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BLUE DOTS AND RED ROADS

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AUTHORS

Matt Geraci

Asiana Cooper

Mengze Li

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中美研究中心 ICAS
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Institute for China-America Studies
1919 M St. NW Suite 310
Washington, DC 20036
202 290 3087 | www.**chinaus-icas**.org

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Executive Summary

By 2030, studies indicate that Asia will need an additional USD 26 trillion in infrastructure investment, and China has pledged USD 1 trillion. China's vision to connect large portions of the developing world through infrastructure development and investment, commonly known as the Belt and Road Initiative (BRI), has been presented to the world as the solution to this shortfall. In support of this, China is thought to have invested USD 333 billion in loans to the developing world, more than half of the World Bank's USD 624 billion. As the developing world's single largest sovereign investor, China's investment practices have placed itself in direct competition with western development models. International development has thus found itself at a crossroads: will the development efforts of China and America morph into yet another arena of strategic competition, or will the two models find ways to coexist pluralistically, allowing for healthy competition and even limited cooperation in non-contentious areas?

At its core, there is surprisingly very little difference on paper between the principles that guide BRI with the principles of western models of development. Both models advocate for quality investments that uphold the norms of United Nations sustainable development principles and seek to improve the living standards and the economies of recipient nations. Even some of the harshest critics of BRI have admitted that its stated principles are admirable at least. Frictions between the two begin on the ground at the implementation level, where the impacts of development, both good and bad, are realized.

The areas that the U.S. holds the majority of its criticism of the BRI are: lending transparency, debt sustainability, geopolitical concerns, and ecological and societal degradation. The U.S. presents its own initiative, the Blue Dot Network, as the counterweight that will compete with China's spreading global influence through the BRI and prevent countries from falling prey to predatory lending and unsustainable levels of debt. China, fully aware of these criticisms, has attempted to address these issues directly, but the U.S. largely views these efforts as empty promises. If China were truly serious about implementing these changes, the U.S. argues that China must abide by global investment standards set by OECD countries and the Paris Club. An undertaking the size of the Belt and Road Initiative must be open to criticism and recommendations from the international community, as its impacts, both positive and negative, will highly influence the global economy. China must not shy away from this form of engagement if the BRI is to meet its stated purpose.

The COVID-19 crisis and its emerging catastrophic economic impacts knows no borders. The realm of international development is no exception. According to the United Nations, the effects of COVID-19 will continue to be felt in the years to come. The global economy is expected to contract by 3.2% this year and wipe out over USD 8.5 trillion in global output over the next two years. Vulnerable populations and developing countries will be hit especially hard. An estimated 34.3 million people are expected to fall below the extreme poverty line in 2020, with over half of this amount occurring in Africa alone. This global shock may even thrust an additional 130 million people below the extreme poverty line by 2030 as a direct result of the pandemic.

The world's two wealthiest nations, the United States and China, have both the responsibility and capacity to strategically cooperate in the global recovery process. Yet, the two countries continue to bicker and point the finger about who is to blame during this critical moment. Fortunately, there are areas where cooperation can and ought to occur despite this intensifying vitriol. For instance, a **Communication and Coordination Mechanism** between the development finance institutions (DFIs) of the U.S. and China would facilitate recovery efforts in the developing world by:

- maintaining capital markets;
- financing local firms offering innovations, business models, or products that address the crisis;
- channeling financing in the hardest-hit regions;
- developing a readiness plan for post-pandemic financial assistance.

The U.S. and Chinese governments can also cooperatively leverage the strengths of their DFIs within a multilateral framework as well. The G20 would be a natural place to start. During the Extraordinary G20 Leaders' Summit convened on March 26, all members agreed to safeguard the global economy, committing to cooperate to enhance global financial safety nets. Former global heads of state and leaders of financial institutions have called upon the G20 to implement concrete measures in full, as the world is nowhere close to the IMF's estimated USD 2.5 trillion needed by emerging markets and developing countries.

For instance, the World Bank's International Development Association (IDA) could be scaled up radically by bilateral, multilateral, and private creditors. The IDA, which is a multilateral financial institution that provides direct development assistance to emerging economies through interest-free loans, already receives billions each year from the U.S. and China to its replenishment fund. As the IDA's loan programs are essential to rebuilding economies of the developing world, the two countries can coordinate to help ramp up its funding. Furthermore, American and Chinese development banks can find ways to communicate and collaborate with the IDA on the ground as their lending portfolios overlap.

The world cannot afford the two countries most capable of meeting the socioeconomic fallout from COVID-19 to be finger wagging at each other. Although there are many areas where the current political environment is simply not conducive to full and complete cooperation, past experiences indicate that the U.S. and China can work together to solve some of the world's most pressing issues. The international development finance institutions of the world cannot face these challenges alone, but if a limited channel of communication and cooperation can be utilized, their impacts to the global pandemic recovery will be immense and the road to recovery for the U.S.-China relationship could begin to get back on track.

Introduction

International development has increasingly found itself in the crossfire between U.S. and Chinese strategic competition since the U.S. 2016 election. Since then, America's attitude towards the Belt and Road Initiative (BRI), China's global push to invest in infrastructure and connectivity in the developing world, has shifted from an initial ambivalence to a near-total distrust. The U.S. government has increasingly and aggressively accused the BRI of being an influence campaign that ensnares developing countries through 'debt-trap diplomacy.' This has led to increased levels of competition as the U.S. and China each seek to promote their own differing development models. To meet this rising challenge, the U.S. has recently created the U.S International Development Finance Corporation (DFC), announced the Blue Dot Network (BDN), as well as reauthorized the Export-Import Bank of the United States.

The DFC, formerly known as the Overseas Private Investment Corporation (OPIC), is a new executive agency that brings together the capabilities of OPIC and USAID's Development Credit Authority to finance private development projects. The initial spending cap of DFC investments is USD 60 billion, doubling OPIC's USD 29 billion cap. Led by the U.S., Japan, and Australia, the Blue Dot Network is a multi-stakeholder initiative that is advertised as a more sustainable option than BRI by only financing infrastructure projects that are proven to be market-driven, financially viable, and transparent.

The U.S.' distrust attitude towards the BRI mainly arose from the gap observed between its rhetoric and reality. While on paper, Beijing stresses the importance of sustainable development through financing infrastructure investments, a transparent and predictable financing environment, and cooperation on energy conservation and environmental protection, the BRI has been accused frequently of being a pretense for China's "debt-trap diplomacy" and strategy for establishing a military foothold in the Indo-Pacific and beyond, creating environmental challenges and lacking of transparency.

Despite these tensions, the U.S. has indicated that the opportunity exists for each model to coexist presuming necessary improvements to sustainability and transparency are adequately implemented on the ground. With this in mind, this report seeks to:

1. Understand how the differing Chinese and American outward investment and their related guiding principles are utilized as foreign policy mechanisms;
2. Analyze where points of friction in the U.S.-China relationship exist between the two differing development models;
3. Introduce how both the Chinese and American international development frameworks can coexist through pluralism, healthy competition, and mutual understanding.

As COVID-19 continues to ravage populations across the planet, recovery efforts will pose too great a challenge for any single country to take on alone. Developing countries are likely to face even greater economic recovery challenges than developed countries, as their healthcare systems are even less prepared to handle the virus than the already overburdened systems of western countries. International development institutions and initiatives must, therefore, manage the dual challenge of balancing shifting priorities in their own countries towards recovery efforts, while also ensuring the continued viability of projects in each host country.

However, as this crisis has clearly displayed, the disease and its emerging catastrophic economic impacts knows no borders. The world's two wealthiest nations, the United States and China, have both the responsibility and incentive to strategically cooperate in the global recovery process. Yet, the two countries continue to bicker and waste precious time during this critical moment. Fortunately, there are areas where cooperation can and must occur despite this intensifying vitriol. The report concludes with an exploration on how the U.S. and China can leverage their international development finance institutions and initiatives to provide necessary support for the global recovery. Although it will certainly not be enough to repair the U.S.-China relationship by itself, this form of limited cooperation will help put the two countries on track as they continue to redefine the terms of their relationship.

01

Part 1: The Guiding Principles and Lending Policies of China's Belt and Road Initiative

This section provides an objective overview of China's stated BRI policy objectives and guiding principles, which provide a necessary backdrop for analyzing critiques of the initiative in practice. A clearer image of China's policy goals with BRI first materialized when the Chinese government published its "Visions and Actions" document in March 2015.[1] Greater clarification on these outlined principles was published in June 2017, when the Chinese government published its "Vision for Maritime Cooperation" document.[2]

Within the "Visions and Actions" document, the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce stated China's principles for BRI. According to the document, BRI's principles are:

- In line with the principles of the United Nations Charter and upholds the Five Principles of Peaceful Coexistence;
- Open for cooperation from all countries, and international and regional organizations;
- Harmonious and inclusive. It advocates tolerance among civilizations, respects different pathways of development amongst different countries, and encourages dialogue between different civilizations seeking common ground to promote prosperity;
- Abides by market rules and international norms, encouraging efficient resource allocation and allowing governments to perform their necessary functions in projects.
- Seeks mutual benefit and common security through improving and increasing investments in regional infrastructure, enhancing transportation connectivity, facilitating trade and investment, establishing free trade areas, deepening political trust and cultural ties, and more.

CORE CHINESE FOREIGN POLICY CONCEPTS

Win-Win Cooperation

The Chinese government states that it desires to build a framework for BRI through what it terms "win-win cooperation (合作共赢)". The concept of "win-win cooperation" holds greater meaning to the Chinese than what on the surface sounds merely like a public relations spin. The concept appears in numerous speeches about BRI from President Xi Jinping and other high-ranking government officials. For example, in President Xi's 2015 Boao Forum keynote speech alone, "win-win cooperation" is referenced eight times.[3] According to Dr. Chen Xulong of the China Institute of International Studies, this concept "is rooted in the traditional Chinese cultural values of 'peace and cooperation' and is consistent with the principles of peaceful coexistence and mutual benefit."[4]

John Ross, a senior fellow at the Chongyang Institute for Financial Studies at Renmin University, suggests that this core Chinese foreign policy approach has an economic basis.[5] This Chinese concept suppo sedly promotes a greater division of international labor that improves the productive comparative advantage capabilities of other nations. He writes that "in China's conception, economic and cultural interactions are entirely integrated and flow from a common basis. According to Chinese thought, the economic "win-win" flows from benefits derived from the global division of labor. The "win-win" benefits in culture and civilization result from the interaction of different experiences reflected in different cultures, which in turn reflect the differentiated aspects of humanity's development. Therefore, the outcome – both in the realm of economics and culture/civilization – is win-win."[6] According to this definition, then, the idea of win-win cooperation should be viewed as a guiding concept for China's stated BRI principles.

China's Core Interests

Whether in trade negotiations with the U.S. or in pursuing BRI projects, Chinese government officials frequently refer to 'China's Core Interests (核心利益)' as the foundation on how China interacts with other countries. Given that the Chinese government views China's core interests as the non-negotiable bottom line of China's foreign policy and must be taken into account by foreign businesses operating in China, it is critical to explore this concept and how it is applied to BRI.[7] The State Council's 2011 white paper, China's Peaceful Development, provides one of the first clear definitions of what the Chinese government considers to be China's core interests (in order of importance):

- State sovereignty;
- National security;

- Territorial integrity and national reunification;
- China's political system established by the Constitution and overall social stability;
- Basic safeguards for ensuring sustainable economic and social development.[8]

China's domestic and foreign policy goals stem from these overarching elements, including the BRI principles laid out in the 2015 "Visions and Actions" document. However, as pointed out by Zeng, Xiao and Breslin (2015), who attempt to provide a clear definition of China's core values, this stated definition should not be viewed as the conclusive definition. They write that, "[w]hen new concepts, ideas and political agendas are introduced in China, there is seldom a shared understanding of how they should be defined; the process of populating the concept with real meaning often takes place incrementally."[9] Therefore, although there are certainly agreed upon bottom lines, China's definition of its core interests remain open to interpretation. This intentional vagueness gives the Chinese government more flexibility on how it can apply the concept to BRI.

