

FROM THE BLUE DOT NETWORK TO THE BLUE DOT MARKETPLACE: A WAY TO COOPERATE IN STRATEGIC COMPETITION

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The world is in massive need of infrastructure investment. China's One Belt, One Road brought this issue to the forefront of the international community but is not living up to expectations. The Blue Dot Network, introduced by the United States and like minded partners to promote infrastructure development, is seen as a counter to the Belt and Road. It is focused on encouraging quality infrastructure investment by holding projects to high standards of transparency and sustainability through a certification system. However, the Blue Dot Network does not include any funding or means to close the global infrastructure gap. To address this issue, this chapter proposes the idea of a Blue Dot Market. If the Blue Dot Network were to evolve into the Blue Dot Marketplace over the next five to ten years, it could serve as a platform to bring together numerous construction and financial vendors to increase the quality and quantity of global infrastructure investment.

COLLABORATION IN AN ERA OF STRATEGIC COMPETITION: ENTER THE BLUE DOT MARKETPLACE

Since the announcement of China's One Belt, One Road in 2013, a very common question has been, "how will the United States and its partners compete with the Belt and Road?" One Belt, One Road did highlight a massive need for global infrastructure but attempting to directly "counter" this program may not be the best approach.

The United States should ask how it can best lead the next global infrastructure revolution. Infrastructure is the backbone of society, commerce, and trade. The demand is high as the G20 Global Infrastructure Outlook estimated a need for US\$ 94 trillion globally by 2040 to support economic growth and start to close infrastructure gaps.¹ Based on current investment trends, the Outlook estimates a US\$ 15 trillion gap over the same period. If fully realized, China's commitment of US\$ 1 trillion in global investment through the Belt and Road would be the largest stand-alone program to date.

However, the Belt and Road is not without problems. From a simplified geopolitical lens, the Belt and Road is a China-centric program to employ China's excess industrial capacity, better connect and employ the Xinjiang province, and secure energy resources. Belt and Road projects are a means for China to gain leverage over participating nations and expand its power and security.² Motivations aside, the United States and its partners have two primary concerns regarding the Belt and Road as a global infrastructure development program: debt sustainability and project quality.³ Many of the Belt and Road countries became more economically vulnerable from high amounts of debt due to overly ambitious and underperforming infrastructure projects. Belt and Road projects generally lack transparency which makes them more prone to corruption and cost inflation. Corruption and cost cutting can lead to substandard construction practices which can increase maintenance and operations costs, which further increase a nation's debt insecurity.

In November 2019, the United States, in collaboration with Australia and Japan, announced the Blue Dot Network (BDN) to certify major infrastructure projects as "sustainable and not exploitative."⁴ Even while the BDN is forming, India joined as part of the Joint Statement for a Comprehensive Strategic Partnership in February 2020.⁵ This is an encouraging sign of a desire for quality infrastructure through regional cooperation. It is difficult to obtain balance between competition and cooperation, but the Blue Dot Network may provide a framework to make it a reality. If there is a way to get China to participate in the Blue Dot Network, many of the criticisms of the Belt and Road would be addressed. After all, the Belt and Road as described in China's "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road" (2015) is a good program. The "Vision and Actions" include following market rules and international norms, seeking mutual benefit, policy coordination, and unimpeded trade, among other activities.⁶ Unfortunately, many Belt and

Road projects have not followed the spirit of the Belt and Road as laid out in that vision paper.

One of the primary criticisms of the Belt and Road from the United States is that irresponsible lending can result in national instability.⁷ The inability to sustain debt reduces a nation's ability to adapt to economic distress and increases its vulnerability to coercion. China owns external loan debt for seven countries that exceed 25% of their GDP.⁸ High debt and substantial investment in a country gives China significant economic coercive power. The watered-down version of a 2016 European Union (EU) statement intended to condemn China's building of artificial islands in the South China Sea is one example. The final EU statement did not specifically mention Beijing, in part, because Greece and Hungary did not want to upset their primary provider of foreign direct investment (FDI).⁹ Loans and FDI from China come with opaque lending practices that can include discretionary credit and terms not disclosed to the general population.¹⁰ Even the offer of loans connected with tentative Belt and Road projects coerce smaller nations to bend to China's will. In September 2019, the small island nations of Kiribati and the Solomon Islands cut ties with Taiwan upon the promise of Belt and Road projects.¹¹ Another example is the massive debt Djibouti owes to China. As of 2017, Djibouti owed China debt equal to 65% of its GDP and this debt is rising.¹² Djibouti is also the only location China has a permanent military presence outside of its claimed territory, which opened in 2017.

