“A Discussion of U.S.-China Economic Competition”:

Keynote Address by Representative French Hill (R-AR)

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FEATURING
Representative French Hill (R-AR)
Member, Committee on Financial Services

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Matthew P. Goodman: Before we get to that, we’re just delighted to have Congressman French Hill, Republican from Arkansas, join us to provide keynote remarks not about the report, but sort of to help us frame the conversation about the U.S.-China economic relationship and particularly the financial relationship. Congressman Hill sits on the Financial Services Committee in the House of Representatives. He’s a senior member of the Financial Services Committee in the House of Representatives. He’s ranking member of the Housing, Community Development, and Insurance Subcommittee. And especially important for this conversation, he’s also on the Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, and the Subcommittee on National Security, International Development, and Monetary Policy. Also, in addition to that service, he serves as one of two congressional representatives to the 76th U.N. General Assembly. So it’s hard to think of somebody better. I’d just throw in one other personal comment about Congressman Hill. He and I worked at the U.S. Treasury Department 30 years ago. He was the deputy assistant secretary for domestic finance. I was on the international side as a career civil servant. And we intersected. Actually, that was kind of rare because the domestic and international sides of Treasury don’t come together very often. But we came together, and this is relevant because we were working on a big initiative with Japan, the structural impediments initiative, and a lot of that was about helping improve the U.S.-Japan relationship and encourage reform of particularly capital markets in Japan. And that was the piece that brought Congressman Hill and me together back then. And so, his experience, in my – from my perspective, goes way back to that time and I think is relevant to the China conversation today. So, with that, I am delighted to turn the floor to Congressman Hill.