GROWTH THROUGH CONNECTIVITY AS A KEY OBJECTIVE FOR THE BRI

"China will actively promote international cooperation through the Belt and Road Initiative. In doing so, we hope to achieve policy, infrastructure, trade, financial, and people-to-people connectivity and thus build a new platform for international cooperation to create new drivers of shared development. "

- President Xi Jinping, 2017[10]

Connectivity is a key area and core goal of the BRI. At the First Belt and Road Forum for International Cooperation, President Xi drew a blueprint for the BRI in his keynote address, where he emphasized the "policy, infrastructure, trade, financial, and people-to-people connectivity". This 'people-to-people connectivity' not only refers to economic corridors, but also involves exchanges in knowledge on sustainable development for other countries to learn from China's experience.[11] President Xi proposed the Center for International Knowledge on Development at the UN Sustainable Development Summit in September 2015, and launched it in August 2017 in Beijing. At the Second Belt and Road Forum for International Cooperation, Xi again pointed out the focus on connectivity by stating "connectivity is vital to advancing Belt and Road cooperation…China will continue to work with other parties to build a connectivity network centering on economic corridors."

While infrastructure investment is a vital aspect of the BRI, China states that its objectives are much broader, encompassing all aspects of sustainable growth including more balanced regional growth, the upgrading of its industry, and greener economic growth. These objectives were also stated clearly in China's

13th Five-Year Plan:

- Increase trade and investment in the BRI;
- Free trade zones along the Silk Road;
- Enhance financial cooperation in the region to fund infrastructure;
- Gain access to natural resources;
- Strengthen transport infrastructure in the BRI corridors;
- Deepen cultural exchanges in the region.

OVERVIEW OF BRI LENDING PRACTICES

Debt Sustainability Framework and Guiding Principles for Project Financing

The BRI is irrefutably a diplomatic undertaking for Beijing; therefore, reputation is key. As the West increasingly criticizes the initiative for over-lending and entangling developing countries in unsustainable debt, China must respond to these image-tainting allegations. China cannot afford to have its foremost vision for the future be smeared, particularly as it may scare off potential partner countries. Partly as a result of allegations of irresponsible lending, China has taken steps to acknowledge some of the risks and attempted to prove that the BRI is a long-term and sustainable vision for the world.[12] On April 25, 2019, during the Second Belt and Road Forum for International Cooperation, China's Ministry of Finance published a new document to address debt sustainability concerns: "Debt Sustainability Framework for Participating Countries of the BRI (‘一带一路’债务可持续性分析框架) (BRI-DSF)."[13] This framework closely resembles the debt sustainability assessment frameworks for low-income countries released by the World Bank and the IMF. Beijing has also released a set of "Guiding Principles on Financing the Development of the Belt and Road" to assist countries and companies to make choices that promote a sustainable financing system for risk management.[14]

The concepts from these documents promote shared growth to stimulate local economies of BRI countries, which are consistent with international goals of sustainable development. However, Beijing states that BRI-DSF is a "non-mandatory policy tool." Thus, countries will need time to see how this new framework is being implemented when BRI projects leading decisions are being made.

Financing sizes and institutions

By 2030, studies indicate that Asia will need an additional USD 26 trillion in infrastructure investment, and China has pledged USD 1 trillion. (ADB, 2017) Between 2014-2016, trade between China and BRI countries surpassed USD 6 trillion.[15] Figure 1.1 shows that from 2005 to 2018 end of June, Chinese outward investment for construction in the BRI-participating economies is USD 480.3 billion, accounting for approximately 59% of the global total of USD 814.3 billion.[16]

See: Chinese outward investment in the construction sector, cumulative notional amount expressed in USD million, 2005-2018, American Enterprise Institute[17]

The BRI is coordinated by the Office of the Leading Group on Promoting the Implementation of Belt and Road Initiative under the National Development and Reform Commission (NDRC), which is currently led by He Lifeng as its chairman. China's new State International Development Cooperation Agency (SIDCA) was unveiled on April 18, 2018, as an important role in the implementation of BRI plays. The Agency will be responsible for strategic guidelines and policies on foreign aid and will be answerable to the State Council, described to "better serve the country's global strategy and to build the Belt and Road Initiative.'' Other involved Chinese government agencies include the National Development and Reform Commission (NDRC), the Ministry of Commerce (MOFCOM), the Ministry of Foreign Affairs (MOFA), or the Ministry of Culture (MoC).

The financing of the BRI can be classified into the following four categories:

1. **Policy Banks**

    Agricultural Development Bank of China (ADBC)

    China Development Bank (CDB)

    Export-Import Bank of China (CHEXIM)

2. **State-Owned Banks**

    Agricultural Bank of China (ABC)

    Bank of China (BOC)

    China Construction Bank (CCB)

    Industrial and Commercial Bank of China (ICBC)

3. **Sovereign Wealth Funds**

    China Investment Corporation (CIC)

    Silk Road Fund (SRF)

4. **International Financing Institutions**

    Asian Development Bank (ADB)

    Asian Infrastructure Investment Bank (AIIB)

    New Development Bank (NDB)

For more information on the features and estimated exposures of these BRI-related financial institutions, please view Appendix A.

CONCLUSION

The BRI is a massive undertaking aiming to build regional connectivity and cooperation across countries lying on the ancient Silk Road and beyond. It involved 64 economies at its commencement and has since broadened its scope to over 100.[18] China views the BRI as a strategy to promote and sustain growth both internally and externally, through deepening industrial cooperation, increasing trade and investment, and strengthening infrastructure funding. It will help close the huge gap the world has in infrastructure that constrains trade and openness, and contribute to 2030 sustainable development goals. BRI investment projects are mostly funded by state-directed development and commercial banks, as well as newly formed vehicles such as the Silk Road Fund, and through multilateral approaches including multilateral development banks and private-public partnerships. However, with the rise of China and BRI participating countries as share of the world economy, Washington's position has increasingly turned to view it as a serious competitor and potential threat to its own model of sustainable development. Recognizing this, the U.S. has taken actions to enhance its international development leadership by forming the Blue Dot Network (BDN), the U.S. International Development Finance Corporation (DFC), and reauthorizing the Export-Import Bank.

02

Part 2: U.S. Models of Sustainable International Development Finance

The U.S. response to BRI took a clearer shape with the passage of both S.2736 – Asia Reassurance Initiative Act of 2018 (ARIA) and S.2463 – Better Utilization of Investments Leading to Development Act of 2018 (BUILD Act).[19][20] These acts directly take aim at BRI with the intention of reasserting U.S. diplomatic and financial footprints primarily, though not exclusively, in the Indo-Pacific region. They have also led, directly or indirectly, to the creation of the U.S. International Development Finance Corporation (DFC) and most recently, the Blue Dot Network (BDN).

These U.S.-led initiatives and institutions reportedly seek to provide the developing world a relatively more sustainable and transparent alternative to China's Belt and Road Initiative. However, according to David Stilwell, American foreign policy in these regions does not aim to replace China or force other countries to make a choice between the two countries. Rather, the U.S. is pursuing a policy of pluralism, which he defines as "the coexistence of multiple things—whether states, groups, principles, opinions, or ways of life. In short: diversity, openness."[21] This idea of pluralism suggests then that the DFC and BDN should not be viewed as replacements for China's Belt and Road Initiative. Rather, the intention is to encourage healthy competition that provides lower-income and lower-middle-income countries an alternative to Chinese investment if they should so choose.

THE BLUE DOT NETWORK

On November 4, 2019, OPIC announced the Blue Dot Network (BDN) at the Indo-Pacific Business Forum in Thailand. The BDN is "a multi-stakeholder initiative that brings together governments, the private sector, and civil society to promote high-quality, trusted standards for global infrastructure development in an open and inclusive framework."[22] The BDN was initially be spearheaded by OPIC (with DFC now taking over this leadership), Australia's Department of Foreign Affairs and Trade (DFAT), and Japan Bank for International Cooperation (JBIC). Although this initiative is in its embryonic stage and lacks a concrete framework as of this publication, it is advertised as a more sustainable option than BRI by only financing infrastructure projects that are proven to be market-driven, financially viable, and transparent.

> Through initiatives such as One Belt One Road, Beijing has flooded much of the developing world with hundreds of billions of dollars in opaque infrastructure loans, leading to problems such as unsustainable debt burdens and environmental destruction and often giving Beijing undue leverage over countries' sovereign political decisions. We welcome fair and open economic competition with China, and economic engagement between China and other countries that adheres to international best practices such as transparency, responsible lending, and sustainable environmental practices. But where China acts in a manner that undermines these principles, we are compelled to respond.
>
> –David Stilwell, Assistant Secretary, Bureau of East Asian and Pacific Affairs U.S. Department of State[23]

Around the same time, on November 4, 2019, U.S. Commerce Secretary Wilbur Ross and National Security Advisor Robert O'Brien introduced the Blue Dot Network (BDN) at the 35th Association of Southeast Asian Nations (ASEAN) summit in Bangkok, Thailand. The initiative is being marketed as an alternative to China's debt-trap diplomacy, which, according to O'Brien, would counter this trend.[24] To help kick off the initiative, the U.S. signed statements pledging to coordinate with partners on investments of USD 17 billion in liquified natural gas and other Asian energy projects.

Waning U.S. influence in the developing world over the years has led to a mixed reception amongst the BDN's initial primary target audience -the ASEAN countries. Although the U.S. presence in Southeast Asia had been waning well before Trump took office, the U.S. departure from the Trans-Pacific Partnership seemed to imply that the Administration would continue further down this path. According to Dr. Tang Siew Mun, Head of the ASEAN Studies Centre at Singapore's ISEAS-Yusof Ishak Institute, the US "has been playing catch-up to China's charm offensive [in the Indo-Pacific] since the turn of the new century."[25] Secretary Ross attempted to dispel this belief at the ASEAN summit, saying "[we] are here permanently, and we will be continuing to invest more here, and we will be continuing to have more bilateral trade, and I'm spending much more time in the region."[26] However, the fact that it was Secretary Ross introducing the BDN and delivering these words as opposed to Trump himself, unlike Xi Jinping with the announcement of the Belt and Road Initiative, seemed to drive home this sentiment even further for some.

The Underlying Principles and Criteria of the Blue Dot Network

According to the U.S. Department of State, the BDN's founding principles are enshrined in the G20 Principles for Quality Infrastructure Investment, the G7 Charlevoix Commitment on Innovative Financing and Development, and the Equator Principles.[27] Of these, the Principles for Quality Infrastructure Investment is considered to be the main basis for the visions of the Blue Dot Network, which the State Department noted that Japan had taken a strong leadership role in forming.

The Preamble of the G20 Principles for Quality Infrastructure Investment notes that part of the key goals for the G20 is for infrastructure to serve as a "basis for strong, sustainable, balanced and inclusive growth and sustainable development… ."[28] In support of this basis, the G20 agreed to six voluntary, non-binding principles for promoting quality infrastructure investment:

1. Maximizing the positive impact of infrastructure to achieve sustainable growth and development
2. Raising Economic Efficiency in View of Life-Cycle Cost
3. Integrating Environmental Considerations in Infrastructure Investments
4. Building Resilience against Natural Disasters and Other Risks
5. Integrating Social Considerations in Infrastructure Investment
6. Strengthening Infrastructure Governance

Both the G20 Principles for Quality Infrastructure Investment and the G7 Charlevoix Commitment on Innovative Financing and Development do indeed provide general frameworks on how the BDN should benefit recipients of the certifications similarly to the frameworks of the Belt and Road Initiative's guidelines. But these Principles do little to provide more than general surface-level insights to glean concrete inferences on how they might actually be implemented into the Blue Dot Network. However, the Equator Principles, which have been fully fleshed out over the years, could shed greater light on the financial terms and obligations required for projects to receive a BDN certification.

