



**Statement before the
U.S. - China Economic and Security Review Commission**

***“A ‘China Model?’ Beijing’s Promotion
of Alternative Global Norms and
Standards.”***

A Testimony by:

Jonathan E. Hillman

Senior Fellow, Simon Chair in Political Economy, and Director,
Reconnecting Asia Project, CSIS

March 13, 2020

215 Dirksen Senate Office Building

Introduction

Thank you for the opportunity to testify on China's promotion of alternative global norms and standards. I will focus on China's activities in three main areas:

1. Creating alternative institutions,
2. Working within existing institutions, and
3. China's Belt and Road Initiative (BRI), which touches both alternative and existing institutions.

As I'll explain, China's efforts to establish new institutions require further monitoring, but it would be a mistake to exaggerate their current scale and effectiveness. Beijing's willingness to start new institutions underscores its global ambitions and adds weight to its rhetoric about creating an alternative order.¹ But the challenges these efforts face are just as revealing. China's highest-profile initiatives have not delivered on their promises. Many operational and political barriers stand in the way. Most fundamentally, the world is not clamoring for Chinese leadership.

The more immediate and higher-stakes battle for influence remains within existing institutions. Having benefitted greatly from participating in existing institutions, China has little to gain from walking away from them. Instead, it is becoming a more influential actor within existing institutions and adopting a variety of strategies—participating, obstructing, or opposing—as individual issues require.² In recent years, U.S. neglect of these institutions has provided China more opportunities to advance its interests.

Most important, however, are China's bilateral activities. Beneath the BRI's multilateral veneer is an ocean of bilateral deals.³ Every project is a negotiation, and acting bilaterally allows China to be the strongest party at the table, increasing the likelihood that its partners will accept terms that favor Chinese interests. As reputational and financial challenges mount along the BRI, China is exploring ways to “multilateralize” these efforts, but it is unclear whether it is ready to pay the short-term costs required to do so. Sharing these risks requires sharing benefits more equitably and giving up some control.

After examining these three areas, I will conclude with brief recommendations for the United States and Congressional action.

¹ Nadege Rolland, *China's Vision for a New World Order* (Seattle: National Bureau of Asian Research, January 2020), https://www.nbr.org/wp-content/uploads/pdfs/publications/sr83_chinasvision_jan2020.pdf.

² G. John Ikenberry and Darren J. Lim, “China's Emerging Institutional Statecraft: The Asian Infrastructure Investment Bank and the Prospects for Counter-Hegemony,” *Brookings*, April 2017, <https://www.brookings.edu/wp-content/uploads/2017/04/chinas-emerging-institutional-statecraft.pdf>; Evan A. Feigenbaum, “Reluctant Stakeholder: Why China's Highly Strategic Brand of Revisionism is More Challenging than Washington Thinks,” *Carnegie Endowment for International Peace*, April 27, 2018, <https://carnegieendowment.org/2018/04/27/reluctant-stakeholder-why-china-s-highly-strategic-brand-of-revisionism-is-more-challenging-than-washington-thinks-pub-76213>.

³ Jonathan Hillman, *The Emperor's New Road: China and the Project of the Century*, (New Haven, CT: Yale University Press, 2020 (forthcoming)).

Shock and Flaw: Alternative Institutions

New institutions make great headlines. They often reveal the weaknesses of existing institutions, and in doing so, appear to suggest the status quo cannot hold. If something is beginning, it is tempting to conclude that something else must be ending. When China is behind new institutions, the storylines come easily: Beijing is rising, and Washington is declining. That's exactly how Beijing likes it, and these narratives are a major incentive for announcing new initiatives.

But building effective institutions is incredibly difficult, even more so if they are multilateral. And while the desire for new institutions often does reflect the shortcomings of existing institutions, replacement is a high bar. Historically, the conditions for replacement have come in the aftermath of global conflicts. In the absence of those conditions, replication is more likely than replacement. China's efforts to build new institutions have understandably generated anxiety, but that shock often distracts from the flaws of its new offerings.

The Asian Infrastructure Investment Bank (AIIB) vividly captures these dynamics. Five years ago, many observers interpreted its launch as directly undermining the United States. "The AIIB is the realisation of a long push by China to rewrite the rules of global economic and financial governance,"⁴ one commentator wrote. Another called it "the moment the United States lost its role as the underwriter of the global economic system."⁵ Yet another said, "The United States has lost its way and is rapidly forfeiting claims to global financial, economic, political and moral leadership."⁶ These simple narratives—win-lose, rise-decline—were irresistible.