In addition, many of the Belt and Road projects are of a lower quality than accepted standards, reducing the ideal lifespan of major infrastructure.¹³ Over time, it is generally less expensive to build a higher quality project with low operations costs than a less expensive project with frequent need for repairs or upgrades.¹⁴ The last criticism to address is that many Belt and Road projects include a technological component that the host nation is unable to operate or maintain. This again brings about a concern of dependency on a foreign power to sustain critical infrastructure within a nation.

If the United States, China, and the European Union—the three major powerhouses on Earth—are able to cooperate for infrastructure development, the world would come out ahead. The world needs more infrastructure to sustain growth. This is not just isolated to one region. The Asian Development Bank estimates US\$ 26.2 trillion is needed in Asia by 2030 to sustain growth and adapt to climate change.¹⁵ The United States itself requires US\$ 4.5 trillion just to repair existing infrastructure.¹⁶ It is

good to have China regionally and globally engaged in infrastructure development. Malcolm Turnbull, the Australian prime minister said, “Global infrastructure investment is a good example of where countries should work together.”¹⁷

THE BLUE DOT NETWORK

The BDN is primarily a vision of what global infrastructure should look like. Certification by the BDN means that a project is high quality and has transparent origins, much like the “organic” label for produce. The intent of the BDN is not to be a United States counter to the Belt and Road, but at least China sees it as such.¹⁸ A key difference is that the BDN does not include funding for infrastructure projects. The principles of the BDN does address two of the major concerns about Belt and Road projects through emphasizing quality, transparency, and life-cycle cost.

The Blue Dot Network is starting to take form by encouraging responsible construction and lending practices by consolidating international norms such as the G20 Principles for Quality Infrastructure Investment, of which China is a signatory member.¹⁹ The Blue Dot Network is a means to review infrastructure projects from any private, public, or civic sector from any country and highlight quality construction and financing practices. The United States already has a variety of programs that fund foreign infrastructure development and encourage investment through the U.S. Development Finance Corporation (DFC) and the U.S. Trade and Development Agency’s Global Procurement Initiative (GPI). Japan’s International Cooperation Agency (JICA), Australia’s Infrastructure Financing Facility for the Pacific (AIFFP), and the Asian Development Bank (ADB) are among the other major infrastructure investors that will participate in the Blue Dot Network.

But what is the future of the Blue Dot Network? Can it increase the quality of global infrastructure development? This paper proposes that once the BDN establishes standards and successfully certifies projects for a few years, it could go a step further to become the “Blue Dot Marketplace.” This venue could be where countries looking to meet specific infrastructure investment requirements could meet with vetted financial and construction entities to initiate sustainable and “bankable” projects. Presently, there are numerous bilateral and multilateral programs to support infrastructure development, but there is no consolidated location for a country to evaluate and compare opportunities.

THE BLUE DOT MARKETPLACE

The Blue Dot Marketplace (BDM) could provide apolitical quality assurance and advice to validate financial and technical aspects of proposed projects. The BDM would be a consolidated virtual location for the key sectors needed for infrastructure development to interact. The primary groups of stakeholders would include: 1) host nations seeking infrastructure investment; 2) construction vendors; 3) finance vendors; and 4) technical consultants. This could be a consolidated location for the countless infrastructure development agencies, banks, and technical and construction entities.

The BDM would need an oversight body to vet financing, construction, and consultant groups by their adherence and past performance relative to the Blue Dot Network standards. This body, the BDM Administration Board, should be made of a mix of G20 or UN infrastructure and finance experts, growing as the marketplace expands. This review should be open to all construction and financial vendors, to include Chinese state-owned enterprises (SOE) and banks. Finance and construction vendors would submit a statement of interest describing the type and scale of financing or construction they are interested in supporting. They would also submit evidence demonstrating the ability to support the requested project size and type. The documentation would be reviewed by the BDM Administrative Board. The Board would verify, or deny with explanation, the financial or construction vendor's ability to compete in categories based on their submission. This vetted set of vendors would then be added to the marketplace. Vendors would need to be reevaluated at some interval or number of projects to ensure continued transparency.