The Equator Principles

As infrastructure projects are often criticized for the negative externalities they bring to the environment and local communities, the Equator Principles are a set of corporate social responsibility guidelines formulated by the International Finance Corporation in 2003 to address these concerns and updated in November 2019 to their fourth iteration. Unlike the G20 Principles for Quality Infrastructure Investment, countries themselves do not sign on to the Equator Principles. Rather, individual financial institutions adopt them voluntarily in order to be classified as an Equator Principles Financial Institution (EPFI). Given that mobilizing private capital is central to the purpose of the Blue Dot Network, it makes sense that mechanisms and guidelines would be in place for both public and privately funded financial institutions involved in the initiative. As of April 2020, there are 105 EPFIs in 38 countries, five of which are US-based and four of which are China-based. According to the Preamble of the Equator Principles, the Principles are intended "to serve as a common baseline and framework for financial institutions to identify, assess and manage environmental and social risks when financing [infrastructure and industrial] Projects."[29] [30]

Table 2.1 Number of Equator Principles Association Members by Country[31]

Country	Number of EPFIs
United States	5
China	4
Japan	7
Australia	5

According to Principle 10 and Annex B, EPFIs must report on an annual basis the projects it financed that incorporated the Equator Principles for publication on the Equator Principles Association website. However, it should be noted that the Association does not provide any assurances or verification of reporting data or the application and implementation of the Equator Principles by EPFIs. Notably, The Export-Import Bank of the United States, which recently established its USD 27 billion Program on China and Transformational Exports, is an EPFI. However, it is unclear whether or how this will come into play, given that Ex-Im did not approve or close a transaction subject to the Equator Principles during its most recent reporting period of 2017-2018.[32]

Other questions on how exactly the Equator Principles will be enforced or mandated in the BDN certification system need to be addressed. Will BDN certifications only be granted to projects that seek financing through Equator Principles Association Members? If so, given that there are only 105 EPFIs worldwide, is a goal of the BDN to garner the participation of new partner countries only after the voluntary adoption of the Principles by each country's privately run or state-owned financial institutions? The State Department stipulates that projects seeking a BDN certification must complete an online application and will be subject to both a preliminary and ongoing audit. But given that the Equator Principles Association does not provide any assurances or verification of reporting data or the application and implementation of the Principles, will there be outside mechanisms put into place to ensure that the Principles are being followed in these audits? In addition, will Chinese EPFIs be allowed to finance projects seeking a Blue Dot Network certification if they presumably have met the required standards? Finally, as lending institutions and the spearheads of the Blue Dot Network, will the DFC, JBIC, and

DFAT all become EPFIs or at least formally agree to abide by the Principles within their respective mission statements?

Although the Equator Principles certainly address many of the environmental and social risk concerns commonly cited as issues with Belt and Road Initiative projects, there have been few projects within the 2017-2018 reporting period that US, Australian, and Japanese EPFIs have implemented. If these Principles are to have any measurable impact as a key part of the Blue Dot Network's claim to higher infrastructure investment standards than BRI, their application and implementation must be ramped up immensely in the coming years.

THE U.S. INTERNATIONAL DEVELOPMENT FINANCE CORPORATION

Figure 2.1 DFC Congressional Budget[33]

Budget Object Class	FY 2018 ACTUAL		FY 2019 ENACTED		FY 2020 REQUEST
	OPIC	DCA	OPIC[1]	DCA	USIDFC
Personnel Compensation & Benefits	53,301,819	3,637,818	51,325,205	3,969,807	62,915,027
Travel and transportation of persons	417,815	536,438	196,000	550,000	6,013,000
Rental payments to others	140,661		7,440,856		7,679,669
Communications	1,238,263	240,000	1,092,505	265,000	1,082,078
Printing and reproduction	146,172		106,917		114,000
Other contractual services	16,120,088	4,511,086	13,122,607	4,080,675	8,572,136
Advisory and assistance services	2,895,848		5,283,398		3,977,782
Representation Expense	35,000		35,000		35,000
Other goods and services from Federal sources	387,896		510,657		515,353
Operation and maintenance of facilities	246,910	361,915	1,148,132	401,750	1,149,192
Operation and maintenance of equipment	2,214,849		2,063,405		2,786,983
Supplies and materials	1,648,335	60,000	1,541,097	60,000	2,283,979
Equipment	406,343	63,648	630,000	66,000	775,801
Land and structures		589,095	100,000	606,768	100,000
Total	**79,200,000**	**10,000,000**	**84,595,779**	**10,000,000**	**98,000,000**

[1] Carry-Forward balances from prior fiscal years enable obligations greater than the current year appropriation.

In accordance with the BUILD Act of 2018, the U.S. International Development Finance Corporation (DFC) is an executive agency that brings together the capabilities of the Overseas Private Investment Corporation (OPIC) and USAID's Development Credit Authority (DCA) to finance private development projects in lower-income and lower-middle-income countries. [34]Notably, the initial spending cap of DFC investments **doubles OPIC's USD 29 billion cap, reaching USD 60 billion**.

According to the FY2020 Congressional Budget Justification for the DFC, the DFC will compete with the Chinese model of state-directed lending that has been accused of thrusting developing countries towards increasingly dangerous levels of debt.[35] The DFC advertises it will provide higher sustainability and transparency standards under a private sector-led model. In the Congressional Budget Justification, it is written:

> Other countries are seeking to project their economic and geopolitical influence. China, for instance, has promised the resources to initiate long-term efforts to invest over USD 1 trillion in Eurasia, Africa, and Latin America. Rather than meeting competitors at the lowest common denominator, or engaging in practices that distort markets, the United States will use its development finance tools to pursue development and national-security objectives, while projecting American values and norms and promoting responsible business practices in partner countries.

Adam Boehler, named the first CEO of DFC, officially replaced David Bohigian on December 2, 2019, who ran OPIC prior to its transformation. The DFC's Board of Directors is composed of both public and private sector individuals, such as Secretary of State Mike Pompeo as its Chairman and Secretary of Commerce Wilbur Ross as a board member.[36] Mark Green, the now-former Administrator for USAID, was also a member of the Board and will likely be replaced by the subsequent Administrator once named.[37] This Board of Directors makeup is emblematic of U.S. intentions to better support and complement the State Department and other foreign policy arms.

According to the DFC's Chief Operating Officer Edward Burrier, there are key differences between OPIC and DFC.[38] One is that Congress expects the DFC to play a larger foreign policy role in the projects that it supports. One major criticism of OPIC was that some considered it to be reactive, rather than proactive, in the development space. Partially as a result of restrictions placed on how the former agency could operate, OPIC was viewed by some as unable to provide the diversity of financial tools needed to compete with BRI. Under the BUILD Act, however, the DFC is granted more flexibility as to the types of projects it can support and where it can support them, which is where the foreign policy objectives come into play. For instance, in addition to providing direct loans, loan guarantees, and political risk insurance in the same ways that OPIC was authorized to, the BUILD Act now, perhaps most importantly, allows the DFC to **conduct technical assistance and feasibility studies and make equity investments in projects.**

Linkages to Foreign Aid

There are significant overlaps between the operations and missions of development finance institutions and foreign aid institutions. In light of this fact, part of the reorganization of OPIC into the DFC in the BUILD Act was intended to enhance the coordination of its operations with the U.S. Agency for International Development (USAID). A Coordination Report was published on July 31, 2019, and submitted to Richard Shelby, the Chairman of the Senate Committee on

Appropriations. [39]Its main premise is made abundantly clear on the importance of coordination between USAID and the DFC for the United States to remain a leader in international development: "As the DFC increases its ability to mobilize private capital, and USAID places more emphasis on its engagement with the private sector, coordination between USAID and the DFC to pursue U.S. development objectives is essential."

Access to the DFC's financial tools is thus essential to USAID's mission of promoting a path to a recipient country's goal of self-reliance and resilience. At the same time, the DFC will gain access to relationships that USAID has carefully curated over the past decades and leverage the influence of U.S. embassies and missions to realize its growth.

Early Actions of the DFC

The DFC has already been hard at work to begin securing new contracts for development opportunities. Adam Boehler has traveled to countries in the Indo-Pacific, Latin America, Africa, and more to strengthen relationships with potential partners and highlight the DFC's enhanced ability to spur private investment in those regions. Notably, his efforts have led to a multi-million dollar deal with Egypt in which Texas-based Noble Energy and the DFC will finance and manufacture petroleum products in partnership with the Egyptian company Dolphinus Holdings.[40] Boehler also recently signed a letter of interest with Mexico to finance the Rassini natural gas pipeline that will reportedly be worth USD 632 million.[41] In his first official travel following the official launch of the DFC, Boehler met with Vietnamese Prime Minister Nguyen Xuân Phúc on January 8 and Indonesian President Joko Widodo on January 10 as a display of U.S. commitment to the Indo-Pacific region, exploring potential investment opportunities in transportation, energy, the digital economy, and more.

In addition to energy infrastructure, the DFC has also begun a push in the telecommunications sector. Given U.S. concerns about the spread of Huawei and ZTE in the developing world, Boehler has indicated that the DFC plans to tap into its USD 60 billion investment cap to decrease the cost of developing more secure and sustainable 5G infrastructure for developing countries seeking alternatives to Chinese telecoms. Boehler was quoted towards the end of 2019, "The U.S. is very focused on ensuring there's a viable alternative to Huawei and ZTE. We don't want to be out there saying no. We want to be out there saying yes."[42] One potential way for the DFC to become a viable alternative to China in this area would be to provide loans for equipment purchases that would make European or other non-Chinese telecoms providers competitive with Huawei or ZTE in those regions.

In support of Boehler's pledge, on March 10, 2020, DFC issued a Call for Proposals to engage in secure telecommunication and 5G investment in the Indo-Pacific Region and Africa.[43] As part of its qualification criteria DFC is targeting privately owned and managed funds with a total capitalization of USD 500 million or more. DFC loan amounts can range from USD100 million to USD 200 million, but will be limited to 25% of a fund's total capitalization. The purpose of these investments will be to support 5G expansion, business development, capital growth, privatization, and more. Currently, it is unclear whether or how many investment proposals are being considered for this initiative, as project data was last updated for Q1, 2020 on December 31, 2019. However, DFC's most recent telecommunication-focused project is a USD 40 million loan for expanding the broadband network capabilities of Myanmar, which will be led by Myanmar-based internet service provider firm, Frontiir Co. Ltd.[44]

Transparency and Accountability

Aside from promoting projects that have adequate debt sustainability, another area the DFC supposedly shines compared to BRI is within its transparency and accountability mechanisms. In addition to the wealth of publicly available data on individual projects transferred over from OPIC and newly launched DFC projects, the DFC has also expanded upon OPIC's transparency and accountability mechanisms.

Under the Freedom of Information Act, the DFC is required by law to disclose to the public Agency records except for such sensitive information that might be exempt. In this regard, the DFC regularly publishes the following for public consumption:

- Environmental and Social Impact Assessments;
- Greenhouse Gas Accounting Reports;
- Claims and Arbitral Awards;
- An interactive map summarizing all DFC projects, as well as a downloadable excel file;
- Congressional Budget Justifications;
- Sustainability Plans;
- And other financial, policy, and operating reports.[45]

The Office Of Accountability

The Office of Accountability (OA) is both a financially and operationally independent office within the DFC that exists to address concerns and grievances related to the environmental and social issues that might surround DFC-backed projects. [46]The Office exists to provide two main types of services: Conflict resolution between both project-affected parties and DFC clients, and to conduct investigations on whether the DFC is compliant with its relevant policies to a project and project-affected parties.

The OA provides guides for both DFC clients and communities on how to raise concerns about environmental impacts, human rights, labor rights, debt sustainability, and more. After assessing the situation on the ground and determining the eligibility of claims, the OA may convene a dialogue table amongst affected parties, direct negotiations between the parties, commission an investigation to address technical issues, and solicit the appropriate authorities within a host country's government to ensure all parties are adequately represented. Although some information within an investigation may be treated as confidential, the DFC regularly updates its online Public Registry of Cases for the public to disseminate non-sensitive information about each case.[47] To date, there are 9 past cases and one active case in the registry, which largely deal with mining or energy extraction projects.

Case Study: The Israel Noble Energy Leviathan Project

To date, since the reconstruction of OPIC into DFC, there has only been a single active case published on the public registry, which involves ongoing environmental impact concerns from the Noble Energy Leviathan Project, an offshore natural gas rig off the coast of Israel that became fully operational in December 2019. [48]Requests from Israeli environmental groups and Oasis Earth, an environmental sustainability consulting group based in Alaska, requested an additional assessment of the project's impacts on the marine and coastal environment of the eastern Mediterranean.

