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Multilateral International Development, Multilateral Institutions, and International
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Chairman Young, Ranking Member Merkley, and Members of the Subcommittee, thank you for the opportunity to testify on the Multilateral Economic Institutions and US Foreign Policy.

My name is Clay Lowery and I am Managing Director of Rock Creek Global Advisors, a consulting firm that advises companies on international economic and financial policy matters. I also serve as a visiting fellow at the Center for Global Development and as a senior advisor to the Center for Strategic and International Studies.

From 2005 to 2009, I was the Assistant Secretary of International Affairs for the Treasury Department, which exercises US executive oversight of our involvement in the International Monetary Fund and the Multilateral Development Banks (MDBs), and is a key player in making US foreign policy.

My testimony today, however, reflects my own views.

In my testimony, I will discuss (i) US interests in the multilateral economic institutions, (ii) how to think about this in terms of our "competition" with China, and (iii) some recommendations on the role Congress should play.

The US Role in the Multilateral Economic Institutions

The United States and its allies established the IMF, the World Bank, and the GATT – the predecessor of the World Trade Organization – at the Bretton Woods conference of 1944. The idea at the time – one that is still true today – was that international cooperation on key economic, financial and trade issues and maintaining an open, rules-based economic order are important for global stability and prosperity. Since then, the US has also been a founding member, a substantial contributor, and a leader of the key regional development banks: the Asian, African, Inter-American, and European development banks.

While each of these institutions has different mandates, tools, financing mechanisms and/or member countries, they broadly have similar objectives: to promote economic and financial stability, increase economic growth in a sustainable manner, and strive to maintain an open, competitive and well-coordinated international economic order.

As a large shareholder in these multilateral institutions, the US government should constantly be looking for ways to improve them. However, it is worth noting that these institutions have well-served US national interests over the decades, including by:

- Promoting global financial stability, which is a core objective of the IMF for example, and is critical to US economic growth, exports, and job creation.

- Financing infrastructure and human capital development to foster prosperity overall and to support the construction of the actual roads and ports that allow US exporters to get their products and services to market.

- Assisting with the "soft infrastructure" of property rights, the rule of law, bureaucratic efficiency, and stronger environmental and social standards, which improve the business environment and levels the playing field for US businesses and workers.

- Leveraging resources through other countries' contributions and through capital markets. President Trump often expresses his concern that other countries are not sharing the burden fairly in international institutions. In the case of the IMF and the MDBs, this criticism has no merit. For instance, every dollar that the US puts into the International Development Association (IDA), which is the concessional loan- and grant-making "window" of the World Bank, leads to 16 dollars in contributions by others.

Maybe just as importantly, these institutions support US foreign policy goals, and the US calls upon them time and time again – whether it is to (i) finance infrastructure in frontline states such as Afghanistan, (ii) provide non-humanitarian financial support to rebuild countries that have been devastated by natural disasters, or (iii) boost economies that are the source of refugee flows to mitigate the problems of mass migrations. .

These institutions have received continuous support from the Treasury and State Departments in both Republican and Democratic administrations. Perhaps as importantly, previous Secretaries of Defense and military leaders also have strongly supported them. They have recognized that the IMF and the MDBs are important tools to conduct strong foreign policy and to provide the conditions necessary to keep our troops out of harm's way. They have recognized that US leadership of these institutions is vital not only to their effectiveness, but to US national security interests.

How does this all relate to China?

The Committee asked about these multilateral economic institutions and US foreign policy, particularly as we think about US relations with China. It should come as no surprise that, as China has risen to the near-top of the global economic and financial ladder, it has sought to shape the international economic order in ways that advance its own national interests. To do so, China is trying to alter the global rules and norms that it did not play a role in setting, change the governance structures in existing institutions to reflect its increasing strength, create alternative institutions that are more aligned with its economic model, and set standards in areas where standards are not yet defined.

The Trump Administration's National Security Strategy referred to China as a strategic competitor. Through its Section 301 investigation and other actions, the Administration has gone further and accused China of being an unfair competitor. This analysis seems fairly accurate to me, and the Administration should be commended for being willing to take on China on a number of fronts.

I do not believe that the Administration's approach on these issues has been flawless and I have a number of criticisms. For today's hearing, however, I will focus on the multilateral economic institutions, and how best to use them to promote the interests I discussed earlier.

First, the United States should have an affirmative strategy. Rather than simply complaining about China's attempts to alter the system, pointing out its flaws, or trying to mirror China's approach, the US should highlight its own strengths and seize opportunities to demonstrate the better US alternatives.

The US strengths are abundant and well-recognized. Broadly speaking, we have a system that relies on strong rule of law, protection of property rights, and a very robust private sector. Our companies, farmers, and workers are internationally competitive, particularly in technology and high-value manufacturing, which are areas that leverage American ingenuity, innovation, and highly-developed capital markets. Just as importantly, we have deep and longstanding relationships with allies around the world who share our values and ideals.

In fact, I'd argue that often the people and governments of these countries want the US to succeed, not because it will help President Trump or the US gain more power, but because it also helps them. This is a significant difference from the model China seems to be promoting.

