a collection of 14 like-minded partners that aims to catalyze public- and private-sector investment in strategic mining, processing, and recycling projects that promote diversification of critical mineral supply chains, which are vital to the U.S. economy and U.S. national security. By leveraging U.S. private sector innovation and the United States' global partnerships, the MSP aims to support more responsible and better diversified critical minerals projects abroad and at home that can support the future energy needs of the U.S. economy.

Historically, PRC extractive industry business models have turned into bad deals for landowners, governments, mine workers, and the communities surrounding PRC-owned mines. The Minerals Security Partnership (MSP) presents a different value proposition by supporting projects along the entire mineral value chain—including extraction, processing, and recycling—through financing, promoting high standards for responsible mining and processing, and engaging project operators and governments to champion projects that benefit all involved. This should give more options to countries hosting these resources.

Question. Are there any new authorities or resources you believe you need in order to more effectively secure critical mineral supply chains?

Answer. Funds requested for FY 2024 for the State Department would enable improved coordination and integration of U.S. Government investments into our international engagement strategy, allowing State to leverage the full diplomatic benefits of investments made by EXIM, DFC, USTDA and other agencies and encourage our like-minded partners to match our investments overseas. I support funding for a new Department of State and USAID climate and critical minerals initiative. This initiative was included in the President's Budget for Fiscal Year 2024—which also requests additional staffing resources for the Bureau of Energy Resources to address critical minerals policy and additional assistance funds to secure resilient and transparent mineral supply chains for the just and clean energy transition.

We also support increasing EXIM's and DFC's ability to support projects by providing more resources and reforming restrictive rules. For example, we support raising EXIM's default rate cap temporarily from 2 percent to 4 percent to provide greater flexibility, as requested in the President's FY 2024 budget, while DFC's equity investment capabilities can be expanded through a $2 billion revolving fund as proposed in the President's Out Compete China Proposal. Additional funding could include provisions that cut down on multiyear lead times for DFC and other financing mechanisms. Excessively long latency periods from project initiation to completion undercuts our ability to outcompete the PRC and build alternative supply chains.

Question. Can you please lay out the specific steps you and the Administration are taking under the *CHIPS Act* and ITSI Fund to advance nearshoring in the Western Hemisphere?

Answer. The Department identified the Americas as a priority region to diversify and secure the global semiconductor ecosystem, namely in the "downstream" or assembly, testing, and packaging (ATP) areas of the supply chain. After review, Panama and Costa Rica have been identified as partner countries for ITSI-funded capacity building/technical assistance programs to improve regulatory frameworks and address workforce development needs. The Department is currently reviewing the possibility of expanding programming to additional partner countries in the Americas.

The Department has recently notified Congress of its plans to engage with capacity-building programming to enhance Costa Rica and Panama's export controls and related technology protection instruments. This program is expected to begin in fiscal year 2024 and will ensure that we close any loopholes that our competitors may exploit to gain access to technology.

We have heard from partners in the Western Hemisphere that they are interested in cultivating a semiconductor ecosystem, but lack industry contacts. To address this issue, the Department launched an OECD-led International Coordination Project with 29 economies to build data-sharing coordination platforms and collaborate on industrial policies, including with Mexico, Colombia, Canada, Chile, and Costa Rica. This initiative will also include industry and academia. This project will reduce barriers to expand the semiconductor industry within the region.

ITSI will also help partners harness the benefits of a vibrant digital economy underpinned by secure and trustworthy ICT infrastructure and services. The Department's engagement with Costa Rican authorities, for example, is expected to deliver a transparent regulatory framework as the foundation from which sustainable cross-sectoral growth can develop.

Question. Since the passage of the *CHIPS Act*, what are the major challenges hindering such efforts, and how can the United States better partner with governments in Latin America and the Caribbean, as well as multilateral development banks and the private sector, to advance these goals?

Answer. Industry identified significant regulatory inefficiencies, such as duplications and long review and approval times, and a lack of sufficiently trained workforce as two semiconductor industry-specific impediments to expansion. ITSI programs in partner countries should address hurdles and streamline regulatory processes and build a sufficient workforce to enable expansion in the Americas. Industry also identified corruption, insufficient infrastructure, mismatched implementation timelines, disconnects between regional and central governments' policy commitment and priorities, and basic security as problematic.

Additionally, meeting the requirements to obtain loans from multilateral banks can be a long, cumbersome, and complex process. Considerable costs for due diligence and legal and regulatory guidance increase the cost of investments and reduce the rate of return. In smaller markets, these up-front costs may render investment unattractive.

RESPONSES OF MR. JAY SHAMBAUGH TO QUESTIONS
SUBMITTED BY SENATOR ROBERT MENENDEZ

Question. G20 COMMON FRAMEWORK: Zambia was the first country to default on its foreign loans during the pandemic. Roughly a third of its debt is owed to the PRC, which has long pursued debt restructuring through opaque deals and processes. In June, Zambia reached an agreement with its official creditors under the G20's Common Framework—including Beijing—to restructure its debt and restore long-term sustainability. Do you view the PRC's role in Zambia's debt restructuring as constructive or an obstacle? What lessons have we learned from Zambia's experience that can be used in the future?

Answer. We welcome the agreement reached by the official bilateral creditors, including China, to provide a debt treatment for Zambia. We hope that private sector creditors will finalize their negotiations with Zambia and reach a deal within IMF parameters and one that is comparable to the official bilateral creditors as soon as possible. A key lesson from the Zambia experience is that getting all bilateral creditors, including China, to contribute to debt treatment on a comparable basis is critical to achieving a fair outcome. However, it has been a very lengthy process and we should seek to learn from experiences to move faster in the future. We will continue to push for comprehensive and fair outcomes in future debt restructuring cases.

Question. What is the United States doing to engage with Beijing more generally on issuing, restructuring, and relieving debt for other developing countries?

Answer. Our top priority is to conclude the pending debt restructurings as quickly as possible to help debtor countries avoid unnecessary suffering and hardship due to unacceptable delays in their debt restructuring processes. Our direct engagement with our Chinese counterparts and coordinated efforts with our international partners have led recently to progress on outstanding debt restructuring cases. Most notably, China agreed on a debt treatment with the other bilateral creditors for Zambia and we are working closely with China and other creditors to complete the restructuring with the private sector. China has also committed to provide debt treatments for Ghana and Sri Lanka. We will continue to engage China directly and indirectly via coordinated pressure with our allies to push it to complete the remaining restructuring cases. Regarding multilateral forums, the United States pushes on this issue consistently at the G20 and within the IMF/World Bank-led Global Sovereign Debt Roundtable, alongside G7 partners as well as emerging markets that agree the restructurings are moving too slowly.

Question. Beyond helping countries pursue restructuring, what tools does the U.S. have to support countries in investigating, disputing, and mitigating the effects of debt incurred under opaque and damaging circumstances?

Answer. The antidote to opaque and damaging loan contracts is strong debt transparency and management by the borrowers. The U.S. supports borrower countries in these efforts via bilateral assistance, including through the Treasury's Office of Technical Assistance (OTA), which helps borrowers strengthen the institutional, legal, and regulatory frameworks that enable robust debt transparency. Other available tools include the technical assistance and policy advice offered by the international financial institutions (IFIs), which help anchor borrower countries' reforms in these areas. The technical assistance provided by OTA is meant to serve as a complement to that provided by the IFIs to reinforce and close the remaining gaps in the support provided by IFIs.

Question. AFRICAN DEBT CRISIS: Undersecretary Shambaugh, in April you stated that Treasury's immediate priority is to resolve pending requests from Ghana and Ethiopia under the G20 Framework. What is Treasury doing to ensure productive debt relief processes for these countries? How are we working with allies and partners, including the Paris Club, to push the PRC to participate in these negotiations fully and transparently?

Answer. Treasury engaged heavily with our international partners, including the IMF, G7 allies, and Paris Club creditors, to press China to make a joint commitment with the other bilateral creditors to provide a debt treatment for Ghana. This joint commitment, successfully negotiated in May, allowed the IMF to move forward with approving a program for Ghana. Treasury also succeeded in compelling all bilateral creditors, including China, to form an official creditor committee (OCC) for Ghana and develop a debt treatment so that Ghana's IMF program can continue. As a creditor to Ghana, the United States will continue to push for completion of a timely and comprehensive debt treatment for Ghana through our active participation in Ghana's OCC meetings.

While the United States is not a creditor to Ethiopia, we are pressing in the IMF, Paris Club, and G20 channels for progress on comprehensive and timely debt treatment for Ethiopia. Ethiopian authorities are in discussions with the IMF on a macroeconomic framework and debt sustainability analysis that could underpin both debt relief negotiations and an eventual IMF program.

Question. The Secretary of State recently determined that Ethiopia is no longer engaging in a pattern of gross violations of human rights, paving the way for the United States to support IFI lending to the country. Yet the human rights situation across Ethiopia remains dire, and the government is alleged to have participated in the mass diversion of American food aid. I would add that Ghana's parliament is working to pass extremely harsh anti-LGBTQI legislation. How should we think about supporting debt relief for countries that engage in activities that are at odds with our values?

Answer. The United States has various tools it can employ in support of multiple policy objectives in countries such as Ethiopia and Ghana. While we unequivocally support the promotion of human rights and LGBTQI+ inclusion, we do not view withholding U.S. support for debt relief as an effective or appropriate tool to achieve our human rights or food aid reform objectives in Ethiopia, nor to achieve our LGBTQI+ inclusion objectives in Ghana. U.S. support for debt relief is aimed primarily at our goals of promoting transparent, sustainable levels of debt to support inclusive growth in developing countries such as Ethiopia and Ghana, and of ensuring that official creditors, including China, as well as private sector creditors contribute fairly and expeditiously to relieve countries of unsustainable debt. We also note that withholding support for debt relief risks imposing further hardship on the people in these countries.

Question. U.S. LEADERSHIP AT THE IFIS: I commend the Biden administration's efforts to rebuild American participation and influence in international financial institutions and multilateral development banks, including pushing for these organizations to evolve to meet the challenges of the 21st century. However, I believe more can and should be done to advance and secure these institutions against our adversaries' efforts to co-opt them or undermine them with poorly governed alternatives. U/S Shambaugh, how is the Administration leveraging the United States' influence at the international financial institutions to reform them and make better able to build prosperity, increase resilience, and counter efforts to weaken standards and norms?

Answer. The United States is bolstering our leadership in the multilateral system, including in the IFIs. We see the IMF and multilateral development banks as providing critical sources of alternative financing to opaque Chinese overseas lending to help end poverty, boost inclusive and sustainable economic growth, and tackle global challenges. They are also key to helping countries improve debt transparency and management, and the IMF plays an instrumental role in pushing forward debt restructuring cases.

Through U.S. leadership, the MDBs, starting with the World Bank, are implementing a comprehensive series of reforms that to evolve their mission, incentives structures, operational approach, and financial capacity to deepen to incorporate work on global challenges as a critical part of deepening their impact on reducing poverty and boosting sustainable, inclusive growth.

Strong U.S. leadership at these institutions requires meeting our financial obligations to the institutions, putting in new resources, and having confirmed Executive Directors. We are pursuing an increase in IMF quotas that will lock in the voting share of the United States and our allies with no dilution, which will help to maintain our leadership at the institution into the future. We also seek an authorization to lend up to $21 billion to the Poverty Reduction and Growth Trust (PRGT), which provides low-income and vulnerable countries with concessional financing in the context of IMF programs focused on sound economic reforms. We are pleased to have nominated and selected Ajay Banga for the World Bank this year and to have supported Ilan Goldfajn at the Inter-American Development Bank at the end of last year.

Question. RECENT IMF LOANS: We saw the COVID–19 pandemic and Russia's war of aggression in Ukraine exacerbate debt crises and create more unsustainable debt for low-income nations, with many turning to the International Monetary Fund as the lender of last resort. Recently, Ghana, Sri Lanka, and Pakistan were all approved for $3 billion arrangements with the IMF to help alleviate their economic crises. U/S Shambaugh, how is the Treasury Department thinking about the current debt risk in the developing world? Is there a concern that the impacts of these recent crises could spillover and become a larger contagion?

Answer. Elevated debt vulnerabilities among developing and emerging market economies remain concerning, and Treasury continues to monitor these risks closely. However, as of now, we do not foresee any material risk of a systemic debt crisis. Debt crises continue to be contained among borrower countries where debt vulnerabilities have been years in the making. As the countries in debt distress have limited connections to the global financial system, the risk of a larger contagion is likely to continue to remain small. This does not make the individual cases any less important for the countries themselves and their populations, but the risk of broader contagion appears to be contained.

RESPONSES OF MR. JOSE FERNANDEZ TO QUESTIONS SUBMITTED BY SENATOR JAMES E. RISCH

Question. What are the likely ways the PRC could inflict economic coercion on Taiwan in an attempt to take control of it or as a precursor to aggression?

Answer. The PRC has in the past restricted Taiwanese imports to the Chinese market, such as last year's restrictions on citrus fruits and fish imports, and occasionally its own exports to Taiwan, such as cutting off supply of natural sand to Taiwan as a reaction to House Speaker Nancy Pelosi's August 2022 visit. The Administration is working with likeminded allies and partners and engaging with Congress on the use of our existing tools and to consider developing new ones as needed to deter and counter the use of coercive economic measures.

Question. How are the United States and Taiwan cooperating today to strengthen Taiwan's resilience to PRC economic coercion?

Answer. Under Secretary for Economic Growth, Energy, and the Environment Jose W. Fernandez is leading efforts with Taiwan via the U.S.-Taiwan Economic Prosperity Partnership Dialogue (EPPD) to enhance coordination to counter economic coercion and strengthen Taiwan and U.S. supply chain resilience, under the auspices of the American Institute in Taiwan and the Taipei Economic and Cultural Representative Office in the United States.

Question. Several U.S. businesses, including Micron and Bain, have been subjected to various coercive campaigns from China. How is State engaging with these companies, and how are these experiences shaping the U.S. Government's responses to economic coercion?

Answer. We are concerned about what appears to be an emerging pattern of PRC actions involving U.S. and foreign companies that undercuts Beijing's narrative of a welcoming environment for foreign investment, open trade, and rules-based market activity. State routinely engages with firms to better understand the market impact of PRC actions, including both their short-term and long-term implications.

Question. Several U.S. businesses, including Micron and Bain, have been subjected to various coercive campaigns from China. What are your thoughts regarding the European Union's recently approved "Anti-Coercion Instrument" (ACI)? What lessons can the U.S. learn from the ACI?

Answer. The Department and EU External Action Service (EEAS) have collaborated under the U.S.-EU China Dialogue to strengthen assessment, preparedness, resilience, deterrence, and responses to economic coercion. The progress the EU has made to advance the Anti-Coercion Instrument (ACI) is notable and the Department will continue evaluating that tool as our European partners work to finalize and implement it. In parallel, we will continue to work with the EU to strengthen responses to economic coercion against other partners, as agreed at the G7 Summit in Hiroshima on 19–21 May.

Question. How does the Department currently apply the Administration's International Energy Engagement Guidance in Europe? Does this differ from how you apply it in other parts of the world?

Answer. The goal of the International Energy Engagement Guidance is to refocus U.S. Government support to cleaner, resilient, and reliable low-emissions energy projects around the world. This shift is not only critical for increasing investment to address the climate crisis, but to improve countries' abilities to participate in energy markets of the future. In some cases where low-carbon options are unavailable, engagement on a carbon-intensive energy project may still be necessary to advance U.S. international energy policy goals. The process for evaluating those exemptions is consistent across regions, but the regional context impacts the assessment.

Our policy supports Europe's energy security by reducing dependence on Russian energy sources, including by accelerating the clean energy transition and supporting increased U.S. energy exports to Europe. This is reflected in implementation of the guidance, the application of which is consistent across the world, while recognizing that specific use-cases will require a tailored approach consistent with the EEG.

Question. Which countries globally have requested U.S. assistance, dialogue, or other support with natural gas development, market development, technology, or other areas? What has the U.S. done in response to those requests? Please be specific.

Answer. The Department of State continues to provide U.S. assistance, dialogue, and support to countries transitioning their energy sectors and seeking to take advantage of clean energy technologies as well as carbon management and methane abatement to reduce the negative impacts of fossil sources. The support is provided in areas where the U.S. Government has technical and financial expertise and ability, and where U.S. private sector entities are developing international preeminence. The Interim International Energy Engagement Guidance is designed to support projects that advance decarbonization, but includes specific exemptions for engagements in which geostrategic considerations or lack of alternatives due to energy access barriers merit consideration. The existence of clean energy alternatives varies by country.

In March 2022, the United States and the EU announced a joint task force on energy security that includes targets for U.S. LNG exports to Europe in order to assist European states rapidly ending dependence on Russian natural gas. The Task Force further prioritizes U.S.-EU cooperation to accelerate clean and renewable energy sources, such as offshore wind and clean hydrogen, as well as technologies and measures that reduce energy demand and increase energy efficiency in order to accelerate the clean energy transition.

The Department of State is working hard to increase clean energy options in developing markets through programs such as the Clean Energy Demand Initiative and working with other U.S. Government agencies on Just Energy Transition Partnerships. For example, in the Philippines, the Department of State and the U.S. Agency for International Development are working with the Philippines Department of Energy to get U.S. companies to invest in clean energy development and procurement for their suppliers. The Department continues to provide diplomatic support to U.S. companies to ensure they get fair access and treatment in their procurement efforts across the world and across the energy space.

Question. How many requests to work on "carbon-intensive" international energy engagements have been submitted to the Department of State? How many have been approved? How many have been disapproved, and on what ground?