Following the guidelines set by the DFC, the Director of the Office of Accountability hired local, third-party mediators in order to assess the complaints. In the Final Noble Energy Leviathan Assessment Report, according to the complainants, the DFC should not have approved a political risk insurance contract with Noble Energy due to the belief that the platform was built in too close a proximity to known hostile forces, potentially raising the risk of terrorist attacks and subsequent leakage of toxic elements into the surrounding environment.[49] In addition, they argued that Noble Energy had not been transparent about the duration, magnitude, and impact of well blowouts in related Leviathan projects between 2010 and 2012. Noble Energy's position was that all complaints had been adequately dealt with in various Courts of Law and that all cases but one had been dismissed.

The DFC's Problem Solving process was ultimately terminated due to Noble Energy's withdrawal of cooperation. The complainants thus requested a full Compliance Review on March 8, 2020, expressing their disappointment towards the DFC's handling of the Problem Solving process and desired that they assess and identify failures in the process used by OPIC in its initial consideration and approval of the Leviathan Project.[50] With a separate assessment for compliance review was considered to be unnecessary, the DFC initiated its Compliance Review on April 28, 2020.

Although this case study is ongoing, it provides a snapshot of how future DFC projects might be handled when complaints are brought to the Office of Accountability. Allowing third-party comments and assessments of legality, environmental sustainability should continue to be encouraged by the DFC. In addition, the levels of transparency that DFC provides the public on its projects is commendable. In 2018, OPIC requested from the Office of Accountability to conduct an assessment of its Environmental and Social Monitoring Process.[51] According to OPIC management's response, it has implemented four of the seventeen recommendations. Given the operational changes that reforming OPIC into the DFC has brought, these recommendations will likely need to be reviewed again and implemented over time if the DFC is to become the competitive, cleaner alternative to BRI that it has been advertised as.

THE EXPORT-IMPORT BANK OF THE UNITED STATES

On December 20, 2019, President Trump signed into law H.R.1865 – Further Consolidated Appropriations Act, 2020, which included provisions to reauthorize the Export-Import Bank of the United States (Ex-Im) through the end of 2026.[52] Ex-Im, an independent Executive Branch agency, is the official export credit agency of the United States that provides assistance to American businesses with financing tools when they are unable to receive financing from private-sector lenders. According to its website, the purpose of these financial tools is to help level "the playing field for U.S. goods and services going up against foreign competition in overseas markets, so that American companies can create more good-paying American jobs.[53]"

A major provision under the reauthorization of Ex-Im is found within Sec. 402 of H.R. 1865, titled the Program on China and Transformational Exports. The purpose of the program is to support the extension of loans, guarantees, and insurance that are competitive with the rates and terms extended by China and other covered countries. A "covered country" is designated by the Secretary of the Treasury, and is defined as a country whose financing terms and conditions are not based on participation within or do not comply with that of the OECD's Arrangement on Officially Supported Export Credits.[54] Thus, China's BRI lending is a clear target for this Ex-Im program, as it aims to create a level playing field by "directly [neutralizing] export subsidies for competing goods and services financed by official export credit, tied aid, or blended financing provided by the People's Republic of China".

The amount of funding reserved for Ex-Im's Program on China and Transformational Exports will be potentially highly significant. Sec. 402 (3)(C)(A) that relates to financing for the program aims to reserve, at minimum, 20 percent of its applicable amount in support of the program. This would provide direct support to U.S. businesses seeking to compete overseas with China in areas such as 5G, artificial intelligence, renewable energy, semiconductors, financial technologies, water treatment, and more. However, as the U.S. has made clear on numerous occasions, it desires Chinese financial practices to meet global standards. As such, an exception to subparagraph (A) was included in which the "Secretary of the Treasury may reduce or eliminate the 20 percent goal" if it is reported to Congress that China is in substantial compliance with the financial terms and conditions of the OECD Arrangement, as well as the rules and principles of the Paris Club.

03

Part 3: Points of Friction Between the U.S. and Chinese Models of Sustainable Development

Comparing the guiding principles of the BRI and the BDN, both advocate for sustainability, transparency, and environmental protection. In 2017, finance ministers from 27 countries jointly issued the Guiding Principles on Financing the Development of the Belt and Road, in which Section Four clearly articulates the importance of "sustainable development through financing infrastructure investments," "a transparent, friendly, non-discriminatory and predictable financing environment," and "cooperation on energy conservation and environmental protection."[55] As for the BDN, its purpose was described by OPIC to "promote high-quality, trusted standards for global infrastructure development in an open and inclusive framework" by certifying nominated infrastructure projects to ensure they are transparent, financially sustainable, and socially and environmentally responsible.

Overall, when responding to China's stated principles for BRI, there is agreement on the U.S. side that these are indeed positive goals to aspire to. However, most U.S. government officials and scholars have increasingly raised concerns that a stark difference exists between the rhetoric of BRI and its realities on the ground. When examining some of BRI's biggest projects, many in the U.S. accuse BRI of being a pretense for China's "debt-trap diplomacy" and strategy for establishing a military foothold in the Indo-Pacific and beyond, also known as the "String of Pearls" theory. In addition, the U.S. and other countries also criticize China's lending and investment practices for remaining opaque despite its rapid growth.

In this section, countries, organizations, and specific BRI projects have been selected as case studies where the U.S. or international community has identified gaps between BRI's rhetoric and reality. Global concerns have contributed to increasing points of friction between the United States and China. These case studies have been organized thematically by issues of debt, transparency, global security, ethical and environmental challenges, and a lack of alternative large-scale development financing organization for healthy competition. In this context, these gaps have increasingly become an emerging friction point between Chinese and U.S. models of sustainable development.

DEBT-TRAP DIPLOMACY

The United States is not alone in its concerns over BRI, as many other closely involved countries have raised concerns about whether China is leading some of its neighbors into situations of debt dependence through large infrastructural projects which lack sufficient financing regulation, risk assessments, and transparency. Many voices in the international community worry that these projects may eventually lead China to misuse its soft power, or even hard power, to threaten these indebted developing countries' sovereignty or social norms.

Experts at the Center for Global Development (CGD) have assessed debt vulnerability of different countries within the initiative and have classified eight countries as having a noticeable risk of unsustainable debt: Djibouti, the Maldives, Laos, Montenegro, Mongolia, Tajikistan, Kyrgyzstan, and Pakistan.[56] In this report, we will be examining some of the countries which the western world and the international community are most concerned about regarding debt vulnerability.

Djibouti

Djibouti has become one of China's most important strategic partners because it is home to China's only known overseas military base, established in 2017. The international community, however, has raised concerns about China's intentions in Djibouti stemming from the small port country's penchant for borrowing. According to the Belt and Road Investment Guide for Djibouti, more than 80% of Djibouti's development funds are provided in some form of aid. The International Monetary Fund (IMF) and the World Bank have raised concerns about Djibouti's rising debt vulnerability. An annual IMF report states that the country's guaranteed debt has risen from 34% of its GDP to 71% in 5 years. Meanwhile, China has become one of its largest aid providers, supplying close to USD 1.4 billion in funding, with much of Djibouti's debt being owed to China Exim Bank.[57]

A large trade imbalance between China and Djibouti has exacerbated concerns about Djibouti's increasing dependence on China. According to statistics from Chinese customs, the total value of trade between Djibouti and China in 2017 amounted to USD 2.176 billion. Only a fraction of this trade, however, originated in Djibouti as its exports to China were as low as USD 15,000. With virtually no exchange of goods and services flowing from Djibouti to China, trade becomes almost entirely one-sided. As a result of both its trade deficit and rising debts to GDP ratio, U.S. officials are concerned that Djibouti's economy has grown increasingly dependent on Chinese interests. However, Djibouti's debt issues are not so cut and dry as it appears on the surface.

The minister of foreign affairs, Mahamoud Ali Youssouf, acknowledged that Djibouti's debt to China amounts to 71 percent of its total GDP, but sees China as more willing to help Djibouti develop critical infrastructure than Western countries. Experts also argue that U.S. banks are more reluctant to make large investment loans to African countries while Chinese banks can use government-backed financing and offer generous loans very quickly. According to Youssouf," [i]t was quite natural that we raise our partnership with China. Neither Europe nor America were ready to build the infrastructure we needed. We're projecting our country into the future and looking after the well-being of our people. Even the United States has trillions of dollars in debt to China, you know."[58] U.S. initiatives like Prosper Africa, which was designed to counter and compete with Chinese investments, have yet to make a significant enough impact. Djibouti must acquire its development financing from somewhere. With no other country willing to provide viable competing alternatives, it should not be a surprise that Djibouti would choose to work with China to develop the infrastructure it sorely needs.

Sri Lanka

Although Sri Lanka does not rank on CGD's list of countries that are most vulnerable to debt in the Belt and Road Initiative, the island nation's Hambantota Port is an unfortunate example of what may happen when debts to China become unmanageable.

China prioritizes the Hambantota Port project as one of its most important and ambitious port projects within the Belt and Road Initiative. The first phase of the Hambantota Port project began in 2010 with financing from Chinese state-owned entities. In the following years, Sri Lanka's sitting president Mahinda Rajapaksa continued to ask Chinese allies for loans, causing Sri Lanka's debt to increase unmanageably. After years of talks and debt renegotiation by Sri Lanka's current government, China demanded an equity stake in the port rather than agreeing to other terms to ease the debt. The final result was a contract signed by the Sri Lankans who had to lease the port and 15,000 acres around it to China for 99 years.

By acquiring the port, China now controls a large shipping hub in close proximity to India, one of Beijing's largest rivals. Many international actors join critics of the Sri Lankan government in accusing China of gaining unearned strategic benefit through irresponsible lending. In relation to the larger Belt and Road Initiative, these same critics suggest that the Hambantota Port is a prime example of how a Chinese-backed infrastructure project may lead to the erosion of a nation's sovereignty. Adding to these anxieties, shortly following after the port's handover, China's Xinhua News tweeted that the acquisition of it from Sri Lanka was "[a]nother milestone along the path of #beltandroad."[59] This casts a shadow of wariness in the eyes of the international community regarding China's true intentions behind the development of a 'modern silk road.' This international anxiety manifests in nearby countries such as Pakistan, Nepal, and Myanmar which have canceled major projects planned by Chinese companies.

To many Chinese and western experts, the debt trap claim is often regarded as exaggerated to some extent. For instance, there is more to the Hambantota Port case than meets the eye, which is cited as a prime example of debt-trap diplomacy. As it turns out, corruption on the side of the Sri Lankan government led to funds provided by China to be used for purposes other than the project, such as former Sri Lankan President Mahinda Rajapaksa's reelection campaigns and paying off Sri Lanka's other debts.[60] In addition, former administration officials had accused Rajapakusa of ignoring negative feasibility studies of the port, thereby launching a project that was likely to fail in order to pursue his political agenda.

