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"What Keeps Xi Up at Night: Beijing's Internal and External Challenges"

For the Panel Entitled "Backlash from Abroad: The Limits of Beijing's Power to Shape its External Environment"

The Superpower Learning Curve: Challenges to Chinese Economic Statecraft

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Key Points

- **The Learning Curve:** China is encountering challenges in converting economic influence into political power across efforts as varied as trade, currency and payments, and infrastructure investment. As it transitions from a regionally-focused great power to a globally-focused superpower, Beijing is running into a learning curve that is made steeper by its inexperience as well as its illiberal and opaque political system. Even so, China is an adaptable actor and many obstacles are not insurmountable.

- **Trade Relations**: China is more actively using trade as an instrument of bilateral coercion, but it is learning this only works well on issues of high importance to Beijing and low importance to others. Beijing's efforts to multilateralize its trade preferences (e.g., through the Regional Comprehensive Economic Partnership, or RCEP) are running into objections because a multilateral structure offers veto opportunities for other states.

- **Currency and Payments:** China's RMB internationalization efforts at the global level are complicated by its fear that necessary reforms like capital account convertibility will introduce instability. Despite this considerable obstacle, Beijing is nevertheless learning how to increase the RMB's centrality to Asian trade and is devising an alternative to SWIFT's messaging system – efforts that together will give it financial power regionally and opportunities to bypass U.S. sanctions globally.

- **The Belt and Road Initiative (BRI):** BRI is facing a backlash in Asia and around the world as concerns over political corruption, economic indebtedness, and security vulnerabilities mount. Even so, many states are continuing to participate in BRI, and Beijing is in the midst of adapting the initiative. Xi has declared a new BRI phase that would include greater centralization, higher quality and smaller-scale investments, direct benefits to the local populace, and renegotiated terms along with co-investment.

- **Lengthening China's Learning Curve:** Washington should not underestimate Beijing's ability to adapt and eventually climb the superpower learning curve to greater influence. Instead, emphasizing transparency in China's investments and accountability for recipient leaders can undermine Beijing's use of corruption. Strengthening multilateral bodies and offering a friendly voice in Chinese-led forums can help states distance themselves from Beijing. Finally, providing economic alternatives both on financing and trade makes Chinese economic coercion less harmful and its beneficence less attractive.

- **Recommendations**: A series of recommendations that operate in accordance with the preceding logic are provided at the end of this testimony. They include pushing to multilateralize BRI and increase its transparency; bringing existing institutions into Asian infrastructure investment; strengthening Asian multilateral bodies as alternatives to Chinese-led order; providing select infrastructure financing with allies and partners; providing training to assist partners in assessing Chinese financing; joining select Chinese-led multilateral processes to influence their development; and elevating the maintenance of financial power as a national security priority.

Introduction

Senator Talent, Senator Goodwin, and Honorable Commissioners, thank you for the invitation to participate in today's hearing and to testify today on the People's Republic of China's internal and external challenges. As requested, I will be focusing my remarks on the limits of Beijing's power to shape its external environment, with particular attention to Beijing's attempts to convert its economic influence into political power. These economic questions are of particular importance given that it is China's economic influence that has risen farthest and fastest of its various instruments of statecraft and that now appears in every corner of the world. Today I will argue that China is indeed facing obstacles in converting this newfound economic might into political influence. But I will also stress that these obstacles, while at times considerable, are not insurmountable – and that Beijing is gradually overcoming them.

Superpower Learning Curve

The core argument I hope to make today is that Beijing is encountering what I would call the "superpower learning curve." It is in the midst of a transition from a regionally-focused great power to a globally-focused superpower, but this transition has not been smooth. It has involved missteps and setbacks. Like other great powers before it – including the United States – Beijing is learning that economic influence does not easily convert into political influence, that the exercise of power sometimes encounters friction, and that the domestic politics of distant countries are often unpredictable and intractable.