Since then, the AIIB has done more to replicate existing practices than to revise them. Its governing charter borrows extensively from existing MDB charters.⁷ Two-thirds of its senior staff spent time at those institutions. Roughly half of its projects have been co-financed with other MDBs. In sum, its policies, people, and processes all reflect existing institutions.

It is still early days at the AIIB, of course, and these activities could change. To date, the AIIB has invested roughly \$12 billion.⁸ To put this into perspective, the Asian Development Bank (ADB) invested roughly that amount in energy, transport, and water, and other infrastructure services in 2018 alone, plus an additional \$9 billion in other commitments.⁹ As of March 2019, China Development Bank had provided over \$190 billion in financing for projects under China's

⁴ Cary Huang, "China-led Asian Bank Challenges U.S. Dominance of Global Economy," *South China Morning Post*, April 11, 2015, <https://www.scmp.com/news/china/economy/article/1763525/china-led-asian-bank-challenges-us-dominance-global-economy>.

⁵ Lawrence Summers, "Time U.S. Leadership Woke Up to a New Economic Era," *Financial Times*, April 5, 2015, <https://www.ft.com/content/a0a01306-d887-11e4-ba53-00144feab7de#axzz3XokgNEX2>.

⁶ Kevin Rafferty, "U.S. Forfeiting Its Leadership in Global Finance to China," *Japan Times*, March 23, 2015, <https://www.japantimes.co.jp/opinion/2015/03/23/commentary/world-commentary/u-s-forfeiting-its-leadership-in-global-finance-to-china/#.XmEBN6hKgDU>.

⁷ Natalie Lichtenstein, *A Comparative Guide to the Asian Infrastructure Investment Bank* (Oxford: Oxford University Press, 2018). <https://global.oup.com/academic/product/a-comparative-guide-to-the-asian-infrastructure-investment-bank-9780198821960?cc=us&lang=en&>.

⁸ AIIB, "Asian Infrastructure Investment Bank," AIIB Accessed March 2, 2020, <https://www.aiib.org/en/index.html>.

⁹ ADB, *Asian Development Bank: 2018 Annual Report*, (Manila: Asian Development Bank, 2019), <https://www.adb.org/sites/default/files/institutional-document/496016/adb-annual-report-2018.pdf>.

BRI.¹⁰ Yet the announcement of the AIIB inspired greater anxiety in Washington than the announcement of China's BRI.¹¹

And while the worst fears about the AIIB have not yet come to pass, neither have its grand promises of being a new institution that is "lean, clean, and green" – at least in any way that is significantly better than existing MDBs. Its staff is "lean" because it has relied on co-financing arrangements with existing MDBs, which, for the most part, have done the heavy technical lifting in assessing and monitoring projects. Scaling up and becoming more self-sufficient will surely require more staff. Likewise, commitments to anti-corruption ("clean") are based on existing practices. The AIIB aspires to be "green" but has not ruled out using coal in its energy strategy.

The New Development Bank (NDB), originally known as the BRICS Development Bank, is often mentioned alongside the AIIB, but it has several important distinctions.¹² It is less transparent than the AIIB and provides less project documentation to the public. It does not participate in the cross-disbarment processes of the leading MDBs, which suspend firms for fraud and corruption. The NDB's social and environmental standards are also less developed than the AIIB's. It has invested \$10.2 billion since beginning operations in 2016, with all its projects occurring within the five participating countries.

Other constraints suggest the NDB will remain a relatively marginal institution. Since it is an institution by five countries, for the benefit of those five countries, its reach is limited. Differences among the five countries pose challenges as well. Sanctions against Russia, for example, have made it more difficult to lend to Russian companies. New Delhi played a more active role in its founding than did Beijing, and tensions between them could limit cooperation in the future. What its members do have in common are poor credit ratings, which limits the NDB's ability to raise capital.

The Shanghai Cooperation Organisation (SCO) is another effort that appears more consequential than it is in reality. It was founded in 1995 as the "Shanghai Five" to focus on combatting the "three evils" of extremism, terrorism, and separatism. In 2001, Uzbekistan joined, and the group was renamed the SCO. Until recently, China and Russia have set the agenda for the most part, but the SCO operates by consensus, which limits its agency. In 2017, India and Pakistan became members. While their participation increases the top-line statistics that the SCO can claim in terms of population and GDP, it only makes reaching consensus more difficult.

