Select Committee on the Chinese Communist Party
U.S. House of Representatives
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The Chinese Communist Party’s (CCP) Objectives and the Strategic Risks of the Belt and Road Initiative (BRI)

The People's Republic of China (PRC), led by the Chinese Communist Party (CCP), seeks to become the world’s leading power, and is challenging American interests, influence, and power. Hand in hand with that come sophisticated efforts to degrade American prosperity and security.

Every country is well within its rights to pursue prosperity for its people. However, as the State Department notes, the PRC is a serious human rights abuser, including a perpetrator of “genocide and crimes against humanity.”[1] The PRC’s approach to international economics is “aggressive and coercive,”[2] making economies less free and fair.

As specifically noted in the current Administration’s 2022 National Security Strategy, China “benefits from the openness of the international economy while limiting access to its domestic market, and it seeks to make the world more dependent on the PRC while reducing its own dependence on the world.”[3] No one who values freedom and democracy would want to live in a world dominated by a PRC controlled by the CCP.

What is now called BRI was launched in 2013 as a massive and multipronged foreign economic policy initiative to grow the PRC’s economic influence. Through BRI, the PRC is developing China-centric global infrastructure, transportation, trade, and commercial networks not only in Asia, but in over 100 countries, including in Africa, Latin America, Oceania, and Europe.[4]

Chinese strategic investments are typically state-sponsored and seek to advance China’s economic and foreign policy objectives. Often these projects involve a relatively small number of PRC state firms and national champions which are effectively controlled by the Chinese government.[5]

Projects are put together using Chinese standards and expose host countries’ sensitive infrastructure – from telecommunications to energy to transportation – to Chinese control or influence. Digital infrastructure is particularly concerning given cybersecurity risks,

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[1] U.S. Department of State, "2023 Country Reports on Human Rights Practices: China (Includes Hong Kong, Macau, and Tibet)," accessed May 12, 2024.
[2] U.S. Department of State, "U.S. Relations with China," accessed May 12, 2024.
[3] Joseph R. Biden Jr., National Security Strategy of the United States of America (Washington, DC: White House, 2022), 23.
[4] CRS In Focus IF11735, China’s “One Belt, One Road” Initiative: Economic Issues, by Karen M. Sutter, Andres B. Schwarzenberg, and Michael D. Sutherland.
[5] Ibid.

including potential espionage and critical infrastructure vulnerabilities. Some analysts have pointed out that certain Chinese civilian infrastructure projects also have military applications; in addition, through the use of Chinese civilian-military interoperability standards, it is foreseeable that some foreign ports could be available for the PRC's military's use.[6] When it comes to energy, it is a PRC priority to secure long-term supplies from Central Asia and the Middle East, especially through routes the U.S. military would find especially difficult to disrupt.[7]

When it comes to financing, the PRC has a track record of locking countries into unsustainable and non-transparent debts and arrangements. In a particularly noteworthy example from 2017, when the Sri Lankan government could not repay PRC loans, a Chinese company acquired a majority stake in the firm that operates the strategically-located Hambantota port (near India, in a commercially and military critical waterway), and the right to operate the port for 99 years. As the Congressional Research Services notes, "China tends to extend the duration of its loans, rather than forgive debt repayment, which creates long-term financial dependencies."[8]

To make matters worse, the PRC uses its increasing economic power to constrain or coerce countries. A study analyzing over 100 debt financing PRC contracts signed with foreign governments found that the contracts often have clauses that restrict restructuring with 22 major creditor nations. Furthermore, the PRC frequently retains the right to demand repayment at any time, giving it the ability to use funding as a tool to enforce compliance on PRC sensitive issues such as Taiwan or the treatment of Uyghurs in Xinjiang, the site of a genocide recognized by the U.S. Government, at the hands of the PRC.[9]

In short, BRI makes it more difficult for the United States and countries with similar values to have fair and open market access, risks diverting trade away from traditional routes beneficial to the United States, and stands to increase the PRC's power over the global supply chain. Furthermore, enmeshing the PRC into sensitive infrastructure from telecommunications to ports has serious security and military implications. Finally, the PRC's greater economic and political influence through BRI stands to push countries around the world deeper into the PRC's orbit, away from the United States and other freedom- and democracy-loving countries.