An important question before us then is just how fast Beijing will climb this "superpower learning curve." Does Beijing's lack of experience and its illiberal and opaque political system make it harder for Beijing to act as effectively globally as the United States does? Today, I'll try to share my thinking on this question by focusing on Beijing's efforts in three broad economic areas. I'll briefly discuss China's (1) regional trade initiatives and (2) currency and payments initiatives before spending the bulk of my time on its (3) international infrastructure investment.[1]

Economic Statecraft

Before I get to those categories, let me pause to talk about how economic power converts into political influence. There a number of ways, but I tend to group them into three categories.[2]

(1) Bilateral: This involves an economic relationship between two states that is unequal, which gives one state the opportunity to coerce the other state through the manipulation of those unequal ties. China's economic coercion through trade constitutes an example.

[1] This testimony is informed in part by my recent work. See Rush Doshi, "China's Role in Reshaping the International Financial Architecture: Blunting U.S. Power and Building Regional Order," in *Strategic Asia 2019: China's Expanding Strategic Ambitions*, ed. Ashely Tellis, Alison Szalwinski, and Michael Wills, (Washington, DC: NBR, 2019), 278-308.

[2] This approach is adapted from Susan Strange's two-dimensional approach to economic power. See Susan Strange, States and Markets, 2nd ed. (New York: Pinter Publishers, 1994), 24–29.

(2) Structural: This involves manipulating the framework within which economic activity takes place. Cutting off access to the dollar-based financial system is an example, and China's control over a RMB-based financial system may constitute one in the future.

(3) Domestic-Political: This involves manipulating the internal politics of another country through bribes to political figures, concessions to political coalitions, and purchases of domestic media. China's infrastructure investments are an example of this approach.

China is wielding all of these instruments to gain political advantage, but to varying degrees of success.

Trade Ties

Over the last decade, China has sought to turn its trade relations to political advantage by converting trade flows into bilateral leverage and by setting rules on regional trade to acquire structural leverage. In these efforts, it has run into the *superpower learning curve* – its bilateral trade coercion works only in some cases and its multilateral efforts are stalled by neighbors.

Prominent examples of China's *bilateral* coercion include unilateral trade sanctions against Japan over the East China Sea, Norway over the Nobel Prize, Taiwan over its elections, the Philippines over the South China Sea, Mongolia over a Dalai Lama visit, and South Korea over Terminal High Altitude Area Defense. These efforts have accompanied a change in China's domestic discourse on the appropriateness of economic coercion.[3] There is some anecdotal evidence that these examples have led others to think twice before adopting positions at odds with Beijing on Taiwan, Xinjiang, or Tibet – though when fundamental interests and values are at stake for target states, China's coercion has limited effect.

China has also sought to achieve *structural* leverage by multilateralizing aspects of its trade agenda in ways that favor its system over rivals. But here, multilateralization has posed a limit on China's ability to influence its external environment. For example, China has long seen the Regional Comprehensive Economic Partnership (RCEP)—a multilateral economic agreement that would cover sixteen countries, nearly half of the world's population, and roughly one-third of its GDP—as an important vehicle for regional leadership. In a 2014 statement by the Ministry of Commerce, China made clear that "the smooth establishment of the RCEP is of great importance to China's fighting for the initiative [in] the new round [over the] reconstruction of international economic and trade rules."[4] After the United States' withdrawal from the Trans-Pacific Partnership (TPP), China's Foreign Ministry initially elevated these efforts. The head of the ministry's Department of International Economic Affairs declared, "If China has taken up a leadership role, it is because the front runners have stepped back, leaving that place to China. If China is required to play that leadership role then China will assume its responsibilities."[5]

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[3] James Reilly, "China's Unilateral Sanctions," Washington Quarterly 35, no. 4 (2012): 121–33.