In recent years, China has tried to expand the SCO's economic agenda. It has floated the idea of a trade agreement among members and a development bank, but neither effort has moved forward. Moscow wants to protect its interests in the Russian-led Eurasian Economic Union, and

¹⁰ Reuters, "China Development Bank Provides Over \$190 Billion for Belt and Road Projects," *Reuters*, March 27, 2019, <https://www.reuters.com/article/us-china-finance-cdb-bri/china-development-bank-provides-over-190-billion-for-belt-and-road-projects-idUSKCN1R8095>.

¹¹ Daniel W. Drezner, "Counter-Hegemonic Strategies in the Global Economy," *Security Studies* 28 (2019): 505-531. <https://www.tandfonline.com/gate3.library.lse.ac.uk/doi/full/10.1080/09636412.2019.1604985>.

¹² Hongying Wang, "The New Development Bank and the Asian Infrastructure Investment Bank: China's Ambiguous Approach to Global Finance Governance," *Development and Change* 50, no. 1 (2019): 221-244. <https://onlinelibrary.wiley.com/doi/abs/10.1111/dech.12473?af=R>.

is wary of deeper economic integration, despite official promises to “link” it with China’s BRI. India’s joining the SCO also further complicates trade efforts. The SCO continues to generate intrigue as a non-Western arena for global governance, but these bigger economic efforts remain aspirational.¹³

China is also laying the foundation for alternative financial institutions – a broad set of activities that warrants a separate hearing. Briefly, I will focus specifically on China’s credit ratings, as the Commission requested. Important related areas include China’s bilateral swap agreements, its development of digital currency, e-commerce, and other financial services. The United States remains in a strong position in international financial systems, but the benefits that flow from the dollar’s status as the world’s reserve currency are often taken for granted.¹⁴ The overuse of U.S. sanctions unintentionally gives momentum to China’s alternatives and could erode the U.S. ability to use these tools of financial statecraft.

Credit ratings are consequential because they influence the interest rates that companies and governments pay. Higher ratings signal lower risk of default, giving investors the confidence to offer lower rates. The “Big Three” credit rating agencies are Standard & Poor’s (S&P), Moody’s, and Fitch Group, and all are either based in the U.S. or dual-headquartered in New York and London (Fitch). On occasion, typically following downgrades of China’s sovereign debt, Chinese officials have accused these firms of bias.¹⁵

China has struggled to develop its own ratings agencies, which lack the independence and trust that the “Big Three” have developed over time. Of China’s nine domestic rating agencies, five have some degree of state ownership.¹⁶ These domestic agencies have been generous, with 80 percent of their ratings at AA or higher.¹⁷ One study found that domestic ratings were 6-7 notches higher, on average, than ratings by global agencies.¹⁸ This is an economic equivalent of the Lake Wobegon effect: In China, all economic fundamentals are strong, all debt is good-looking, and all companies are above average.

Ratings also reflect, and can influence, governance norms. Although technical, they essentially make judgements about the strengths and weaknesses of the entities they rate. An alternative way of evaluating risk is not simply a pronouncement that an interest rate should be adjusted. In the case of sovereign ratings, it can also reflect judgements about whether state interventions in the economy, and control of society, are viewed positively or negatively.

¹³ Alexander Cooley, “What’s Next for the Shanghai Cooperation Organization?,” *Diplomat*, June 1, 2018, <https://thediplomat.com/2018/06/whats-next-for-the-shanghai-cooperation-organization/>.

¹⁴ Carla Norrlof, Paul Poast, Benjamin J Cohen, Sabreena Croteau, Aashna Khanna, Daniel McDowell, Hongying Wang, W Kindred Winecoff, Global Monetary Order and the Liberal Order Debate, *International Studies Perspectives*, ekaa001 (February 2020), <https://doi.org/10.1093/isp/ekaa001>.

¹⁵ Bonnie Cao, “China’s Finance Minister Accuses Credit-Rating Companies of Bias,” *Bloomberg*, April 16, 2016, <https://www.bloomberg.com/news/articles/2016-04-16/china-s-finance-minister-accuses-credit-rating-agencies-of-bias>.

¹⁶ Kate Jaquet, “Understanding China’s Bond Ratings,” *Diplomat*, June 27, 2019, <https://thediplomat.com/2019/06/understanding-chinas-bond-ratings/>.

¹⁷ Hudson Lockett and Yizhen Jia, “China’s Bond Market is Opening—But are the Rating Agencies Ready?” *Financial Times*, April 4, 2019, <https://www.ft.com/content/e6ea3c7c-55f8-11e9-91f9-b6515a54c5b1>.