Challenges and Areas for Reform of and Improvement

There is widespread agreement that the United States is engaged in a strategic competition to shape the future of the international order, and that the economic dimension of U.S.-China competition is critical.[10] Given its commitment to the rule of law,

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[6] Ibid.
[7] James McBride, Noah Berman, and Andrew Chatzky, "Backgrounder: China's Massive Belt and Road Initiative," Council on Foreign Relations, February 2, 2023.
[8] CRS In Focus IF11735, China's "One Belt, One Road" Initiative: Economic Issues, by Karen M. Sutter, Andres B. Schwarzenberg, and Michael D. Sutherland.
[9] James McBride, Noah Berman, and Andrew Chatzky, "Backgrounder: China's Massive Belt and Road Initiative," Council on Foreign Relations, February 2, 2023.
[10] U.S. Department of State, "U.S. Relations with China," accessed May 12, 2024.

transparency, and democratic principles, America's counter to BRI must be consistent with our values and inherently different from what the PRC offers – however to date such efforts have been insufficient.

1. Diffuse Responsibility and Accountability

A key challenge in this regard is that responsibility and accountability for economic and trade matters is spread across a vast range of executive departments and agencies and entities therein. This disaggregation is a problem that is decades in the making. Unfortunately, there is no simple answer to the question of "who's in charge?" when it comes to advancing America's economic interests internationally. If a U.S. company engaged in international commerce were to ask, "where do I plug in to access what the U.S. Government has to offer?," there is no succinct answer either. These problems are exacerbated by dispersed Congressional oversight. All this raises obvious and serious issues of coordination, overlap, and efficiency.

The list of Executive Branch players with line responsibility for international trade and commerce illustrates these challenges, and includes:[11]

1. U.S. Department of Agriculture.
2. U.S. Department of Commerce.
    a. International Trade Administration, including the Advocacy Center.
    b. Bureau of Industry and Security.
    c. Economic Development Administration.
    d. Bureau of Economic Analysis.
3. U.S. Department of Health and Human Services.
4. U.S. Department of Homeland Security.
5. U.S. Department of Labor.
6. U.S. Department of State.
7. U.S. Department of the Treasury.
8. Office of the U.S. Trade Representative (USTR).
9. U.S. Agency for International Development.
10. Export-Import Bank of the United States.
11. U.S. International Development Finance Corporation.
12. U.S. Trade Development Agency.

The National Economic Council (NEC) consists of department and agency heads whose policy jurisdictions affect America's economy. While the NEC and its staff in the White House play an essential policy advisory, development, and coordination role, and the NEC monitors implementation of the President's economic agenda,[12] the NEC is not an operational entity; responsibility for executing the president's economic agenda lies with departments and agencies. In addition, while independent agency heads may in theory report to the President, in practice they often do not in a real sense, thereby diminishing their influence and potential for impact.

[11] CRS In Focus IF 11016, *U.S. Trade Policy Functions: Who Does What?*, by Shayerah I. Akhtar.
[12] The White House, National Economic Council, accessed May 13, 2024.

2. Strategy and Accountability

While the national security strategies of the Biden and Trump Administrations valuably address international economic competition and economic security, the United States, in contrast to Japan and the European Union, does not have a dedicated economic security strategy.[13] Given all the economic players the United States has on the field, producing a strategy on international economic competition would necessarily force needed thinking on priorities, tradeoffs, courses of action, roles and responsibilities, and resourcing (including how to proceed in a cost-neutral or cost-savings manner).

A necessary element of such a strategic review will be to assess each department's and agency's current activities, contributions, and return on taxpayer investment in economic competition. Given that many programs and initiatives were set up in different eras, is what is being done now relevant to, and accessible by, America's private sector?

Development of an integrated and up-to-date economic competition strategy would also advance accountability and congressional oversight, and represents an opportunity to provide greater empowerment, leadership authority, and resourcing of natural leaders in the space such as the Departments of Commerce and the Treasury, who (along with the Department of State and USTR) are especially critical to our government's contribution to America's long-term success.

3. Interagency Teams

A noteworthy success driver on this journey will be greater use of dedicated interagency teams to tackle hard and enduring challenges in economic statecraft that are crosscutting and bigger than the piece parts of our government's individual departments and agencies. While the issues tackled can be specific or broad, and some can be addressed in ad hoc or enduring ways, a useful model to consider from a different context – counterterrorism – is instructive.