China's own narrative on debt-trap diplomacy is that Chinait has never forced its partners to pay debts when they are in debt difficulties, but rather has settled them in accordance with the principle of friendly consultation. A study from Rhodium group reviewed 40 cases of China's external debt renegotiations, and found out that between China and borrower countries the results of debt renegotiations are usually more balanced, and that a combination of repayment deferments and some degree of refinancing is repeatedly involved. When external events occurred such as changes in leadership in the borrower countries, Beijing was often compelled to agree to term renegotiations that were usually advantageous to the borrowing countries. Moreover, several cases were found where Beijing unilaterally agreed to debt forgiveness, in order to show support to the recipient countries or to improve bilateral relations, even when borrower countries showed few signs of financial stress.[61]

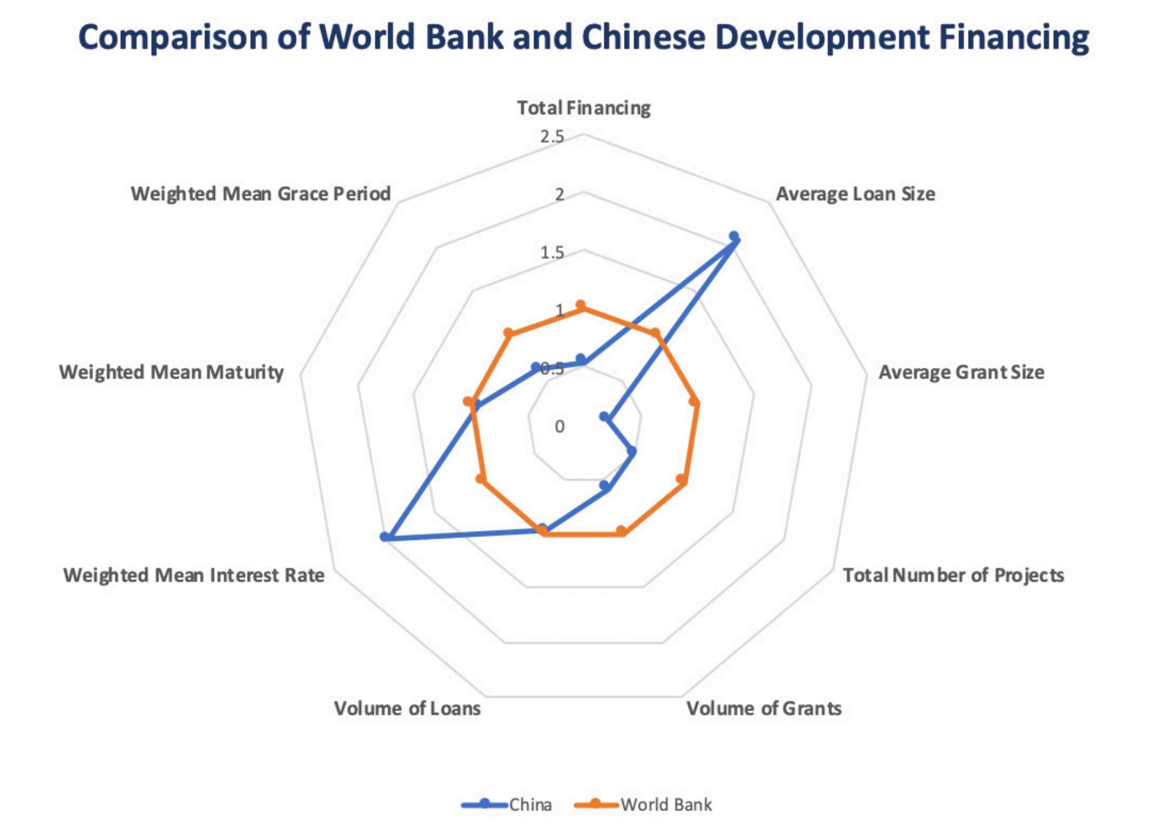
TRANSPARENCY

A major issue that the international community cites with BRI, and China's outward investment more generally, is its lack of transparency. As the Center for Global Development points out, "Beijing does not publish a country-by-country breakdown of its loan-financed (or grant-financed) activities. Nor does it systematically publish loan-level data."[62] This is largely due to the fact that the Chinese government considers its overseas lending program details as a closely held state secret. Many international scholars also often bring up the fact that China is not a full member of the Paris Club or the Organisation for Economic Co-operation and Development (OECD), which further allows the country to evade the need to release data on its lending activities that these organizations require as a prerequisite for membership.[63] As China is believed to have exceeded the lending levels of the World Bank, the IMF, and private sources to low-income countries, there is a strong belief in the international community that China should modernize its loan transparency practices if it is to prevent greater levels of debt risk.

Table 3.1 Comparison of World Bank and Chinese Development Financing[64]

The National Bureau of Economic Research (NBER) and Kiel Institute for the World Economy documented 1,974 Chinese loans and 2,947 Chinese grants to 152 developing countries from

	China	World Bank
Total Financing (USD)	$333 billion	$624 billion
Average Loan Size (USD)	$307 million	$148 million
Average Grant Size (USD)	$9 million	$44 million
Total Number of Projects	2,453	4,859
Volume of Grants (% total financing)	3.77%	6.42%
Volume of Loans	96.23%	93.58%
Weighted Mean Interest Rate	4.14%	2.10%
Weighted Mean Maturity (years)	16.6	17.9
Weighted Mean Grace Period (years)	4.8	7.7



This spider chart visually differentiates the lending characteristics of China and the World Bank by representing each financial indicator provided by the World Bank as a standardized ratio. The average loan size and weighted mean interest rate of China's are about twice as large compared with the World Bank's. *Image created by Mengze Li*

1949 to 2017 in a working paper titled, China's Overseas Lending.[65] Chinese lending mostly occurs by means of a debtor nation's state-owned enterprise borrowing directly from a Chinese state-owned entity. The authors write that "[t]his type of company-to-company lending is often not collected by statistical offices of developing countries so that international debt statistics suffer from chronic underreporting."[66] This means that international organizations like the World Bank, the Paris Club, and OECD are unable to accurately track China's lending. As a result of this and other influencing factors, the authors found that "about one half of China's large-scale lending to developing countries is 'hidden' and not recorded in the main international databases used by researchers and practitioners alike."[67] This contributes to the lack of information debtor countries need to fully comprehend the precise amount that was borrowed, as well as the accompanying conditions.

The China-Pakistan Economic Corridor

A notable exception to some of the areas where BRI is considered to be nontransparent is the China-Pakistan Economic Corridor (CPEC). CPEC is an economic initiative covering all of Pakistan and the Xinjiang Uyghur Autonomous Region of China. It is in close alignment and relation to BRI which seeks to "improve the lives of people of Pakistan and China by building an economic corridor promoting bilateral connectivity, construction, explore potential bilateral investment, economic and trade, logistics and people to people contact for regional connectivity."[68] Although CPEC projects comprise the majority of BRI activities in Pakistan, it should be noted that they are not fully comprehensive of all "Sino-Pakistani infrastructure efforts that can be seen as furthering BRI goals", according to research from the Mercator Institute for China Studies.[69]

CPEC's website provides project-by-project information, which includes important details such as estimated costs, project locations, progress updates, and identifying the executing company and finance source. This is a notable difference when compared to the BRI website and could serve as a model for improvement.[70] However, according to Alice Wells, the former Principal Deputy Assistant Secretary of the Bureau of South and Central Asian Affairs, this is where the improvements to transparency end with CPEC projects. She argued that in addition to companies blacklisted by the World Bank receiving contracts for CPEC projects, the non-transparent Chinese loans to Islamabad would only serve to take a heavy toll on its already struggling economy.[71] The Pakistani government, and the Embassy of China in Pakistan in particular, have denied these allegations and have instead argued that CPEC has created thousands of jobs in Pakistan and "has always adhered to the principles of mutual benefit, win-win cooperation, openness and transparency."[72]

Figure 3.1 An Example of Publicly Available Project Information from the CPEC Website

Project	2x660MW Coal-fired Power Plants at Port Qasim Karachi
Primary Energy Input	Coal (Imported)
Technology	Super Critical
Installed Capacity (MW)	1320
Location	Port Qasim
Province	Sindh
Estimated Cost (US $ Million)	1912.2
Executing Company / Sponsors	Port Qasim Electric Power Company (Private) Limited
Financing	Independent Power Producer (IPP)
Coordinating Ministry	Ministry of Energy (Power Division)
Supervising Agency	Private Power and Infrastructure Board (PPIB
Project Progress Update	• Financial Closed (FC) • Civil works on site started in May 2015 • Jetty completed • Plant 2 months ahead of schedule • Energization in October 2017 • 1st Unit Inaugurated in November 2017 • Second Unit Commercial Operation Date (COD) 25th April 2018 • Project completed 67 days ahead of schedule • Current Status: Operational

The Paris Club

The Paris Club is an informal group of creditor nations established in 1956 that meets in Paris each month to find solutions to payment problems faced by debtor nations as a form of debt relief, such as when a natural disaster strikes.[73] In these cases, Paris Club creditors often negotiate with debtor nations to reschedule debts or change obligations. Other major functions of the Paris Club involve tracking sovereign borrowing from official creditors, including non-members such as China. Many European countries, as well as Russia, Australia, South Korea, Japan, and the U.S. are members. The World Bank, International Monetary Fund, the Asian Development Bank, and more participate too at Paris Club meetings in their capacity as observers. Although China has attended some Paris Club meetings as an ad hoc participant, it remains outside the purview of official membership. China maintaining its observer status, rather than seeking full membership, is significant because it means that it does not need to operate in accordance with its principles, which includes standard lending disclosure requirements.

China Development Bank and China Ex-Im Bank

Concessional financing is key for low-income countries, as these loans are more generous than market loans in terms of interest, longer grace-periods, or both.[74] With more concessional financing being offered, it is less likely for the borrower to default on a loan. In many cases, BRI projects receive funds from these kinds of interest-free loans (e.g. Pakistan). However, in other countries such as Djibouti, loans have been signed at commercial rates for one of BRI's largest projects in the country, the Ethiopia-Djibouti railway.[75] Correctly assessing the present value of new loans is key in ensuring that less developed countries can eventually pay back the loan without defaulting. In order to accurately assess the present value of loans, China Development Bank and China Exim Bank needs to be more transparent in regard to rates and other terms by making those data publicly available.

THE "STRING OF PEARLS" THEORY

In 2013, Chinese President Xi Jinping announced China's intentions to build a 21st-century 'Maritime Silk Road.' In it, Xi envisioned a "shared destiny" between China and nearby ASEAN countries as the Maritime Silk Road deepens cooperation within the region.[76] With an eye towards the future, China invited all nations to contribute to this gargantuan project. In the words of the State Council of the People's Republic of China, "the 21st Century Maritime Silk Road initiatives will be 'open' to all nations and are not limited by geography."[77] This was a tempting offer for developing countries, as cooperation with China was advertised as bringing near-limitless resources and vast development experience to otherwise stagnant economies. Even so, this offer has been met with concern in the developed and Western world, where China's global expansion and possible ulterior motives threaten a decades-old status quo.

One prevailing theory has been dubbed China's "String of Pearls", which posits that China has been expanding its influence along the Indian Ocean and Horn of Africa in order to dominate the region through both commercial and militaristic infrastructure development.[78] The following cases are considered by some scholars as evidence of this theory, where it is believed that China intentionally engages in risky infrastructure investments in order to garner influence, and in some cases, territory, through its debt-trap diplomacy. However, as pointed out in the previous section and in these following cases, the evidence for these theories is not so clear-cut as they might appear on the surface, as other contributing factors are often at play.

Sri Lanka

On its surface, the 99-year lease on the Hambantota Port on the southern edge of Sri Lanka provides a convincing case that Chinese infrastructural aid can at times lead to unsustainable debt and consequently a loss of sovereignty for indebted countries that lose all strategic leverage in bilateral negotiations. However, in addition to these issues of debt sustainability, the Hambantota Port case also brought to light issues of loan transparency, as well as suspected government corruption.

The New York Times gained access to a government investigation which concluded that a large amount of money flowed from the Chinese port construction fund directly into Sri Lankan president Mahinda Rajapaksa's campaign during his failed 2015 run for reelection.[79] China saw Mr. Rajapaksa as a crucial ally because he often agreed to terms that would sway India's influence away from the South Asian region.

Furthermore, according to The New York Times, Sri Lankan officials have stated on numerous occasions that "the intelligence and strategic possibilities of the port's location were part of the negotiations." Cases such as these show inconsistency and a lack of transparency between a development project's advertisement to the public and questionable ethical issues arising through investigation.

Cambodia

Sri Lanka is not the only country that the international community is concerned about China's long-term intentions through large inflows of foreign direct investment. According to the "ASEAN Investment Report 2019," China was the largest investor in Cambodia in 2019, helping Cambodia complete large infrastructure projects and boosting the country's development.[80] However, investment projects backed by China to build Cambodia's longest airstrip and a deep-sea water port on a coastline that has been leased to a Chinese company for 99 years raises eyebrows in the international community worrying whether projects such as these will possibly become China's next overseas military bases.[81]

According to U.S. officials in a Wall Street Journal investigation, Beijing has already signed a secretive agreement with the Cambodian government, granting China's military access to the Ream Naval Base.[82] Reportedly, the draft agreement seen by U.S. officials would allow China to build two new piers, one of which would be for Chinese use. In addition, it is believed that Chinese personnel would be allowed to carry weapons and Cambodian passports, as well as requiring Chinese permission for Cambodians to enter the facility. Both Chinese and Cambodian government officials have denied these allegations from the U.S. government. Most recently, Cambodian Prime Minister Hun Sen declared on June 1, 2020 that China had not been given exclusive permission to use this port, and that warships from all nations, including the United States, would be welcome.[83]

Pakistan

There are several BRI infrastructure projects which appear to some to be inroads for the Chinese military to establish itself in other countries.[84] These projects are necessarily built by Chinese technological skills and funded out of Beijing's deep pockets, but such an investment requires protection and security.[85]

In the past two decades, Chinese companies distributed investments all over the globe in hopes of becoming a maritime superpower. Pakistan's Arabian Sea port of Gwadar is one of China's most important strategic assets as it lies along many crucial sea lanes for China's oil imports and has become a core project within the CPEC agreement. Although China continuously claimed that the Gwadar port project did not include any military plans in the past, a senior foreign ministry official in Islamabad said that "[a]s Gwadar becomes more active as a port, Chinese traffic both commercial and naval will grow in this region."[86]

The Financial Times investigation on China's global port and harbor ownership not only examines cases where ports in Pakistan have over time become "dual-use" doubling as commercial hubs and an entryway for the People's Liberation Army Navy, but also ports in Sri Lanka, Greece, and Djibouti.[87] Actions such as these compel western and developing countries to question China's true intentions behind the initiative.