Answer. The Department of State does not fund infrastructure projects and engages on technical assistance efforts that improve governance and procurement practices. Therefore, most cases rest with other agencies. Since the implementation of the Interim International Energy Engagement Guidance in November 2021, the Department of State has formally received only one exemption request, which is currently under review and deliberation. Many of the questions we receive include identifying opportunities and U.S. companies in the clean energy space that can compete in government tenders around the world.

RESPONSES OF MR. JAY SHAMBAUGH TO QUESTIONS
SUBMITTED BY SENATOR JAMES E. RISCH

Question. TAIWAN: What are the likely ways the PRC could inflict economic coercion on Taiwan in an attempt to take control of it or as a precursor to aggression?

Answer. Taiwan's significant economic relationship with the PRC makes it challenging to identify precise methods of future economic coercion. Mainland China is Taiwan's largest trading partner, accounting for over one-third of Taiwan's exports and approximately one-fifth of Taiwan's imports in the first half of 2023. In the past, they have used trade restrictions and other, covert methods against Taiwan. For example, following then-Speaker Nancy Pelosi's visit to Taiwan last August, China suspended imports of certain types of fish and citrus fruits from Taiwan and cut exports of sand to the island. In April 2023, the PRC announced a probe into Taiwan's import restrictions on 2,455 products. In December 2023 and prior to Taiwan's January 2024 elections, the PRC announced their determination that Taiwan imposed unfair trade barriers and responded by raising tariffs on imports of 12 Taiwanese chemical goods.

Question. How are the United States and Taiwan cooperating today to strengthen Taiwan's resilience to PRC economic coercion?

Answer. The United States remains committed to increasing Taiwan's resilience to economic coercion. The American Institute in Taiwan and the Taipei Economic and Cultural Representative Office in the United States last year signed the first agreement of the U.S.-Taiwan Initiative on 21st Century Trade, which is intended to strengthen and deepen the bilateral trade relationship. The first agreement creates more transparent and streamlined regulatory procedures that can facilitate investment and economic opportunities in both markets, particularly for small- and medium-sized enterprises, which constitute the majority of businesses in the United States and Taiwan. USTR continues to lead negotiations on additional trade areas under the initiative's negotiating mandate, including most recently from August 14–18, 2023, where representatives from the United States and Taiwan exchanged views on proposed texts covering agriculture, labor, and the environment.

The *IRA* and *CHIPS Acts* provide additional opportunities for Taiwanese businesses to invest in the United States, rather than the PRC. The United States can also provide technical assistance to promote cybersecurity and operational resilience for broader economic resilience efforts. And, as you know, the Treasury Department continues to engage with other federal agencies, Congressional staff, and counterparts in Taiwan to develop a method to effectively address double taxation concerns raised by businesses in both the United States and Taiwan.

Question. PREDATORY LENDING: Treasury estimates that 44 countries owe debt equivalent to more than 10 percent of their GDP to Chinese lenders. What steps are we taking to increase transparency and curb this predatory lending?

Answer. Enhancing debt transparency is a top priority for the U.S. Treasury. We continue to push both debtors and creditors to make meaningful improvements to their transparency efforts in the international fora, including notably at the IMF, World Bank, G7, and G20. We have been pressing the IMF and World Bank to strengthen their surveillance of non-traditional debt instruments that have emerged from non-Paris Club creditors, including China, over the past decade. We also have been pushing the IMF and World Bank to strengthen their conditionalities on debt transparency and management as part of the financial support they provide to their members. In the G7 and G20, we continue to urge creditors newer to the multilateral debt restructuring process, including China, to act as responsible lenders by adopting and implementing best practices on transparent and sustainable financing.

We also need to provide countries with a high-quality alternative through the international financial institutions. That is why we continue to seek Congressional authorization to lend to the Poverty Reduction and Growth Trust (PRGT), which provides low-income and vulnerable countries with concessional financing in the context of IMF programs focused on sound economic reforms and promoting debt sustainability. The Administration's request to boost concessional financing at the World Bank is another strong example where our policies and budget can impact the availability of high standards lending.

Question. Is the Common Framework working? If not, what can we do better?

Answer. Treasury is working with creditors, debtors, and international financial institutions to provide timely and comprehensive debt treatments together with other official bilateral creditors under the G20 Common Framework. Our top priority is to conclude the pending debt restructurings as quickly as possible, in a fair, comprehensive, and transparent manner as well as to help debtor countries avoid unnecessary suffering and hardship due to unacceptable delays in their debt restructuring processes.

Our coordinated efforts with our international partners have led recently to progress on outstanding debt restructuring cases. In June, the official creditor committee announced an agreement on a debt treatment for Zambia under the G20 Common Framework and is working with Zambia to finalize its restructuring with other creditors. Additionally, in both the cases of Ghana and Sri Lanka, China agreed to join official bilateral creditors in providing the financing assurances needed for approval of their IMF programs.

However, the Common Framework cases are progressing too slowly. It will be important for the international community to build on the positive momentum by maintaining pressure on China to deliver on the commitments it made to provide timely debt relief, as China often slows down the pace of discussions. China is often the largest official bilateral creditor in debt restructuring cases. Without China's full participation, debtor countries face the risk of receiving only a partial debt treatment that would not durably address their debt sustainability challenges. This would also impair the debtor country's future development and growth prospects by perpetuating the uncertainty around the debtor's restructuring process. We are using the G20, the Global Sovereign Debt Roundtable, our engagements at the Paris Club, as well as bilateral engagement with China to try to speed up the resolution of cases in the Common Framework.

Question. TREASURY ATTACHES: How does the Treasury Department determine which countries and posts get Treasury attaches and which do not?

The Treasury attaché position currently in place at the U.S. Embassy in Bern, Switzerland, is set to terminate at the end of fiscal year 2023. Switzerland has been cited as a nation of concern for money laundering and evasion of sanctions against the Russian Federation. I recently sent a letter with Chairman Menendez to Secretaries Yellen and Blinken outlining my surprise that this was not already a permanent position given Switzerland's outsized importance in the trade and financial sectors, as well as my concern about the prospect of losing this position at such a critical time.

Answer. Treasury finds great value in its attache program and works hard to make smart decisions about how to deploy its limited resources as each individual attache post costs, on average, $777,000 per year, including personnel and non-personnel expenses. The Treasury attache program is designed to serve the Offices of International Affairs and the Terrorism and Financial Intelligence, which jointly manage the program. While many positions have been long established and remain of great value to Treasury and to our State Department colleagues, when the Department is evaluating where to move or add a position, a variety of factors are taken into account including but not limited to: where the foreign counterpart is of particular strategic interest; areas where Treasury senior official engagement is high; and post-crisis environments with high priority Treasury engagement.

Question. Why has Switzerland not made that list prior to this fiscal year?

Answer. The choice of where to place an attaché is a deliberate process that considers a number of factors. While certain national security priorities in FY 2023 led Treasury to establish a temporary, TFI funded, position in Bern during FY 2023, that position was tied to funding that has expired and there are no plans to permanently fund a position in Bern.

Question. Does Treasury consult with the State Department Sanctions Coordinator on these decisions?

Answer. The selection of where Treasury attaches are placed is coordinated within Treasury between IA and TFI, and between the Treasury and State Departments per a memorandum of understanding between those departments governing the attaché program. TFI is in close coordination with the Office of the Sanctions Coordinator on the full range of sanctions issues.

Question. Given the concern about Switzerland's policies on sanctions enforcement, and particularly their potential impact on the Russia sanctions regime write large, is Treasury recalibrating its thinking on keeping an attaché in Bern and permanently funding the position, at least for the foreseeable future?

Answer. The Office of Terrorism and Financial Intelligence established a position in Bern with funding from the Ukraine Supplemental for FY 2023. That funding expired at the end of FY 2023. There are no plans to permanently fund a position in Bern.

Question. If and when the Administration will need to send additional supplemental budget requests for Ukraine to Congress, for fiscal year 2024, is Treasury planning to include funding for this position for the remainder of fiscal year 2024?

Answer. Treasury has not received any funding from a Ukraine Supplemental or otherwise that would support the permanent establishment of a position in Bern. The Ukraine Supplemental funding with which the TFI established a position in Bern during FY 2023 expired at the end of FY 2023. There are no plans to permanently fund a position in Bern.

Question. Will you commit to look into ways that Treasury or the State Department could permanently fund this position?

Answer. The Treasury Department has a deliberate process for selecting the posts to which it assigns its very limited personnel as attaches, and this selection process includes consultations between both the Offices of International Affairs and TFI to determine where the Department can have the most impact from its investments of money and personnel in the program.

Question. Will you commit to consulting with the State Department Sanctions Coordinator on placement of attaches in the future to ensure these positions are placed in countries and posts where their utility to U.S. foreign policy would be maximized?

Answer. The selection of where Treasury attaches are placed is coordinated within Treasury between IA and TFI, and between the Treasury and State Departments per a memorandum of understanding between those departments governing the attaché program.

Letter to President Biden From Senator Risch and Senator Cantwell, Dated May 19, 2022, Concerning Pursuing a Trade Agenda in the Indo-Pacific

Submitted by Senator James E. Risch

United States Senate

WASHINGTON, DC 20510

May 19, 2022

The Honorable Joseph R. Biden, Jr.
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear President Biden:

We write to urge you to pursue a more robust economic and trade agenda in the Indo-Pacific. As you head to the region, your engagements provide a key opportunity to show the entire region that the U.S. Indo-Pacific Strategy prioritizes economic and commercial engagement. Tightening our linkages with growing Indo-Pacific economies is crucial to growth at home, including our supply chain resiliency, prosperity in the region, and the advancement of shared interests.

The United States – led by our entrepreneurial private sector – is deeply engaged in Indo-Pacific economies already. For instance, the combined nations of ASEAN constitute together the 4th largest market for U.S. exports, supporting 625,000 jobs, and U.S. companies' investment position in ASEAN is $338 billion. U.S. companies create jobs both in the Indo-Pacific and here at home, engage in important assistance efforts, advance corporate social responsibility programs, and much more.

U.S. economic engagement is sometimes underappreciated, particularly given China's efforts to portray itself as the Indo-Pacific's main and sometimes exclusive economic partner. China's predatory investment in the region is indeed extremely concerning. However, it's important to remember that Japan, the United States, and the European Union still invest far more in ASEAN than China does. And that the United States has $832 million in two-way trade with Pacific Island countries, on top of Australia and New Zealand's close ties.

Yet, U.S. administrations of both parties could do much better in pursuing a consistent and robust Indo-Pacific agenda on trade and economic issues. For example, the administration must not decline to pursue additional market access within the Indo-Pacific Economic Framework (IPEF). Robust trade agreements constitute the foundational architecture of Indo-Pacific regional economic cooperation. We suggest the administration pursue an ambitious IPEF carefully constructed to build on the gains already made and further anchor U.S. competitiveness in the region. Our allies and partners have already expressed concerns regarding a lack of a compelling U.S.-led economic agenda in the recently released Indo-Pacific strategy. Relatedly, it is important that the budget reflect the need for greater economic engagement.

We respectfully suggest the coming year offers numerous opportunities to demonstrate your plans for real and concrete economic engagement in the Indo-Pacific. In that spirit, we offer the

The Honorable Joseph R. Biden, Jr.
May 19, 2022
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following recommendations and request a consultation between our offices and the executive branch on the extent to which the administration is developing plans to implement these steps.

- **Pursue trade initiatives, including strong trade agreements.** Deepening our trade relations though meaningful agreements is an economic and strategic imperative, and what all our partners are seeking from the United States. Engagement on the trade front will provide tangible incentives to our partners to work with us on other key areas, including those described in IPEF. Countries will be less willing to support us on strengthening market rules governing international trade if we do not include meaningful market access. For greater flexibility there may be merit in pursuing bilateral trade agreements. However, without U.S. participation in the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) or some other regional trade alternative, our allies in the region will not be able to hold off China's bid to join CPTPP in the longer-term. A CPTPP with China and without the United States would constitute a massive policy failure with consequences for decades to come.

- **Grow economic assistance initiatives in Southeast Asia, South Asia, and the Pacific Islands.** Key areas for technical assistance should include improving revenue collection, streamlining customs transparency and efficiency, and addressing income leakage; improving regulatory management; improving procurement processes, including facilitating transparency in tendering, bidding, and contact negotiation; bolstering budget management and oversight; and strengthening management of important economic sectors, especially energy, digital economy, and infrastructure.

- **Announce concrete initiatives and incentives on supply chains.** Congress and the executive branch should work together on providing real incentives to U.S. companies to diversify critical supply chains, particularly with partner countries in Southeast Asia. We should also collaborate with partner governments to improve efficiency of their supply chains in areas like healthcare and technology, and improve supply chain resilience through capacity building in our trading partners' economies.

- **Increase cooperation with Japan, the Republic of Korea, Australia, the United Kingdom, and Europe on collaborative investments in strategic projects across the region.** The United States and allies and partners have enjoyed some successes in cooperating on investment projects, such as the construction of an undersea cable to Palau and investments in the electrification of Papua New Guinea. It is critical that we grow these efforts further. In pursuing cooperation with these countries, we should consider partnerships that also include key companies and enterprises in recipient countries. Working together in these markets is also an opportunity to demonstrate our commitment to advancing economic engagement with partners for whom challenges related to enforcement, labor and environment are not as pronounced.

- **Advance an energy strategy that fits the energy and economic needs of Indo-Pacific partners and U.S. producers and manufacturers.** The United States needs to support and collaborate with the Indo-Pacific region on all types of clean energy. We should

The Honorable Joseph R. Biden, Jr.
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advocate an all of the above energy policy, maximizing engagement and exports of American energy solutions that take into account each country's current energy needs.

The growing trade architecture in the Indo-Pacific region and partner interest in expanding economic ties all provide tremendous opportunities for the United States. We must seize them with ambition and vision, and quickly.

We appreciate your attention to this important matter, and we look forward to a consultation with you on the recommendations outlined above.

Sincerely,

JAMES E. RISCH
Ranking Member
Senate Committee on Foreign Relations

MARIA CANTWELL
Chair
Senate Committee on Commerce,
Science, and Transportation

GAO Report, Dated May 2023, Concerning the World Bank Borrowers' Contract Awards

Submitted by Senator Bill Hagerty

United States Government Accountability Office

Report to Congressional Requesters

May 2023

WORLD BANK

Borrower Countries' Contracts to Businesses in the U.S. and to Entities Potentially on U.S. Sanctions or Other Lists of Concern

GAO-23-105543

May 2023

GAO Highlights

Highlights of GAO-23-105543, a report to congressional requesters

WORLD BANK

Borrower Countries' Contracts to Businesses in the U.S. and to Entities Potentially on U.S. Sanctions or Other Lists of Concern

Why GAO Did This Study

The United States is one of the largest contributors to the World Bank. The World Bank provides financing to low- and middle-income countries for a number of purposes such as for infrastructure and social and economic development projects. World Bank borrowers are responsible for managing projects in line with the World Bank's policies. The World Bank requires borrowers to use competitive procurement processes to award contracts for project implementation. Treasury leads U.S. engagement with and has oversight responsibility for the World Bank, and Treasury officials are stationed in the Office of the U.S. Executive Director, which represents U.S. priorities and concerns on the World Bank's board.

GAO was asked to review World Bank borrowers' contract awards. This report examines (1) the extent to which World Bank borrowers awarded contracts to businesses in the U.S. in comparison to businesses in other countries; and (2) the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, Treasury took in response.

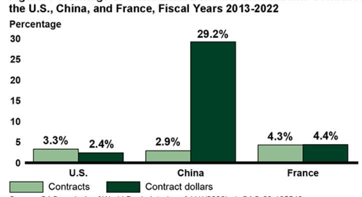
GAO analyzed World Bank data on borrower contract awards from World Bank FYs 2013 through 2022. GAO compared contract awardees from calendar years 2017 through 2021 against individuals and entities on selected U.S. sanctions and other lists of parties of concern. GAO also performed detailed reviews of records identified as part of the analysis. GAO interviewed World Bank and U.S. agency officials to understand the availability and limitations of their data.

View GAO-23-105543. For more information, contact Latesha Love-Grayer at (202) 512-4409 or LoveGrayerL@gao.gov.

What GAO Found

World Bank data indicate that businesses in the U.S. were awarded a relatively small share of contract dollars, but were often successful when bidding. According to World Bank data, from World Bank fiscal years (FY) 2013 through 2022, borrower countries awarded on average around 21,000 contracts valued at $15 billion per year to domestic and international businesses. Of those contracts awarded to international businesses, businesses in the U.S. were awarded the second-highest number of contracts (about 3 percent), but the ninth-highest contract dollars (about 2 percent). Businesses in China were awarded the third-highest number of international contracts (about 3 percent), but the most contract dollars (about 29 percent), as shown in the figure. Businesses in the U.S. bid on few contracts, but won about 70 percent of contracts when they bid, according to GAO's analysis of World Bank summary data from FY 2017 to October 2022.

Figure: Percentage of World Bank Borrower International Contract Awards to Businesses in the U.S., China, and France, Fiscal Years 2013-2022



Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Notes: The World Bank's fiscal year begins July 1st. The number and dollar amount of contracts awarded to businesses in the U.S. and other countries may be over or underestimated due to limitations in the World Bank's data. For example, borrowers identify contract awardees based on the country of business registration, which may not take into account beneficial ownership or other considerations that may affect determinations of nationality and ownership. The data also include contracts awarded to multilateral organizations such as the United Nations.