The National Counterterrorism Center (NCTC) leads the our nation's effort to protect the United States from terrorism by integrating, analyzing, and sharing information to drive whole-of-government action to achieve America's counterterrorism objectives.[14] NCTC provides analysis, planning, and information sharing with partners across the vast counterterrorism enterprise, and draws into its ranks professionals from across the Federal government, with its workforce representing approximately 20 different departments and agencies.[15]

(For thought leadership on the use of interagency teams and whole-of-government approaches, I refer you to the work of the bipartisan Project on National Security Reform (PNSR), in which I was briefly involved. PNSR's work in 2008 focused on traditional

[13] Emily Benson and Catharine Mouradian, "How Do the United States and Its Partners Approach Economic Security?," CSIS, https://www.csis.org/analysis/how-do-united-states-and-its-partners-approach-economic-security, accessed May 13, 2024.
[14] https://www.dni.gov/index.php/nctc-who-we-are/mission-vision, accessed May 13, 2024.
[15] https://www.dni.gov/index.php/nctc-home, accessed May 13, 2024.

national security challenges, however its lessons and insights are relevant to today's economic competition and its broader implications.)[16]

4. Incentives

For a whole-of-government approach to work optimally, Congress and the Executive Branch should ensure that federal employees have greater incentives to seek out and succeed in those interagency assignments. A useful model is that of "joint" assignments in the Department of Defense, which are essential to receive top promotions, and offer numerous benefits such as:

1. Broader perspectives and enhanced working knowledge across entities.
2. Cross-pollination of skills and understanding of best practices.
3. Greater efficiency and coordination in the overall mission of advancing economic and trade efforts.
4. Career growth development and advancement through exposure to new challenges.

More broadly, our government has room for improvement when it comes to structurally incentivizing wins for U.S. businesses. Federal employee performance ratings and compensation should more fully take into account appropriate support to U.S. companies engaged in global competition, including the number of deals supported and the number of U.S. company wins achieved. (At the same time, departments and agencies should ensure Federal employees have clear guidance and colleagues to talk to about how to ethically and fairly support American companies, and assuage public servant concerns that working closely with U.S. companies poses risks.) After all, when American businesses succeed, the results include jobs for Americans, stronger U.S. companies, greater revenue for the Treasury, and closer integration with allies and partners.

5. One-Stop-Shop

Because the heart of American innovation, job creation, prosperity, and economic strength lies squarely in the private sector, our government's maintaining a close partnership with U.S. companies engaged in fierce competition against state-backed entities is necessary. Many U.S. businesses, however, particularly those that cannot afford a robust presence in Washington either through staff or consultants, are frustrated when it comes to figuring out how to draw on the considerable U.S. Government resources that taxpayers are already funding.

While it may not be feasible to have a complete one-stop-shop, we can and should do more, consistent with limited government and free market principles (and not picking winners and losers), when it comes to our government systematically, predictably, proactively, and coherently referring businesses (both American companies and foreign companies seeking to do business with them) to the right agency, and guiding them as their needs and opportunities evolve.

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[16] https://apps.dtic.mil/sti/pdfs/ADA491826.pdf, accessed May 13, 2024.

6. Export-Import Bank of the United States (EXIM)

EXIM represents a significant but underutilized tool of statecraft. As the official export credit agency of the United States, its mission is to support American jobs by facilitating the export of U.S. goods and services. While I wish governments did not interfere in the free market, there are over 100 export credit agencies in the world, and it is unwise and unfair to American workers and companies to ask them to fend for themselves in the face of state-supported competitors, particularly from the PRC.

(a) When it comes to congressional oversight, I recommend that EXIM's leadership be asked the following:

(i) Under EXIM's December 2019 reauthorization (P.L. 116-94), Congress directed EXIM to establish a "Program on China and Transformational Exports" (Sec. 402) (commonly referred to as "China and Transformational Exports Program (CTEP)") to compete with state-backed PRC competitors. Per the statute, EXIM has the goal of reserving not less than 20 percent of the agency's total financing authority (i.e., $27 billion out of a total of $135 billion) for support made pursuant to the program.[17]

a. How much of the $27 billion has been used to date toward the China program?
b. How many PRC-competition deals are in the pipeline?
    i. What internal business process reforms have been or should be implemented to encourage CTEP deals?
c. Has EXIM attracted and retained the talent it needs to execute the program, participate in interagency PRC competition, and engage robustly with the private sector?
d. Overall, what is EXIM's business plan to fulfill Congress' intent in section 402?

(ii) Should Congress update the list of 10 transformational export areas? (Renewable energy, artificial intelligence, biotechnology, biomedical sciences, wireless communications equipment, quantum computing, semiconductors, emerging financial technologies, water treatment and sanitation, and high-performance computing.) Should any areas be added, dropped, or refined based on the last 4 years of experience?

(b) Below are several proposals to increase EXIM's impact and support American jobs and employers.

(i) Repeal the statutory prohibition on EXIM financing defense articles and defense services.

[17] https://www.exim.gov/about/special-initiatives/ctep/strategic-context-congressional-mandate, accessed May 14, 2024.

