



Why the United States Needs a Digital Development Fund

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EXECUTIVE SUMMARY

China's expanding digital footprint across the developing world presents a growing risk to American security and prosperity and endangers the democratic values long championed by the United States. Today, America is not positioned to prevail in the competition to shape the digital future of most developing countries: U.S. firms confront an uneven playing field due to the financial support and political backing that Beijing provides to its favored national technology companies. To begin rectifying this imbalance, the executive branch and Congress should come together to establish a new U.S. Digital Development Fund. This fund would offer lines of credit to U.S. companies (and select foreign firms) to undertake information-connectivity projects across the developing world.

THE CHALLENGE OF CHINA'S DIGITAL EXPANSION

Under what Beijing now calls the "Digital Silk Road," China is rapidly expanding its presence in the information technology ecosystems of many developing countries. Chinese-involved projects include everything from telecommunications equipment to online payment platforms to urban public security networks to undersea cables.¹ Unchecked, China's digital activities across the developing world will yield the following outcomes.

- **China's economic competitiveness will increase at America's expense.** As China's digital footprint in developing countries grows, it is increasingly well positioned to set local technology standards that will privilege its companies. To the extent that Beijing can dominate a handful of key product lines—mobile devices and 5G next-generation wireless hardware—it will attain a wider market advantage. Cell phones are the primary digital interface for consumers in the developing world, and 5G hardware will serve as the backbone for advanced products and new industries globally.² Lastly, China's growing presence in the information technology ecosystems of developing countries will afford Beijing access to new types of data that will bolster its artificial intelligence industry.³
- **The U.S. military will confront new risks and reduced opportunities.** The combination of inadequate attention to cybersecurity by Chinese firms and their legal obligation to support intelligence collection by Beijing means that the "Digital Silk Road" has the potential to compromise the networks of U.S. allies and partners, particularly in the developing world, where many governments

1. Samantha Hoffman et al., "Mapping China's Tech Giants," (Australian Strategic Policy Institute, April 2019), <https://www.aspi.org.au/report/mapping-chinas-tech-giants>.

2. "2018 Mobile Industry Impact Report: Sustainable Development Goals," Report No. 3, (GSMA, 2018), 26, <https://www.gsmaintelligence.com/research/?file=ecf0a523bfb1c9841147a335cac9f6a7&download>; and Martijn Rasser, "Setting the Stage for U.S. Leadership in 6G," Lawfare, August 13, 2019, <https://www.lawfareblog.com/setting-stage-us-leadership-6g>.

3. Daniel Kliman and Abigail Grace, "Power Play: Addressing China's Belt and Road Strategy" (Center for a New American Security, September 2018), <https://s3.amazonaws.com/files.cnas.org/documents/CNASReport-Power-Play-Addressing-Chinas-Belt-and-Road-Strategy.pdf?mtime=20180920093003>.



BLUNTING CHINA'S AUTHORITARIAN TOOLKIT

lack the resources to pursue a robust vulnerability-mitigation strategy.⁴ Insecure ally and partner networks will present an obstacle to deepening—and potentially, sustaining—military interoperability and create new security concerns for American forces currently operating forward.⁵ Over the long term, China's digital investments could render some developing countries off-limits to U.S. forces, constricting the geography of American military access.⁶

- **Beijing will empower autocracies and undermine democracies.** Domestically, China has perfected the use of technology for repression and social control. Now, under the banner of the “Digital Silk Road,” Beijing exports technology for surveillance and censorship, as well as provides complementary funding and know-how to recipient states. In the developing world, this type of digital engagement enables robust authoritarian regimes to become more intrusive and cost-efficient, provides a boost to fragile dictatorships that might otherwise falter, and encourages governments with weak democratic institutions to pursue new forms of online censorship and public monitoring.⁷ As China's high-tech illiberalism spreads beyond its borders, Beijing is also better positioned to assemble a coalition of nations to advance its vision of a more autocratic and balkanized model of internet governance.⁸

AMERICA'S INADEQUATE APPROACH

Despite having the world's most dynamic technology sector, the United States is not positioned to win the competition with China to shape the digital future of the developing world. Thus far, America's approach to China's digital expansion has largely centered on telecommunications security and focused primarily on convincing—with mixed success—advanced-economy allies in Europe and the Indo-Pacific to eschew 5G wireless solutions supplied by Huawei.⁹ Securing the networks of America's closest allies is a geopolitical imperative, but largely detached from blunting China's growing digital footprint in developing countries.