¹⁸ Xianfeng Jiang and Frank Packer, “Credit Ratings of Domestic and Global Agencies: What Drives the Differences in China and How are They Priced?,” *BIS Working Papers* 648 (June 2017), <https://www.bis.org/publ/work648.htm>.

One of China's oldest rating agencies, Dagong, is a cautionary tale. China's domestic agencies have focused on domestic municipal and corporate ratings, but in 2010, Dagong ventured into providing sovereign ratings. It gifted China an AA+ rating, and demoted the United States to an AA rating. By 2018, the company was issuing ratings for almost 90 countries.¹⁹ As my colleague Scott Kennedy has found, Dagong was systematically underrating democracies and overrating authoritarian regimes. No one took this stunt seriously, as Kennedy points out, but the ratings could "reinforce other prominent norms favored by Beijing, including state intervention in the economy and regime control of information and the internet."²⁰

Because China does not have a rating agency with the name recognition and trustworthiness of the Big Three, it may be better served by coopting existing rating agencies. Last year, China granted the first approval to a foreign credit rating agency, S&P Global, to rate China's domestic debt. S&P uses the same range of ratings to grade China's domestic debt as it does internationally, but the ratings are not intended to be equivalent. This could change in the future, but even if technical hurdles are overcome, China may resist efforts to map its domestic ratings until the comparisons are more favorable. For now, China appears to get the best of both worlds: a trusted global brand and its own set of ratings.²¹

The Open Door: Existing Institutions

Even as China creates alternatives, it is intensifying activities within existing institutions. U.S. disengagement from these institutions has provided China with more opportunities to assume leadership positions and advance its interests. Recently, U.S. officials appear energized by China's growing clout in these institutions. Hopefully that anxiety is channeled toward productive ends, including greater U.S. financial and diplomatic engagement. Otherwise, these reactions risk missing the bigger point: existing institutions are worth strengthening and updating to advance U.S. interests regardless of China.

Chinese officials lead 4 of 15 UN agencies, and naturally use these positions to advance Chinese interests. At the International Civil Aviation Organization (ICAO), which coordinates safe and secure air traffic, China has blocked Taiwan's participation as an observer. This prevents the agency from sharing information with an important aviation hub. This information-sharing can be critical during crises such as the on-going spread of coronavirus. Beijing's insecurity is apparent in ICAO's habit of blocking Twitter users who criticize ICAO for excluding Taiwan.

At the International Telecommunication Union (ITU), China has pushed standards that strengthen the role of the state. It has tried to remove references to "freedom of expression" and "democratic" and advocated for using "multilateral" rather than "multistakeholder," the latter implying the need to include the views of civil society and businesses rather than just those of

¹⁹ In August 2018, Dagong received a one-year suspension from rating debt after the government discovered it was charging "consultation" fees from companies it rated. In the wake of the scandal, China Reform Holdings, a state-owned company, stepped in to acquire it.

²⁰ Scott Kennedy, "In China's Credit Ratings, Democracies Pay a Price," *Foreign Policy*, August 8, 2019, <https://foreignpolicy.com/2019/08/08/976045-china-dagong-credit-creditratings-democracy/>.

²¹ China is not the only country that S&P uses a national ratings scale that is not mapped to its global ratings. Others include India and Israel.

the government.²² China promotes “cyber-sovereignty,” which justifies censorship, data localization, and other practices at odds with a free and open internet. With a growing number of countries interested in this approach, China is eager for the UN to play a larger role in internet governance.²³

Chinese companies are highly active at the ITU as well. They flood working groups with proposals and show up in large numbers. An investigation by *The Financial Times* last December found that Chinese companies had made every submission for surveillance standards to the ITU during the previous three years.²⁴ Standards adoption is voluntary, but having the blessing of a UN agency lends legitimacy, and developing countries in particular often look to the ITU for guidance. Chinese firms are the leading suppliers of surveillance equipment, so setting ITU standards could further cement their position in emerging markets.

China’s success in winning last year’s election to lead the Food and Agriculture Organization (FAO) appears to have been a wake-up call for the United States. The United States opposed China’s candidate for the director-general spot, but did so relatively late in the process and without a coherent strategy.²⁵ The U.S. representative to the FAO was confirmed last April, roughly two months before the election. Rather than band together with the EU, the United States supported a different candidate. That loss was all the more striking because the U.S. and EU are the FAO’s leading funders.