[4] "Give Play of China's Important Role and Accelerate RCEP Negotiations," Ministry of Commerce of the People's Republic of China, September 1, 2014, http://english.mofcom.gov.cn/article/newsrelease/significantnews/201409/20140900720384.shtml.

[5] "Diplomat Says China Would Assume World Leadership if Needed," Reuters, January 23, 2017, https://www.reuters.com/article/us-china-usa-politics-idUSKBN1570ZZ.

These lofty leadership ambitions, however, encountered obstacles from regional states—especially Australia, India, and Japan. China's desire to enshrine its preferences on issues relating to cross-border data flows and intellectual property face Japanese and Australian opposition; meanwhile, India is extremely reluctant to extend to China the same low tariffs it offers ASEAN given the enormous Sino-Indian goods deficit, especially in manufactures. Under Japanese instigation, Asian states even managed to resurrect the TPP as RCEP floundered. At least for now, RCEP remains an example both of Chinese order-building ambitions and of Asian resistance, as well as a keen demonstration of how China's agenda can stall when it is multilateralized.

Currency and Payments

Great powers have great currencies, and with them, *structural* power – that is, the power to affect the framework in which considerable economic activity takes place, especially economic activity denominated in their currency. But in these efforts, China has once again run into the *superpower learning curve* as its domestic economic practices curb its international financial ambitions.

For the last decade, China has sought to internationalize its currency, the renminbi (RMB). Chinese leaders have long been concerned about their dependence on the dollar, which brings with it vulnerability to U.S. financial sanctions, and that is a major strategic driver of its pursuit of RMB internationalization.

But this decade-long initiative has exposed the limits of China's ability to shape its external environment. To promote its currency, China needs to adopt a high degree of capital account convertibility so market participants know its value and can confidently move into and out of RMB as needed. China has proved unwilling to adopt convertibility because it would remove some of the control the Party has over China's domestic financial sector and could introduce volatility that might jeopardize social stability – and with it, the Party's rule. China's efforts to promote the RMB without convertibility came to a halt during the 2015 stock market crash, which saw new restrictions to prevent capital outflows. These restrictions reduced the credibility of any future promises of partial convertibility and introduced a belief that the RMB would continue to lose value. Data from SWIFT suggests that the renminbi still only accounts for between 1% and 2% of all international payments.[6]

In short, the Party's authoritarian system and intolerance for instability have limited its ability to shape its external financial environment.

Although the learning curve for establishing a global currency is steep, it is relatively flatter if China wants the RMB to become a dominant regional currency. In short, China can still acquire financial power – especially at the regional level – even without a truly convertible currency, and indeed it has already taken a few steps in that direction.

First, China has tried to promote the RMB at the regional level through bilateral swaps, the Belt and Road Initiative, agreements with foreign central banks, and the usage of Hong Kong as an RMB hub – all measures short of full convertibility. By 2015, the renminbi constituted

[6] Huileng Tan, "China's Currency Is Still Nowhere Near Overtaking the Dollar for Global Payments," CNBC, February 2, 2018, https://www.cnbc.com/2018/02/02/china-currency-yuan-the-rmb-isnt-near-overtaking-the-us-dollar.html.

more than 30% of all transactions between China and its Asian neighbors – up from only 7% three years earlier – which made it the main currency in regional trade with China, outstripping the dollar, the yen, and the euro.[7] As this percentage continues to grow, Asian states that wish to do business with China will increasingly need to settle in RMB. At least within Asia, China could wield some of the financial instruments that Washington wields today, laying the foundation for an enduring sphere of influence layered under the U.S. global financial order.