Although motivated by Huawei's violation of U.S. sanctions on Iran and its subsequent obstruction of justice, placing Huawei on the trade blacklist or “Entity List” maintained by the Bureau of Industry and Security at the U.S. Department of Commerce potentially posed a significant challenge to Huawei's global operations, including in the developing world, given the company's dependence on U.S. suppliers.¹⁰ However, the issuance of licensing exemptions to enable American firms to continue doing business with Huawei, and White House communications suggesting Huawei's placement on the Entity List was simply a bargaining tactic in U.S.-China trade negotiation, have diluted the actual impact.¹¹ Eliminating licensing exemptions on Huawei and taking action against Beijing's other favored

4. “Finite State Supply Chain Assessment,” Report No. 1, (Finite State, June 2019), 6, <https://finitestate.io/wp-content/uploads/2019/06/Finite-State-SCA1-Final.pdf>; “Huawei Cyber Security Evaluation Centre (HCSEC) Oversight Board Annual Report,” (Huawei Cyber Security Evaluation Centre, March 2019), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/790270/HCSEC_OversightBoardReport-2019.pdf; Murray Scot Tanner, “Beijing's New National Intelligence Law: From Defense to Offense,” *Lawfare*, July 20, 2019, <https://www.lawfareblog.com/beijings-new-national-intelligence-law-defense-offense>.

5. Kliman and Grace, “Power Play.”

6. Public comment by Department of Defense official at CNAS Annual National Security Conference in June 2019.

7. Recently, Huawei employees were implicated in helping several African governments spy on local opposition figures. See Joe Parkinson, Nicholas Bariyo, and Josh Chin, “Huawei Technicians Helped African Governments Spy on Political Opponents,” *The Wall Street Journal*, August 15, 2019, <https://www.wsj.com/articles/huawei-technicians-helped-african-governments-spy-on-political-opponents-11565793017>.

8. Daniel Kliman, Senior Fellow and Director of Asia-Pacific Security Program, Center for a New American Security, “China's Power Play: The Role of Congress in Addressing the Belt and Road,” Statement to the Subcommittee on International Trade, Customs, and Global Competitiveness, Finance Committee, U.S. Senate, June 12, 2019, https://www.finance.senate.gov/imo/media/doc/Daniel%20Kliman_Testimony%20for%20Senate%20Finance%20Committee%20Trade%20Subcommittee_FINAL.pdf.

9. Julian E. Barnes and Adam Satariano, “U.S. Campaign to Ban Huawei Overseas Stumbles as Allies Resist,” *The New York Times*, March 17, 2019, <https://www.nytimes.com/2019/03/17/us/politics/huawei-ban.html>.

10. Adam Segal, “The Right Way to Deal with Huawei,” *Foreign Affairs*, July, 11, 2019, <https://www.foreignaffairs.com/articles/china/2019-07-11/right-way-deal-huawei>.

11. “Department of Commerce Issues Limited Exemptions on Huawei Products,” U.S. Department of Commerce, press release, May 20, 2019, <https://www.commerce.gov/news/press-releases/2019/05/department-commerce-issues-limited-exemptions-huawei-products>; Alex Leary and Josh Zumbrun, “Trump Touts Tech Industry Support for Huawei Exemptions,” *The Wall Street Journal*, July 22, 2019, <https://www.wsj.com/articles/trump-agrees-to-timely-licensing-decision-for-huawei-sales-11563836623?mod=searchresults&page=1&pos=1>.





BLUNTING CHINA'S AUTHORITARIAN TOOLKIT

technology companies—for example by sanctioning them for involvement in human rights abuses against Uighurs in Xinjiang—would slow China's digital expansion in the developing world.¹² Yet unaccompanied by other policy measures, this type of economic coercion would fail to address the need for the United States to provide credible digital alternatives to what China offers.

The absence of credible digital alternatives remains an overall area of weakness in America's approach. Current efforts to promote digital development, whether under the auspices of the U.S. Agency for International Development, or whole-of-government initiatives such as the Indo-Pacific-facing Digital Connectivity and Cybersecurity Partnership, remain inadequately resourced relative to the demand for American engagement. The new U.S. Development Finance Corporation opening its doors this fall will benefit from a higher lending ceiling and a more expansive set of authorities than its predecessor agency.¹³ However, its mandate is to catalyze investment by American private sector companies in developing countries across all sectors, not just in digital.

