
CHINA'S GROWING INFLUENCE: IS AMERICA GETTING LEFT BEHIND?

December 2019

China's global investments have grown dramatically in recent years, surpassing the United States as the largest trading partner with many countries in Latin America and Africa and challenging America's strategic influence across the globe. From official investments in key industries like artificial intelligence, infrastructure, aerospace, and power to investments by Chinese companies in new technologies like 5G, China has pledged to become a world economic leader by 2025.

While the U.S. Administration has proposed deep and disproportionate cuts to diplomacy and development for three consecutive years, China has doubled its foreign affairs budget since 2011. In 2018, China increased its budget for diplomacy by nearly 16% and its budget for foreign aid by nearly 7%. Yet the Chinese model of economic development has created dependencies in countries unable to repay their loans, and it has been reluctant to contribute to international efforts to address global threats.

OUTPACING U.S. INVESTMENTS IN DIPLOMACY AND DEVELOPMENT

- ***Belt and Road.*** China is expected to spend over \$1 trillion on its “Belt and Road” initiative – seven times the size of the Marshall Plan in real dollars. This initiative is already building new markets for Chinese goods and increasing China's economic connectivity from Asia to Europe to Africa to the Americas, encompassing more than 60% of the world's population and one-third of global GDP. More than 130 countries around the world - including 40 out of 55 African countries - have joined the initiative.
- ***New Chinese Development Institutions.*** China launched a new ministry-level development agency – the China International Development Cooperation Agency (CIDCA) – to better coordinate and advance its commercial and foreign policy interests around the world. China also launched the Asian Infrastructure Investment Bank in 2014 which already has 93 member states, including many of America's strategic allies.
- ***Debt-Trap Diplomacy?*** China's financing for infrastructure development around the world has created strategic dependencies in countries unable to repay the loans.
 - When Sri Lanka faced major debt problems stemming from a Chinese-financed port project, Beijing negotiated a swap of the debt for a 99-year lease on the strategic Hambantota Port, giving China control over a key trade and shipping route in its Belt and Road Initiative.
 - Chinese infrastructure investments have left many other countries – including Djibouti, Ecuador, Kyrgyzstan, Mongolia, and Montenegro – at significant risk with large debts owed to China. These concerns have led several countries such as Pakistan, Malaysia, Myanmar, Bangladesh, and Tanzania to scale back their commitments to the initiative.
- ***Chinese Reluctance to Address Global Threats.*** Despite its growing global influence, China has been reluctant to participate in international efforts to address threats that affect the global population.
 - Many of today's most pressing humanitarian crises receive little financial contribution from the Chinese government which has focused on responding to one or two disasters annually. China also does not participate in the international humanitarian system's coordinating agencies to ensure effective assistance like the OECD Development Assistance Committee.
 - China's refusal to share virus samples from a deadly bird flu outbreak in 2016 jeopardized the capacity of other nations to develop vaccines and treatments to save lives. The outbreak of swine flu in China, which spread to Vietnam, Cambodia, Russia, and Japan has the potential to undermine global commerce and economic prosperity.

CHALLENGING AMERICA'S STRATEGIC INFLUENCE AROUND THE WORLD

- **Latin America.** China has invested \$150 billion in the region since 2005, more than the combined lending from the World Bank, Inter-American Development Bank, and the CAF-Development Bank of Latin America. It has become the largest trading partner to several countries including Brazil, the region's largest economy, and the second-largest trading partner in the region with two-way trade increasing by more than 1,400% since 2002.
 - China pledged a \$250 billion investment over ten years and is seeking to increase its market share and Latin America's dependence on China for its future economic prosperity.
 - China has leveraged its influence to isolate Taiwan, America's strategic ally, pressing Panama, the Dominican Republic, and El Salvador to cut ties with Taiwan.
- **Africa.** China has increased its investments in Africa by more than 520% over the last 15 years, surpassing the U.S. as the largest trading partner to Africa in 2009 and becoming the top exporter to 19 out of 48 countries in sub-Saharan Africa. According to McKinsey, there are now over 10,000 Chinese firms in Africa with the potential to generate \$440 billion in revenues by 2025.
 - China's Export-Import bank loaned nearly \$67 billion to Africa in the 2000s, more than 500% of the combined World Bank loans of \$12.5 billion, and aims to loan more than \$1 trillion on the continent by 2025.
 - China is leveraging its economic position to advance its strategic priorities, including control of key African ports in Djibouti and Kenya.
- **Asia.** China spent more than \$48 billion on diplomacy and development across East Asia and the Pacific between 2000 and 2016, rewarding countries that support its foreign policy positions and buy its products. More than 95% of China's investments – totaling \$45.8 billion – have focused on infrastructure development in the region.
 - China uses its public diplomacy tools to advance its economic and national security priorities. There have been 159 new Confucius Institutes and 89 new Confucius Classrooms to promote Mandarin language and Chinese culture.
 - China has leveraged its economic investment to expand its military footprint in the region. With the help of a \$54 million Chinese government loan, Vanuatu constructed a military-capable base in 2017.

KEY QUOTES

- “We have to move out in the diplomatic and the information space, as well as the economic space, quite briskly because China is spreading dollars around very perniciously through corruption, through the mechanisms that you talked about earlier, and we've got to be willing to work in these other realms.”
– **Admiral Philip Davidson**, Commander, United States Indo-Pacific Command
- “China uses bribes, opaque agreements, and the strategic use of debt to hold states in Africa captive to Beijing's wishes and demands. Its investment ventures are riddled with corruption, and do not meet the same environmental or ethical standards as U.S. developmental programs.”
– **John Bolton**, National Security Advisor
- “As we proceed through the 21st century, China is going to be a major competitor of ours in every way that there is. Obviously economically and militarily, culturally and every other way.”
– Senate Foreign Relations Committee Chairman **Jim Risch (R-ID)**
- “The Indo-Pacific...is home to half of the world's population, half of the world's GDP, some of the world's largest standing armies, and six U.S. defense treaty allies. The security and economic future of the United States lies in...the right policies...and a free and open Indo-Pacific.”
– **Senator Cory Gardner (R-CO)**
- “The Administration's proposed cuts to the FY 2018 international affairs budget would have a devastating impact on our global leadership and make the American people less safe. These cuts are a gift to countries like Russia and China who are already filling the void left by America's diminishing role in the world.”
– House Foreign Affairs Chairman **Eliot Engel (D-NY)**
- “With the emergence of China's Belt and Road Initiative and their coercive lending practices, we must make it easier for our businesses to have access to foreign markets...Our diplomatic personnel on the ground in these countries and have unique insights on their political and economic complexities. We must do more to use this information to help the private-sector do business abroad and support U.S. foreign policy in upholding global stability.”
– House Foreign Affairs Ranking Member **Mike McCaul (R-TX)**