Second, China enhanced its financial power by investing in an alternative to SWIFT, the Society for World Interbank Financial Telecommunication. Founded in 1973, SWIFT is a standard-setting and messaging institution with a network that makes cross-border financial payments possible, thereby constituting the substructure of global finance. China realizes that U.S. influence over SWIFT constitutes structural power, and that to be cut off from SWIFT is to be cut off from the ability to easily make payments in dollars. As a result, the People's Bank of China began investing in an alternative messaging system for RMB in 2013. This system, known as the China International Payment System (CIPS), not only insulates China from financial pressure but also increases its autonomy, giving the country control over all information that passes through its network, the power to help others bypass sanctions, and the ability to one day cut others off from the RMB-denominated system. Moreover, the ambition for CIPS exceeds that for SWIFT: CIPS will not only be a messaging service like SWIFT but will also provide clearance and settlement—that is, full integration of the payment process. For now, Beijing is still learning how to set up such a messaging system, and CIPS is not a meaningful alternative to SWIFT, but this is more a technical challenge than a political one.

The Belt and Road Initiative

By now, most of us are well familiar with Beijing's Belt and Road Initiative. This program was originally announced by President Xi Jinping in 2013 and seeks to connect more than 60 countries from Eurasia and Africa together through rail lines, pipelines, highways, ports, and other infrastructure. Here too, China has encountered the *superpower learning curve* as investments originally intended to induce good will and dependence on China have instead in many cases brought about backlash and complaints.

BRI is a unique initiative because it creates leverage in each of the three aforementioned categories. It provides China *bilateral leverage* over others through creating a dependence on Chinese finance, on Chinese maintenance, and on Chinese trade flows that emerge from the connectivity. It provides China *structural leverage* too – giving Beijing control over ports that constitute chokepoints in maritime trade as well as opportunities to cultivate exclusive connectivity through standards for rail lines or telecommunications. And it gives Beijing *domestic-political leverage* through the opportunity to offer targeted bribes.

Backlash to the Belt and Road

The Belt and Road initially began with great fanfare, but it is now encountering obstacles. Japan, India, and the United States were initial skeptics. But suspicions have filtered outward

[7] James Kynge, "Renminbi Tops Currency Usage Table for China's Trade with Asia," Financial Times, May 27, 2015, https://www.ft.com/content/1e44915c-048d-11e5-adaf-00144feabdc0.

to a wide range of Indo-Pacific countries. Some of these concerns are political – countries are upset with Chinese bribery and political interference, and they believe some projects benefit politicians and not the public. Some of these concerns are security-related – countries fear that Chinese investments have strategic motivations and might create vulnerabilities or strategic dependence on China. And some of these concerns are economic – countries doubt they can pay back the loans or are frustrated about procurement requirements that advantage Chinese companies and labor.

As a result of these political, security, and economic concerns, a number of countries have pushed back on deals with Beijing.

Concerns about Chinese infrastructure are not entirely new. Before BRI even existed, and as early as 2011, Myanmar froze China's work on a $3.6 billion dam and considered pausing work on two Chinese-funded energy pipelines. Its reasons then mirror some of the arguments other countries employ now.[8] Indeed, since 2015, Indonesia, Thailand, Bangladesh, Nepal, Sri Lanka, the Maldives, Myanmar, and even Pakistan have halted or raised concerns about projects – often because of changes in government, nationalism, concerns over sovereignty, and distrust of China. For example, politicians in Sri Lanka, the Maldives, and Malaysia swept into power calling for a review of BRI projects and produced evidence that their predecessors had been paid to pursue deals that were not in their country's best interests. Outside the Indo-Pacific, countries as varied as Mexico, Kenya, Sierra Leone, Uganda, and others have similarly raised concerns – suggesting that as Beijing goes global, so too do its BRI challenges.

The Resilience and Revision of the Belt and Road

BRI's obstacles shouldn't be overstated.[9] China is seeking to turn the tide, and it retains a number of advantages. China has resources, technical know-how, no real governance requirements for loans, and few real competitors in financing. In many cases, Beijing has either adjusted its terms or benefited from political changes in the recipient country.

A review of Beijing's setbacks reveals that, even before the recent policy shifts detailed below, BRI was overcoming the pushback it had engendered. For example:

- Indonesia and Thailand may have halted high-speed rail projects with China in 2015, but both countries ultimately went forward – with Beijing adjusting financial terms.