ENVIRONMENTAL CHALLENGES

"Green Silk Road"

When the Belt and Road initiative was first introduced by Chinese President Xi Jinping, he emphasized the importance of promoting green development. In his speech, he calls for efforts to build a "Green Silk Road."[88] As China calls for actions and cooperation in protecting biodiversity, over recent years, studies have shown that many projects have created a negative impact on the environment.[89] The Green Belt and Road Initiative Center recognizes the biodiversity risks associated with projects within the BRI. The Center states that "Infrastructure construction directly leads to breaks in landscape and habitat connectivity, but also to side-effects such as spread of invasive animal and plant alien species, windthrows, fires, animal kill (e.g. through roadkill), pollution, microclimates."[90] Furthermore, the Green Belt and Road Initiative Center mentions a 2019 study published by the Society for Conservation Biology on the environmental impacts of the infrastructural projects along the BRI. The study found that "construction would endanger 4,138 animal and 7,371 plant species along the BRI and that, corridors of the BRI overlap with 265 threatened species."[91]

See: Map of Threatened Species along the Belt and Road Initiative, World Wide Fund for Nature[92]

Experts at the World Bank have created a policy research working paper on suggestions on how to reduce the environmental risks from BRI projects in transportation infrastructure. Particularly, it sheds light on deforestation risks along the economic corridors within the framework.[93][94] The working paper hopes to promote countries to create "early integrated development and conservation planning."[95]

Realizing that BRI projects have endangered fragile environments in countries under the BRI framework, China created the Belt and Road Initiative International Green Development Coalition (BRIGC).[96] Supervised by the Chinese Ministry of Ecology and Environment, BRIGC hopes to create international partnerships between the public and private sectors to enhance biodiversity and ecosystem management, green energy and energy efficiency, as well as setting environment legislation and standards, etc.

See: Map of Belt and Road Initiative transport projects and forest cover, loss, and gain, The Brookings Institute[97]

A LACK OF ALTERNATIVES

Another major concern for the Belt and Road Initiative is the reality that many less developed countries view the initiative as their only opportunity for infrastructure development and development aid. As developing countries enter into talks without any real leverage, China may then create unfair agreements that go against the BRI's guiding principles such as seeking mutual benefits and common security. Such concerns can be seen in the case of large infrastructure projects in Pakistan.[98] China's aggressive and generous financing of infrastructure abroad may create a de facto monopoly on the financing of projects like those in the BRI; Beijing can then bully weaker actors in project negotiations, in some cases turning its soft power into hard power. Alternative opportunities for the financing and construction of vital infrastructures in the developing world should lead to a healthier international market and a more apolitical environment for the financing of projects. A more open market will incentivize infrastructure financiers and construction firms (whether private or state-run) to give more favorable terms during negotiation with developing countries and businesses. More importantly, by creating alternative options, lesser developed countries will worry less about becoming politically or financially beholden to another country's government.

Pakistan

China considers Pakistan to be a crucial link in connecting the BRI from China to Arabia. The largest project in the Pak-China partnership is the creation of the China-Pakistan Economic Corridor (CPEC). Although Pakistan and China seem to have strong bilateral relations, Pakistan's policymakers persist in holding numerous concerns about whether China will stick with its promise of a win-win outcome.

Pakistan's economy has struggled in recent years and Khurram Dastgir, Pakistan's Commerce Minister, worries that Pakistan's economic dependence on China may thwart the nation's own economic development. He states, "We [Pakistan] were in a dark bubble and we are only just emerging. There is a fear that China will sell us cheap goods because we can't compete. [But] China is the only game in town."[99]

Pakistan needs infrastructure development projects in order to recover from years of political instability. By placing all of their eggs in the China basket, rather than diversifying their loan sources, they risk their bigger and wealthier neighbor taking advantage of their resources and weaknesses through investments and loans.

CONCLUSION

An undertaking the size of the Belt and Road Initiative must be open to criticism and recommendations from the international community, as its impacts, both positive and negative, will highly influence the global economy. Major challenges that China's initiative is asked to address lie in the unequal bargaining power between the superpower and its less developed neighbors, a consistent lack of transparency in most projects, and China's overzealous lending which may lead poorer countries into unsustainable levels of debt.

These criticisms have merit, but the BRI deserves praise in other areas as well. BRI projects have helped neighboring countries to build the infrastructure that is necessary for raising their quality of life. China has helped countries such as Cambodia in training economic talents, for the country is in urgent need of economic development.[100] The rural areas of Pakistan often experience hours of electricity outages each day, and China will be using two-thirds of the CPEC budget to help Pakistan build powerplants in order to combat this issue.[101] Chinese projects in Pakistan could account for 20% of the country's GDP in the next five years while bringing massive infrastructural developments to help ease Pakistan's political and social instability.[102] The BRI has also made contributions to countries around the world in providing food, equipment, and medical assistance. While Beijing needs to take on deep policy reforms to improve its initiative, Washington should recognize how BRI funds have been successful in helping developing economies building infrastructure and encouraging economic development; in the meantime, give it time to adhere to its stated principles.

04

Part 4: COVID-19 Challenges and Opportunities

The catastrophic effects on the world economy wrought by the pandemic are only just starting to be understood. According to the United Nations, the effects of COVID-19 will continue to be felt in the years to come. The global economy is expected to contract by 3.2% this year and wipe out over USD 8.5 trillion in global output over the next two years. Vulnerable populations and developing countries will be hit especially hard. An estimated 34.3 million people are expected to fall below the extreme poverty line in 2020, with over half of this amount occurring in Africa alone. This global shock may even thrust an additional 130 million people below the extreme poverty line by 2030 as a direct result of the pandemic.[103]

The first presumed U.S. case of COVID-19 reaching U.S. soil is thought to have been as early as January 15, 2020, when a 35-year-old man returned from Wuhan to Washington State, testing positive for the virus days later on January 20.[104] As the virus spread and intensified in the U.S. and around the world, all sense of business-as-usual collapsed as countries closed their economies as they struggled to contain its spread. The virus has further stressed the relations of many countries, including the already stressed U.S.-China relationship in particular.

The impacts to development agencies, such as the DFC, and development initiatives, such as BRI, are still in the early stages of unfolding. As budgets freeze and projects grind to a halt for an unknown period of time, questions arise on how resilient the current international cooperation and development system will be in the wake of COVID-19. Developing countries are likely to face even greater challenges in combating the virus than developed countries, as their healthcare systems are even less prepared to handle the virus than the already overburdened systems of western countries.

Development Finance Institutions (DFIs) must manage shifting priorities within their countries towards domestic recovery, and the recovery of project host countries as well. The Center for Global Development argues that wealthier nations like the U.S. and China have both a moral obligation and economic incentive to halt the virus' spread in the developing world, as disease knows no borders.[105] Drastic measures such as the postponement of all debt services obligations may be necessary for these countries to recover.

With the U.S. and China both shifting their focus inward to repair their battered economies, what will the future of international development look like? This section begins to answer this important question by exploring how U.S. and Chinese institutions and initiatives have been reacting and attempting to cope with the rapidly changing global environment due to COVID-19.

IMPACTS TO BRI OPERATIONS

Efforts to mitigate the spread of COVID-19, such as through social distancing measures, have battered the global economy. The full extent of impacts on BRI and its participating countries are still unfolding. However, some visible impacts in recent months include business closures and travel restrictions. These closures will likely bring detrimental consequences to lower-income countries who have become increasingly dependent on Chinese goods and services. Researchers have noted that abrupt halts in BRI infrastructure projects are directly related to the spread of the virus.[106] Major projects that have been affected include the China-Pakistan Economic Corridor (CPEC) and Cambodia's Sihanoukville Special Economic Zone. They also noted that projects in Indonesia, Myanmar, and Malaysia have become stuck in holding patterns. Many BRI projects rely almost exclusively on Chinese labor, however, travel restrictions on Chinese workers have prevented them from returning overseas. Many are concerned that some projects could even be abandoned.

China Development Bank has pledged to provide support to BRI-related companies that have been affected by the global health crisis as China slowly reopens its economy.[107] Specifically, the bank will provide low-cost financing options and special foreign exchange liquidity loans to companies. However, it is unclear whether these forms of support will be offered to only Chinese companies or also to international companies. Published on the Belt and Road website, Beijing encourages Chinese companies to protect the global supply chain by offering goods and services to European countries continuously even through the pandemic. China also hopes to show the world that it hopes to take on a leading role in tackling COVID-19 related issues. On May 7, Beijing stated its plan to remove investment quotas on the dollar-denominated qualified foreign institutional investor (QFII) scheme and the yuan-denominated RMB qualified foreign institutional investor (RQFII) in order to simplify "outward remittance procedures for securities investment gains."[108] China hopes that this action will guide more foreign investment into the Chinese stock market, enhancing the RMB's role in the global market and boost stocks and bonds.

China's Mask Diplomacy and the Health Silk Road

While China gradually brought its COVID-19 situation under control in February, the virus quietly but savagely spread to nearly every continent around the world. Iran and Italy soon became the epicenters of the global outbreak by the end of February. Japan and South Korea, two of China's neighboring countries, also suffered at the frontline of the coronavirus pandemic. China responded rapidly by shipping patches of medical supply donations to these four countries. The first reported donations were made to Iran to help combat the COVID-19 outbreak, with 250,000 masks and 5,000 test kits being delivered on February 25, 2020.

According to a database created by ICAS researchers using publicly available information, starting from the end of February, China has made over 120 donations and sales to more than 100 countries and international organizations such as the African Union and World Health Organization. China has also sent medical teams to different countries to share their expertise. Hundreds of millions of masks, test kits, PPEs, and thousands of ventilators have been shipped around the world. China stepped into a global leadership role by demonstrating its capacity to manufacture medical supplies en masse and coordinating the international aid. Reports in March wrote that China boosted its face mask production capacity by 450 percent in a month, with daily mask output exceeding 110 million units.[109][110] Donations were made by the Chinese public and private sectors, local communities, as well as nonprofits such as the Jack Ma Foundation. The ICAS database reveals that **China has donated over 146 million facemasks, over 200,000 ventilators, and over 5 million test kits** around the world.

Table 4.1 Largest Recipients of Chinese Medical Supply Donations[1]

Recipients	Masks	Ventilators	Test Kits
World Health Organization	101,000,000	0	1,000,000
South Korea	7,580,000	0	0
United Kingdom	5,100,000	65	10,000
African Union	4,900,000	500	1,520,000
United States	4,820,000	2,000	500,000
European Union	2,500,000	800	50,000
Japan	2,014,000	0	125,000
24 Latin American Countries	2,000,000	104	400,000
Italy	1,750,000	80	0
France, Slovenia and Belgium	1,500,000	0	0
Indonesia	1,370,000	0	920,000
Bangladesh	1,227,500	0	0
Russia	1,220,000	200,000	5,000

1 Medical supply donation totals were compiled by ICAS researchers from publicly available Chinese and English language sources. The donations were made by a variety of Chinese entities, including central and local governments, the private sector, and nonprofit foundations. As some donation totals were not publicized by donors, especially from the private sector, these numbers should be considered to be a low-ball estimate and could be subject to change. Some donations were aggregated in their announcements, such as the '24 Latin American Countries', making it difficult to determine how much of the total donation went to each respective country. Donations made to multilateral institutions, such as the WHO and African Union, are left to the discretion of the recipient institution on how to allocate to each member country. For more information on data and methodology, please contact the report authors.