GAO's analysis found that from calendar years 2017 through 2021, World Bank borrowers awarded 28 contracts to entities that may have been on selected U.S. sanctions and other lists of parties of concern, such as export control lists. These 28 contracts—worth around $76 million—were out of approximately 150,000 contracts worth around $80 billion that GAO reviewed in its analysis covering the period. World Bank officials told us that all entities from all countries are eligible to bid for borrower contracts, except for certain entities debarred by the World Bank or sanctioned by the United Nations. Those officials also told us that the World Bank screens contract awardees against some U.S. sanctions lists and that it could confirm only six of the 28 contracts were awarded to entities on U.S. lists. Department of the Treasury (Treasury) officials told us that Treasury is not responsible for monitoring individual borrower contract awards, which occur after the World Bank board approves a project.

Contents

Figures

Abbreviations

AKA	also known as
API	Application Programming Interface
BIS	Bureau of Industry and Security
Commerce	Department of Commerce
Covered List	List of Equipment and Services Covered by Section 2 of the Secure Networks Act
FY	fiscal year
IPF	Investment Project Financing
MCA	Major Contract Awards
MEU List	Military End-User List
Non-SDN List	Consolidated Sanctions List
OFAC	Office of Foreign Assets Control
SDN List	Specially Designated Nationals and Blocked Persons List
STEP	Systematic Tracking of Exchanges in Procurement
Treasury	Department of the Treasury

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

May 10, 2023

The Honorable Bill Hagerty
Ranking Member
Subcommittee on National Security and International Trade and Finance
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Tom Cotton
United States Senate

The Honorable Chuck Grassley
United States Senate

The World Bank lends money and provides financial assistance to low- and middle-income countries for development projects aimed to reduce poverty.[1] In World Bank fiscal year (FY) 2022, the World Bank committed approximately $71 billion to projects in more than 100 countries.[2] The World Bank requires borrower countries to use competitive procurement processes to award contracts to businesses to implement these World Bank-financed projects.[3] The U.S. is the largest shareholder in the World Bank and one of the largest contributing members. Congress has raised questions about the number of World Bank-financed contracts awarded by borrowers to businesses in the U.S.

World Bank borrower contracts may raise national security or foreign policy concerns for the U.S. For example, a World Bank borrower proposed awarding a contract to an entity that the Department of

[1]The World Bank Group includes five institutions that carry out its mission to reduce poverty, increase shared prosperity, and promote sustainable development. These institutions include the International Development Association and the International Bank for Reconstruction and Development, which are known together as the World Bank. The other three institutions are the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes. This report focuses on the World Bank, rather than the World Bank Group more broadly.

[2]The World Bank's fiscal year begins July 1st. All references to fiscal years in this report are World Bank fiscal years, unless otherwise noted.

[3]Contracts may be awarded to both companies and individuals. In this report, we refer to companies and individuals collectively as businesses.

Commerce (Commerce) determined posed a significant risk of involvement in activities contrary to the national security or foreign policy interests of the U.S. Specifically, as part of a World Bank-financed project, the Chinese telecommunications company Huawei Marine had the leading bid in a competition to lay an undersea cable that would connect Kiribati and the Federated States of Micronesia to a sensitive undersea cable used by the U.S. government and Guam. Commerce's Bureau of Industry and Security had previously listed Huawei Marine on the Entity List for posing a significant risk of involvement in activities contrary to the national security or foreign policy interests of the U.S.[4] In 2021, according to World Bank documentation, the Federated States of Micronesia canceled the procurement. Later, the State Department, in conjunction with the governments of Australia and Japan, announced its commitment to fund an undersea cable in the same region.

To identify entities that may pose national security or foreign policy risks, a number of U.S. agencies maintain sanctions lists and other lists of parties of concern to the U.S. government. These agencies include Commerce's Bureau of Industry and Security and the Department of the Treasury's (Treasury) Office of Foreign Assets Control. According to World Bank officials, neither the World Bank nor borrowers are prohibited from awarding contracts to entities on U.S. sanctions or other lists of parties of concern. However, the World Bank prohibits borrowers from awarding contracts to certain entities debarred by the World Bank or other multilateral development banks.[5]

[4]According to financial news sources, at the time of the bid, Huawei Marine had recently divested from Huawei Technologies Ltd. and became majority owned by another Chinese firm. Huawei Technologies Ltd. was added to the Entity List in 2019. The Entity List identifies persons reasonably believed to be involved, or to pose a significant risk of being or becoming involved, in activities contrary to the national security or foreign policy interests of the U.S. 15 C.F.R. § 744.16. It includes names of certain foreign entities that are subject to specific license requirements for the export, reexport and/or transfer (in-country) of specified items. The entities on the Entity List are subject to licensing requirements and policies supplemental to those found elsewhere in the Export Administration Regulations. 15 C.F.R. Part 744, Supp. No. 4.

[5]The World Bank Group's Integrity Vice Presidency investigates allegations that an entity may have engaged in fraud, corruption, coercion, collusion or obstruction in connection with World Bank-financed projects. Under the World Bank's Sanctions System, based upon the results of an investigation conducted by the Integrity Vice Presidency, an entity may be temporarily suspended or debarred permanently among other administrative actions. According to the World Bank, only entities suspended or debarred by the World Bank or those subject to United Nations sanctions are ineligible to bid for World Bank-financed contracts. All other entities from all countries are eligible to bid.

You asked us to review World Bank borrower contract awards to businesses in the U.S. and whether World Bank borrowers were awarding contracts to entities that potentially posed national and economic security risks to the U.S. This report examines: (1) the extent to which World Bank borrowers awarded contracts to businesses in the U.S. in comparison to businesses in other countries and (2) the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, Treasury took in response.

To determine the extent to which World Bank borrowers awarded contracts to businesses in the U.S. in comparison to businesses in other countries, we analyzed World Bank borrower contract award data for FYs 2013 through 2022. We reviewed World Bank documentation and interviewed World Bank officials to understand how the World Bank captures and reports on borrower contract award data, including how it accounts for and addresses limitations in the data.[6] We subsequently analyzed the data using a number of variables, including the borrower country, country of contract awardee, number and amount of the awarded contract, and the procurement category.[7] We performed both manual and programmatic checks of the data to identify obvious errors and inconsistencies and discussed our findings with World Bank officials. We determined that, while there were errors in the borrower contract award data, they were sufficiently reliable for summarizing data on World Bank borrower contract awards and comparing World Bank borrower contract

[6]The World Bank publishes two datasets on borrower contract awards. The Major Contract Awards dataset covers FYs up to 2016 and includes contracts that required additional World Bank review and approval, a process known as prior review. The Contract Awards in Investment Project Financing dataset covers FYs 2017 onward. The World Bank began collecting information on all contract awards beginning in FY 2017. During the course of our review, the World Bank changed the name of the Major Contract Awards dataset to Contract Awards in Investment Project Financing (since FY2001 – FY 2016). We refer to the dataset as Major Contract Awards to differentiate it from the Contract Awards in Investment Project Financing dataset that includes FYs 2017 onward.

[7]The World Bank reports on four procurement categories: civil works, goods, consultant services, and non-consulting services. The civil works category includes the construction and repair of structures, such as projects for road construction and transportation, infrastructure, waste management, and water system repair. The goods category includes the purchase of items, such as raw materials and machinery. The consultant services category includes advisory and professional services, such as financial advisory services and drafting sector policies. The non-consulting services category includes services that are normally bid and contracted on the basis of performance of measurable outputs and for which performance standards can be clearly identified and consistently applied, such as drilling or aerial photography.

awardees against the names of entities on selected U.S. sanctions or other lists of parties of concern.[8]

To determine the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, Treasury took in response, we took a number of steps. We compared the names and countries of registration of World Bank borrower contract awardees against the names and countries of entities on selected U.S. sanctions and other lists of parties of concern using both programmatic and manual reviews.[9] Where the programmatic review identified a potential name and country match, we manually reviewed the results to determine if the match was potentially valid and whether the potential match was awarded a contract while it was on a selected U.S. sanctions or other list of parties of concern. Our analysis identified some potential matches. We could not confirm that the contract awardees were the same entities identified on selected U.S. lists because additional identifying information needed to make a positive identification—such as beneficial ownership information, addresses, national documentation numbers, or dates of birth—is not included in the World Bank's public data on borrower contract awards. We provided the results of our analysis to Treasury, Commerce, and the World Bank, and incorporated their responses in our report. We also discussed our findings with Treasury, Commerce, and the World Bank to determine whether they were aware of these awards and to identify any additional information or explanations that we should consider. See Appendix I for additional information on our scope and methodology.

[8] In response to our identification of errors in the data, the World Bank also made corrections to its reporting of the data during the course of our review.

[9] For this analysis, we selected the following lists: (1) Commerce Bureau of Industry and Security (a) Entity List, (b) Military End User List, and (c) Unverified List; (2) Treasury Office of Foreign Assets Control (a) Specially Designated Nationals and Blocked Persons (SDN) List and (b) Consolidated Sanctions (non-SDN) List; (3) Federal Communications Commission List of Equipment and Services Covered by Section 2 of the Secure Networks Act (Covered List); and (4) General Services Administration System for Award Management Exclusions List. The Federal Communication Commission's Covered List is a list of equipment and services produced by specific entities, and our analysis of that list focused on those entities' names. We selected these lists based on whether the information they contained was (1) publicly available; (2) related to U.S. national security or foreign policy interests; (3) related to commercial, subnational entities such as individuals and businesses; and (4) whether there were any significant limitations to the data, such as availability. We limited our scope for this analysis to calendar years 2017 to 2021.

We conducted this performance audit from November 2021 to May 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

World Bank Project Financing

The World Bank's main financing instrument for procurement is Investment Project Financing (IPF), which funds projects in sectors such as transportation, health, and information and communications technologies, among others. Under IPF, the borrower implements the project, executes procurement, and awards contracts in accordance with the World Bank's procurement policy and regulations.[10] In FY 2022, borrowers reported awarding around $17.5 billion in IPF contract dollars.[11]

World Bank Procurement Framework

The World Bank began implementing its current procurement framework in FY 2017. The framework provides detailed guidance for borrowers to execute procurement for IPF projects.[12] Under the procurement framework, the World Bank provides financing to borrowers, and borrowers carry out procurement for the project based on the criteria defined in bidding documents. The World Bank oversees the procurement to ensure that borrowers are complying with the framework.

[10]According to World Bank officials, funds for IPF projects can also be used for project operating costs. The World Bank's other financial instruments are Development Policy Financing, which supports policy and institutional reforms, and Program-for-Results, which links disbursement of funds to project goals.

[11]The World Bank also directly awards contracts for goods, works, and services to support its own operations. This is known as corporate procurement. This report focuses on procurement implemented by World Bank borrowers as a part of World Bank-financed IPF projects.

[12]The Procurement Framework was preceded by the procurement guidelines, which had similar goals, but provided less flexibility to borrowers. According to World Bank officials, the procurement framework constitutes best practice among International Financial Institutions and comprises principles-based procurement policy and regulations that balance the risks of the borrower and contractors.

The type of procurement approach available to borrowers depends on the contract value, but borrowers have a number of flexibilities in how to implement procurement based on World Bank thresholds.[13] For example, the World Bank's procurement framework generally encourages borrowers to seek international competition for awards, but in some instances, borrowers may apply their own open competitive national procurement procedures subject to standards defined by the World Bank. In addition, where international competitive procurement is used, a borrower may apply a preference for domestic businesses when evaluating bids subject to World Bank regulations and thresholds.[14]

The World Bank requires borrowers to record procurement information, including contract awards, in its information management system, Systematic Tracking of Exchanges in Procurement (STEP). Prior to STEP, the World Bank only collected data about contract awards that required additional World Bank review and approval, a process known as prior review.[15] The World Bank introduced STEP in FY 2016 as part of reforms that culminated in the new procurement framework. Under the new framework, the World Bank began collecting additional data from borrowers in FY 2017. According to World Bank officials, the World Bank transitioned borrowers to STEP between FYs 2017 and 2018, and,

[13]The thresholds vary by country and procurement type. The World Bank sets thresholds for borrowers based on a number of factors, including country-specific market conditions and the complexity and risk of certain industries. See World Bank, *Thresholds for Procurement Approaches and Methods by Country*, OPSPF5.05-GUID.148 (Washington, D.C., Aug. 2016).

[14]World Bank borrowers, in specific instances, may apply a preference for domestic businesses, in line with specific regulations and formulas provided by the World Bank. See World Bank, *Procurement Regulations for IPF Borrowers Fourth Edition* (Washington, D.C.: Nov. 2020). For example, according to the World Bank, for international competitive procurements, a borrower may apply a margin of domestic preference of 15 percent for domestically manufactured goods. In addition, borrowers from countries below a specified threshold of per capita gross national income, that is set annually by the World Bank, may apply a margin of domestic preference of 7.5 percent when evaluating bids. According to the World Bank, where a borrower applies its own national procurement procedures, the borrower must still follow the World Bank principle of allowing all entities from all countries eligible to bid for World Bank-financed contracts except for those suspended or debarred from the World Bank or on United Nations sanctions lists.

[15]Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects.

beginning in FY 2019, borrowers were required to record all contract awards in STEP.

Borrowers are required to enter a range of details about contract awards into STEP, including the name and country of registration of the awardee. According to World Bank documentation, borrowers are not required to report on awards to subcontractors. According to World Bank officials, World Bank staff conduct quality assurance checks on the data entered by borrowers but do not manage the data in STEP.

The World Bank may declare entities as ineligible to participate in World Bank-financed contracts.[16] According to World Bank officials, the World Bank requires borrowers to screen bidders and contract awardees to determine whether they are eligible to participate in and be awarded World Bank-financed contracts. World Bank officials also told us that borrowers must follow the World Bank principle of allowing all entities from all countries eligible to bid for World Bank-financed contracts except for those suspended or debarred from the World Bank or on United Nations sanctions lists. Additionally, according to World Bank officials, the World Bank screens contract award recommendations by borrowers through its Anti-Money Laundering and Countering Financing of Terrorism and Sanction Screening Procedure.[17] Using this procedure, the World

[16]According to World Bank documentation, the World Bank prohibits borrowers from awarding contracts to certain entities debarred by the World Bank or other multilateral development banks. Additionally, according to World Bank officials, the World Bank prohibits borrowers from awarding contracts to entities subject to United Nations sanctions.

[17]According to World Bank officials, the World Bank's Anti-Money Laundering and Countering Financing of Terrorism policies and procedures include screening against Treasury Office of Foreign Assets Control Specially Designated Nationals and Blocked Persons List and Consolidated Sanctions List as well as United Kingdom and European Union sanctions lists. This screening derives from practical concerns because the majority of World Bank payments flow through the U.S., United Kingdom, and European Union banks. However, according to World Bank officials, the World Bank's Articles of Agreement do not allow it to use national screening lists to determine eligibility to participate in World Bank-financed contracts since its Articles of Agreement require that all decisions be based solely on economic considerations. However, if the World Bank identifies an award recommendation to an entity that is on a sanctions list used in the World Bank's screening, the World Bank informs the borrower that 1) the World Bank is not able to issue a direct payment (on behalf of the borrower) to a potential awardee, and 2) the borrower may not be able to process the payment themselves. The borrower may make arrangements to pay the contract awardee. If the borrower cannot make arrangements, the borrower may request to revise its recommendation for the contract award and award the contract to the next-ranked bidder.

Bank also screens all payments it makes including direct payments to a third party at the request of the borrower. However, World Bank officials told us that according to its Articles of Agreement, the World Bank is not subject to sanctions imposed under its member countries' laws and regulations.

U.S. Government Activities with the World Bank

Treasury's Office of International Affairs leads U.S. engagement with and has oversight responsibility for all multilateral development banks, including the World Bank. Treasury is the lead representative of the U.S. to the World Bank and the U.S. Executive Director represents U.S. priorities and concerns on the World Bank's board. Treasury officials are also stationed at the World Bank in the Office of the U.S. Executive Director. Treasury's Office of International Affairs also leads the Working Group on Multilateral Assistance, which reviews the policy implications of proposed World Bank projects and makes recommendations to the U.S. Executive Director to support or oppose those projects. Commerce's International Trade Administration also has a key role in U.S. and multilateral development bank relations, such as acting as a liaison for businesses in the U.S. that compete for World Bank borrowers' contracts and implementing relevant statutory requirements.[18]

Businesses in the U.S. Were Awarded a Small Share of Contract Dollars, but Were Often Successful When Bidding

From FYs 2013 through 2022, World Bank borrowers awarded an average of around $15 billion in contract dollars per year. Businesses in the U.S. were awarded around one percent of total contract dollars during this period, and our analysis of World Bank summary data shows that businesses in the U.S. bid on about one percent of all World Bank-financed projects.[19] When businesses in the U.S. submitted bids, they were awarded contracts about 70 percent of the time, according to our analysis of World Bank summary data. Limitations to the World Bank's borrower contract award data, such as lack of beneficial ownership and subcontractor information, present challenges to fully understanding how often businesses in the U.S. compete for and are awarded borrower contracts.

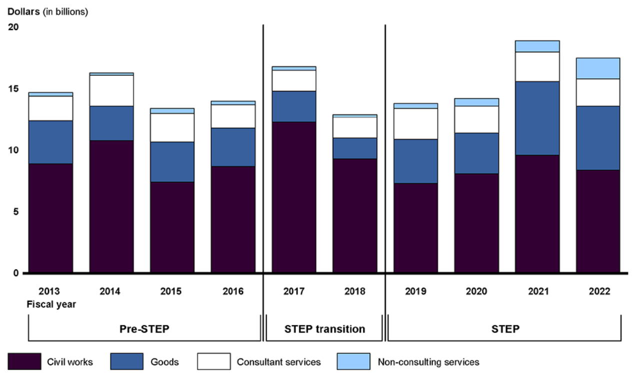
[18] 22 U.S.C. § 262s-2.