HOW MIGHT THE BLUE DOT MARKETPLACE OPERATE?

The host nation would submit a request for proposals to the construction sector of the marketplace with the confidence that the bids would be from reputable groups and include life-cycle cost. All participants in the BDM should be part of the Blue Dot Network and support its tenets. See Figure 12.1: The Blue Dot Marketplace for a graphical representation.

The host nation is responsible to identify its general infrastructure needs and developmental goals. It would then sequence related projects and prioritize the list based on national need. The client nation would be highly engaged throughout the process with a designated lead agency to revise the list as conditions change. The nation would select a project bid

from the construction vendors and solicit for funding through the finance vendor market. Ideally, the host nation would approach the marketplace with a prioritized list of infrastructure needs and a cost rough order of magnitude for the projects. It is best if there are projects for a variety of sectors (i.e., energy production, port development, customs facility) and scale to find a good fit for funding and construction vendors to compete. Even though a priority list would exist, it may be most effective to build based on fund and asset availability.

Projects would go to the construction sector of the marketplace to get bids and proposals from the construction vendors. The construction vendors must be approved to compete in the Blue Dot Marketplace by submitting documentation to verify the company's capability, capacity, and adherence to the Blue Dot tenets. If interested in a project listed on the marketplace, the construction vendors would produce a project proposal to the soliciting nation.

As the host nation narrows in on a construction vendor, it would then solicit for funding, if needed, through the finance sector. The finance vendors would evaluate the client nation's debt capacity and project viability, also known as "bankability," to offer funding with terms that follow Blue Dot tenets. Grants and loans could be advertised on the finance sector and these could be used for construction or consultant services. Public-private partnerships (PPP) could be proposed to share costs and manage infrastructure operation, but this must also be accounted for in the life-cycle cost of a project. If the construction vendor has a relationship with a funding vendor, this could be a combined bid as long as all parties adhere to the Blue Dot tenets. An example of this might be a U.S. construction company with the U.S. EXIM Bank or a Chinese company with the Agriculture Development Bank of China. All bids or proposals would include life-cycle cost so that the nation is fully aware of the total cost of the project.

The BDM technical consultants could provide connection with technical assistance teams to develop the priorities with the host country to find the most efficient and logical sequence of projects. These teams could also provide contract review services such as the U.S. Infrastructure Transaction Advisory Network (ITAN) or technical reviews through the U.S. Trade and Development Agency (USTDA). Consultants could also validate projected economic growth from proposed projects as this can be inflated if not done objectively.

Project review milestones will be needed to ensure adherence to Blue Dot tenets for sustainability and to meet certification; these requirements are currently under development as the Blue Dot Network takes shape.