While China may have spent $1 trillion in its Belt and Road Initiative (BRI) over the last five years, I think it far more important that – just in the Indo-Pacific region – the US has over $1.4 trillion in trade annually and invested over $900 billion in the region as of 2017. These are US strengths and we should use official tools – whether bilateral or multilateral – to highlight and leverage such strengths.

This is why I think the Trump Administration deserves praise for rethinking the Overseas Private Investment Corporation (OPIC) and working with Congress to strengthen it through the BUILD Act. If it works well, the new International Development Finance Corporation (IDFC) should catalyze US private capital in ways that challenge China's development model and leverage US strengths. I also applaud the Administration for going further by working with Japan and Australia to leverage this model.

The closest multilateral model to this approach is the International Finance Corporation (IFC), which is the "window" at the World Bank that finances the establishment, improvement, and expansion of productive private enterprises in less developed countries. In order for the IFC to be more effective going forward, it needs to be in countries where private sector investors won't go – unless incentivized. That way, instead of countries having to turn to a state-led model with countries such as China providing the financing and expertise, the IFC can work with an emerging private sector to advance similar objectives and in ways that are more in line with US values and interests.

To work in riskier countries, the IFC will need to issue more capital. Recently, IFC shareholders, including the US, reached agreement to increase the IFC's capital. As part of the agreement, (i) the IFC will increase significantly its investments in the poorest and most fragile countries, (ii) the US will not have to provide any new money, and (iii) the US will still retain enough voting shares to maintain its veto power over major decisions at the IFC. This strikes me as a solid accomplishment by the Trump Administration.

On the other hand, the Administration has taken a number of steps that undermine the strengths of the United States – particularly as concerns a "strategic competition" with China. First and foremost was walking away from the Trans-Pacific Partnership (TPP). There is no other way to put it: this was reckless and a gift to China. Instead of helping to establish higher standards and better market access, and working with allies and partners in the region to advance our commercial and strategic interests, the US is stuck on the outside trying to cobble together bilateral deals that appear to rely on the model of managed trade. Perhaps just as importantly, by withdrawing from this significant initiative, we have undercut another one of our strengths, which is our allies' confidence in US leadership.

Secondly, the Administration has exacerbated this loss of confidence through its approach to addressing legitimate concerns with China's trade practices. Instead of working with our allies to build a coalition to confront China, the Administration has been trying to justify imposing more and more tariffs, including on our closest allies, based on the laughable proposition that importing autos and auto parts threatens national security. Rather than making China the outlier because of its behavior, the Administration's unpredictability and unreliability on trade could cost us allies that we need to address the real challenges posed by China.

Third, the Administration seems overly focused on US trade in goods, despite the fact that trade in services is a major American strength. While this approach may play well politically among some in the US, it fails to accurately assess US competitive strengths and how best to leverage them to compete with China over the long term. .

What can Congress do?

This leads me to my last point, which is: what can Congress do?

Congress, particularly this committee, deserves a lot of credit for its bipartisan leadership in modernizing and expanding our own development finance institution through the BUILD act. The new IDFC could demonstrate that there are preferable alternatives to China's international economic development model, while also helping meet US foreign policy goals and promoting development around the world.

To supplement these efforts, Congress should work with the Administration on its multilateral economic institution strategy. Just in the World Bank, I see three areas of action for Congress:

1. Funding the capital increase for the IBRD. The Administration has done a solid job of promoting reforms during the negotiation for the capital increase, including re-allocating resources away from China and other middle-income countries and to lesser-developed countries. Congress should authorize and appropriate the funds to continue to allow the US to be the leading player in the World Bank.

2. Authorize the capital increase for the IFC. As noted above, this multilateral model aligns with US strengths and requires only authorization, not appropriation. While some have questioned whether the agreement reached can be implemented in full, it is worth taking some risk when there are no more US taxpayer resources at stake.

3. Work with the Administration on the 2019 IDA replenishment. Next year, the Administration will be negotiating the replenishment of IDA. This is an area where the US can work with China as another donor. If there are IDA reforms that Congress believes should be introduced or expanded upon, then it should voice those to the Administration as early in 2019 as possible.

These are just a few examples and do not include the regional development banks, which may also require oversight and reform. Just over the Thanksgiving weekend, for instance, former Secretary of State and Treasury George Schultz authored an op-ed suggesting changes at the IDB to allocate more resources to addressing economic challenges in Central American countries as a way to better approach the refugee problem. Serious ideas such as these should be examined and explored.

Finally, while this hearing is not about international trade, this committee may want to consider asserting its role on US trade policy, particularly as it concerns China. The Administration's approach of conflating national security with international economic policy, attacking our allies whose help we need to confront and negotiate with China, and imposing successive rounds of tariffs instead of negotiating new commitments, does not appear consistent with the principle of strong Congressional oversight on trade. I would encourage this committee to press the Administration to develop and share its end-goal for the current trade war or a framework agreement that would address the legitimate concerns with China's trade practices.

Thank you and I'm happy to field any questions.