[19] Throughout this report, we use the term "businesses in the U.S." to refer to businesses registered within the U.S., and "businesses in other countries" to refer to businesses registered in countries other than the U.S., as reported in World Bank data. According to the World Bank, the country of supplier registration reported in the World Bank data is the country where the supplier is incorporated, which may or may not reflect the actual country or countries of beneficial ownership.

World Bank Borrowers Awarded an Average of Around $15 Billion in Contract Dollars per Year from 2013 through 2022

From FYs 2013 through 2022, World Bank borrowers awarded an average of around $15 billion per year in contract dollars to implement World Bank-financed projects. In general, in FYs 2013 through 2022, the majority of the total contract dollars each year was for civil works contracts, as shown in figure 1.

Figure 1: World Bank Borrower-Awarded Contract Dollars by Procurement Category, FYs 2013-2022



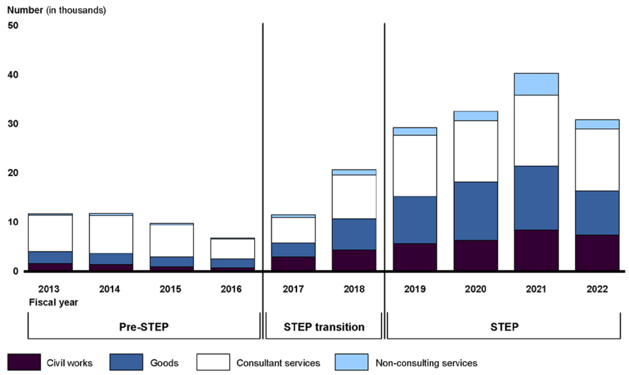
Legend: Systematic Tracking of Exchanges in Procurement = STEP.

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: Contracts may be awarded to both companies and individuals. The World Bank's fiscal year (FY) begins July 1st. The World Bank reports data on four major procurement categories: civil works, goods, consultant services, and non-consulting services. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, World Bank officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

From FYs 2013 through 2022, World Bank borrowers awarded an average of around 21,000 contracts per year. Over the same period, the number of contracts awarded ranged from around 7,000 in FY 2016 to around 40,000 in FY 2021.[20] The most frequent number of contracts awarded each year were for consultant services, as shown in figure 2.

Figure 2: Number of World Bank Borrower-Awarded Contracts by Procurement Category, FYs 2013-2022



Legend: Systematic Tracking of Exchanges in Procurement = STEP.

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

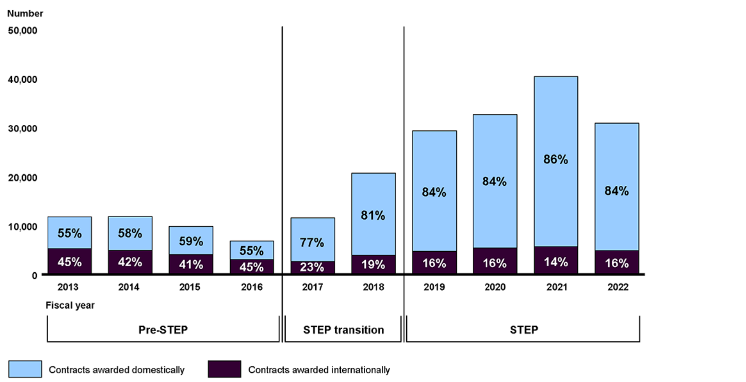
Note: Contracts may be awarded to both companies and individuals. The World Bank's fiscal year (FY) begins July 1st. The World Bank reports data on four major procurement categories: civil works, goods, consultant services, and non-consulting services. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, World Bank officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

[20]The increase in the total number of contracts may be attributed in part to the implementation of STEP. According to World Bank officials, the World Bank transitioned borrowers to STEP between FYs 2017 and 2018, and, beginning in FY 2019, borrowers were required to record all contract awards in STEP.

Borrowers Awarded More Contracts to Domestic than International Businesses, but about the Same Share of Contract Dollars

From FYs 2013 through 2022, World Bank borrowers awarded the majority of contracts to domestic businesses.[21] On average, over the period, domestic businesses were awarded approximately 78 percent of contracts, while international businesses were awarded approximately 22 percent. Figure 3 illustrates the percentage and number of contracts that borrowers awarded to domestic and international businesses each year during this period.

Figure 3: Percentage and Number of Domestic and International Contracts Awarded to Businesses by World Bank Borrowers, FYs 2013-2022



Legend: Systematic Tracking of Exchanges in Procurement = STEP.

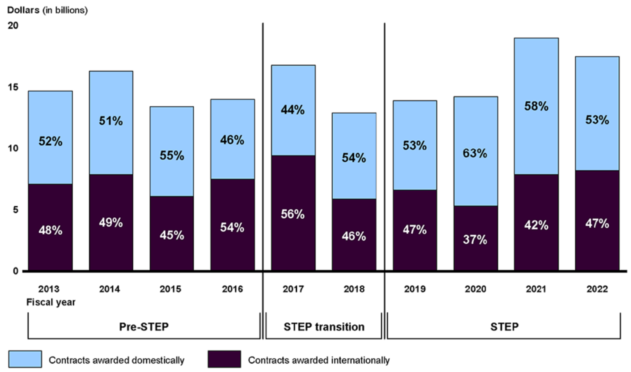
Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

[21] Throughout this report, we use the terms "domestic businesses" to refer to businesses registered within the borrower country and "domestic contracts" to refer to contracts awarded by borrowers to domestic businesses, as reported in World Bank data. We use the terms "international businesses" to refer to businesses registered outside of the borrower country and "international contracts" to refer to contracts awarded by borrowers to international businesses, as reported in World Bank data. According to World Bank officials, since the U.S. is not a World Bank borrower, no domestic World Bank-financed procurement market exists in the U.S., which affects the number of World Bank-financed contracts awarded to businesses in the U.S.

Note: Domestic contracts are contracts awarded by borrowers to businesses registered within the borrower's country, and international contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, World Bank officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

From FYs 2013 through 2022, borrowers awarded domestic and international businesses approximately 53 percent and 47 percent of contract dollars, respectively. Figure 4 illustrates the percentage and amount of contract dollars that borrowers awarded to domestic and international businesses during this period.

Figure 4: Percentage and Dollar Amount of Domestic and International Contracts Awarded to Businesses by World Bank Borrowers, FYs 2013-2022



Legend: Systematic Tracking of Exchanges in Procurement = STEP.

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: Domestic contracts are contracts awarded by borrowers to businesses registered within the borrower's country, and international contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, World Bank officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

World Bank Data Indicate Businesses in the U.S. Were Awarded a Small Share of Contract Dollars

Businesses in the U.S. Were Awarded around One Percent of Total Contract Dollars

Businesses in the U.S. were awarded around 1 percent of total contract dollars from FYs 2013 through 2022, which ranked them 15th among businesses in all countries. Businesses in China and India—the top two recipients of awards by contract dollars—were awarded around 20 percent and 14 percent of all contract dollars, respectively. Many countries whose businesses were awarded World Bank borrower contracts are also World Bank borrowers, including China and India. China and India are two of the three largest World Bank borrowers and their domestic awards are reflected in these totals.[22] According to World Bank officials, the U.S. is not a World Bank borrower and therefore has no domestic World Bank-financed procurement market, which may limit the number and dollars of World Bank-financed contracts awarded to businesses in the U.S. Table 1 shows the ranking of the top 15 countries whose businesses were awarded World Bank borrower-awarded contract dollars.

Table 1: Ranking of Countries Whose Businesses Were Awarded the Largest Share of World Bank Borrower-Awarded Contract Dollars, FYs 2013-2022

Ranking	Country	Percentage of total contract dollars awarded to businesses in the country
1	China	19.5
2	India	13.6
3	Brazil	4.0
4	Vietnam	3.1
5	Turkey	3.1
6	Italy	2.5
7	Spain	2.4
8	Argentina	2.2
9	France	2.1
10	Bangladesh	1.8
11	Nigeria	1.6

[22]According to World Bank data, India, Bangladesh, and China are the three largest World Bank borrowers in total project commitments between FYs 2013 through 2022.

Ranking	Country	Percentage of total contract dollars awarded to businesses in the country
12	Afghanistan	1.5
13	Indonesia	1.4
14	Germany	1.2
15	United States	1.1
N/A	All Others	39.1

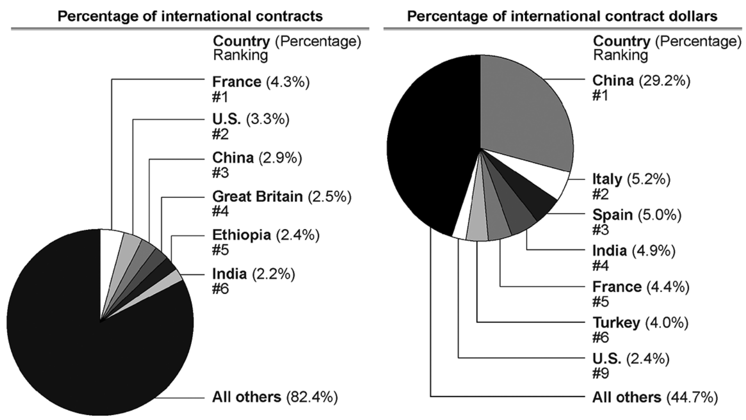
Source: GAO analysis of World Bank data (as of 11/01/2022). | GAO-23-105543

Note: Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022. Percentages do not sum to 100 because of rounding. All others include contracts awarded to multilateral organizations such as the United Nations.

Businesses in the U.S. Were Among the Top Three Awardees of International Contracts by Number, but Not by Contract Dollars

From FYs 2013 through 2022, businesses in the U.S were awarded the second-highest number of international contracts (about 3 percent). However, in terms of value, businesses in the U.S. were awarded the ninth-highest amount of international contract dollars (about 2 percent). In contrast, businesses in France were awarded the highest number of international contracts (about 4 percent), and ranked fifth among awardees for international contract dollars (about 4 percent). Businesses in China were awarded the third-highest number of international contracts (about 3 percent), and were awarded the most contract dollars (about 29 percent). Figure 5 shows the percentage of the number and dollar value of international contracts awarded to businesses in selected countries from FYs 2013 through 2022.

Figure 5: Percentage and Rank Order of International Contracts and Contract Dollars World Bank Borrowers Awarded to Businesses in Selected Countries, FYs 2013-2022

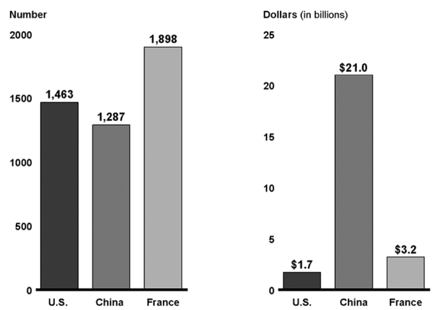


Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. Businesses include both companies and individuals that were awarded contracts. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lacks information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022. Percentages do not sum to 100 because of rounding. All others include contracts awarded to multilateral organizations such as the United Nations.

While businesses in the U.S. and France were awarded a higher number of international contracts than businesses in China, the international contract dollars awarded to businesses in China were around 12 times greater than to businesses in the U.S. and seven times greater than to businesses in France. Figure 6 compares the number of international contracts and international contract dollars awarded to businesses in the U.S., China, and France.

Figure 6: Number of International Contracts and International Contract Dollars World Bank Borrowers Awarded to Businesses in the U.S., China, and France, FYs 2013-2022



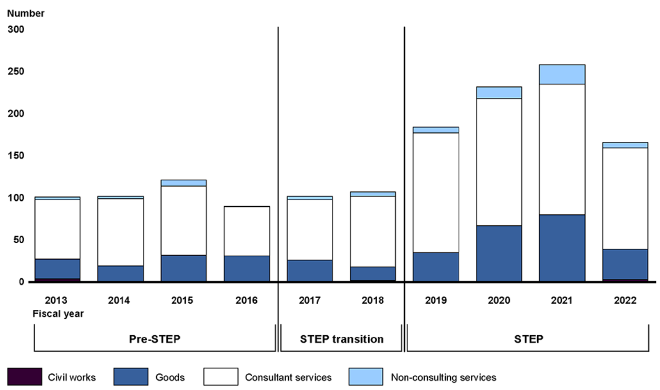
Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

The Majority of International Contracts Awarded to Businesses in the U.S. Were for Consultant Services

The highest percentage of international contracts awarded to businesses in the U.S. from FYs 2013 through 2022 were for consultant services (about 69 percent), while the smallest percentage were for civil works (about 1 percent). Figure 7 shows the number of international contracts awarded to businesses in the U.S. by procurement category, from FYs 2013 through 2022.[23]

Figure 7: Number of International Contracts World Bank Borrowers Awarded to Businesses in the U.S. by Procurement Category, FYs 2013-2022



Legend: Systematic Tracking of Exchanges in Procurement = STEP.

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

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[23]The increase in the total number of international contracts may be attributed in part to the implementation of STEP. According to World Bank officials, the World Bank transitioned borrowers to STEP between FYs 2017 and 2018, and, beginning in FY 2019, borrowers were required to record all contract awards in STEP.

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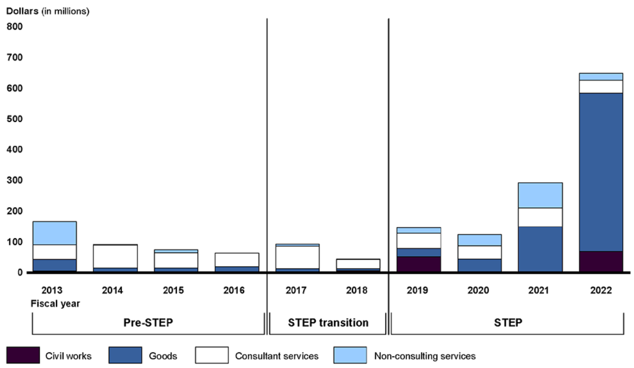
In FYs 2013 through 2022, the highest share of international contract dollars awarded to businesses in the U.S. were for goods (about 48 percent). Specifically, according to World Bank data, a business in the U.S. was awarded several high-value international contracts to provide COVID-19 vaccines in FYs 2021 and 2022. Over the same 10-year period, around 30 percent of awards to businesses in the U.S. were for consultant services, while around 15 percent were for non-consulting services. The World Bank's data shows that in FYs 2021 and 2022, businesses in the U.S. were awarded international civil works contracts. Figure 8 shows the international contract dollars awarded to businesses in the U.S. by procurement category, from FYs 2013 through 2022.

Figure 8: International Contract Dollars World Bank Borrowers Awarded to Businesses in the U.S. by Procurement Category, FYs 2013-2022



Legend: Systematic Tracking of Exchanges in Procurement = STEP.

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lacks information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022. The World Bank reports data on four major procurement categories: civil works, goods, consultant services, and non-consulting services.

As a percentage of all international contract dollars, businesses in the U.S. were among the top five awardees by country in the goods, consultant services, and non-consulting services categories from FYs 2013 through 2022. Businesses in France were awarded the most contract dollars for consultant services, businesses in the U.S. were awarded the most contract dollars for non-consulting services, and businesses in China were awarded the most contract dollars for civil works and goods contracts during this period. Table 2 shows the percentage of international contract dollars awarded to businesses in the top five countries by procurement category from FYs 2013 through 2022.

Table 2: Percentage of International Contract Dollars World Bank Borrowers Awarded to Businesses in the Top Five Countries Along with Businesses in the U.S., by Procurement Category, FYs 2013-2022

Civil Works		Goods		Consultant services		Non-consulting services	
Country	**Percentage**	**Country**	**Percentage**	**Country**	**Percentage**	**Country**	**Percentage**
China	41.3	China	22.4	France	8.7	U.S.	12.1
Spain	7.7	Italy	6.6	Canada	5.6	China	9.5
Turkey	6.3	India	6.3	Germany	5.4	Sudan	2.6
Italy	5.5	Switzerland	5.5	Great Britain	5.3	France	2.4
Brazil	5.2	U.S.	4.6	U.S.	4.6	Spain	2.3

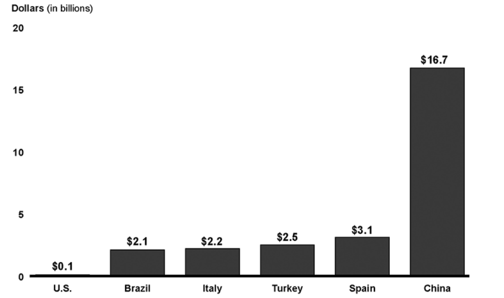
Source: GAO analysis of World Bank data (as of 11/01/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank reports data on four major procurement categories: civil works, goods, consultant services, and non-consulting services. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022. The data also includes contracts awarded to multilateral organizations such as the United Nations.

Civil works contracts accounted for about 7 percent of international contracts, but around 56 percent of all international contract dollars. From FYs 2013 through 2022, businesses in China were awarded around 41 percent of international civil works contract dollars, while businesses in the U.S. were awarded about 0.3 percent in this category. The World Bank's data shows that several high-value civil works contracts were awarded to businesses in China in FY 2017 for a hydropower project in

Pakistan.[24] Figure 9 shows the international civil works contract dollars awarded to businesses in the top five countries, along with businesses in the U.S., from FYs 2013 through 2022.

