The final days of the Trump administration were marked by a largely unnoticed announcement which could turn out to be a milestone in the US-China competition for economic influence in Latin America and possibly a best practice in terms of influence strategy: the signing on January 14, 2021 of a framework agreement between the US International Development Finance Corporation (DFC, one of the main US official development assistance body) and the Republic of Ecuador to refinance Ecuador's debt to Chinese companies in exchange for the country's commitment to keep Chinese players out of its telecom networks.

The Empire Strikes Back

Taking a clear jab at China's infrastructure investment in the region and relaying the "*debt trap*" narrative marring Chinese investments in Latin America but also in Africa and South Asia, DFC Chief Executive Officer Adam Boehler stated that "*this framework agreement allows DFC to streamline support for projects that refinance predatory Chinese debt and help Ecuador improve the value of its strategic assets*". The tone is set…

The agreement proposes the creation of a special purpose vehicle (SPV) in collaboration with private financial institutions for the purchase and re-sale of oil and infrastructure assets, the proceeds being allocated to the earlier-than-scheduled repayment of 3,5 billion USD of debt to China. Avoiding the "*debt trap*" by falling deeper into the "*middle-income trap*"? Time will tell…

Image source: Axios

With 2,8 billion USD pledged for the refinancing of local projects, each of these projects will require "*individual approval by DFC and be subject to the agency's extensive review process and due diligence*", while the framework agreement will provide criteria of environmental, social and corporate governance (ESG) sustainability for future investments to be considered by the DFC.

At a time when China is pledging a *Belt and Road Initiative* reboot complete with new norms and standards (including ESG ones, with a CCP twist…), the fact that the US is making this move illustrates how much Washington intends to re-enter the ring and compete pound-for-pound on absolutely every single aspect of the fight, leaving no stone unturned.

The agreement does come with strings attached though. One of the main conditions is that Ecuador joins the *Clean Network*, a US State Department initiative "*designed to make sure that nations exclude Chinese telecom services and equipment providers as they build out their high-speed 5G mobile networks*", as [summarized by the Financial Times].

A New Hope?

This new framework clearly comes at a time when the US have realized that complacency in its Latin American backyard has a price and that it needs to come up with a renewed *Monroe Doctrine*, or at the very least a new take on the carrot-and-stick *Roosevelt Corollary*, in lieu of the just-stick approach witnessed under the Trump administration. This is precisely what is being expected by pundits from the Biden administration: a new focus on alliances and a softer confrontation with China. And DFC CEO Boehler characterized this new approach as clearly bi-partisan: *"This is not a Democratic priority or a Republican priority. This is an American priority*".

In that respect, Washington has had a quite unexpected model in the past few years: Japan. When it comes to countering the Chinese infrastructure investment behemoth, Japan has recently come up with novel ideas and models of official development assistance (ODA), thus furthering its economic and technological influence, albeit on a smaller but more targeted scale. And the avoidance of direct confrontation with China in these matters has reinforced Japan's soft, multilateral-compatible approach which has served it (and continues to serve it) so well in Southeast Asia.

Indeed, on the back of increasing engagements by the Japan Bank for International Cooperation (JBIC) and the Japan International Cooperation Agency (JICA) in Latin America, the Nippon Export and Investment Insurance (NEXI) agency started in 2019 underwriting reinsurance ceded by the World Bank's Multilateral Investment Guarantee Agency (MIGA) to support a wind-power project in Argentina, as mentioned in an earlier article for Asia Power Watch, thus picking up the multilateral stick where the World Bank left it.

And it should not come as a surprise that, on the same day that the DFC inked the framework agreement with Ecuador's President Lenin Moreno and Finance and Economy Minister Mauricio Pozo Crespo, it simultaneously signed a Memorandum of Understanding (MOU) with JBIC on the promotion of collaborative ODA projects between the US and Japan in various regions, including Latin America.

A renewed collaboration commitment after a prior 2017 MOU between JBIC and DFC's "ancestor", the Overseas Private Investment Corporation (OPIC), this 2021 MOU extends the scope of the previous agreement to a wider array of strategic sectors not covered previously, such as power, hydrogen, digital connectivity, information and communications technology as well as supply chain resilience. A few months after Japan's involvement in the *Resilient Supply Chain Initiative* (RSCI) with India and Australia, the message of a China-containment effort going way beyond the Indo-Pacific could hardly be clearer…

Attack of The Clones…

This re-assertion of power in their own backyard and renewed commitment to collaboration with strategic allies and the learning from influence best practices by the US begs the following question: could this turn into a model for the European Union to regain the advantage in Europe, particularly in EU-accession states?

In other words, shouldn't the EU clone these agreements and use them as leverage to speed up accession procedures while keeping China's influence (and any other power's for that matter) in check? At a time when China is pushing its own bilateral *Belt and Road MOUs* to virtually each and every EU and non-EU country, thus weakening the EU's trade and investment position as a block, the question deserves to be asked…

The European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), but also member states' own ODA and technical expertise players such as France's Agence Française de Développement (AFD) and Expertise France or Germany's KfW and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) could certainly consider entering into similar framework agreements with EU-accession candidates like Serbia, Bosnia, Albania, Kosovo or Montenegro.

European Investment Bank/ Image source: Bolt

These countries have been prime destinations for China's infrastructure financing in Europe, mired with the same problems witnessed in Latin America and elsewhere: unfavourable or unsustainable financing terms, quality issues and/or sub-par ESG standards.

The fact that the European Commission introduced on October 6, 2020 a new *Economic and Investment Plan for the Western Balkans* is encouraging. Covering areas such as logistic connectivity, transition from coal, digital infrastructure, waste and water management, all of which are criteria for EU accession, the Plan will allocate 9 billion EUR over the 2021-2027 period to support economic convergence with the EU.

But the EU needs to ensure that it remains in control of who invests what and where in Europe. And the recent *Comprehensive Agreement on Investment* (CAI) signed on December 30, 2020 with China offers little guarantees in this regard, in spite of recently strengthened EU regulations on the screening of foreign direct investments.

Investment, particularly in infrastructure (logistical or digital), always carries narratives. After all, it does change people's lives for the better and one never forgets who helped make life easier. In this regard, the speech by Serbia's President Aleksandar Vucic at the height of the Covid-19 crisis should still ring in our ears as a warning: "*Serbia now turns its eyes to*

China. European solidarity does not exist. That was a fairy tale on paper".

Great Power Politics between the US and China, but also *middle powers* such as the EU and Japan, will be played over ODA and infrastructure investment. The example of this latest US-Ecuador framework agreement may well turn out to be a new cooperation model enabling a strengthening of strategic alliances and projection of influence, hence power.

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