Since mid-March, European countries, such as Italy and Spain, have been the destinations of China's "Health Silk Road". On March 16, Chinese President Xi held a phone conversation with Italian Prime Minister Giuseppe Conte, raising the notion of a "Health Silk Road". The Health Silk Road is a rhetorical extension of the BRI into the global health sector. In a press conference of China's Ministry of Foreign Affairs several days later, Chinese spokesman Geng Shuang repeated this idea by calling on the international community to "work together to build a global prevention and control system to ensure public health security, improve epidemic monitoring, early warning, information sharing and emergency responding mechanisms, implement major international health projects, and make positive efforts to build a health Silk Road".[111] On April 18, A freight train loaded with medical supplies, auto parts, electronic products, and optical communication fibers, arrived in the western German city of Duisburg from Wuhan, China, resuming the China-Europe freight train service.[112]

Though the HSR has been resurrected in the wake of the global pandemic, it is actually not a new concept. The term was first introduced in January 2017 when President Xi signed a memorandum of understanding with the World Health Organization (WHO) committing to the construction of a "Health Silk Road" that would aim to improve public health in countries along China's Belt and Road.[113] In August 2017, the Chinese government gathered health leaders of 60 countries in Beijing and hosted a seminar called "Belt and Road Forum on Health Cooperation: Toward a Health Silk Road", proposing to utilize the BRI network to strengthen international cooperation in the health sector.

Some American officials' reluctance to accept the medical equipment and the critiques of China's "Mask Diplomacy" show Washington's worries of propaganda efforts by China in global leadership.[114] Another concern arose from some defective medical equipment sold to foreign countries by some of the private Chinese companies. Amid the tensions within China and the U.S., COVID-19 pandemic should have been a rare and great rationale for cooperation between two countries to handle the epidemic, and further ameliorate the relationship.

However, there has been some consensus on the necessity of practical cooperation between both countries to combat this crisis. On April 3, over 90 bipartisan, high-level former government officials and experts in the U.S.-China relationship released a joint statement urging for cooperation between the world's largest two economies to meet the coronavirus challenge.[115] Thomas J. Christensen, a nonresident senior fellow at the Brookings Institution, suggested six areas where Beijing and Washington could seek collaboration in a report published in May: to stem the spread of the virus; to develop vaccines; to prepare for manufacturing and distribution of vaccines; to assist the neediest countries; to manage debt crises and combat famines in the developing world; and to preserve global trade.[116] Washington and Beijing must act in their unique capacities and collaborate to develop a bilateral and global agenda on COVID-19.[117]

IMPACTS TO DFC OPERATIONS

The full extent of how COVID-19 has impacted normal DFC operations will likely remain unclear for some time. However, even in the wake of the virus halting normal business operations across the United States, on March 12, the DFC Board of Directors approved nearly USD 900 million in financing and political risk insurance for new projects in Africa, Latin America, and the Indo-Pacific.[118] Since then, a number of multi-million dollar loans have been promised over the months, presumably indicating that the risk of investing in new projects can be managed despite the virus.

Adam Boehler, the first CEO of the DFC, has notably shifted some of his work priorities towards the domestic mitigation of the COVID-19 outbreak in the U.S. This can largely be attributed to his long-standing career background in the healthcare industry as a venture capitalist and later in government. For instance, his bio reads that "[h]e served as Senior Advisor to the Secretary, Deputy Administrator of the Centers for Medicare & Medicaid Services, and Director of the Innovation Center at the U.S. Department of Health and Human Services (HHS)."[119] Boehler's past work experience, and perhaps his close relationship with Jared Kushner as former college roommates, positioned him to begin working on COVID-19 relief efforts as part of the White House coronavirus task force as early as March 15.[120]

Reportedly, both Boehler and Kushner established a private-sector volunteer program to "help source protective gear and test kits for medical workers from vendors" for the Federal Emergency Management Agency (FEMA).[121] To organize this, Boehler brought on Deven Parekh, a DFC board member who is a managing director at Insight, a USD 20 billion venture capital and private equities firm that invests in healthcare technologies, to enlist eight volunteers from the firm to provide this assistance. Additionally, on April 14, Boehler announced at a White House coronavirus task force briefing the creation of a ventilator lending program between hospitals, known as the Dynamic Ventilator Reserve.[122] According to Boehler, of the 60,000 ventilators that reportedly had been going unutilized, 20 top health systems signed up for the program in the first week, representing 4,000 of the total unused ventilators.

On May 14, President Trump signed an executive order that grants the DFC authority under the Defense Production Act to "to make loans, make provision for purchases and commitments to purchase, and take additional actions to create, maintain, protect, expand, and restore the domestic industrial base capabilities, including supply chains within the United States and its territories."[123] This order grants Boehler authority to distribute loans supporting domestic industrial base capabilities that would bolster the national response and recovery to the COVID-19 outbreak and the resiliency of any relevant domestic supply chains.

International development experts raised concerns that a new, understaffed agency specializing in overseas investment might be ill-equipped handle this challenge compared to a domestic-focused agency.[124] Furthermore, it raises questions about a shift in the DFC's Congressionally mandated mission. In order to assuage these fears, Boehler has assured that all funding for these loans will come through the Department of Defense and therefore does not apply towards DFC's USD 60 billion spending cap. Furthermore, Boehler indicated that DFC will recruit a team to administer this new authority without impacting the core work of the agency.

Time will tell if DFC can manage these additional operations outside its intended scope of work without impacts to its mission. A clear step in the right direction was revealed on May 26, 2020, when the Board of Directors announced it had approved the implementation of a USD 4 billion Rapid Response Liquidity Facility granted by Congress.[125] The Facility will allow for existing DFC clients to apply for additional financing on projects that have been impacted by challenges created by COVID-19, such as revenue declines leading to debt repayments or construction delays. DFC CEO Adam Boehler will be granted the authority to approve financing without Board approval in order to respond more quickly to client needs. Although this additional liquidity is undoubtedly good news to many DFC-backed clients, there is no indication yet that the current amount available will provide the necessary relief to these projects.

HOW THE DFC IS COOPERATING WITH OTHER DEVELOPMENT FINANCE INSTITUTIONS ON COVID-19

In partnership with FinDev Canada and the Association of European Development Finance Institutions, David Bohigian, the last CEO of OPIC, established the Development Finance Institution (DFI) Alliance on April 11, 2019.[126] The Alliance was created for DFIs to exchange best practices, strengthen relationships, and explore opportunities for collaboration in development. On April 6, 2020, the Alliance pledged to act as economic first responders in vulnerable populations by working together and pooling resources to leverage local private sectors "to help resolve current liquidity issues in financial sectors, support the viability of existing companies impacted by the virus, and promote new investment in goods and services necessary to global health, safety, and economic sustainability."[127]

The Global Health and Prosperity Initiative

On May 11, 2020, DFC announced a call for proposals under its new *Health and Prosperity Initiative*, in which up to USD 5 billion will be mobilized over the next three years in health-related investments.[128] Individual DFC investments will range from USD 5 million to USD 500 million+ for a total aggregate direct exposure of up to USD 2 billion in direct government financing and other investment support in this same period. All DFC-eligible countries will be able to participate in the initiative, although special emphasis will be given to African countries.

To qualify and satisfy selection criteria, applicants must satisfy a number of transparency, accountability, environmental, labor, and social sustainability standards that are typical of DFC projects. In addition to this, DFC also indicates that **applicants must be privately owned and managed entities**, likely barring any state-owned corporation from participation. Of the ten major selection criteria, it is also notable that DFC states that it "**prefers**", but "**does not require**" that the project company have a "U.S. Connection."[129] This means that the project company is a U.S. entity, a foreign entity with a majority U.S.-ownership, or has raised an adequate amount of investment capital from U.S. investors.

Nafisa Jiwani, Managing Director for Health Initiatives at DFC, is tasked with leading this initiative.[130] Jiwani indicated that the initiative will initially seek to focus these project investments primarily on the global COVID-19 pandemic response by mobilizing investments in health system capacities, such as supply chains that would "expand the distribution of diagnostics, therapeutics, vaccines, and other medical supplies, products and equipment."[131] Reportedly, DFC will hire another four to six employees to help speed up the process on deals related to the pandemic response. However, it remains unclear how quickly DFC will close its first investments and how they will directly impact COVID-19 relief.

MORE DELAYS FOR THE BLUE DOT NETWORK?

Since its controversial and perhaps overly hasty introduction in November 2019, the Blue Dot Network remains elusive, with some wondering at this point if it will be able to come to fruition given the global uncertainties created by COVID-19. Scholars and policymakers in the United States, China, and other parts of the world have been left scratching their heads waiting for the true launch of this initiative being billed as a Michelin star rating system for development finance that will compete with China's USD 40 billion Silk Road Fund.

While focused on recovery from the pandemic, target BDN partner countries such as Indonesia may not prefer the strict compliance and bureaucratic hurdles being advertised by the Blue Dot Network. For example, as Indonesia approaches recession, the government has introduced reforms allowing its central bank and state-owned enterprises to buy bonds, causing the value of the rupiah to plummet. Sandy Milne at Defense Connect argues that "[i]f these trends continue, we are likely to see Indonesia continue to loosen employment regulations, and distance itself as a potential BDN partner."[132] With the virus now hurdling the country closer towards a recession, the government has introduced reforms allowing its central bank and state-owned enterprises to buy bonds, causing the value of the rupiah to plummet. He argues that "[i]f these trends continue, we are likely to see Indonesia continue to loosen employment regulations, and distance itself as a potential

BDN partner."[133] Similar to how Spain has relied on the Health Silk Road with a USD 467 million purchase of medical supplies from China, it will be likely that developing countries like Indonesia will become increasingly dependent on China for emergency supplies and recovery assistance.[134]

The road to recovery for COVID-19 will be a difficult one for all nations, but especially for developing countries. This could very well bring further delays to the true launch of the Blue Dot Network, which is still being developed by the U.S., Japan, and Australia. With countries needing immediate assistance to stave off recession, the possibility exists that COVID-19 has completely shifted the potential effectiveness or purpose of the Blue Dot Network.

Conclusion: The Future of U.S.-China Cooperation in International Development

The rationale for U.S.-China cooperation amidst the COVID-19 response and recovery cannot be understated. The world's two largest economies have the greatest capacity, and responsibility, to mitigate the global socioeconomic impacts of the virus. Unfortunately, the virus itself seems to have infected the already declining U.S.-China relationship as each seeks to blame the other for mishandling the situation. However, as the Center for Global Development argued, wealthier nations like the U.S. and China must address the spread of the virus in the developing world in order to repair the world economy.

Given the current trajectory of diplomacy between the two countries, it would be unrealistic to expect the U.S. and China to simply put aside all of their differences to work together in every way necessary to address this challenge. Julian Gewitz, an Academy Scholar at Harvard's Weatherhead Center for International Affairs, writes on ChinaFile, "[a]s competition between America and China intensifies, arguments for any form of cooperation with China are sometimes portrayed as dovish, naïve, or even duplicitous, as if cooperation were a form of appeasement."[135] However, areas of strategic cooperation despite the current state of the relationship do exist and must be pursued as a matter of pragmatism.

HISTORICAL PRECEDENCE FOR GLOBAL COOPERATION IN PUBLIC HEALTH AND DEVELOPMENT

There is precedent for this U.S.-China cooperation in global health, such as when the Soviet Union and the United States jointly improved a vaccine for polio.[136] In fact, the U.S. and China had successfully cooperated during the past SARS and H1N1 epidemics. Despite the current vitriol being thrown by both sides, it is not too late for some form of limited cooperation.

In the realm of international development, there was an initial effort between USAID and China's Ministry of Commerce (MOFCOM) to establish an Exchange and Communication Mechanism when the two entities signed a memorandum of understanding in September 2015 during President Xi's visit to Washington.[137] Within the memorandum, the U.S. and China had agreed to strengthen numerous areas of potential cooperation in meeting the development needs of recipient countries, including food security, humanitarian assistance, specific project cooperation, and most notably, public health security in support of the World Health Organization's International Health Regulations. In the wake of the 2014 Ebola epidemic, another push for U.S.-China cooperation in global health and development was made in 2016 when the Obama administration reached an agreement with Beijing to jointly support the Africa CDC and strengthen links between Chinese, African and American health experts.[138]

Regrettably, these budding areas of cooperation have likely wilted prematurely amid increasing friction between the two governments. It remains unclear whether any further progress will be made between USAID and MOFCOM, as very little has occurred since the 2016 China-U.S. Development Cooperation Conference held in Beijing.[139] Furthermore, cooperation between the U.S. and China in funding Africa CDC eroded in February 2020 when the Trump administration made attempts to block China from building an USD 80 million Africa CDC headquarters in Ethiopia, according to a Financial Times investigation.[140] Trump administration officials accused China of seeking to develop this project to steal genomic data from all the other centers, which was denied by Chinese officials. Despite this erosion of trust between the U.S. and China, the potential exists for limited forms of cooperation between development finance institutions for COVID-19 relief efforts in the developing world.