STANDING UP A NEW U.S. DIGITAL DEVELOPMENT FUND

A key challenge for the United States is that China's information technology companies compete in the developing world on an uneven playing field. They benefit from Beijing's financial and political support. American firms may typically offer better quality and more secure digital products, but in developing countries where price matters most and cybersecurity and the risk of espionage are often secondary or tertiary priorities, they operate at a disadvantage. To enable U.S. companies to better compete, the executive branch and Congress should come together to establish a new Digital Development Fund that would support information connectivity projects across the developing world.

The organizational structure, scope, and activities of the Digital Development Fund will require detailed consideration to maximize its effectiveness. These six principles should serve as a starting point for future deliberations.

- 1. Establish a standalone agency.** It is important to launch the Digital Development Fund as a new agency rather than grafting it onto the Overseas Private Investment Corporation (soon-to-be the Development Finance Corporation) or the Export-Import (EXIM) Bank. If embedded within an existing agency, the Digital Development Fund will receive insufficient focus amid competing priorities. Moreover, as a standalone agency, the Digital Development Fund will become a high-profile symbol of American economic engagement in the developing world and help the United States counter Beijing's narrative that Washington lacks the toolkit to compete with China's Belt and Road vision of global connectivity.
- 2. Take a broad approach to digital infrastructure.** The executive branch and Congress should give the Digital Development Fund the latitude to support a diverse range of information connectivity projects comparable to the set of activities that Beijing has bundled in its "Digital Silk Road." The Digital Development Fund should support projects ranging from telecommunications equipment to online payments to smart cities to undersea cables.
- 3. Leverage lines of credit.** The executive branch should request—and Congress should give—the Digital Development Fund the use of lines of credit. This will enable it to deploy the resources necessary to support a large number of information connectivity projects across the developing world. Additionally, in the current fiscal climate, the executive branch and Congress are unlikely to agree on a new, large-scale appropriation.



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12. Chris Buckley, "China Is Detaining Muslims in Vast Numbers. The Goal: 'Transformation,'" *The New York Times*, September 8, 2018, <https://www.nytimes.com/2018/09/08/world/asia/china-uighur-muslim-detention-camp.html>.

13. Daniel F. Runde, Romina Bandura, "The BUILD Act Has Passed: What's Next?," CSIS Critical Questions, October 12, 2018, <https://www.csis.org/analysis/build-act-has-passed-whats-next>.



BLUNTING CHINA'S AUTHORITARIAN TOOLKIT

4. Focus on digital projects with strategic value while advancing broader U.S. development priorities. The executive branch and Congress should mandate that the Digital Development Fund prioritize information-connectivity projects of strategic importance to the United States. These projects should be vetted in collaboration with the intelligence community, the Department of Defense, and the State Department. At the same time, the Digital Development Fund should make its lines of credit contingent on efforts by recipient companies to advance broader U.S. development priorities such as women's empowerment and digital inclusion. This will positively distinguish America's digital engagement from China's.

5. Preference American firms while leaving room for U.S. allies and partners. Through legislation, the executive branch and Congress should direct the Digital Development Fund to favor American companies where possible, but recognize that in some cases, such as 5G, private sector enterprises in U.S. allies and partners may possess superior technology. In these cases, the Digital Development Fund should have the flexibility to support non-American firms as part of a consortium that has at least a limited U.S. corporate presence. Congress should prohibit the Digital Development Fund from supporting projects featuring participation by companies based in (or ultimately controlled by) countries that fail to adhere to widely recognized norms of online freedom of expression and privacy.

6. Create a diverse and stable leadership structure. Congress should specify in legislation the management structure of the Digital Development Fund to minimize rapid leadership turnover and bake in a multi-stakeholder perspective from the outset. In practice, this means giving the chief executive officer of the Digital Development Fund a fixed-year term of service to promote continuity. Congress should also specify that the board of directors of the Digital Development Fund would include a diverse membership with experience spanning the public and private sectors and civil society.

THE START—NOT THE FINISH

In the contest between the United States and China to shape the digital future of the developing world, a new Digital Development Fund would represent an important step toward a more effective American approach. However, no single agency can substitute for what must be a comprehensive U.S. effort to promote digital development against the larger backdrop of strategic competition with China. Ultimately, couching U.S. digital engagement as anti-China will generate significant pushback in many developing countries wary of alienating Beijing. Recognizing that American interests and values are best advanced if developing countries can chart their own digital destinies rather than become largely dependent on Beijing for their information technology needs, the United States should frame its digital engagement in positive terms of economic growth and empowerment.



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