The FAO episode also revealed the high priority China placed on winning the position, and the lengths to which it was willing to go. According to reports, China allegedly cancelled some of Cameroon’s debt so that it would drop its candidate from the race, paid for first-class airfare and luxury accommodation for foreign officials and their families, and threatened to block exports from South American countries. After its candidate won, China’s Ministry of Foreign Affairs said the election was a “show of high appreciation of China’s support for multilateralism and advancing global development.”²⁶

It is encouraging that U.S. officials were more successful in the most recent UN agency election. Last week, China’s candidate for the World Intellectual Property Organization lost the election to Singapore’s candidate, who was supported by the United States. More elections are coming. Six

²² Dan Levin, “At UN, China Tries to Influence Fight Over Internet Control,” *New York Times*, December 16, 2015, <https://www.nytimes.com/2015/12/17/technology/china-wins-battle-with-un-over-word-in-internet-control-document.html>.

²³ Adam Segal, “When China Rules the Web: Technology in Service of the State,” *Foreign Affairs*, September/October 2018, <https://www.foreignaffairs.com/articles/china/2018-08-13/when-china-rules-web>.

²⁴ Anna Gross and Madhumita Murgia, “China Shows Its Dominance in Surveillance Technology,” *Financial Times*, December 26, 2019, <https://www.ft.com/content/b34d8ff8-21b4-11ea-92da-f0c92e957a96>.

²⁵ Colum Lynch and Robbie Gramer, “Outfoxed and Outgunned: How China Routed the U.S. in a UN Agency,” *Foreign Policy*, October 23, 2019, <https://foreignpolicy.com/2019/10/23/china-united-states-fao-kevin-moley>.

²⁶ Keegan Elmer, “UN Food Agency FAO May Face More U.S. Scrutiny with Chinese National Qu Dongyu at the Helm,” *South China Morning Post*, June 24, 2019, <https://www.scmp.com/news/china/diplomacy/article/3015906/fao-may-come-under-more-us-scrutiny-chinese-national-qu-dongyu>.

of the UN's 15 agencies will have elections by the end of 2021.²⁷ And it is premature to take a victory lap. The guiding metric for success should not be the nationality of each director-general, but the degree to which the United States can advance its own affirmative agenda through these agencies. Successfully backing the right candidate is only a first step toward that bigger goal.

Within and beyond the UN, China's strategies for engaging with existing institutions are selective. For example, China has refrained from joining the Paris Club, which would require it to adhere to higher standards of debt disclosure. At the International Labour Organization, China has ratified only half of the fundamental conventions, ignoring those on forced labor and the abolition of forced labor, freedom of association, the right to organize, and collective bargaining. It has ratified only 11 percent of the ILO's technical conventions, which include issues such as occupational safety and health.²⁸ China has attacked the international tribunal ruling against its claims in the South China Sea. Not surprisingly, China agrees with multilateral processes when favorable to its interests and obstructs or opposes them when necessary.

China has been seeking greater authority at the World Bank, the IMF, the World Trade Organization, and other existing institutions.²⁹ Among these are the same institutions that many commentators believed the AIIB threatened. China has also persuaded these institutions to endorse the BRI in various forms, as it has within the UN. The UN Development Program produced a cartoon extolling the BRI's benefits, and China had the heads of the UN and the WTO speak at the first Belt and Road Forum in May 2017. They see an opportunity to hitch their own agendas to Xi Jinping's signature foreign policy vision, and their participation adds to the illusion cultivated by Beijing that the BRI itself is multilateral.

Flatteralism: Deals along the Belt and Road

The BRI shows that China, like any rational power, wants the legitimacy that multilateralism conveys without the constraints it imposes. BRI events are choreographed to give the impression of global participation. Scores of world leaders are photographed standing shoulder to shoulder. Chinese state media often lump together countries and international organizations to come up with a single large statistic about the number of participants.

At the most recent Belt and Road Forum, China's list of deliverables was packed with initiatives that sound multilateral. There were 27 "multilateral cooperation mechanisms" including everything from "green" investment principles to statements on intellectual property to the

²⁷ See table: Mary Hui, "The U.S. is Relieved that Singapore Beat Out China's Nominee as the New UN IP Agency Head," *Quartz*, March 4, 2020, <https://qz.com/1809325/to-us-relief-singapore-beats-china-as-new-un-ip-agency-head/>.