The U.S. defense industry operates responsibly with close oversight from the Executive and Legislative branches, and it supports nearly 2 million American jobs.[18] When allies and partners buy American defense articles and services, not only do they support American workers, they advance America's security through greater interoperability in military operations and by using systems that are known for their high quality, effectiveness, and reliability. In addition, procuring U.S. defense systems leads to shared training, logistics, and maintenance, as well as long-term person-to-person relationships across countries.

Given the significant dollar size of many defense procurements, defense financing should be capped, at least initially, to a certain reasonable percentage of EXIM's $135 billion total lending authority so as not to swamp the bank financially or in terms of its staff workload. Twenty percent ($27 billion) is a good place to start.

(ii) For competition in sectors key to America's long-term security and prosperity, replace EXIM's current U.S. content policies with an approach based on export value and job creation.

As explained by Stephen Renna, EXIM's former Chief Banking Officer and my former colleague at the agency, other major countries' export credit agencies evolved away from content as a primary criterion, instead focusing on the export value and jobs created or supported in their home countries.[19]

EXIM's current policy allows it to finance up to the amount of U.S. content value in an export; however, often the key value add is technological innovation that takes place in the United States, not necessarily the component manufacturing which can be – and often is – manufactured in many countries. This current policy is cited by those who seek EXIM's services as the greatest limiting feature of EXIM.[20]

(iii) Raise EXIM's 2% statutory default limit to 4%, and if the revised default rate is exceeded, allow one year (12 months) to cure the default rate before limits on operations are required.

Currently, if EXIM incurs a default rate of 2% or more, it must cease all lending operations until the default rate falls below 2%. Given that EXIM's mandate is to support U.S. exports when the private sector is unable or unwilling to provide financing, or when U.S. exports compete again exports from countries backed by foreign export credit agencies, the current approach is overly risk averse and chills support in badly needed areas of competition with the PRC. One additional option is to consider having CTEP deals be carved out of the default cap calculation.

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[18] Aerospace Industries Association, "Aerospace & Defense Supports Nearly 2 Million American Jobs," accessed May 13, 2024.

[19] Stephen Renna, "Proposed EXIM (Export-Import) Bank Reforms: Difference Makers for U.S. Companies," March 12, 2024, accessed May 12, 2024.

[20] Ibid.

EXIM's own Office of Inspector General issued a finding last year that, "EXIM's Two Percent Default Rate Cap, a Statutory Requirement, Is Unique Among OECD [Export Credit Agencies] and Discourages Its Staff from Taking Risks and Meeting Other Congressional Mandates."[21]

(iv) Update EXIM's underwriting standard from "reasonable assurance of repayment" to "reasonable likelihood of repayment" in order to enable EXIM to more effectively support U.S. companies competing against state-backed entities, particularly from the PRC.

As Renna explains, given EXIM's less than 1% historical default rate, the current underwriting standard is overly risk averse and leaves U.S. exporters frustrated and disadvantaged relative to the PRC.[22]

(v) Put into law (i.e., through EXIM's charter), EXIM's "Make More in America Initiative" (MMIA).

As EXIM itself notes, many American manufacturers in sectors critical to America's national security, including small- and medium-sized enterprises, are challenged in obtaining financing to compete for global sales. To help companies make more in America, EXIM adopted a policy change making available the agency's existing medium- and long-term loans, loan guarantees, and insurance to export-oriented domestic manufacturing projects.[23] Instead of hinging EXIM financing on the amount actually exported, financing is based on the number of U.S. jobs supported across the export lifecycle.[24] This policy complements EXIM's foreign buyer financing programs, fostering growth and security of critical supply chains while continuing to meet EXIM's core mission of supporting U.S. jobs.[25]

<u>Conclusion</u>

This is a time of great consequence for our country. Addressing the hard but pressing issues described above will contribute materially to our long-term success. I commend the bipartisan work of the U.S. House of Representatives Select Committee on the Chinese Communist Party and look forward to being a resource to you.

David Trulio

[21] See Finding 4. https://www.oversight.gov/sites/default/files/oig-reports/EIB/EXIM-OIGECA-EvaluationOIG-EV-23-04FINAL.pdf, accessed May 14, 2024.
[22] Ibid.
[23] https://www.exim.gov/about/special-initiatives/make-more-in-america-initiative, accessed May 14, 2024.
[24] Stephen Renna, "Proposed EXIM (Export-Import) Bank Reforms: Difference Makers for U.S. Companies," March 12, 2024, accessed May 12, 2024.
[25] https://www.exim.gov/about/special-initiatives/make-more-in-america-initiative, accessed May 14, 2024.