Figure 9: International Civil Works Contract Dollars World Bank Borrowers Awarded to Businesses in the Top Five Countries Along with Businesses in the U.S., FYs 2013-2022



Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The selected countries represent the top five percent of international contract dollars awarded for civil works based on the business's country of registration, as well as businesses in the U.S. from FYs 2013 through 2022. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

[24]According to World Bank data, contracts awarded for the Dasu Hydropower Project—totaling approximately $3.1 billion—accounted for 25.6% of the total contract dollars awarded for civil works in FY 2017.

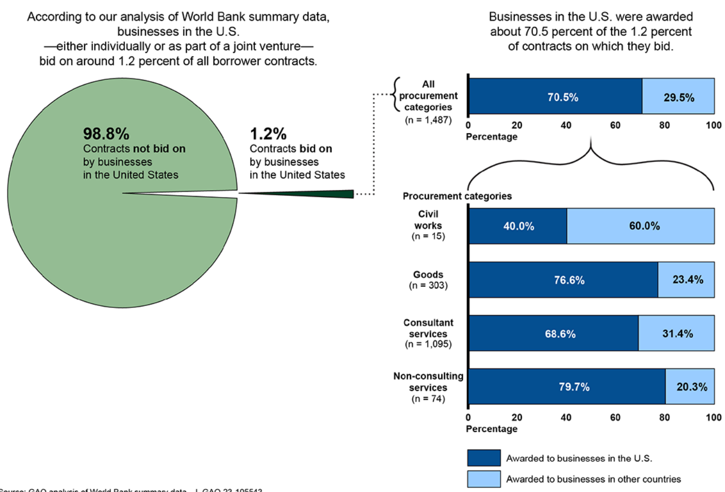
Businesses in the U.S. Bid on Few Contracts, but Were Often Awarded Contracts When They Bid

According to our analysis of World Bank summary data, businesses in the U.S. bid on few contracts, but were often awarded the contracts when they bid.[25] From FYs 2017 through October 13, 2022, businesses in the U.S.—either individually or as part of a joint venture—bid on around 1.2 percent of all borrower contracts and were awarded about 70.5 percent of those contracts on which they bid, according to our analysis of World Bank summary bid data.[26] Figure 10 shows the percentages of contracts that businesses in the U.S. bid on and were awarded from FYs 2017 through October 13, 2022.

[25]The World Bank does not publish bid data in a specific dataset. We asked World Bank officials to provide us with summary analysis of the number of contracts bid on by and awarded to businesses in the U.S. According to the World Bank, it generated summary numbers from STEP data for all contracts signed from FY 2017 through October 13, 2022 for all four procurement categories.

[26]The percentage of contracts awarded to businesses in the U.S. when they bid varied by procurement category, from about 80 percent for non-consulting services; about 77 percent for goods; about 69 percent for consultant services; and 40 percent for civil works.

Figure 10: Percentages of World Bank Borrower Contracts Bid on by and Awarded to Businesses in the U.S., FY 2017-October 13, 2022



Source: GAO analysis of World Bank summary data. | GAO-23-105543

Note: Businesses include both companies and individuals that were awarded contracts. The World Bank's fiscal year (FY) begins July 1st. The World Bank provided GAO summary analysis of the number of contracts bid on by and awarded to businesses in the U.S. The World Bank generated these summary numbers from Systematic Tracking of Exchanges in Procurement system for all contracts signed from FY 2017 through October 13, 2022. According to World Bank officials, businesses included in this analysis may have bid individually or as part of a joint venture, and in some cases more than one business in the U.S. may have bid on the same contract.

World Bank Data on Contracts that Businesses in the U.S. Were Awarded May be Over or Underestimated Due to Data Limitations

While the World Bank requires borrowers to record contract award information in STEP, including name and country of registration of contract awardees, the World Bank does not collect and report on all beneficial ownership information, or information on subcontractors.[27] As a result, the number of contracts and contract dollars that were awarded to businesses in a particular country, including those in the U.S., may be over or underestimated.[28]

Beneficial Ownership Information is Not Collected or Reported for All Businesses

The World Bank does not collect and report the beneficial ownership information of all businesses that were awarded contracts, such as details of the business's ownership structure that may indicate if the business is owned, in part, by other foreign entities. Many businesses use foreign subsidiaries, and without the disclosure of beneficial ownership information for all contract awardees, the number of contracts and contract dollars attributed to businesses that have subsidiaries in other countries may be over or underestimated.[29] Our review of the World Bank's data identified instances where foreign subsidiaries of businesses in the U.S. were awarded contracts. In these instances, the World Bank data reported these contracts as being awarded to the non-U.S. country of registration of those subsidiaries, which may result in underestimating the number of contracts and contract dollars attributed to businesses in the U.S. For example:

- We identified several foreign subsidiaries of a publicly owned, U.S.-based pharmaceuticals business that collectively were awarded approximately $830 million in contract dollars between FYs 2017 and 2022. During that same period, the U.S.-based parent business was

[27]According to the World Bank, beneficial ownership refers to the person who ultimately owns or controls a company, or who materially benefits from the assets held by a company.

[28]We have previously reported on the challenges of determining the entity or country that received an economic benefit through international trade due to the complexity of and differences between the country of registration, country of beneficial ownership, country of product or service origin, and the country of contract performance. See GAO, *International Trade: Foreign Sourcing in Government Procurement*, GAO-19-414 (Washington, D.C.: May 30, 2019).

[29]This includes businesses in the U.S. and other countries. For example, if a borrower awarded a contract to the Canadian subsidiary of a business in the U.S., the World Bank data would attribute the contract award to a business in Canada. Therefore, depending on the corporate structure of the subsidiary and the business in the U.S., the data may overstate awards to businesses in Canada and understate awards to businesses in the U.S. Similarly, an award to the U.S. subsidiary of a business in Canada may overstate awards to businesses in the U.S. and understate awards to businesses in Canada.

awarded approximately $583 million in contract dollars. The World Bank's data attributes only the approximately $583 million as being awarded to a business in the U.S.[30]

- We also identified several foreign subsidiaries of a publicly owned, U.S.-based manufacturing and engineering business that collectively were awarded approximately $32 million in contract dollars between FYs 2017 and 2022. During that same period, the U.S.-registered parent business was awarded around $4 million in contract dollars. The World Bank's data attributes only the approximately $4 million in contract dollars as being awarded to a business in the U.S.[31]

In November 2017, the World Bank launched a beneficial ownership reporting pilot program. The program required borrowers to publish beneficial ownership information for contracts that met certain thresholds.[32] As of FY 2021, beneficial ownership information was disclosed for nine eligible awarded contracts with combined contract dollars of about $1.9 billion, according to World Bank documentation. According to the World Bank, in FY 2022 there were 38 ongoing procurements subject to the pilot program, accounting for around $5.8 billion in combined contract dollars. In FY 2023, the World Bank expanded the pilot to include all internationally advertised contracts. Under the initial and expanded pilot programs, beneficial ownership information is collected in STEP and publicly reported in individual project documentation, but is not published in the World Bank's consolidated public borrower contract award data. As a result, the relevant information must be manually compiled to analyze trends related to beneficial ownership.

[30]This example is presented to illustrate how much of the contract dollars could potentially be underestimated. Available public data do not show whether any of the approximately $830 million flowed to the parent company.

[31]This example is presented to illustrate how much of the contract dollars could potentially be underestimated. Available public data do not show whether any of the approximately $32 million flowed to the parent company.

[32]The pilot program applied to contract awardees for procurements valued over the World Bank's Operations Procurement Review Committee thresholds with a 'decision to appraise' on or after November 1, 2017. The thresholds vary based on the type and contract value of the procurement, and the procurement risk of the borrower as determined by the World Bank. For details of the thresholds, see World Bank Operational Manual BP 11.00 Annex D, *Mandatory Prior Review Thresholds for Regional Procurement Managers and the Operations Procurement Review Committee.*

Limitations in reporting beneficial ownership information for contract awardees is not unique to the World Bank, and we have previously reported on this challenge in the U.S. government.[33] Treasury's Financial Crimes Enforcement Network recently issued a final rule[34] establishing a beneficial ownership reporting requirement to increase corporate transparency in the U.S. Treasury also issued a notice of proposed rulemaking that would establish the access to and protection of beneficial ownership information.[35]

The World Bank Does Not Collect Subcontract Data

The World Bank does not require borrowers to report subcontract awards. As a result, the number of contracts and contract dollars that may be attributed to businesses in specific countries may be under or overestimated, if part of the contract was subcontracted to an entity with a business address in a different country from the contract awardee. However, some information on subcontracts may be identified on an award-by-award basis. For example, we identified an approximately $48 million contract that was captured in the World Bank data as being awarded to a multilateral organization. However, our examination of the data found that the award to the multilateral organization was for the purchase of vaccines from a pharmaceuticals business headquartered in the U.S. Limitations in subcontract reporting are not limited to the World Bank, and we have previously reported on this challenge in the U.S. government.[36]

[33]For example, see GAO, *Defense Procurement: Ongoing DOD Fraud Risk Assessment Efforts Should Include Contractor Ownership*, GAO-20-106 (Washington, D.C.: Nov. 25, 2019) and *Aviation: FAA Needs to Better Prevent, Detect and Respond to Fraud and Abuse Risks in Aircraft Registration,* GAO-20-164 (Washington, D.C.: Mar. 5, 2020).

[34]Beneficial Ownership Information Reporting Requirements, 87 Fed. Reg. 59,498 (Sept. 30, 2022) (to be codified at 31 C.F.R. pt. 1010). The final rule will be effective January 1, 2024.

[35]Beneficial Ownership Information Access and Safeguards, and Use of FinCEN Identifiers for Entities, 87 Fed. Reg. 77,404 (proposed Dec. 16, 2022) (to be codified at 31 C.F.R. pt. 1010).

[36]GAO-20-106.

Analysis Indicates World Bank Borrowers Awarded Contracts to 28 Entities That May Have Been Present on U.S. Sanctions and Other Lists

Our analysis of World Bank borrower contract award data and selected U.S. sanctions and other lists of parties of concern found that World Bank borrowers awarded contracts to entities that may have been on those U.S. lists. We performed automated and manual review of the name and country of registration of World Bank borrower contract awardees and entities on U.S. government lists from calendar year 2017 to 2021. Based on our analysis, we identified 28 contract awardees that may have been present on selected U.S. lists at the time the contract was awarded. Our analysis provides an indication that a contract may have been awarded to an entity on a U.S. list, but cannot confirm it.

We Conducted Automated and Manual Reviews to Compare World Bank Borrower Awardees to Selected U.S. Sanctions and Other Lists

To examine the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions and other lists of parties of concern, we conducted automated matching analysis followed by a manual review.[37] First, we compiled a list of names and the associated countries of entities on selected U.S. sanctions and other lists of parties of concern.[38] We then compared those entity names and associated countries with the contract awardee names and countries of registration from World Bank borrower contract award data. For those results identified by our analysis, we manually reviewed each match to determine the extent to which the names overlapped. For matches where we determined the names significantly overlapped, we further reviewed whether the World Bank contract awardee was awarded a contract while the entity with the similar name was on a U.S. list.

Our analysis provides an indication that a contract was awarded to an entity that may have been on a U.S. list, but cannot confirm it. Our analysis is based on publicly available information, and the potential

[37]To automatically flag records for review, we created an automated system for identifying and flagging World Bank contract awardees, the names of which (1) either partially or fully matched entities on selected U.S. sanctions or other lists of parties of concern and (2) were associated with the same country or countries as entities on U.S. lists. For example, attempting to match the entity "Alpha Beta Corp." to a World Bank contract award to the "Alpha Beta Gamma Corporation" would have produced a potential positive match. We then manually reviewed the high-confidence matches to determine the amount of overlap between the names.

[38]Specifically, we selected the Treasury Office of Foreign Assets Control Specially Designated Nationals And Blocked Persons List (SDN) and Consolidated Sanctions List (Non-SDN), the General Services Administration System for Awards Management Exclusions List, the Commerce Bureau of Industry and Security Entity, Unverified, and Military End User lists, and the Federal Communications Commission List of Equipment And Services Covered By Section 2 of The Secure Networks Act.

matches we identified are based on names and their associated countries. While we took steps to eliminate false matches, the World Bank's data do not include other identifying information that could provide greater assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Without such identifying information, our analysis cannot positively identify whether a World Bank borrower contract awardee is the same entity as on a selected U.S. sanctions or other list.

We also contacted Treasury, Commerce, and the World Bank to see if they were aware of these awards and could provide any additional information or explanations that we should consider. Treasury officials told us that Treasury is not responsible for monitoring individual borrower contract awards, which occur after the World Bank's board approves a project. Commerce International Trade Administration officials told us they had no comments on the specific awards that we identified. The World Bank provided us details of their review of contract awardees that may have been on Office of Foreign Assets Control (OFAC) sanctions lists.

World Bank Borrowers Awarded Contracts to 28 Entities That May Have Been Present on U.S. Sanctions and Other Lists

Our analysis of World Bank borrower contract award data and selected U.S. sanctions and other lists of parties of concern found that World Bank borrowers awarded contracts to 28 entities that may have been on selected U.S. lists. Specifically, of the approximately 150,000 contracts awarded from calendar years 2017 through 2021—representing approximately $80 billion in contract dollars—we identified 28 contracts that borrowers awarded to entities that may have been on selected U.S. sanctions and other lists of parties of concern, representing around $76 million in contract dollars.[39]

The World Bank prohibits borrowers from awarding contracts to certain entities debarred by the World Bank or other multilateral development banks. Additionally, according to World Bank officials, the World Bank prohibits borrowers from awarding contracts to entities subject to United Nations sanctions. Those officials also told us that according to its Articles of Agreement, the World Bank is not subject to sanctions imposed under its member countries' laws and regulations. However, according to the officials, the World Bank's Anti-Money Laundering and Countering Financing of Terrorism policies and procedures includes screening

[39]The contract awards that we identified represent around 0.02 percent of the total number of contracts, and 0.1 percent of the total contract value we reviewed.

against OFAC Specially Designated Nationals and Blocked Persons List (SDN List) and Consolidated Sanctions List (Non-SDN List), as well as United Kingdom and European Union sanctions lists. If the World Bank identifies an award recommendation to an entity on these sanctions lists, the World Bank informs the borrower that (1) the World Bank is not able to issue a direct payment (on behalf of the borrower) to a potential contract awardee, and (2) the borrower may not be able to process the payment themselves. If the borrower is not able to process the payment, the borrower may make alternative payment arrangements to pay the contract awardee.[40]

The 28 contracts were awarded to entities that may have appeared on selected U.S. sanctions or other lists of parties of concern for various reasons, and several entities may have appeared on more than one list.[41] Fifteen contracts may have been awarded to entities on Treasury OFAC lists and therefore may have had sanctions applied, such as Global Magnitsky or Non-SDN Chinese Military-Industrial Complex Companies sanctions.[42] Thirteen contracts may have been awarded to entities that were subject to export restrictions because they were listed on the Commerce Bureau of Industry and Security's Entity List or Unverified List. Fourteen contracts may have been awarded to entities that were excluded from receiving U.S. federal contracts in the General Services Administration System for Award Management.

[40]We did not evaluate the World Bank's Anti-Money Laundering and Countering Financing of Terrorism policies and procedures, or how the World Bank screens contract awardees against sanctions lists. In an upcoming review of the World Bank's procurement processes, we plan to examine how the World Bank and borrowers perform due diligence on potential contract awardees.

[41]Specifically, 14 contracts were awarded to entities that may have appeared on two lists.

[42]The Global Magnitsky Human Rights Accountability Act authorizes the U.S. government to sanction foreign persons who (1) are responsible for gross violations of human rights, (2) acted as an agent of a foreign person responsible for a gross violation of human rights in specific matters, (3) are government officials involved in significant acts of corruption, or (4) have materially assisted a government official in a significant act of corruption. 22 U.S.C. § 2656 note. Executive Order 14032 of June 3, 2021 prohibits U.S. persons from buying or selling securities (or their derivatives) of any person who has been specifically listed or has been determined (1) to operate or have operated in the defense and related materiel sector or the surveillance technology sector of the economy of the PRC, or (2) to own or control, or to be owned or controlled by, directly or indirectly, a person who operates or has operated in any of those sectors, or a person who is listed in the Annex to the order or who has otherwise been determined to be subject to the prohibitions on transacting in securities. Addressing the Threat From Securities Investments That Finance Certain Companies of the People's Republic of China, Exec. Order No. 14032 (2021).

Sixteen of the 28 awards we identified were less than $1 million, including all contracts that were awarded to individuals. The remaining 12 contracts were awarded to businesses in China and were between approximately $1 million and $14 million. Overall, 18 of the 28 awards were awarded domestically (e.g., contracts awarded by China to businesses in China) and 10 were awarded internationally (e.g., contracts awarded by Uganda to businesses in China). Appendix II provides additional details of the awards to entities that may have been on selected U.S. sanctions or other lists of parties of concern, including the borrower country, awardee country, relevant reason for inclusion on a U.S. list, size of award, and the contract description.

Limited data on World Bank borrower contract awards and selected U.S. sanctions and other lists of parties of concern make it difficult to identify whether World Bank borrowers awarded contracts to entities that may have been on selected U.S. lists. For example, Treasury does not maintain machine-readable historical records of the names and relevant dates of entities on U.S. lists. Additionally, while the World Bank collects beneficial ownership information on contract awardees for contracts that meet certain thresholds, they do not report that information in a public, consolidated dataset.