²⁸ ILO, "Up-to-date Conventions and Protocols Not Ratified by China," *International Labour Organization*, Accessed March 6, 2020, https://www.ilo.org/dyn/normlex/en/f?p=1000:11210:0::NO:11210:P11210_COUNTRY_ID:103404.

²⁹ James Politi, "U.S. Warns of Chinese Influence at Multilateral Lenders," *Financial Times*, December 20, 2018, <https://www.ft.com/content/0fd1c990-030e-11e9-99df-6183d3002ee1>; Jue Wang, "China-IMF Collaboration: Toward the Leadership in Global Monetary Governance," *Chinese Political Science Review* 3 (2018): 62-80, <https://link.springer.com/article/10.1007/s41111-017-0085-8>; Marcia Don Harpaz, "China and the WTO: On a Path to Leadership?," in *Handbook of the International Political Economy of China*, ed. Ka Zeng (Jerusalem: Edward Elgar Publishing, 2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3178754.

“Network of Silk Road Arts Festivals” (not to be confused with the “the Silk Road International Alliance of Art Museums and Galleries”). Most, but not all, of these can be dismissed as fluff.³⁰ For example, the Multilateral Cooperation Center for Development Finance, considered at the end of this section, warrants further attention.

China’s regional fora, which predate the BRI and have been harnessed in recent years to promote it, have similar dynamics. China brings together groups of countries in Central and Eastern Europe, Africa, and Latin America under the cover of a multilateral gathering. These groupings give the outward appearance of inclusivity and consensus building. In statements, the participants affirm their commitment to principles such as openness and transparency and genuine multilateral institutions like the World Trade Organization and the United Nations.

These summits have practical and political advantages as well. Chinese officials efficiently lavish high-level attention on smaller economies. And when China comes to town, its summits are less board meetings than auditions. Countries from each region compete for its attention. But in reality, China and its partners do not subscribe to a common set of rules that significantly impacts their behavior. Nor is much of consequence done by consensus. China’s multilateralism through the fora and the BRI more generally lacks depth, and it relies on stroking egos and dangling bilateral deals. Call it “flatteralism,” or just savvy diplomacy.

The limits of China’s bilateral approach are evident in the MOUs that Beijing has pushed so many countries to sign. Chinese officials make a point of claiming that the BRI will be tailored to promote local development goals, but the MOUs use boilerplate, nonbinding language. Occasionally, a mention is made to “link” or “align” the BRI with a partner’s development plan, but how that will happen is not spelled out. Participation is no guarantee of investment, and the longer the list of BRI cooperation documents grows, the less signing them means.

By design, the BRI is a sea of bilateral deals. Every project is a negotiation, and dealing bilaterally gives China advantages at the table. Politically, it allows China to operate without the greater scrutiny and transparency that true multilateralism often requires. The opaque nature of these deals allows China to ask for political concessions and green-light projects for non-economic reasons. As the stronger party at the table, China favors its companies, its standards, and its dispute resolution processes.

China’s approach to delivering projects is different from the “Western” approach in several respects.³¹ Chinese investors tend to overestimate project benefits and underestimate negative consequences such as environmental, social, and governance shortcomings. Rather than focus exclusively on the individual returns of each project, Chinese officials often take a broader “portfolio” or “system” view of projects in a given country. In this way of thinking, the absence of supporting infrastructure, such as roads leading into a proposed port, is viewed as an

³⁰ For a useful examination of the environmental initiatives announced, see: Lachlan Carey and Sarah Ladislaw, “Chinese Multilateralism and the Promise of a Green Belt and Road,” *Center for Strategic and International Studies*, November 5, 2019, <https://www.csis.org/analysis/chinese-multilateralism-and-promise-green-belt-and-road>.

³¹ Bushra Bataineh, Michael Bennon, and Francis Fukuyama, “How the Belt and Road Gained Steam: Causes and Implications of China’s Rise in Global Infrastructure,” *CCDRL Working Papers* (May 2019), https://fsi-live.s3.us-west-1.amazonaws.com/s3fs-public/how_the_belt_and_road_gained_steam-causes_and_implications_of_chinas_rise_in_global_infrastructure_2.pdf.

opportunity (to build that road) rather than a shortcoming that undercuts the port. China is also willing to start projects faster and handle risk later in the project cycle, while the World Bank and other MDBs focus on mitigating risk at the front end of the project cycle.