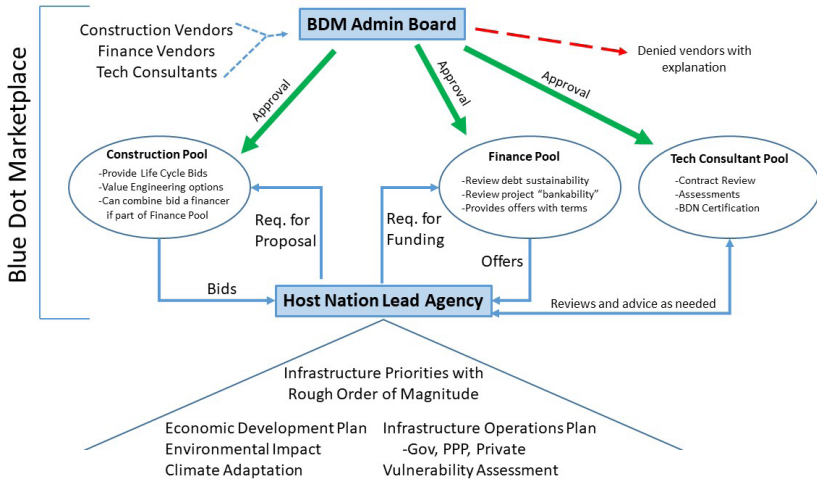


Figure 11.1: The Blue Dot Marketplace

Example Blue Dot Marketplace Project

Nation A has a severe traffic congestion problem that is outside of their ability to resolve internally. Nation A goes to its account manager within the Blue Dot Marketplace and describe the problem and a potential solution. The account manager solicits proposals to technical consultants to review the problem (if there is not a clear solution) or go straight to soliciting for construction bids. Once funding and construction proposals are selected, the project may undergo a value engineering review to look for increased efficiencies and environmental considerations. As the project proceeds, it includes an interim review or a final review, depending on the timeline and scale of the project. As long as the Blue Dot Network tenets are met, the project is certified when construction is complete.

COOPERATION AND OPPORTUNITIES

Can the Blue Dot Marketplace serve as a cooperation venue for China and the United States? Accusations of poor construction standards and environmental stewardship are areas of criticism for Chinese construction

companies. The World Bank has seen that Chinese companies meet high standards for World Bank-funded road construction projects.²⁰ However, Chinese companies have been disbarred from World Bank projects not by poor quality, but due to breaches in procurement guidelines, which could be mitigated through increased transparency.²¹ If Belt and Road projects could meet the high standards of the Blue Dot Network, this could build legitimacy for Belt and Road projects. Chinese participation in the Blue Dot Marketplace would mitigate many geopolitical concerns of economic coercion and militarization associated with the Belt and Road, bringing focus to actual development. There will always be political reasons to provide support to foreign nations but the Blue Dot Marketplace would give the host nation a much greater ability to make informed decisions on their infrastructure development. Transparency is a powerful tool to combat corruption and ensure fair competition. To encourage China's participation in the BDM, the United States could join the Asian Infrastructure Investment Bank (AIIB) and support Belt and Road projects that meet BDN standards. This cooperation could further encourage China to continue infrastructure projects and rebuild its relationship with the United States.

Encouraging sustainability and transparency are primary concerns for the BDN.²² Financial sustainability includes reviewing full economic impacts of the projects (such as debt sustainability, maintenance and operating costs) and projected economic growth. Technical sustainability can include environmental impact, planning for climate change through resilience, maximizing green building design and efficient construction techniques.

Outside of debt sustainability and transparency, the Blue Dot Marketplace could be a great platform for the pursuit of environmentally sustainable infrastructure. Many Belt and Road projects are in the energy sector, but Belt and Road power plants outside of China are mostly coal fired and use subcritical technology.²³ China is very capable in solar and hydropower energy technology and would compete well in this sector of construction. Green projects could help with carbon footprint reduction, global energy security, and grow the sustainable energy market. The Blue Dot Marketplace could encourage thorough vulnerability assessments and integrate environmental risk mitigation into projects. Vulnerability assessments take into account changes in the environment over time such as impacts on food security, water shortages, disasters, and health problems. This includes accounting for sea level rise in project design, managing the

control of invasive species and disease transmission due to increased connectivity, and considering community resilience to these effects.

CONCLUSION

Competition is at the heart of capitalism, but it is important that competition is fair to maximize innovation. International cooperation can set universal standards of excellence to increase fair competition in the infrastructure sector. This increased cooperation can build global security and economic development. The Blue Dot Network can help by holding all infrastructure construction and financing entities to sustainable and transparent practices. However, if the Blue Dot Network is purely perceived as a “counter” to the Belt and Road, a huge opportunity for the infrastructure investment will be missed. Greater cooperation resulting in holding companies accountable for good construction and financing practices will benefit all. Infrastructure is in great need globally and the Blue Dot Marketplace could be a way to simplify large-scale infrastructure investment. Once the Blue Dot Network is established and certifies projects, it could evolve into the BDM over the next five to ten years. The BDM could bring all the various programs, agencies, and companies together in one location to provide transparent, sustainable, quality infrastructure in a way that can responsibly drive innovation and economic growth. The term “Blue Dot” is a reference to Carl Sagan’s book *Pale Blue Dot*, where he challenges humanity “to deal more kindly with one another and to preserve and cherish the pale blue dot, the only home we’ve ever known.”²⁴ Earth is a small and unique blip in the universe, people must find ways to cooperate in competition.

Notes

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