We contacted Treasury, Commerce, and the World Bank to see if they were aware of these awards and could provide any additional information or explanations that we should consider. Treasury officials told us that Treasury is not responsible for individual borrower contract awards, nor are they able to monitor those awards, which occur after the World Bank's board approves a project. However, those officials noted that when they become aware of a contract award that may be of concern, they seek an explanation from the World Bank to determine whether any action should be taken.

Commerce International Trade Administration officials told us they had no comments on the specific awards that we identified. An International Trade Administration official noted that monitoring awards would be challenging because the World Bank does not publish bid data in a public, consolidated dataset, and contract award data may not be published until up to a year after the contract is finalized. As a result, officials using World Bank contract award data could only monitor contracts after the contracts are awarded. World Bank borrowers are required to publish a public notice of contract award within ten days of communicating that award determination to the contract awardee. According to the World

Bank, 84 percent of contract awards are published within ten days, and 90 percent are published within 18 days.

Treasury provided additional details on two of the 15 contracts that, per our analysis, were awarded to entities that may have been on OFAC sanctions lists. For one contract awardee whose name matched a sanctioned entity except for a single word, Treasury stated that the related sanctions program does not apply to subsidiaries.[43] For the other contract awardee, Treasury noted that the individual who is the potential match on the sanctions list is currently incarcerated in the U.S.

Additionally, the World Bank provided comments on these 15 contract awards. Specifically, the World Bank noted that:

- For six contracts, the borrower established an alternative payment arrangement in order to pay the contract awardee. According to the World Bank, borrowers may make alternative payment arrangements if the World Bank identifies that the potential contract awardee is on a sanctions list used in the World Bank's screening and the World Bank will not be able to issue a direct payment to the potential awardee.
- For five contracts, according to the World Bank's assessment, the contract awardee was not the same entity that appeared on an OFAC sanctions list.
- For four contracts, the World Bank screened the contract awardee against OFAC sanctions lists and did not identify a match.

Comments on this analysis from Treasury and the World Bank on these 15 contract awards are reflected in Appendix II. Commerce, Treasury, and the World Bank did not provide any additional details regarding the contract awards that we identified in our analysis that may have been awarded to entities on BIS lists or the System for Award Management Exclusions List.

Agency Comments

We provided a draft of this report for review and comment to Treasury, Commerce, and the World Bank. Treasury and Commerce did not provide comments. The World Bank provided technical comments, which we incorporated as appropriate. In addition, the World Bank provided written comments, which are reprinted in Appendix III. In its written comments, the World Bank acknowledged our work and restated its commitment to

[43]Specifically, China Mobile Communications Group Jiangsu Co., Ltd. was awarded a contract while China Mobile Communications Group CO., LTD. was on the OFAC Chinese Military-Industrial Complex Companies List. Jiangsu is a province in China.

open, competitive procurement. The World Bank also stated that we found its borrower contract award data and information systems reliable. While we reviewed the borrower contract award data and found it reliable for use in our analyses, the World Bank does not guarantee the accuracy of data entered by borrowers. We identified a number of inconsistencies in the data, and the World Bank addressed or identified plans to address many of those inconsistencies during our review. We asked the World Bank to describe its controls over its information systems, but we did not independently test or evaluate those controls or the information systems. Appendix I provides details of the testing that we performed.

We are sending copies of this report to the appropriate congressional requesters, the Secretary of the Treasury, the Secretary of Commerce, the President of the World Bank, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-4409 or LoveGrayerL@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in Appendix IV.

Latesha Love-Grayer

Latesha Love-Grayer
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

This report examines (1) the extent to which World Bank borrowers awarded contracts to businesses in the U.S. in comparison to businesses in other countries and (2) the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, the Department of the Treasury (Treasury) took in response.

To obtain information for our objectives, we reviewed World Bank documents related to the Procurement Framework (effective World Bank fiscal year (FY) 2017), including policies and related procedures for procurement by borrowers under Investment Project Financing (IPF), as well as guidance and training for Systematic Tracking of Exchanges in Procurement (STEP).[1] We also reviewed other World Bank documents including the Articles of Agreement and Procedures on Sanctions Proceedings and Settlements in Bank Financed Projects. We obtained publicly available World Bank data on borrower contract awards from two datasets: (1) Major Contract Awards (MCA)[2] and (2) Contract Awards in IPF.[3] We interviewed World Bank officials regarding the World Bank's policies and procedures for borrower-implemented procurement and controls over STEP data.

We assessed the reliability of these data by reviewing for internal consistency; checking for duplicate entries, gaps, and obvious errors; comparing the datasets; and interviewing World Bank officials about their data collection and verification procedures. We identified two issues that affect the level of detail available about the recipients of borrower contract awards. Specifically:

[1]The World Bank's fiscal year begins July 1st. All references to fiscal years in this report are World Bank fiscal years, unless otherwise noted.

[2]The MCA dataset covers World Bank fiscal years 2001 – 2016, and only includes contracts that required additional World Bank review and approval, a process known as prior review. As a result, data from FY 2016 and earlier lack information on an unknown number of contracts. During the course of our review, the World Bank changed the name of the MCA dataset to Contract Awards in IPF (since FY2001 – FY 2016). We refer to the dataset as MCA to differentiate it from the Contract Awards in IPF dataset that includes fiscal years 2017 onward.

[3]The Contract Awards in IPF dataset covers World Bank fiscal years 2017 onward. The dataset's source is the STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. As a result, data from FYs 2017 to 2018 lack information on an unknown number of contracts.

- **Lack of collection and reporting of all beneficial ownership information.** The World Bank does not collect and report the beneficial ownership information of all businesses that were awarded contracts, such as details of the business's ownership structure that may indicate if the business is owned, in part, by other foreign entities. Borrowers record the country of registration of contract awardees in STEP, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. While the World Bank requires that borrowers collect and publicly report beneficial ownership information of some contract awardees, that information is collected for a sub-set of all contract awardees, and is not available in a public, consolidated dataset.[4] As a result, the number of contracts and contract dollars attributed to businesses in specific countries may be over or underestimated.
- **Lack of collection of subcontract award data.** The World Bank does not require borrowers to report subcontract awards. As a result, the number of contracts and contract dollars attributed to businesses in specific countries may be over or underestimated if part of the contract was subcontracted to an entity with a business address in a different country from the contract awardee.

Additionally, during our review, we identified a number of inconsistencies with the MCA and Contract Awards in IPF datasets, some of which the World Bank subsequently corrected. Specifically:

- **Datasets are regularly updated.** The World Bank regularly updates the IPF dataset, including backfilling entries, and, as a result, the data changes over time. World Bank officials told us the Contract Awards in IPF dataset is updated daily, and that previously published data may change due to amendments to prior contracts. As a result, we selected the datasets available as of November 1, 2022 to perform

[4]According to the World Bank, beneficial ownership refers to the person who ultimately owns or controls a company, or who materially benefits from the assets held by a company. In 2017, the World Bank launched a beneficial ownership reporting pilot program. The program required borrowers to publish beneficial ownership information for contracts that met certain thresholds. As of FY 2021, beneficial ownership information was disclosed for nine eligible, awarded contracts with combined contract dollars of about $1.9 billion according to World Bank documentation. According to the World Bank, in FY 2022 there were 38 ongoing procurements that are subject to the pilot, accounting for around $5.8 billion in contract dollars. In FY 2023, the World Bank expanded the pilot to include all internationally advertised contracts. Under the initial and expanded pilot, beneficial ownership is reported in individual project documentation and is not reported in the World Bank's public data on borrower contract awards.

our review. Similar analysis using different datasets may yield different results.

- **Some data overlapped between the datasets.** During the course of our work, the World Bank began publishing two datasets on borrower contract awards with overlapping periods, and we identified inconsistencies where the datasets overlapped. When we began our work in November 2021, the World Bank only published the MCA dataset, which covered prior-reviewed contracts from FY 2001 onward. Later, the World Bank separately published the Contract Awards in IPF dataset, which covered all contract awards entered into STEP by borrowers for FY 2017 onward. We identified that the datasets duplicated many contract awards for the overlapping period, but that some contract awards in the MCA dataset did not appear in the Contract Awards in IPF dataset. World Bank officials told us the discrepancy was due to changes in data that were only updated in one of the two datasets. Subsequently, the World Bank revised the datasets to cover distinct periods with no overlap.
- **Some data were missing or unreadable.** Some contract award records had missing or unreadable data. The World Bank requires borrowers to enter data into STEP, but the World Bank does not guarantee the accuracy of data entered by borrowers. World Bank officials told us that borrowers are responsible for the accuracy of data entered into STEP, and that the World Bank verifies borrower data for prior-reviewed contracts.
- **Some data were inconsistent.** Some contract award records had conflicting data. For example, during our review we identified conflicting data for the "country" and "country code" of contract awardees. Specifically, for a single "country" there were multiple corresponding two-digit "country codes."[5] World Bank officials told us this mismatch was an oversight. Subsequently, the World Bank revised the datasets so that the "country" and "country code" aligned for all contract awards. Additionally, we identified a number of non-United Nations contract awardees associated with a United Nations-specific procurement method. World Bank officials told us that STEP does not have a control to prevent borrowers from assigning the United Nations-specific procurement method to non-United Nations procurements, and they planned to address the issue in the future.
- **Some data were not published.** The datasets did not report contract awards to joint ventures with two or more businesses. World Bank

[5]In the Contract Awards in IPF dataset, the "country" is the full name of the country, while the "country code" is a standard two-digit code assigned by the World Bank.

officials told us this was an oversight. Subsequently, the World Bank revised the IPF dataset so that a single contract award number may have multiple entries with different contract awardees.

Based on our review, and subsequent corrections made by the World Bank, we found these data to be sufficiently reliable for summarizing data on World Bank borrower contract awards and comparing World Bank borrower contract awardees against entities on selected U.S. sanctions or other lists of parties of concern.

Because our scope for both objectives encompassed FYs 2013 through 2022, we combined the MCA and Contract Awards in IPF datasets. To accomplish this, we downloaded both datasets from the World Bank's web site on November 1, 2022 and combined them with the assumption that the IPF "Supplier Contract Amount (USD)" field was equivalent to the MCA "Total Contract Amount (USD)" field.

In some cases, we inferred information on supplier and borrower country codes based on country names in the data. To ensure compatibility with U.S. State Department country codes, in some cases we edited the World Bank's country codes.[6] We used supplier and borrower codes to determine whether each contract was a 'domestic' or 'self-award'—in other words, an award where the borrower country and supplier country were the same.

In order to examine the extent to which World Bank borrowers awarded contracts to businesses in the U.S. compared to businesses in other countries, for FYs 2013 through 2022 we performed various calculations on the combined datasets using a number of variables including borrower country, country of contract awardee (i.e. supplier), number and amount of awarded contracts, and the procurement category.[7] For example, we summed the number and dollar value of contracts awarded to different supplier countries. We also performed additional analysis on the combined data and summary outputs, as needed.

[6]Edited codes included those for the Democratic Republic of the Congo (Congo-Kinshasa, "CD"), the Democratic Republic of Timor-Leste ("TL"), the Republic of Serbia ("RS"), and the Republic of Yemen ("YE").

[7]The World Bank's datasets include both the fiscal year of each contract award, as well as the date the contract was signed. We limited our analysis to contract awards with a reported FY between 2013 and 2022.

Additionally, we requested and the World Bank provided summary data from STEP on how many contracts businesses in the U.S. successfully bid on from FY 2017 to October 13, 2022. Based on our review of the World Bank's Contract Awards in IPF dataset, as well as controls related to STEP, we found these data to be sufficiently reliable for presenting the World Bank's summary of bid data for businesses in the U.S., as well as our analysis of that summary data.

Further, we reviewed World Bank documents, including summaries of data limitations published on the World Bank's website, and reviews of borrower-implemented procurement performed by the World Bank and the World Bank Group. We also interviewed World Bank officials regarding the World Bank's policies and procedures for borrower-implemented procurement.

To examine the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, Treasury took in response, we first identified and reviewed various selected sanctions lists and other lists of parties of concern to the U.S. government that are managed by federal agencies.[8] We considered whether each list was: (1) public; (2) relevant to U.S. national security or foreign policy interests; (3) related to commercial, subnational entities (such as individuals and businesses); and (4) whether there were any significant limitations to the data, such as availability. Based on our review, we selected the Treasury Office of Foreign Assets Control (OFAC) Specially Designated Nationals And Blocked Persons List (SDN) and Consolidated Sanctions List (Non-SDN), the General Services Administration System for Awards Management (SAM) Exclusions List, the Commerce Bureau of Industry and Security (BIS) Entity, Unverified, and Military End User (MEU) lists, and the

[8]Specifically, we identified and reviewed: (1) the Department of the Treasury (Treasury) Office of Foreign Assets Control (OFAC) (a) Specially Designated Nationals And Blocked Persons List (SDN) and (b) Consolidated Sanctions List (Non-SDN); (2) the Department of State Directorate of Defense Trade Controls (a) Country Policies and (b) Debarred Parties; (3) the General Services Administration (a) System for Awards Management (SAM) Exclusions List and (b) Federal Awardee Performance and Integrity Information System; (4) the Department of Commerce International Trade Administration (a) Consolidated Screening List and the Bureau of Industry and Security (BIS) (b) Entity List, (c) Unverified List, (d) Military End User (MEU) List, and (e) Denied Persons List; and (5) the Federal Communications Commission List of Equipment And Services Covered By Section 2 of The Secure Networks Act (Covered List). The Federal Communications Commission Covered List is a list of equipment and services produced by specific entities, and our analysis of that list focused on those entities' names.

Federal Communications Commission List of Equipment And Services Covered By Section 2 of The Secure Networks Act (Covered List).[9] In order to capture entities that may have been added to or removed from each list, we included historical versions of or records of changes to the lists in our analysis and data reliability testing. We assessed the reliability of these data by reviewing the data for internal consistency; examining them for duplicate entries, gaps, and obvious errors; and reviewing written comments provided by Treasury and Commerce officials about their data maintenance and publication procedures.[10] Based on our review, we found these data to be sufficiently reliable for identifying search strings and related information to compare against World Bank contract awardees. We limited our scope for this analysis to calendar years 2017 to 2021.[11]

To compile names of currently listed OFAC entities, we downloaded machine-readable versions of the SDN List and Non-SDN List. We identified search strings based on the “firstName” and “lastName” data elements. For records with both a “firstName” and “lastName” data element, we identified search strings based on both combinations of the data elements (firstName + lastName, and lastName + firstName). We also checked for the presence of and identified search strings based on ‘also known as’ (AKA) records.

Historical OFAC listings are not available in standard machine-readable formats, but they are published in the form of semi-structured text files on

[9]We reviewed the SAM Exclusions List as of March 8, 2022. As of that date, the majority of entities and individuals in the SAM Exclusions List are identified as located in the U.S. We limited our use of the SAM Exclusions List to those entities and individuals identified with a non-U.S. location.

[10]We did not interview General Services Administration officials as part of this engagement. However, we performed manual data testing on the exclusions list data, and reviewed data reliability testing performed by other GAO teams on SAM and determined, based on that testing, that the data was sufficiently reliable for our purposes. Additionally, we did not interview Federal Communications Commission officials. However, the Covered List was created in March 2021 and consisted of five entries during CY 2021, which we manually reviewed and determined the data was sufficiently reliable for our purposes.

[11]We limited our analysis to contract awards with a reported FY of 2017 and later, and a contract signing date between calendar year 2017 to 2021.

Treasury's web site.[12] Using regular expressions and a variety of other programmatic methods, we identified and downloaded each text file and attempted to parse the text.[13] Specifically, we:

- attempted to parse sections of the raw text indicating entity removals from the SDN or another list;
- attempted to parse individual line items within each list removal section;
- attempted to parse the names of listed entities within each line item.

Current and historical versions of the SAM Exclusions List are available via the public SAM web site. We downloaded or queried versions of the data that covered the time period in-scope for this engagement, and programmatically read them to compile names for entities with a listed country other than the U.S. As with the OFAC lists, we identified individuals' names with surnames written first as well as names with surnames written last.

The BIS Entity List, Unverified List, and MEU List, including archival versions, are all available in machine-readable formats via the Electronic Code of Federal Regulations web application programming interface (API).[14] We compiled current and historical versions of entity names on all three lists by:

- downloading current Electronic Code of Federal Regulations page data to obtain a list of change dates for each list;
- creating and running an API call for each change date and parsing the raw data for machine-readable strings of text; and
- parsing each string of text to identify likely entity names.

[12]Archival changes to the SDN List and Non-SDN Lists are available in PDF and TXT files at: https://ofac.treasury.gov/specially-designated-nationals-list-sdn-list/archive-of-changes-to-the-sdn-list.

[13]Due to limitations in the structure of the data, we attempted to parse each substring using multiple parsing strategies to maximize the likelihood of identifying the correct entity names and associated countries.

[14]15 C.F.R. Part 744 Supplement No. 4 contains the Entity List, Supplement No. 6 contains the Unverified List, and Supplement No. 7 contains the Military End-User List. Date-specified versions of the list can be accessed through ecfr.gov via API in XML format.

As with OFAC data, we attempted to parse the data in order to compile individuals' names with surnames written first as well as names with surnames written last. We also compiled AKA names.

After we compiled all of these entity names along with those appearing on the Federal Communications Commission's Covered List, we combined them into a single dataset. In order to maximize the traceability of entity names to World Bank supplier labels, we eliminated commonly abbreviated or commonly translated segments of entities' names. For example, if the end of an entity's name contained the substrings 'Inc.' or 'Ltd.' or 'Incorporated', we omitted those substrings for the purposes of our programmatic matching process.