WHERE CAN U.S.-CHINA INTERNATIONAL DEVELOPMENT FINANCE COOPERATION GO FROM HERE?

There are signs that U.S.-China cooperation in the pandemic response is already underway despite geopolitical tensions. Through previous connections made with China's CDC during his work on the previous Sars epidemic, Ian Lipkin, director of the Center for Infection and Immunity at the Mailman School of Public Health at Columbia University, has established research partnerships with Chinese colleagues.[141] Through these connections and partnerships, US scientists are able to work with China to investigate the origin of coronavirus. This has allowed US and Chinese researchers to study early infection cases by testing blood samples of pneumonia patients nationwide in December, November, or even earlier. This research is critical to better understanding the nature of the disease and could prove critical for developing treatments. Without this U.S.-China partnership, these efforts would likely be impeded, potentially exacerbating the already devastating global impacts of the virus.

The potential for limited U.S.-China cooperation in international development, despite the mutual benefits, will depend on a variety of factors. Minxin Pei, Director of the Keck Center for International and Strategic Studies at Claremont McKenna College, identifies four interrelated prerequisites for U.S.-China cooperation to occur in this area: "(1) the geopolitical sensitivity of specific issues, (2) the geopolitical importance of the countries concerned, (3) overlapping interests, and (4) the party that controls the U.S. executive branch."[142] Given this, the chances that development finance institutions of the United States and China would cooperate by jointly investing in hard infrastructure development, such as building hospitals for COVID-19 relief efforts, is exceedingly slim.

However, there are other ways that Chinese and American development finance institutions such as DFC and CDB could coordinate efforts to aid in global recovery efforts from the pandemic. The establishment of a Communication and Coordination Mechanism between the DFC (or potentially more broadly with the DFI Alliance) and China's own development finance institutions would greatly assist in the global recovery from COVID-19 and in other times of crisis. Through this channel of communication, U.S. and Chinese DFIs would be able to coordinate to improve recovery efforts in the developing world by:

- maintaining capital markets;
- financing local firms offering innovations, business models, or products that address the crisis;
- channeling financing in the hardest-hit regions;
- developing a readiness plan for post-pandemic financial assistance.[143]

An added benefit of this limited form of cooperation will prove that the two countries need not only compete within the development finance sector. This could ripple into other areas of potential engagement by addressing some of the frictions the U.S. has with Chinese financing. For instance, communication and coordination on financing in the developing world would bring about greater levels of transparency from the Chinese side. Both the U.S. and Chinese-led initiatives would experience greater levels of mutual learning through healthy competition and by pooling together their intellectual capital, such as sharing best practices in debt sustainability to reduce project risk and overspending. In addition, the U.S. and China could reach agreements on how to proceed with debt renegotiations to prevent lower and middle-income countries from defaulting on loans during times of crisis.

The U.S. and Chinese governments can cooperatively leverage the strengths of their DFIs within a multilateral framework as well. The G20 would be a natural place to start. During the Extraordinary G20 Leaders' Summit convened on March 26, all members agreed to safeguard the global economy, committing to cooperate to enhance global financial safety nets. On June 2, former global heads of state and leaders of financial institutions called upon the G20 to implement concrete measures in full, as the world is nowhere close to the IMF's estimated $2.5 trillion needed by emerging markets and developing countries.[144]

For instance, Erik Berglöf et al. concur that the World Bank's International Development Association (IDA) must be scaled up radically by bilateral, multilateral, and private creditors until the end of 2021.[145] The IDA is a multilateral financial institution that provides direct development assistance to emerging economies through interest-free loans. Additionally, tools such as its Crisis Response Window were critical towards supporting countries undergoing severe crises, such as during the Ebola outbreak in West Africa, which must also be leveraged during the COVID-19 crisis. Both the U.S. and China are already contributors to the IDA, providing $3 billion and $1.2 billion, respectively, to replenish it in 2019. Not only must the U.S. and China help ramp up IDA funding, but their own development banks must find ways to communicate and collaborate with the IDA on the ground as their lending portfolios overlap.

The world cannot afford the two countries most capable of meeting the socioeconomic fallout from COVID-19 to be finger wagging at each other. Although there are many areas where the current political environment is simply not conducive to full and complete cooperation, past experiences indicate that the U.S. and China can work together to solve some of the world's most pressing issues. The international development finance institutions of the world cannot face these challenges alone, but if a limited channel of communication and cooperation can be utilized, their impacts to the global pandemic recovery will be immense and the road to recovery for the U.S.-China relationship could begin to get back on track.

About the Authors

Matthew Geraci is a Research Associate and Program Officer at the Institute for China-America Studies and a Pacific Forum Young Leader. He specializes in utilizing geographic information systems to manipulate and analyze data to enhance his research on U.S.-China relations, China's Belt and Road Initiative, maritime claims, energy security, and environmental issues. He received his B.A. in East Asian Studies with a concentration in China from Bucknell University and earned his M.A. from the Johns Hopkins School of Advanced International Studies with an energy, resources, and environment concentration. He spent his first year of graduate study living in China at the Hopkins-Nanjing Center, where the majority of the coursework was conducted in Mandarin Chinese.

Asiana Cooper is a Research Assistant at the Institute for China-America Studies. Her research specializes in identifying overarching themes in U.S. economic and strategic relations with East Asia as they evolve under changing leadership and historical contexts. She holds a B.A. degree in International Affairs from George Washington University with a minor in Business Administration and a concentration in International Politics. While studying abroad at Royal Holloway, University of London, Asiana studied international politics and economics. She also lived in Nanjing, China for nine years where she attended Nanjing Foreign Language School and gained the ability to speak, read, and write Chinese fluently with native proficiency.

Mengze Li is a Research Assistant at the Institute for China-America Studies. Her research centers on China's economy, especially the Chinese investment environment and the role of the U.S. in China's economic transition. She received her B.A. in Literature from Shanghai Jiao Tong University and M.A. from Johns Hopkins School of Advanced International Studies with a concentration on China Studies and International Economy. Before coming to the U.S. for her graduate studies, she lived in Shanghai and traveled extensively around China and East Asia. During her undergraduate exchange semester at the National University of Singapore, she studied media and communication, deepening her research focus on East Asia.

Appendix A

Belt and Road Initiative Financial Institutions[1]

Institution (excluding Ministry of Finance and M inistry Commerce Aid, etc.)	Features	Estimated exposure (USD billion)	Project Expansions
China Development Bank (notably the world's largest development finance institution	• Non-concessional loans and credit lines • Concessionary loans • Overseas investment support • Can be tied to exports in most cases • Imposes limits to sovereign borrowers (such as the IMF) • Controls concentration of loans • Government capital injections and access to PBoC pledged • Supplementary lending programme keeps funding very cheap	110	By the end of December 2015, CDB had supported 400-plus projects in 37 countries along the Belt and Road Initiative, with banks totalling USD 110 billion. The projects covered energy resource co-operation, technical facility construction and other fields. These include foreign governments, foreign companies and Chinese corporations. An example is the 40-year concessionary loan to Indonesia, with no guarantee, for 75% of the USD 5.29 billion Jakarta Bandung high-speed railway. There is a 10-year grace period. 60% is denominated in US dollars at a low 2% interest rate. 40% is denominated in Renminbi at a 3.4% interest rate. The concessions that allowed it to win were mainly the absence of guarantees by Indonesia and local content agreements.
China Exim Bank	• Non-concessional loans and credit lines	80	By the end of 2015, EXIM Bank had supported 1000-plus projects in 49 countries along the Belt and Road Initiative, with loan balances exceeding CNY 520 billion (i.e. USD 80 billion). The projects include roads, railways, electricity, ports, communications and other fields. For example, EXIM Bank provided a USD 800 million low-interest rate loan to Malaysian to build the 22.5 kilometre second Penang bridge, the longest cross-sea bridge in Southeast Asia. Contribution to the USD 7 billion Lao People's Democratic Republic railway (5% GDP), provided at a low 3% interest rate. Exim Bank lends to foreign governments, foreign companies and Chinese corporations.
Agriculture Development Bank of China	• Overseas investment support (can be tied to exports)		Supporting Silk Road Fund and for Chinese companies.
Industrial and Commercial Bank of China	• Non-concessional loans	159	212 BRI-related projects to a total of USD 67.4 billion to date. Potential projects expected to bring this to USD 159 billion.
Bank of China	• Non-concessional loans	100	Expected to have BRI-related project loans totalling USD 100 billion by the end of 2017.

2 OECD, OECD Business and Finance Outlook 2018 (Paris: OECD Publishing, 2018), 76-77. https://doi.org/10.1787/9789264298828-en.

Institution (excluding Ministry of Finance and M inistry Commerce Aid, etc.)	Features	Estimated exposure (USD billion)	Project Expansions
Silk Road Fund	• All BRI-related projects (ultimate full capitalisation shown)	40	The Silk Road Fund mainly invests in infrastructure projects in the energy sector. Their ongoing projects include the Karot Hydropower Project on the Jhelum River of Pakistan, the UAE Egypt Power Plant Project co-invested and developed by Chinese investors including the China Gezhouba (Group) Corporation. The Pakistan Karot Hydropower Project signed in April 2015 is a prioritised energy project in the "China-Pakistan Economic Corridor". It will be developed by the South Asia Company under the China Three Gorges Corporation and financed by the Silk Road Fund. The syndicate formed by the Silk Road Fund, the Export-Import Bank of China, the Chinese Development Bank and the International Finance Corporation has provided a USD 200 million loan to the project.
China Construction Bank	• Non-concessional loans and credit lines	10	MofCom states that it has provided USD 10 billion
New Development Bank (NDB)	• To play a larger role in BRI projects	1.261	NDB provides loans to its member countries in the infrastructure sector. It announced the first batch of loan projects in April 2016, providing total loans of USD 811 million to renewable energy projects in Brazil, China, South Africa and India to support the member countries' 2370 Mega Watt generating capacity of renewable energy. In July 2016, NDB resolved to provide USD 100 million in loans to small-scale energy projects in Karelia, Russia. In November 2016, NDB approved a USD 350 million loan in regions along the Belt and Road Initiative area.
China Export and Credit Insurance Corporation		570.56	By December 2015, SINOSURE had underwritten USD 570.56 billion for China's export, investment and contracting projects in the countries along the Belt and Road Initiative area, with USD 1.855 billion paid out as indemnities. In July 2015, SINOSURE signed a co-operation agreement on the Belt and Road Initiative with the Industrial and Commercial Bank of China, focusing on supporting projects in regions along the Belt and Road Initiative area.
Asia Infrastructure Investment Bank (AIIB)	• Not BRI-related projects (China 36% voting)	2.33	By December 2016, AIIB had approved nine infrastructure projects involving a total investment of USD 1.73 billion. The nine projects are all located in the countries along the Belt and Road Initiative area, namely Tajikistan, Bangledesh, Pakistan, Indonesia, Myanmar, Oman and Azerbaijan. The projects mainly focus on energy, transportation and slum upgrading. The latest approved project is the Trans-Anatolian Natural Gas Pipeline Project (TANAP) in Azerbaijan, which as part of the Southern Gas Corridor of the European Union, will transport natural gas in the Caspian Sea to Europe via Turkey. The project requires a total investment of USD 8.6 billion, of which AIIB is contributing USD 600 million, the World Bank USD 800 million, and the remaining will be provided by other international financial institutions and commercial loans.

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COVER GRAPHIC PITCHSINEE VEERAKAJORN

中美研究中心 ICAS
Institute for China-America Studies

1919 M St. NW
Washington, DC 20036
202 887 0200 | www.chinaus-icas.org