- Bangladesh may have switched from China to Japan in 2016 for its first deep-water port, but China is involved in a second port project and additional infrastructure investments – again, after adjusting terms.[10]

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[8] Shi Jiangtao, "Why Does China Care So Much About Stalled Dam Project in Myanmar?," *South China Morning Post*, August 25, 2016, https://www.scmp.com/news/china/diplomacy-defence/article/2008816/why-does-china-care-so-much-about-stalled-dam-project.

[9] See Nadege Rolland's excellent essay on the resilience of the BRI in "Reports of Belt and Road's Death Are Greatly Exaggerated," *Foreign Affairs*, January 29, 2019, https://www.foreignaffairs.com/articles/china/2019-01-29/reports-belt-and-roads-death-are-greatly-exaggerated

[10] Sudha Ramachandran, "China's Sinking Port Plans in Bangladesh," *China Brief* 16, no. 10 (June 21, 2016), https://jamestown.org/program/chinas-sinking-port-plans-in-bangladesh/; Sudha Ramachandran, "The Belt and Road Initiative Still Afloat in South Asia," *China Brief* 19, no. 1 (January 5, 2019), https://jamestown.org/program/the-belt-and-road-initiative-still-afloat-in-south-asia/.

- Nepal may have canceled two hydroelectric dam projects with China in the last two years, but the return of a pro-China government and access to Chinese ports changed the situation – one project has been restored and plans for a vastly more consequential rail line connecting Nepal to China are underway. [11]

- Myanmar may have canceled a dam project with China, but it completed two pipeline projects as well as a slimmed down port project.[12]

- Sri Lanka may have given China a ninety-nine-year lease on its Hambantota port after proving unable to meet $1.4 billion in payments, but still went back to China for a $1 billion loan for highway construction this year. [13]

- A new government in the Maldives has asked to renegotiate BRI projects and considered halting some, but nonetheless promised to remain part of the initiative.[14]

- Malaysia may have canceled three pipeline projects and threatened to cancel a $20 billion rail project, but China proposed cutting the rail project's price in half, leading to credible speculation that Malaysia may revive the project.[15]

- Pakistan may have canceled a $14 billion dam project, and a new government may be skeptical of BRI costs, but even so Pakistan is leaning towards lengthening the timeframe of the China–Pakistan Economic Corridor (CPEC) rather than outright cancelling $50 billion in CPEC projects.[16]

In short, what we are seeing is that BRI is slowing down and scaling back in some areas, but that recipient countries in many cases are reluctant to outright cancel projects and often still willing to pursue or continue alternative investments.

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[11] Gopal Sharma, "Nepal Says to Scrap Hydropower Deal with Chinese Firm," *Reuters*, May 29, 2018, https://www.reuters.com/article/china-nepal-hydropower/nepal-says-to-scrap-hydropower-deal-with-chinese-firm-idUSL3N1T04IQ; Gopal Sharma, "Nepal Restores $2.5 Billion Hydropower Plant Contract to Chinese Firm," *Reuters*, September 23, 2018, https://www.reuters.com/article/us-china-nepal-hydropower/nepal-restores-2-5-billion-hydropower-plant-contract-to-chinese-firm-idUSKCN1M30CZ; Gopal Sharma, "Nepal Says China to Allow Access to Ports, Ending Indian Monopoly on Transit," *Reuters*, September 7, 2018, https://www.reuters.com/article/us-china-nepal-ports/nepal-says-china-to-allow-access-to-ports-ending-indian-monopoly-on-transit-idUSKCN1LN1KJ.

[12] Sudha Ramachandran, "China-Myanmar Economic Corridor Ambitions Meet Hard Reality," *China Brief* 18, no. 15 (September 19, 2018), https://jamestown.org/program/china-myanmar-economic-corridor-ambitions-meet-hard-reality/; Shi Jiangtao, "Why Does China Care So Much About Stalled Dam Project in Myanmar?"