In order to compare country codes across the U.S. government and World Bank data, for each entity identified in the U.S. government combined data, we attempted to identify a country or countries and assign a standard two-digit country code. For each entry in the World Bank data, we similarly assigned a standard two-digit country code based on the World Bank supplier country code. When identifying matches in World Bank supplier data, we used this country data to rank matches according to higher or lower confidence. We searched each World Bank supplier name for each entity name compiled from the U.S. government sources, using the entity names as substrings. For example, attempting to match the entity "Alpha Beta Corp." to a World Bank contract award to the "Alpha Beta Gamma Corporation" would have produced a potential positive match.

Where we found a name and country match across both datasets, we listed the potential match as "higher" confidence. Where we found only a name match, we listed the potential match as "lower" confidence.

To minimize lower confidence matches, we eliminated potential matches from our output based on various criteria:

- We omitted potential matches on company or organization names that were five characters or fewer.
- We omitted potential matches on other names that were two characters or fewer.

- We also omitted potential matches on a small number of names that produced very high numbers of false positive matches on World Bank supplier data.[15]

Because of the imprecise nature of our programmatic analysis, we did not depend on it for the purposes of this report's findings. We manually reviewed all programmatically flagged potential matches to ascertain their accuracy. Our programmatic output included a list of 'higher' and 'lower' confidence matches, as well as selected information from the source datasets.

For those potential matches where our programmatic review identified a potential match based on the name of the entity, but was unable to identify an associated country from the selected U.S. sanctions or other list of parties of concern, we first reviewed the source list to determine if an associated country for that entity existed. If were able to manually identify an associated country, we added that country (or countries) to our analysis and manually determined whether the country of the contract awardee matched the country of the entity on a selected U.S. sanctions or other list, and therefore whether the potential match required additional review. If we were unable to identify an associated country, we reviewed the source material for alternative names for the entity and determined whether those alternatives names were included in our analysis of potential matches. If the alternative names were included in our analysis and had no match identified based on their name, we excluded those results.[16] In addition, we manually tested a sample of other potential results to verify that the programmatic review accurately captured country information from selected U.S. sanctions and other lists.

We manually reviewed each potential match to determine the likelihood of whether the name of the World Bank borrower contract awardee matched the name of the entity on a selected U.S. sanctions or other list of parties of concern. We developed codes on the likelihood of whether the name of the World Bank borrower contract awardee matched the name of the

[15]For example, we omitted 'TAN' from our analysis, an acronym for a company on OFAC's SDN list. While matching this acronym to World Bank supplier records, it returned low-confidence matches to many records where the World Bank had awarded contracts to 'Individual Consultant' suppliers.

[16]Several search strings excluded in this manner were three to five letter acronyms of organizations. In one instance, the source for an individual did not include any country information. In one instance, the organization's name did not otherwise appear in our analysis, and we performed additional research to determine the countries in which it operates.

entity on a selected U.S. sanctions or other list that ranged from a direct name match to no overlap between the names. Two analysts independently coded each potential match. The analysts then compared their coding and reconciled any initial disagreements.

For those potential results identified as direct name matches or substantial name overlap between the World Bank contract awardee and the entity on a selected U.S. sanctions or other list of parties of concern, we performed additional analysis to determine the dates that each entity was added to or removed from each respective list. If a World Bank contract awardee received a contract award at a time when the potential matched entity was not on a selected U.S. sanctions or other list, we excluded it from our review.

We could not confirm that the contract awardees were the same entities identified on selected U.S. lists because additional identifying information needed to make a positive identification—such as beneficial ownership information, addresses, national documentation numbers, or dates of birth—is not included in the World Bank's public data on borrower contract awards. We also provided the results of our analysis to Treasury, Commerce, and the World Bank, and incorporated their responses in our report.[17]

We conducted this performance audit from November 2021 to May 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[17]Treasury's Office of International Affairs and Office of Foreign Assets Control and Commerce's International Trade Administration provided responses.

Appendix II: World Bank Borrower Contract Awards to Entities that May Have Been on Selected U.S. Sanctions and Other Lists

To examine the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions and other lists of parties of concern, we conducted automated matching analysis combined with a manual review of the results of the automated matching.[1] First, we compiled a list of names and the associated countries of entities on selected U.S. sanctions and other lists of parties of concern.[2] Subsequently, we compared those entity names and associated countries with the contract awardee names and countries of registration from World Bank borrower contract award data. For those results identified by our analysis, we manually reviewed each match to determine the extent to which the names overlapped. For those matches where we determined the names significantly overlapped, we further reviewed whether the World Bank contract awardee was awarded a contract while the entity with a similar name was on a U.S. list.

Our analysis provides an indication that a contract was awarded to an entity that may have been on a U.S. list, but cannot confirm it. Our analysis is based on publicly available information, and the potential matches we identified are based on names and their associated countries. While we took steps to eliminate false matches, the World Bank's data do not include other identifying information that could provide greater assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Without such identifying information, our analysis cannot positively identify whether a World Bank borrower contract awardee is the same entity as on a U.S. sanctions or other list of parties of concern.

Our analysis reviewed the approximately 150,000 contracts World Bank borrowers awarded from calendar years 2017 through 2021, representing

[1]To automatically flag records for review, we created an automated system for identifying and flagging World Bank contract awardees, the names of which (1) either partially or fully matched entities on selected U.S. sanctions or other lists of parties of concern and (2) were associated with the same country or countries as entities on U.S. lists. We then manually reviewed the high-confidence matches to determine accuracy. For example, attempting to match the entity "Alpha Beta Corp." to a World Bank contract award to the "Alpha Beta Gamma Corporation" would have produced a potential positive match. Subsequently, we manually reviewed each potential match.

[2]Specifically, we selected the Treasury Office of Foreign Assets Control (OFAC) Specially Designated Nationals And Blocked Persons List (SDN) and Consolidated Sanctions List (Non-SDN), the General Services Administration System for Awards Management (SAM) Exclusions List, the Commerce Bureau of Industry and Security (BIS) Entity, Unverified, and Military End User (MEU)lists, and the Federal Communications Commission List of Equipment And Services Covered By Section 2 of The Secure Networks Act.

approximately $80 billion in contract dollars. We identified 28 contracts that World Bank borrowers awarded to entities that may have been on selected U.S. sanctions and other lists, representing around $76 million in contract dollars.[3] Some entities appeared on multiple lists maintained by different U.S. agencies.

We contacted Treasury, Commerce, and the World Bank to see if they were aware of these awards and could provide any additional information or explanations that we should consider. Treasury officials told us that Treasury is not responsible for individual borrower contract awards, nor are they able to monitor those awards, which occur after the World Bank's board approves a project. However, those officials noted that when they become aware of a contract award that may be of concern, they seek an explanation from the World Bank to determine whether any action should be taken.

Commerce officials told us they had no comments on the specific awards that we identified. An International Trade Administration official noted that monitoring awards would be challenging because the World Bank does not publish bid data in a public, consolidated dataset, and contract award data may not be published until up to a year after the contract is finalized. As a result, officials using World Bank contract award data could only monitor contracts after the contracts are awarded.

Treasury provided additional details on two of the 15 contracts that, per our analysis, were awarded to entities that may have been on OFAC sanctions lists. For one contract awardee whose name matched a sanctioned entity except for a single word, Treasury stated that the related sanctions program does not apply to subsidiaries. For the other contract awardee, Treasury noted that the individual who is the potential match on the sanctions list is currently incarcerated in the U.S. Additionally, the World Bank provided comments on all 15 of these contract awards. Specifically, the World Bank noted that:

- For six contracts, the borrower established an alternative payment arrangement in order to pay the contract awardee. According to the World Bank, borrowers may make alternative payment arrangements if the World Bank identifies that the potential contract awardee is on a

[3]The contract awards that we identified represent around .02 percent of the total number of contracts, and .1 percent of the total contract value we reviewed.

sanctions list used in the World Bank's screening and the World Bank will not be able to issue a direct payment to the potential awardee.

- For five contracts, according to the World Bank's assessment, the contract awardee was not the same entity that appeared on an OFAC sanctions list.
- For four contracts, the World Bank screened the contract awardee against OFAC sanctions lists and did not identify a match.

The results of our analysis may be found in Tables 3 through 5. Treasury and the World Bank's responses are included in the notes to the tables, where appropriate. Due to concerns with disclosing personally identifiable information, and the common nature of many names identified in our analysis, we are not publishing specific information relating to seven contract awards to six individuals.

Table 3: World Bank Borrower Awards to Entities That May Have Been on OFAC Sanctions Lists

World Bank Contract Awardee Name	World Bank Contract Awardee Country	Date of Award	OFAC Entity Name	OFAC Entity Country	OFAC List/Program and Related Dates	World Bank Borrower Country	Contract Description	Contract Award Amount
China National Chemical Economic and Technical Development Centre[a]	China	04/06/2021	China National Chemical Corp Ltd.	China	CCMC[f] Listing date: 11/12/2020 Effective date: 01/11/2021 Date removed: 06/03/2021	China	Investigation on Feedstock Applications of HCFCs in 2019-2022	$262,863.01
Individual 1[b,c]	Serbia	2020[b]	Individual 1[b]	Serbia	SDN/GLOMAG[g] Listing date: 2019[b]	Serbia	Consultant Services[b]	Appx. $100,000[b]

World Bank Contract Awardee Name	World Bank Contract Awardee Country	Date of Award	OFAC Entity Name	OFAC Entity Country	OFAC List/Program and Related Dates	World Bank Borrower Country	Contract Description	Contract Award Amount
Xinjiang Corps 4th Construction Engineering (Group) Co. Ltd[d]	China	04/02/2021	Xinjiang Production and Construction Corps	China	SDN/GLOMAG[g] Listing date: 07/31/2020	China	Ximen River disaster shelter square: A total of 21,600m2, with the supporting construction of emergency access, disaster prevention equipment and facilities etc.; The reconstruction of Zifu Road.	$7,160,996.16
Individual 2[b,c,e]	Pakistan	2020[b]	Individual 2[b]	Pakistan	SDN/SDGT[h] Listing date: 2003[b]	Pakistan	Consultant Services[b]	Appx. $5,000[b]
CCCC Road and Bridge Construction Co., Ltd[d]	China	03/15/2021	China Communications Construction Company Limited; CCCC	China	CCMC[f] Listing date: 11/12/2020 Effective date: 01/11/2021 CMIC[f] Effective Date: 08/02/2021	China	city around metro stations connection sub-project (B-6)	$6,834,841.65
China Mobile Communications Group Jiangsu Co., Ltd.[a]	China	11/30/2021	China Mobile Communications Group CO., LTD.	China	CMIC[f,i] Listing date: 06/03/2021 Effective Date: 08/02/2021	China	SMART water system (C)	$5,553,136.56
Individual 3[b,d]	Pakistan	2020[b]	Individual 3[b]	Pakistan	SDN/SDGT[h] Listing date: 2011[b]	Pakistan	Goods[b]	Appx. $2,500[b]
Individual 3[b,d]	Pakistan	2019[b]	Individual 3[b]	Pakistan	SDN/SDGT[h] Listing date: 2011[b]	Pakistan	Civil Works[b]	Appx. $35,000[b]
Individual 4[b,c]	Pakistan	2018[b]	Individual 4[b]	Pakistan	SDN/SDGT[h] Listing date: 2014[b]	Pakistan	Consultant Services[b]	Appx $15,000[b]

World Bank Contract Awardee Name	World Bank Contract Awardee Country	Date of Award	OFAC Entity Name	OFAC Entity Country	OFAC List/Program and Related Dates	World Bank Borrower Country	Contract Description	Contract Award Amount
China National Electronics Import & Export Corporation (CEIEC)[a]	China	08/23/2021	China National Electronics Import and Export Corporation (CEIEC)	China	SDN/Venezuela[j] Listing date: 11/30/2020	Bangladesh	Procurement of ICT Equipment for NDRCC / NDMRTI under DDM	$1,025,967.50
China National Electronics Import & Export Corporation (CEIEC)[a]	China	03/28/2021	China National Electronics Import and Export Corporation (CEIEC)	China	SDN/Venezuela[j] Listing date: 11/30/2020	Bangladesh	Procurement of ICT Equipment for Emergency Operation Centre (EOC) at DSCC and SCC	$2,846,840.60
China National Electronics Import & Export Corporation (CEIEC)[a]	China	03/28/2021	China National Electronics Import and Export Corporation (CEIEC)	China	SDN/Venezuela[j] Listing date: 11/30/2020	Bangladesh	Procurement of ICT Equipment for Command Control Room (CCR) at FSCD, Dhaka and FSCD, Sylhet	$2,659,229.65
China National Electronics Import & Export Corporation (CEIEC)[a]	China	01/03/2021	China National Electronics Import and Export Corporation (CEIEC)	China	SDN/Venezuela[j] Listing date: 11/30/2020	Bangladesh	Procurement of ICT Equipment for Command Control Room (CCR) at FSCD, Dhaka and FSCD, Sylhet	$1,243,823.65
Individual 5[b,c]	Pakistan	2019[b]	Individual 5[b]	Pakistan	SDN/SDGT[h] Listing date: 2010 / 2012[b,k]	Pakistan	Consultant Services[b]	Appx. $5,000[b]
Meamar Group[c]	Lebanon	02/01/2021	Meamar SARL	Lebanon	SDN/SDGT[h] Listing date: 09/17/2020	Lebanon	Rehabilitation of COVID-19 ICU Unit	$190,890.62

Source: GAO analysis of World Bank and U.S. Department of the Treasury (Treasury) Office of Foreign Assets Control (OFAC) data. | GAO-23-105543

Notes: We programmatically and manually compared the names of World Bank borrower contract awardees from the World Bank's borrower contract award data against entities on selected U.S. sanctions and other lists of parties of concern for the period calendar year 2017 to 2021. We limited the comparison to contract awardees and entities on U.S. lists with the same associated country. The entries in this table represent the names of contract awardees and entities on U.S. lists that we determined had substantial or complete overlap. We further reviewed each contract awardee and entity to determine whether the entity was listed at the time the World Bank borrower awarded the contract.

Our analysis does not positively identify whether a contract was awarded to an entity on a selected U.S. sanctions or other list of parties of concern. Our analysis is based on publicly available information, and the potential matches we identified are based only on names and associated countries. The World Bank's borrower contract award data do not include other identifying information that could be used to provide assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Entities may appear on multiple U.S. lists at the same time.

According to World Bank officials, the World Bank screens contract award recommendations by borrowers through its Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) and Sanction Screening Procedure. Those officials told us that the AML/CFT policies and procedures include screening against U.S. sanctions lists, among others. If the World Bank identifies an award recommendation to an entity that is on a sanctions list used in the World Bank's screening, the World Bank informs the borrower that 1) the World Bank is not able to issue a direct payment (on behalf of the borrower) to a potential contract awardee, and 2) the borrower may not be able to process the payment themselves. The borrower may make arrangements to pay the potential contract awardee. If the borrower cannot make arrangements, the borrower may request to revise its recommendation for the contract award and award the contract to the next-ranked bidder.

[a]According to the World Bank, the borrower made alternative payment arrangements for the contract awardee.

[b]Due to concerns with disclosing personally identifiable information and the common nature of many names identified in our analysis, we are not publishing specific information relating to individuals that were awarded contracts. In our report, we refer to individuals as Individual 1 through Individual 6, which represent the six unique individuals we identified.

[c]According to the World Bank, the contract awardee was screened against sanctions lists, and appeared to match a name on one of the lists, but additional due diligence determined the contract awardee was not the same entity as the sanctions list. We did not evaluate the World Bank's AML/CFT policies and procedures, or how the World Bank screens contract awardees against sanctions lists.

[d]According to the World Bank, the contract awardee was screened against sanctions lists and did not match any of the names on the lists. We did not evaluate the World Bank's AML/CFT policies and procedures, or how the World Bank screens contract awardees against sanctions lists.

[e]According to Treasury, the potentially matched individual who was designated on the SDN list in 2003 is currently incarcerated in the United States.

[f]Executive Order 13959, as amended, prohibited U.S. investors from purchasing for value, selling, or possessing after a certain date, securities of a "Communist Chinese military company" (CCMC), a term that included those identified by the Secretary of Defense pursuant to Section 1237 of the National Defense Authorization Act for Fiscal Year 1999, as amended, as well as those identified by the Secretary of the Treasury as meeting the criteria under Section 1237(b)(4)(B) of the National Defense Authorization Act for Fiscal Year 1999. Addressing the Threat From Securities Investments That Finance Communist Chinese Military Companies, Exec. Order No. 13959 (2020) (as amended by Amending Executive Order 13959, Addressing the Threat From Securities Investments That Finance Communist Chinese Military Companies, Exec. Order No. 13974 (2021)). Executive Order 14032 of June 3, 2021 partially superseded and further amended Executive Order 13959, including by revocation of Executive Order 13974, to prohibit U.S. persons from purchasing or selling securities (or their derivatives, or securities designed to provide investment exposure to such securities) of any person listed in the annex to that order or whom the Secretary of the Treasury has determined (1) to operate or have operated in the defense and related materiel sector or the surveillance technology sector of the economy of the PRC, or (2) to own or control, or to be owned or controlled by, directly or indirectly, a person who operates or has operated in any of those sectors, or a person who is listed in the Annex to the order or who has otherwise been determined to be subject to the prohibitions on transacting in securities. Such persons are identified by Treasury as Chinese Military-Industrial Complex Companies (CMICs). Addressing the Threat From Securities Investments That Finance Certain Companies of the People's Republic of China, Exec. Order No. 14032 (2021). According to Treasury these sanctions are narrower than those that apply to persons identified on OFAC's Specially Designated Nationals and Blocked Persons (SDN) List and do not prohibit U.S. persons, for example, from engaging in commercial purchases or sales in goods or services that are unrelated to securities issued by CMICs.