Given the risks inherent in China's approach, it is taking additional steps to safeguard its interests when problems arise. In 2018, it established international courts to handle disputes around BRI projects.³² This is a smart move because large projects are usually delayed, costlier than expected, and deliver fewer benefits than expected.³³ These challenges are even greater in the risky business environments that China is pushing into. Globally, nearly a third of joint construction ventures experience a dispute. The average dispute takes 14 months to resolve and costs \$43 million. Costs are highest in Asia, where they averaged \$84 million per dispute in 2016.³⁴ When disputes arise, China would naturally prefer to have them settled in venues that safeguard its interests. There is also symbolic value in these new courts, which were even structured to coincide with the BRI's overland and maritime components.

China's interest in setting up these courts is clearer than the market demand for them. There are already established, experienced international bodies for handling disputes, such as those in Hong Kong, Singapore, and London. It is not apparent why non-Chinese parties would opt for using China's courts, which are less experienced. Rather than adding new mechanisms, countries participating in BRI projects and other infrastructure projects in the region would be better served by taking steps to harmonize and enforce existing measures.³⁵ Having handled relatively few cases, and given the availability of alternatives, China's courts warrant further monitoring but remain underdeveloped.

Despite its risks, China's approach to delivering projects remains attractive to countries without better alternatives. Consider a basic choice that officials in developing countries face. On the one hand, they can work with China to build a highway, financed at higher rates, with obligations to use Chinese contractors, that they know might need to be rebuilt in 15 years. On the other hand, they can choose to forgo the highway. To sweeten the first option, China will deliver the highway in time for an upcoming election. And looking harder at the second option, the officials making the decision realize they won't be in office when it comes time to rebuild the road. Given these incentives, the sheer need for infrastructure investment globally guarantees that China will have opportunities to do projects in foreign countries as long as it has the will and the wallet.

³² Jonathan Hillman and Matthew Goodman, "All Rise? Belt and Road Court is in Session," *Center for Strategic and International Studies*, July 26, 2018, <https://www.csis.org/analysis/all-rise-belt-and-road-court-session>.

³³ Bent Flyvbjerg, "Introduction: The Iron Law of Megaproject Management" in *The Oxford Handbook of Megaproject Management*, ed. Bent Flyvbjerg (Oxford: Oxford University Press, 2017), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2742088.

³⁴ Arcadis, *Global Construction Disputes Report 2017: Avoiding the Same Pitfalls* (Arcadis, 2017), https://images.arcadis.com/media/D/B/0/%7BDB0605C1-66EE-4648-A6F1-7451A34A881E%7DGlobal%20Construction%20Disputes2017-Online.pdf?_ga=2.115184391.1634523950.1583502176-1409831227.1583502176.

³⁵ Vivienne Bath, "Dispute Resolution Along the Belt and Road," *East Asia Forum*, June 7, 2019, <https://www.eastasiaforum.org/2019/06/07/dispute-resolution-along-the-belt-and-road/>.

Yet several factors are constraining the BRI. The BRI's early years were all about expansion—in sheer numbers of projects, geography, and functionally.³⁶ Project activity has now slowed down, due to both internal and external pressures. Chinese foreign exchange reserves are down, and officials are more concerned about risk levels. The Covid-19 outbreak is a double-hit to the BRI, harming China's growth at home and slowing its projects abroad. Meanwhile, recipient countries are viewing projects with greater scrutiny, with an eye to debt sustainability, environmental impacts, and overall economic viability. Both sides are still trying to salvage early projects, and fewer obvious deals remain. The low-hanging fruit has been harvested, and some of it was rotten. Exactly how much remains an open question.

These trends could incentivize China to “multilateralize” its activities by bringing in additional partners. One development to watch is China's establishment of a “Multilateral Cooperation Center for Development Finance.” The Chinese Ministry of Finance announced its intention to explore this effort in an MOU with several MDBs during the first BRI Forum in 2017. The expressed goal is to “foster high-quality infrastructure and connectivity investments for developing countries,” with a focus on information sharing between partners, capacity building, and project preparation. Operational details are still being worked out, but it is likely that the AIIB will house it.

There are two ways to read this effort. The more optimistic reading is that Chinese officials, having made mistakes during the BRI's early years, are looking for ways to improve project outcomes. Bringing in more partners would help China share financial and reputation risks. With BRI spending declining in recent years, and several high-profile missteps, both could be powerful motives. A more cynical reading is that Chinese officials are eager to repair the BRI brand, while continuing many of the practices that tarnished it in the first place. Actually multilateralizing the BRI would come with costs for Beijing, including sharing more information, control, and the spoils of projects.