[13] "Despite Huge Debt, Sri Lanka Seeks $1 Billion from China to Finance Highway Project," *Associated Press*, February 2, 2019, https://www.apnews.com/302560e5679a4ae0b4a2e3bb137a5f5b.

[14] Dipanjan Roy Chaudhury, "President-Elect Ibu Solih May Look at Halting BRI Projects in Maldives," *The Economic Times*, October 19, 2018, https://economictimes.indiatimes.com/news/international/world-news/president-elect-ibu-solih-may-look-at-halting-bri-projects-in-maldives/articleshow/66278481.cms; Simon Mundy, "Maldives Seeks to Rengotiate with China Over Belt and Road Debt," *Financial Times,* January 31, 2019, https://www.ft.com/content/fcab0410-2461-11e9-8ce6-5db4543da632.

[15] Anuradha Raghu, "Malaysia Still in Talks With China Over $20 Billion Rail: Star," *Bloomberg*, February 1, 2019, https://www.bloomberg.com/news/articles/2019-02-02/malaysia-still-in-talks-with-china-over-20-billion-rail-star; "China Offered to Nearly Halve Cost of Malaysia's US$20 Billion Rail Project," Channel NewsAsia, January 31, 2019, https://www.channelnewsasia.com/news/asia/china-cccc-ecrl-malaysia-rail-project-negotiate-cost-20-billion-11189898.

[16] Liu Zhen, "Pakistan Pulls Plug on Dam Deal over China's 'Too Strict' Conditions in Latest Blow to Belt and Road Plans," *South China Morning Post,* November 16, 2017, https://www.scmp.com/news/china/diplomacy-defence/article/2120261/pakistan-pulls-plug-dam-deal-over-chinas-too-strict; Jamil Anderlini, Henny Sender, and Farhan Bokhari, "Pakistan Rethinks Its Role in Xi's Belt and Road Plan," *Financial Times,* September 9, 2018, https://www.ft.com/content/d4a3e7f8-b282-11e8-99ca-68cf89602132.

Even though BRI is facing undeniable headwinds, China's leadership has remained committed to it and sought to adapt. President Xi Jinping has defended the effort in several high-profile addresses – but his language suggests an understanding of the challenges the initiative faces.

A review of these speeches and of Beijing's recent policy shifts suggests a number of adjustments to BRI are in progress. Indeed, as Beijing climbs the superpower learning curve, it seems likely that its next phase will include: (1) continued elevation of BRI as a signature and global Chinese initiative; (2) a new phase focused on "high-quality" investments; (3) an emphasis on smaller projects that are easier to publicize and have direct local benefits; (4) strengthened Party and state supervision, including of Chinese entities involved in environmental scandals or corruption; (5) a continued pushback against claims that BRI is strategic; and (6) efforts to renegotiate projects, reduce interest rates, and multilateralize investment with other partners. There are good reasons to be skeptical that Beijing will be able to accomplish all of these adjustments, but if it is able to accomplish some of them, it could sustain the initiative well into the future.

Virtually all of these revisions to BRI made an appearance in a landmark address by President Xi that marked the fifth anniversary of the program. That August 2018 address indicated what is coming next for BRI and implicitly addressed some of its major obstacles:

- First, the speech revealed BRI will remain a central focus of Chinese foreign policy and its global ambitions. Xi declared that BRI is "China's program for improving the global economic governance system...and building a community of common destiny," priorities that have been emphasized in repeated addresses, including his Party Congress addresses. Moreover, Xi's "community of common destiny" now appears in China's constitution, and BRI appears in the Party charter, suggesting China is unlikely to turn back from them despite the headwinds.[17] In his speech, Xi further stressed that BRI is not just part of China's regional ambitions, but also its global ones, and is part of China's approach to what he described as a period of fundamental global power transition. His precise words were that "the world today is undergoing a period of great development, great change, and great adjustment" and that China "must have a strategic vision, establish a global vision, have a sense of the unexpected, and have a sense of history, and we must work hard to seize the opportunity of this big change that has not appeared in one hundred years."[18] In other words, Xi identified BRI as essential to China's rejuvenation and global rise.

