Testimony before the
Senate Committee on Finance
Subcommittee on International Trade, Customs and
Global Competitiveness
United States Senate

Hearing on
“China’s Belt and Road Initiative”

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

I. Overview of the Commission and its Study of BRI

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

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

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

II. The History and Current State of the Belt and Road Initiative

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

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

Broadly, BRI’s land-based “Belt” crosses from China to Central and South Asia, to the Middle East, and then to Europe. The sea-based “Road” connects China with South Asia, the Middle East, East Africa, and Europe via sea lanes that traverse the South China Sea, Indian Ocean, Red Sea, Suez Canal, and Eastern Mediterranean. (See map in Appendix 1.)

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

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

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

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

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

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

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

- Italy officially “joined” BRI, the first G7 member and Western country to do so. Italian firms signed deals with Chinese counterparts worth $2.8 billion. Among the BRI projects in Italy are Chinese investments in the ports of Genoa and Trieste.
- Kenya announced at the second Belt and Road Forum three agreements and two MOUs on education, science, technology and innovation.
• Argentina (a “member” of BRI) and China renewed talks on Chinese financing for a stalled nuclear power plant and announced a $28 million deal with ZTE to help build fiber optic cable systems.\textsuperscript{11}

• Interestingly, President Macron of France announced 15 business deals worth about $45 billion including 300 Airbus planes, but carefully noted France was not “joining” the BRI and, in fact, pushed back against it, noting that Silk Road cooperation must work in both directions and meet international norms.\textsuperscript{12}

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

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

\section*{III. The Digital Silk Road}

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

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

The Digital Silk Road is China’s plan for integrating digital sectors like telecommunications (ZTE, China Mobile, and Huawei), the Internet of Things, and e-commerce (Alibaba and JD.com) to create regional connectivity. The Digital Silk Road threatens U.S. businesses and market access in critical telecom and technology. The plan calls for construction of cross-border optical cables and other communications networks. According to Chen Zhaoxiong, China’s Vice Minister of Industry and Information Technology, the Digital Silk Road will help “construct a community of common destiny in cyberspace,” a phrase mirroring language China uses to describe its preferred vision for a global order aligned to Beijing’s liking.16

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

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

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

IV. Opportunities for U.S. Firms

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

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

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

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

V. China’s Political and Economic Leverage

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

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

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

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VI. The Next Steps

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

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

Thank you, again, for the opportunity to testify. I look forward to your questions.
Appendix 1: Map of BRI

The Belt and Road Initiative creates a global infrastructure network
China uses, acquires and builds railroads, ports and pipelines
### Appendix 2: Select U.S. Firms Participating in BRI

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<tr>
<th>Firm</th>
<th>Participation</th>
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<tr>
<td><strong>AECOM</strong></td>
<td><strong>Partnerships in engineering, procurement, and construction (EPC):</strong> In May 2017, AECOM signed a memorandum of understanding with Chinese construction 3-D printing company WinSun. Under the agreement, the companies will explore opportunities to collaborate on 3D printing for building design and construction projects, particularly in the Middle East, for a three-year period. In January 2018, AECOM was selected by China Communications Construction Company to provide site supervision services for the stations, viaducts, tunnels, and depots of the East Coast Rail Link project in Malaysia.</td>
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<td><strong>Black &amp; Veatch</strong></td>
<td><strong>Partnerships in EPC:</strong> In October 2017, Black &amp; Veatch and China Tianchen Engineering Corporation (TCC) signed a memorandum of understanding to cooperate on developing gas, chemical, and fertilizer infrastructure projects throughout Asia, including in Indonesia, Thailand, Vietnam, Singapore, Burma, Bangladesh, Pakistan, Kazakhstan, and Tajikistan.</td>
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<td><strong>Caterpillar</strong></td>
<td><strong>Supplying construction machinery:</strong> In 2016, Caterpillar released a white paper on its “vision and commitment for the shared success of [BRI]” in which the company outlined potential areas of cooperation with Chinese companies in BRI countries, including partnering on infrastructure projects and providing project finance. In September 2017 Caterpillar CEO Jim Umpleby said the company “[is] working with Chinese SOEs in 20 [BRI] countries on projects ranging from roads, ports, mines and oil fields.” This includes supplying machinery, training, and maintenance services to China Communications Construction Company for the renovation of the Zhrobin-Bobruisk expressway in Belarus, which was completed in July 2016. In November 2017, Caterpillar and Chinese SOE China Energy Investment Corporation signed a five-year strategic cooperation framework agreement outlining future agreements for mining equipment sales and rentals, technology applications and product support provided by Caterpillar. <strong>Financing:</strong> Caterpillar is providing project finance for Chinese companies to boost BRI sales, according to company executives. The company does not disclose data for such lending.</td>
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<td><strong>Fluor</strong></td>
<td><strong>Partnerships in EPC:</strong> Lu Yaming, general manager of Fluor China, noted in a May 2017 interview with an energy industry publication that Fluor and a Chinese EPC company were recently awarded a project for a gas-fired power plant in the Middle East.</td>
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<td><strong>Firm</strong></td>
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<td>Firm: Honeywell</td>
<td><strong>Partnerships in EPC:</strong> In May 2017, Honeywell signed a partnership agreement with China’s Wison Engineering Ltd. to jointly provide methanol-to-olefin technologies and EPC services to customers outside of China, particularly in countries included in BRI.</td>
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<td>(Engineering,</td>
<td><strong>Supplying power equipment:</strong> In 2016, GE received $2.3 billion in orders for natural gas turbines and other power equipment from Chinese EPC firms to install overseas, including in Pakistan, Bangladesh, Kenya, and Laos. In 2014, GE received $400 million in orders from Chinese firms for equipment to install overseas. According to GE China CEO Rachel Duan, “Africa is the market offering the greatest market potential for GE and Chinese EPC firms, followed by the Middle East, South Asia, Southeast Asia, and Latin America.”</td>
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<td>procurement, and</td>
<td><strong>Financing:</strong> In November 2017, GE Energy Financial Services and China’s Silk Road Fund signed a cooperation agreement to launch an energy infrastructure investment platform to invest in power grid, renewable energy, and oil and gas infrastructure in BRI countries. Separately, Jay Ireland, CEO of GE Africa, said that the company had set up a $1 billion infrastructure fund to help finance projects in Africa. According to Mr. Ireland, one-third of Chinese EPC companies’ equipment orders with GE in 2016 were destined for projects in Africa.</td>
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<td>Firm: Citigroup</td>
<td><strong>Financial services:</strong> Citigroup provides a range of financial services (i.e., mergers and acquisitions, cash management, trade finance, and hedging) to Chinese firms and multinational corporations operating in 58 BRI countries.</td>
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<td>(Financial services)</td>
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<tr>
<td>Goldman Sachs</td>
<td><strong>Financing:</strong> In September 2016, Goldman Sachs—along with Bank of China, DBS Bank, and Standard Chartered—formed a working group to support the development of a standardized “Silk Road bond” that can be traded internationally to help BRI countries tap a wider source of funds.</td>
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