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Statement Before the

House Foreign Affairs Committee
Subcommittee on Asia and the Pacific

"Development Finance in Asia"

A Testimony by:

Dan Runde

William A. Schreyer Chair and Director,

Project on Prosperity and Development

Center for Strategic and International Studies (CSIS)

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2172 Rayburn House Office Building

Introduction and Main Points

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

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

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

A Changed Asia

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

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

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

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

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

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

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

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

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

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[2] *ABCs of IDA*. The World Bank Group. (https://ida.worldbank.org/results/abcs/abcs-ida%E2%80%94key-achievements-country)

[3] *The World Bank at 75*. Center for Global Development. 2015. (https://www.cgdev.org/sites/default/files/world-bank-75-revised-3-26-15_0.pdf)

[4] Center for Global Prosperity at Hudson Institute, Table 1, in *The Index of Global Philanthropy and Remittance 2016.*

[5] Moody's Country Credit Rating. (https://countryeconomy.com/ratings/moodys)

China as a Soft Power Competitor

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

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

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

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

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

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

Development Finance Institutions

Let me spend a minute on defining development finance institutions.

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

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

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

[11] World Bank's *Benchmarking Public Procurement Report (2017)* (http://bpp.worldbank.org/~/media/WBG/BPP/Documents/Reports/Benchmarking-Public-Procurement-2017.pdf)

[12] *Development Finance Institutions Come of Age: Policy Engagement, Impact, and New Directions*, CSIS (https://csis-prod.s3.amazonaws.com/s3fs-public/publication/161021_Savoy_DFI_Web_Rev.pdf)

[13] *Development Finance Institutions Come of Age*, Forbes.com (https://www.forbes.com/sites/danielrunde/2014/10/17/development-finance-institutions-come-of-age-dfi/#4e3917525c2c)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Conclusions

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

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

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

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