- Second, the speech revealed that BRI needed to change and promised to usher in a new "high-quality" phase in the initiative. "After five years of laying the foundation and the beams," Xi stated, "we must not rest on our laurels but go further." In what appears to be a tacit acknowledgment of its difficulties, Xi declared, "On the basis of maintaining a healthy and salutary development momentum, we will promote the

[17] http://www.xinhuanet.com/politics/2018-08/27/c_1123336562.htm

[18] "Xi Jinping: Promoting Belt and Road Cooperation to Deeply Benefit the People [习近平：推动共建'一带一路'走深走实造福人民]," *Xinhua [新华网]*, August 27, 2018, http://www.xinhuanet.com/politics/2018-08/27/c_1123336562.htm.

transformation of BRI to high-quality development" which was a "basic requirement of the next phase."[19]

- Third, the speech stated that BRI should involve smaller projects that are easier to publicize, with the implicit suggestion that some of its setbacks have been products of its scale and communication. Invoking a metaphor from Chinese calligraphy, Xi argued that China had focused on "broad brushstrokes" but now needed to focus on the "fine brushstrokes."[20] Xi stated that China must "make every effort to promote positive progress on the project" with special attention to the ways investments "benefit the local people." More people-to-people projects in "education, science and technology, culture, sports, tourism, health, and archaeology" would be launched.

- Fourth, Xi reserved a significant portion of his speech to emphasize the importance of centralizing stewardship of the initiative. He declared that "it is necessary to strengthen the Party's leadership over the work of building BRI," perhaps to reduce the risk of problematic investments that could damage China's reputation, and that the Party Leading Small Group with authority over BRI would need to "strengthen supervision and inspection" in addition to setting appropriate guidances[21] Importantly, these remarks came after Beijing had already moved to centralize BRI at the state level by shifting it from under the joint jurisdiction of China's Ministry of Finance and Commerce (MOFCOM) and the Foreign Ministry (MFA), into the purview of a singular new agency – the China International Development Cooperation Agency (CIDCA).[22] In his remarks, Xi also made clear that Chinese corporations are "brand ambassadors" for BRI, and that as such, it would be important to standardize their practices to ensure they are environmentally friendly, socially responsible, and legally compliant – perhaps in response to criticisms that BRI damages the environment, provides insufficient local benefits, and often involves bribery.

- Finally, in response to criticism about BRI's strategic implications, Xi stressed that it had none. "BRI is an initiative for economic cooperation," he argued "instead of a geopolitical alliance or military league, and it is an open and inclusive process rather than an exclusive bloc or 'China club.' It does not differentiate countries by ideology nor play the zero-sum game."[23] It is doubtful these words will be reassuring, but a notable indication of China's worries about the initiative's image that they were spoken at all.

[19] "Xi Jinping: Promoting Belt and Road Cooperation to Deeply Benefit the People [习近平：推动共建'一带一路'走深走实造福人民]."

[20] See Nadege Rolland, "Reports of Belt and Road's Death Are Greatly Exaggerated," Foreign Affairs, January 29, 2019, https://www.foreignaffairs.com/articles/china/2019-01-29/reports-belt-and-roads-death-are-greatly-exaggerated; see also "Xi Jinping: Promoting Belt and Road Cooperation to Deeply Benefit the People [习近平：推动共建'一带一路'走深走实造福人民]."

[21] "Xi Jinping: Promoting Belt and Road Cooperation to Deeply Benefit the People [习近平：推动共建'一带一路'走深走实造福人民]."