[g]The Global Magnitsky Human Rights Accountability Act authorizes the U.S. government to sanction foreign persons who (1) are responsible for gross violations of human rights, (2) acted as an agent of a foreign person responsible for a gross violation of human rights in specific matters, (3) are

government officials involved in significant acts of corruption, or (4) have materially assisted a government official in a significant act of corruption. 22 U.S.C. § 2656 note. Executive Order 13818 of December 20, 2017 implements this authority by imposing financial and visa restrictions on individuals and entities designated as complicit in or directly engaged in certain human rights abuses or corrupt acts, known as Global Magnitsky Sanctions (GLOMAG). Blocking the Property of Persons Involved in Serious Human Rights Abuse or Corruption, Exec. Order No. 13818 (2017).

[h]The Global Terrorism Sanctions Regulations (31 C.F.R. Part 594) allows the U.S. government to block property and prohibit dealings with individual and entities designated as a specially designated global terrorist (SDGT).

[i]According to Treasury, CMIC sanctions do not apply to publicly traded securities issued by subsidiaries of entities on the NS-CMIC List unless those subsidiaries are independently listed. While China Mobile Communications Group Co., Ltd. is listed on the NC-CIMC List, China Mobile Communications Group Jiangsu Co., Ltd. is not.

[j]Executive Order 13692 of March 8, 2015, as amended, allows the U.S. government to block property and prohibit dealings with individuals and entities that are specifically listed or are designated as responsible for or complicit in (1) actions or policies that undermine democratic processes or institutions; (2) significant acts of violence or conduct that constitutes a serious abuse or violation of human rights, including against persons involved in antigovernment protests in Venezuela in or since February 2014; (3) actions that prohibit, limit, or penalize the exercise of freedom of expression or peaceful assembly; or (4) public corruption by senior officials within the Government of Venezuela, among other criteria. Blocking Property and Suspending Entry of Certain Persons Contributing to the Situation in Venezuela, Exec. Order No. 13692 (2015) (as amended by Taking Additional Steps To Address the National Emergency With Respect to Venezuela, Exec. Order No. 13857 (2019)).

[k]There are two entries for individuals with the same alias, each with a different listing date.

Table 4: World Bank Borrower Awards to Entities That May Have Been on BIS Lists

World Bank Contract Awardee Name	World Bank Contract Awardee Country	Date of Award	BIS Entity Name	BIS Entity Country	BIS List and Related Dates	World Bank Borrower Country	Contract Description	Contract Award Amount
Huawei Consortium	China	10/30/2020	Huawei Technologies Co., Ltd.	China	Entity List[b] Date added: 05/21/2019	Rwanda	One year renewable remote AMI software maintenance services support contract	$61,478.00
Huawei International Co. Limited	China	05/22/2020	Huawei Technologies Co., Ltd.	China	Entity List[b] Date added: 05/21/2019	Regional – Eastern and Southern Africa	Contract for provision of connectivity of government entities and target user groups to the government network (NBI) project	$9,887,017.00
High Tech	Pakistan	01/03/2018	High Technologies, Ltd. (HTL); High Technology, Ltd.	Pakistan	Entity List[b] Date added: 11/19/1998	Pakistan	M/s High Tech for IT Equipment of PIU	$24,278.64
Renmin University	China	01/08/2020	Renmin University	China	UVL[c] Date added: 04/11/2019 Date removed: 10/09/2020	China	Joint venture of Renmin University and Peking University ranks first in the shortlist.	$67,911.81

World Bank Contract Awardee Name	World Bank Contract Awardee Country	Date of Award	BIS Entity Name	BIS Entity Country	BIS List and Related Dates	World Bank Borrower Country	Contract Description	Contract Award Amount
Renmin University	China	06/17/2020	Renmin University	China	UVL[c] Date added: 04/11/2019 Date removed: 10/09/2020	China	The consulting service is to carry out research on improving enrolling mechanism of basic health insurance	$259,600.00
CCCC Road and Bridge Construction CO., LTD	China	03/15/2021	China Communications Construction Company Ltd. (CCCC)	China	Entity List[b] Date added: 12/222020	China	city around metro stations connection sub-project (B-6)	$6,834,841.65
Beihang Unviersity	China	04/02/2021	Beihang University	China	Entity List[b] Date added: 09/16/2005	China	The contract is awarded to Beihang University.	$49,668.37
IKAN Engineering Services (PVT.) Limited	Pakistan	10/08/2020	IKAN Engineering Services (AKA IKAN Sourcing)	Pakistan	Entity List[b] Date added: 09/18/2014 Date removed: 06/01/2021	Pakistan	Construction of New RCC Bridge at Jalkot Nullah	442,109.07
AVIC International Holding Corporation	China	07/23/2020	Aviation Industry Corporation of China (AVIC) Institute 625	China	Entity List[b] Date added: 05/01/2014	Uganda	Plant design, supply and installation of: Lot 2: 132kV Kole switching station and 132/33kV Gulu substation with associated 33kV interconnection lines	$10,856,353.64
AVIC International Holding Corporation	China	07/23/2020	Aviation Industry Corporation of China (AVIC) Institute 625	China	Entity List[b] Date added: 05/01/2014	Uganda	Plant design, supply and installation of: Lot 3: 132/33kV Nebbi and Arua substations with associated 33kV interconnection lines	$7,780,228.74
Individual 6[a]	Afghanistan	2017[a]	Individual 6[a]	Afghanistan	Entity List[b] Date added: 2011	Afghanistan	Consultant Services[a]	Appx. $10,000[a]
Tongji University	China	11/21/2019	Tongji University	China	UVL[c] Date added: 04/11/2019 Date removed: 10/09/2020	China	Operation management manual of highway safety management system	$99,459.45

World Bank Contract Awardee Name	World Bank Contract Awardee Country	Date of Award	BIS Entity Name	BIS Entity Country	BIS List and Related Dates	World Bank Borrower Country	Contract Description	Contract Award Amount
Poly Technologies Inc.	China	09/26/2017	Poly Technologies, Inc.	China	Entity List[b] Date added: 06/26/2014	Myanmar	Supply, installation, and maintenance of solar PV systems for households and public facilities in L-2-Chin(3),L-5Bago,L-7Mandalay+Naypyitaw,L-9Shan(East-2+North-3),L-10Ayeyarwaddy-3, L-12Ayeyarwaddy(5)	$4,925,664.61

Source: GAO analysis of World Bank and U.S. Department of Commerce Bureau of Industry and Security (BIS) data. | GAO-23-105543

Notes: According to the World Bank, they do not screen contract awardees against BIS lists. We programmatically and manually compared the names of World Bank borrower contract awardees from the World Bank's borrower contract award data against entities on selected U.S. sanctions and other lists of parties of concern for the period calendar year 2017 to 2021. We limited the comparison to contract awardees and entities on selected U.S. lists with the same associated country. The entries in this table represent the names of contract awardees and entities on selected U.S. lists that we determined had substantial or complete overlap. We further reviewed each contract awardee and entity to determine whether the entity was listed at the time the World Bank borrower awarded the contract.

Our analysis does not positively identify whether a contract was awarded to an entity on a U.S. sanctions or other list of parties of concern. Our analysis is based on publicly available information, and the potential matches we identified are based only on names and associated countries. The World Bank's borrower contract award data do not include other identifying information that could be used to provide assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Entities may appear on multiple U.S. lists at the same time.

[a]Due to concerns with disclosing personally identifiable information and the common nature of many names identified in our analysis, we are not publishing specific information relating to individuals that received contracts. In our report, we refer to individuals as Individual 1 through Individual 6, which represent the six unique individuals we identified.

[b]The Entity List identifies persons reasonably believed to be involved, or to pose a significant risk of being or becoming involved, in activities contrary to the national security or foreign policy interests of the United States. 15 C.F.R. § 744.16. It includes names of certain foreign entities that are subject to specific license requirements for the export, reexport and/or transfer (in-country) of specified items. The entities on the Entity List are subject to licensing requirements and policies supplemental to those found elsewhere in the Export Administration Regulations. 15 C.F.R. Part 744, Supp. No. 4.

[c]Foreign persons who are parties to an export, reexport, and transfer (in-country) subject to the EAR may be added to the Unverified List if BIS or federal officials acting on BIS's behalf cannot verify the bona fides (i.e., legitimacy and reliability relating to the end use and end user of items subject to the EAR) of such persons because an end-use check, such as a pre-license check (PLC) or a post-shipment verification (PSV), cannot be completed satisfactorily for reasons outside of the U.S. Government's control. 15 C.F.R. § 744.15. Parties on the Unverified List (UVL) are subject to additional export restrictions and requirements. 15 C.F.R. Part 744, Supp. No. 6.

Table 5: World Bank Borrower Awards to Entities That May Have Been on the SAM Exclusions List

World Bank Contract Awardee Name	World Bank Contract Awardee Country	Date of Award	SAM Entity Name	Country of Primary Address	SAM Excluding Agency and Related Dates	World Bank Borrower Country	Contract Description	Contract Award Amount
Huawei Consortium	China	10/30/2020	Huawei Technologies Co., Ltd.	China	Dept. of the Air Force[b] Date added: 02/21/2019	Rwanda	One year renewable remote AMI software maintenance services support contract	$61,478.00
Huawei International Co. Limited	China	05/22/2020	Huawei Technologies Co., Ltd.	China	Dept. of the Air Force[b] Date added: 02/21/2019	Regional – Eastern and Southern Africa	Contract for provision of connectivity of government entities and target user groups to the government network (NBI) project	$9,887,017.00
Individual 1[a]	Serbia	2020[a]	Individual 1[a]	Serbia	OFAC[b] Date added: 12/09/2019	Serbia	Consultant Services[a]	Appx. $100,000[a]
Xinjiang Corps 4th Construction Engineering (Group) CO. LTD	China	04/02/2021	Xinjiang Production and Construction Corps	China	OFAC[b] Date added: 07/31/2020	China	Ximen River disaster shelter square: A total of 21,600m2, with the supporting construction of emergency access, disaster prevention equipment and facilities etc.; The reconstruction of Zifu Road.	$7,160,996.16
Individual 2[a]	Pakistan	2020[a]	Individual 2[a]	Pakistan	OFAC[b] Date added: 2012	Pakistan	Consultant Services[a]	Appx. $5,000[a]

World Bank Contract Awardee Name	World Bank Contract Awardee Country	Date of Award	SAM Entity Name	Country of Primary Address	SAM Excluding Agency and Related Dates	World Bank Borrower Country	Contract Description	Contract Award Amount
Individual 3[a]	Pakistan	2020[a]	Individual 3[a]	Pakistan	OFAC[b] Date added: 2012	Pakistan	Goods[a]	Appx. $2,500[a]
Individual 3[a]	Pakistan	2019[a]	Individual 3[a]	Pakistan	OFAC[b] Date added: 2012	Pakistan	Civil Works[a]	Appx. $35,000[a]
China National Electronics Import & Export Corporation (CEIEC)	China	08/23/2021	China National Electronics Import and Export Corporation (CEIEC)	China	OFAC[b] Date Added: 11/30/2020	Bangladesh	Procurement of ICT Equipment for NDRCC / NDMRTI under DDM	$1,025,967.50
China National Electronics Import & Export Corporation (CEIEC)	China	03/28/2021	China National Electronics Import and Export Corporation (CEIEC)	China	OFAC[b] Date Added: 11/30/2020	Bangladesh	Procurement of ICT Equipment for Emergency Operation Centre (EOC) at DSCC and SCC	$2,846,840.60
China National Electronics Import & Export Corporation (CEIEC)	China	03/28/2021	China National Electronics Import and Export Corporation (CEIEC)	China	OFAC[b] Date added: 11/30/2020	Bangladesh	Procurement of ICT Equipment for Command Control Room (CCR) at FSCD, Dhaka and FSCD, Sylhet	$2,659,229.65
China National Electronics Import & Export Corporation (CEIEC)	China	03/28/2021	China National Electronics Import and Export Corporation (CEIEC)	China	OFAC[b] Date Added: 11/30/2020	Bangladesh	Procurement of ICT Equipment for Command Control Room (CCR) at FSCD, Dhaka and FSCD, Sylhet	$1,243,823.65
Individual 5[a]	Pakistan	2019[a]	Individual 5[a]	Pakistan	OFAC[b] Date added: 2012	Pakistan	Consultant Services[a]	Appx. $5,000[a]

World Bank Contract Awardee Name	World Bank Contract Awardee Country	Date of Award	SAM Entity Name	Country of Primary Address	SAM Excluding Agency and Related Dates	World Bank Borrower Country	Contract Description	Contract Award Amount
Meamar Group	Lebanon	02/01/2021	Meamar SARL	Lebanon	OFAC[b] Date added: 09/17/2020	Lebanon	Rehabilitation of COVID-19 ICU Unit	$190,890.62
Hytera Communications Corporation Limited	China	05/14/2020	Hytera Communications Corporation Limited	China	GSA[b] Date added: 12/13/2019	Bangladesh	Procurement of Specialized ICT Equipment (VHF DMR [Digital Mobile Radio] Network and Related Installations) for FSCD	$13,900,050.00

Source: GAO analysis of World Bank and Systems for Awards Management (SAM) data. | GAO-23-105543

Notes: According to the World Bank, they do not screen contract awardees against the SAM exclusions list. We programmatically and manually compared the names of World Bank borrower contract awardees from the World Bank's borrower contract award data against entities on selected U.S. sanctions and other lists of parties of concern for the period calendar year 2017 to 2021. We limited the comparison to contract awardees and entities on selected U.S. lists with the same associated country. The entries in this table represent the names of contract awardees and entities on selected U.S. lists that we determined had substantial or complete overlap. We further reviewed each contract awardee and entity to determine whether the entity was listed at the time the World Bank borrower awarded the contract.

Our analysis does not positively identify whether a contract was awarded to an entity on a U.S. sanctions or other list of parties of concern. Our analysis is based on publicly available information, and the potential matches we identified are based only on names and associated countries. The World Bank's borrower contract award data do not include other identifying information that could be used to provide assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Entities may appear on multiple U.S. lists at the same time.

[a]Due to concerns with disclosing personally identifiable information and the common nature of many names identified in our analysis, we are not publishing specific information relating to individuals that were awarded contracts. In our report, we refer to individuals as Individual 1 through Individual 6, which represent the six unique individuals we identified.

[b]SAM reports data from several U.S. agencies, and additional information on the reason for an entity's inclusion on the exclusion is not necessarily available on SAM.

Appendix III: Comments from the World Bank

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EDWARD MOUNTFIELD
Vice President
Operations Policy and Country Services

April 17, 2023

Ms. Latesha Love
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Love,

Re: Management Response to Draft Report GAO-23-105543 –
World Bank Contracting Practices and Processes

Thank you for the opportunity to comment on this draft report. The World Bank appreciates the work of the U.S. Government Accountability Office (GAO) in planning and conducting its review of World Bank (the Bank) contracting practices and processes.

The United States was a leading force in establishing the International Bank for Reconstruction and Development (IBRD) in 1944 and remains the largest shareholder of the World Bank Group today. As an international organization it is governed by its Articles of Agreement. The Bank upholds a principle of universal/open eligibility, which provides that bidders from all countries are eligible to bid for Bank-financed contracts. Narrowly defined exceptions to this principle apply in the case of entities that are subject to sanctions imposed by the United Nations Security Council under Chapter VII of the Charter of the United Nations as well as those that are specifically suspended or debarred by the Bank pursuant to its prevailing sanctions policies and procedures, including through the cross debarment agreement with other Multilateral Development Banks (MDB).

We are pleased to note GAO's acknowledgment of the reliability of the Bank's contract award data and information systems in capturing and publishing information on contracts awarded by the Bank's Borrowers under the Bank's Investment Project Financing instrument. The Bank's Procurement Framework establishes a strong competitive environment for the procurement market generated by the Bank's investment projects with a level playing field, certainty of process, and the highest integrity and sustainability standards.

The Bank's *Anti-Money Laundering and Countering Financing of Terrorism* policies and procedures include screening against sanctions lists of the U.S. (Office of

WORLD BANK GROUP

Ms. Latesha Love -2- April 14, 2023

Foreign Assets Control Specially Designated Nationals and Blocked Persons List (SDN) and Consolidated Sanctions List (Non-SDN)), United Kingdom and European Union. This screening derives from practical concerns, because the majority of Bank payments flow through U.S., UK, and EU banks and these sanctions may affect the ability of Borrowers to pay suppliers. However, the Bank's Articles of Agreement do not permit use of these or other national lists to determine eligibility in the awarding of Bank-financed contracts.

Finally, we note GAO's finding that businesses in the U.S. enjoy a high rate of success when they bid for Bank-financed contracts, winning over 70% of those contracts for which they bid. We assure you of our readiness to work with the U.S. Executive Director, Department of Commerce, and other U.S. agencies to boost participation by U.S. businesses in Bank-financed procurement through our procurement outreach program.

Sincerely,

Edward Mountfield
Vice President, Operations Policy and Country Services

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Latesha Love-Grayer, (202) 512-4409, LoveGrayerL@gao.gov

Staff Acknowledgments

In addition to the above contact, Ryan Vaughan (Assistant Director), Benjamin L. Sponholtz (Analyst in Charge), Joshua Lanier, Joshua Timko, Delanie Smither, Maureen Luna-Long, Nisha Rai, Larissa Barrett, Neil Doherty, Ashley Alley, Christopher Gresh, Gabriel Nelson, and Terry Richardson made key contributions to this report.

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