The proof will be in the projects. Will they meet World Bank standards, or China Development Bank standards? Key areas include transparency and anti-corruption, debt sustainability, environmental and social impacts. China has already agreed to the G20 Principles for Quality Infrastructure Investment, which address many of these concerns. But it has yet to demonstrate a commitment to carrying them out in practice along the BRI. If the “Cooperation Center” results in the AIIB being used as a conduit for lower-quality projects, the reputation it has built over the past five years will deteriorate quickly.

China is still learning, and its activities through the BRI echo those of the great powers that have gone before it.³⁷ For example, in Pakistan, home to the BRI's flagship corridor, China is pouring money into an energy sector that suffers from the same problems the United States and the World Bank have encountered for decades. In Southeast Asia, China is following in Japan's footsteps. It is worth recalling that developed nations banded together to form multilateral development banks not purely out of good will, but also with a strong dose of self-interest.

³⁶ Jonathan Hillman, “China's Belt and Road Initiative: Five Years Later,” *Center for Strategic and International Studies*, January 25, 2018, <https://www.csis.org/analysis/chinas-belt-and-road-initiative-five-years-later-0>.

³⁷ Jonathan Hillman, *The Emperor's New Road*

Having struggled to go it alone, they decided it would be wise to share reputational and financial risks. With time, and more mistakes, China may eventually reach a similar conclusion.

Recommendations

Three guiding principles follow from the observations above. First, the United States should strengthen existing institutions. While new alternatives generate more attention, and often more anxiety, existing institutions remain more important. That's why China is investing heavily in them. Although China is the proximate cause for renewed interest in the UN and other international organizations, rekindling U.S. commitment to these institutions is worthwhile regardless of whether China is placing its candidates in positions of authority within those institutions. In other words, the U.S. should pursue its own affirmative agenda.

Second, the United States should carefully weigh the costs and benefits of participating in alternative institutions. In retrospect, the U.S. overreaction to the AIIB appears to have been an unforced error. U.S. criticism likely encouraged the AIIB to proceed cautiously, but the larger positive impact stemmed from the involvement of U.S. partners and allies in standing up the institution. Participation is not always the answer, but being at the table usually provides more opportunities to gather intelligence and exert influence. Vociferously opposing alternative institutions can also have the perverse effect of making them appear more important than they are in reality.

Third, the best answer to China's bilateral deal-making along the BRI is authentic multilateralism. For political and fiscal reasons, the United States does not have the public resources to match Chinese spending dollar-for-dollar on foreign infrastructure, nor should it. But the United States has other strengths, including deep pools of private capital, talented companies, and a network of allies and partners, many of whom are already deeply engaged in areas where the BRI is unfolding. Although important operational details need to be worked out, the Blue Dot Network is an encouraging development because it aims to bring together these strengths and expand the availability of higher-quality alternatives.³⁸

Strategic engagement is the theme that runs through these principles, and Congress has an important role to play in making that engagement possible. Important steps include, for example: preserving U.S. influence by funding activities at the United Nations, World Bank, Asian Development Bank, and other multilateral development banks; investing in the State Department; and expanding the presence of U.S. commercial service officers in key markets globally. China's diplomatic footprint now exceeds that of the United States, and it is this footprint that it draws from to move projects from concept to reality along the BRI.³⁹ Congress should also consider steps to improve the new Development Finance Corporation's ability to take equity positions. This was a major selling point for the DFC, which received bipartisan support, and could be a much more powerful tool.

³⁸ Matthew Goodman, Daniel Runde, and Jonathan Hillman, "Connecting the Blue Dots," *Center for Strategic and International Studies*, February 26, 2020, <https://www.csis.org/analysis/connecting-blue-dots>.

³⁹ Lowy Institute, "Global Diplomacy Index" (Sydney: Lowy Institute, 2019), <https://globaldiplomacyindex.lowyinstitute.org/>.

Finally, while it cannot solve this challenge alone, Congress should encourage the Executive branch to correct the troubling trend of U.S. disengagement from multilateralism. Since 2017, the United States has withdrawn from the Trans-Pacific Partnership, the Paris Agreement, the Iran nuclear agreement, and paralyzed the WTO's dispute resolution mechanism. Sadly, this is not an exhaustive list. To be sure, multilateralism is difficult by definition. It requires skill and a guiding strategy. The United States does not need to pursue multilateralism for the sake of it. But as U.S.-led multilateralism becomes rarer, it becomes more difficult for the world to distinguish between authentic multilateralism and China's shallow alternatives.