[22] Jacob Mardell, "Foreign Aid With Chinese Characteristics," The Diplomat, August 7, 2018,, https://thediplomat.com/2018/08/foreign-aid-with-chinese-characteristics/; http://www.xinhuanet.com/2018-03/13/c_1122532507.htm ; http://www.xinhuanet.com/english/2018-04/18/c_137120544.htm

[23] "Xi Jinping: Promoting Belt and Road Cooperation to Deeply Benefit the People [习近平：推动共建'一带一路'走深走实造福人民]."

Recommendations

China's attempts to build its global influence through efforts in trade, currency and payments, and infrastructure investment are clearly facing challenges. But Washington should not underestimate Beijing's ability to adapt and eventually climb the *superpower learning curve* to greater regional and global influence. The United States is uniquely positioned to complicate China's ability to develop *bilateral*, *structural*, and *domestic-political* leverage over other countries. Below I lay out in detail avenues through which Washington can respond effectively to China's global economic efforts.

First, with respect to trade, the United States should engage multilateral trade institutions to ensure its rules and high standards are reflected in negotiations. Second, with respect to financial power, the United States should take care not to overuse its financial advantages or risk driving allies and adversaries together in eroding it. Third, with respect to coping with BRI, investments in transparency, accountability, multilateralism, and financial alternatives are key instruments in limiting BRI's most egregious practices. Transparency and accountability complicate China's ability to push exploitative financing terms through political corruption and ensure that projects are the best interests of recipient countries. Multilateralism and financial alternatives give states a voice in responding to China and options outside of Chinese financing.

- **Focus on Multilateralizing BRI to Increase Transparency:** Multilateralization can limit Beijing's ability to dictate terms to other states. Promoting the multilateralization of BRI and engaging co-investment on BRI projects can give other states a voice, can bring transparency, and can complicate Beijing's political-arm-twisting at a lower cost than providing alternative financing for every Chinese project. At the same time, better infrastructure helps Asian states become manufacturing powers in their own right and makes possible the relocation of supply chains from China to other developing countries.

- **Bring Existing Institutions into Asian Infrastructure Investment:** Washington should strongly push existing development institutions, especially the World Bank, to play a higher-profile role in Asian infrastructure investment.

- **Strengthen Asian Multilateral Bodies:** Efforts to strengthen regional multilateral bodies, including various Association of Southeast Asian Nation (ASEAN) forums and the East Asia Summit, reduce the likelihood that Chinese-led alternatives become focal and give Asian states a larger role in the future of their region.

- **Provide Select Alternative Financing With Allies and Partners:** The BUILD Act passed last year was a step in the right direction, but the United States cannot and should not fund every project Beijing chooses to support or it could find itself in its own scandal similar to China's investment in Hambantota. Where projects are high-quality, the United States should partner with other regional states to support them.

- **Provide Training to Assist Partners in Assessing Chinese Financing:** In Asia but especially outside of it, many states have little experience dealing with Chinese loans and investments. The United States should advance efforts to train personnel in foreign governments on how to navigate some of these engagements, avoid common pitfalls, and understand some of the security implications at stake.

- **Join Chinese-Led Multilateral Processes to Influence Their Development:** By joining Chinese economic initiatives like the Asia Infrastructure and Investment Bank (AIIB), Washington gains an opportunity to influence or even stall them as needed at a relatively low legitimacy cost. If Congress proves unable to authorize funding for a U.S. contribution to AIIB, the United States could join in an advisory or observer role.

- **Elevate the Maintenance of Financial Power as a National Security Priority:** The dollar's status as the reserve currency is the backbone of U.S. global leadership, and it makes it easier for the United States to finance deficit spending, monitor cross-border financial transactions, and implement financial sanctions. To maintain that status, the United States should avoid the overuse of financial sanctions, especially if their use drives allies and adversaries to unite in efforts to bypass the dollar system.