Rep. French Hill: Well, Matt, thank you and CSIS so much for this invitation. And personally, thank you for that three-decade friendship, for your long service to our nation, and for a great introduction. It’s great to see you, even if by Teams. And let me also congratulate CSIS Senior Fellow for Economics Stephanie Segal for her extensive work and analysis accomplished in her February overview as well as in this final report designing a possible framework for policy decisions related to the U.S.-China relationship. This morning my remarks are based on my current observations as a member of the House of Representatives but are also certainly informed by my four decades of private-sector engagement, my service on the Senate Banking Committee staff, and my work that I enjoyed so much with Matt in the administration of Bush 41. This morning’s discussion on Stephanie’s framework is needed and, in my view, long overdue. I really appreciated her February 2021 historic perspective as a prequel to today’s framework. As a student of economics and history, I’ve always recommended a thorough historical perspective in any public-policy deliberation, and preferably from multiple points of view, and she got that done. At many moments in our short history in the United States in comparison to the long lineage of China as a nation, our country has been there as a friend – providing military advice during the opium wars, arguing for the open door policy, setting up scholarships for Chinese students with our proceeds from the Boxer Rebellion settlements,
or of course that we all know coming to the aid of China as an ally in the face of Japanese aggression. Today, five days – decades after Richard Nixon’s visit, leaders in Beijing and Washington see world events through different prisms. To some degree, both nations wonder: What’s next? President Trump gave voice to a break in the status quo that’s essentially been in place in a post-Tiananmen Square environment. The current Communist Party leadership under Xi pivoted away from working within the successful post-World War II monetary and trading system and is now headed squarely in conflict with the global order, balance of power in East Asia, and the continued open, marked-based trading system. There’s no argument that the United States and her allies were slow to recognize this pivot or at least its speed and implications. And today, we’re not on the same page as to how best to respond. And in our private sector, motivated principally by the siren song of enormous population and a growing middle class, in my view, was complacent about having its supply chains and critical prospects too reliant on China. In my view, the financial and legal long-term risks were not sufficient, and not to mention the business risks associated with China’s surveillance culture and its gross human rights violations. Thus, President Trump’s policy review and questioning of the status quo, by words and actions, has prompted a much more thoughtful allied response and awakened the private sector’s risk assessment. But what President Trump did not achieve, the COVID-19 pandemic combined with China’s abrogation of its treaty with the United Kingdom over Hong Kong, finished the work. Now it’s essential that the United States leadership be committed on a bipartisan basis to doing the hard work of hammering out the proper military, diplomatic, and economic framework for U.S.-Sino relations. This effort must also reflect a consensus that’s supported by America’s private sector, principally its multinational firms. Secondly, U.S. leadership, as initiated quite ably by Secretaries Pompeo and Mnuchin in the prior administration, must also do the hard work of hammering out an allied view or consensus as to that same framework, and make sure that it’s shared by our long-time friends and partners and allies in Europe, North Asia, and the Indo-Pacific. Secretary of State Blinken got it about right when he described the U.S. posture towards China as competitive when it should be, collaborative when it can be, and adversarial when it must be. Today, participants in this important CSIS forum will be assessing this targeted approach and how to balance the many conflicts that are faced when one’s chief military, and political, and economic rival is at once an authoritarian, closed, communist dictatorship, yet a nation-state fully integrated into much of the global trading and economic system. Now, as Matt mentioned, he and I date our friendship and our early policy lives to those debates in the late 1980s when the United States was attempting to curtail China’s foreign direct investment in the United States, the flooding of U.S. – into the U.S. of Japanese-produced automobiles and semiconductors, while Japan, at the same time, was dramatically limiting foreign-market access to goods and services. With much of the rhetoric we see today related to China, one could simply substitute the word Japan and substitute China and you’d find the Sunday morning talk shows topics of 1989 and 1990. But of course, there’s one extraordinary distinction: Democratic Japan was, is, and continues to be our ally and partner, and China, while a collaborator in many things,
description as a partner and an ally would not be accurate. Could it be in the future? Only time and the years ahead will tell. But this speaks to that balance as outlined in today's discussion of degrees of separation. Your framework is of assistance to the legislative branch in that it provides a rubric whereby our committees and our members can evaluate the best possible alternatives to achieving our U.S. objectives. In the context of this thoughtful framework, let me mention a few legislative initiatives. First, as to your geostrategic priority in the framework: Congress passed the 2018 Asia Reassurance Act which generally provides a broad statement on U.S. policy in the Indo-Pacific region and included important provisions specifically related to our support for Taiwan. It also included new reporting requirements as well as authorizations of new spending and policies in the areas of security, economics, and U.S. values, three important factors that your report also considers in the assessments of the case studies. As to the economic objectives, some may disagree with the previous administration's tactics, but pursuing sustainable, equitable, and balanced growth is critical, and it's always been based on fairness. And as Matt and I can recall, certainly Jim Baker and other secretaries of Treasury, Nick Brady, dealt with those same issues when we were debating around the issue of Japan in those late '80s and 1990s. And speaking of the 1990s, the theft of intellectual property by China and Chinese companies is one that we're still fighting, blatant theft since the 1990s, despite great efforts by President Clinton and his team. They were focused on software and movies, but that seems quaint today given today's battles about artificial intelligence, biotechnology, and dual-use defense technologies. Further within the economic sphere, safeguarding global financial stability is, of course, critical. Here, again, reading today's Wall Street Journal, you see the property market in China in meltdown. Does that have systemic financial implications not only in China but in financial institutions outside China? And that's a key point in the public markets, but China as a large creditor has a policy of predatory and neocolonial lending in the emerging world. In my view, that is not a constructive way to achieve financial stability. Hence, my firm and continued objection to the Biden Treasury's massive approval of an issuance of special drawing rights by the IMF in the name of helping poor countries build reserve assets in the face of the pandemic. This untargeted, ill-conceived approach is a massive subsidy to China and China's objectives across the Third World. My bill H.R. 1568, the SDR Oversight Act, would correct this approach to SDR issuance and provide much more targeted and appropriate approaches for America in our advocacy. It sets a congressional approval in future SDR allocations and does not allow American representatives to the IMF to vote for SDR allocations to countries that have committed genocide in the last 10 years or repeatedly supported international terrorism. Likewise, with China – now is the largest creditor in the world – they're not a member of the Paris Club. That's no longer an acceptable reality. With the growth of China's Belt and Road Initiative, there's a concern that countries borrowing from Beijing will be overburdened, falling into opaquely priced debt traps. This may well force rescue by the international financial institutions, complicating their ability to underwrite loans for new projects. These nontransparent, predatory lending terms should no longer be acceptable to the IMF, the World Bank, or
the global system. When you’re considering the well-being of emerging-country financial needs, this is in the way. In this regard, I initiated a legislative directive to the multilateral institutions to insist on transparency for sovereign borrowers from China. My bill in the last Congress, the Ensuring Chinese Debt Transparency Act, was included in the FY 2021 National Defense Authorization Act signed into law. This will help develop a global multilateral effort to ensure more scrutiny of China as a major creditor nation. It must be held to the same high standards used by the international financial institutions. Bringing China up to those same standards within the IFIs and getting them out of a developing-country status is important to helping them move to playing by our same global rules and norms. Your economic area also argues for supply chain resilience. The pandemic has certainly exposed the fragility of the three-decade-old management effort anchored by just-in-time inventory and a single-source, lowest-cost supply. When the pandemic swept across the globe last March, I suggested that America’s preparation for PPE, medical devices like ventilators, and critical compounds necessary for some pharmaceutical developments were too dependent on single-source supplies – and much of that, I must say, were in China. My bill H.R. 3146, the Securing America’s Vaccines for Emergencies – or SAVE – Act, which amends the Defense Production Act to spur critical production in the midst of a global national health emergency, these provisions are included in this year’s NDAA that has passed the House. I also believe the previous administration missed an opportunity to begin a process of working to diversify our supply chain out of China. During the Trump administration’s U.S.-China trade disputes, I’d ask business leaders visiting my office how they were doing in China. Are they making money? Are the Chinese rules easy to navigate? And many of the companies in my informal surveying answered my questions in the negative, so there’s work to be done. Building America’s supply chain capacity outside China will take years, maybe even decades, but American businesses have experienced now two major disruptions in business in a short period of time between the trade disputes with China and the proliferation of COVID-19. This is one way we can slowly and in small increments separate from China while building economic resilience in areas like Central and South America or Southeast Asia. And certainly, our recent successful completion of the USMCA is a key component. Let me address now the challenging subject that Stephanie’s put so much effort into of capital flows between China and the U.S. Your report outlines the state of financial infrastructure in both countries. But one must always keep in mind that capital flows where it’s wanted. And capital flows where it has certainty as to the long-term potential of earning a profitable return on equity. Opportunity alone is insufficient. One must have a pro-investor mindset and a rule of law that governs not only the issuance of that capital but relations with labor, the protection of intellectual property, and the ability to adjudicate disputes in a fair and transparent court of law. Keeping this in mind, China has a low prospect for achieving the apex centerpiece of the global financial system. And at the end of the day, while size of market is critical, other conditions must exist for a non-transparent, non-dollar, authoritarian dictatorship without the rule of law to somehow dominate the global economy. The framework describes how the U.S. can restrict assets
and prohibit financial dealings with individuals or companies. My colleague, Andy Barr of Kentucky, proposes a similar approach in his new bill, H.R. 5326, which directs the president to sanction Chinese military or surveillance companies identified by Treasury’s Office of Foreign Assets Control, OFAC, or the Department of Defense. Critically, this takes a broader approach than noted in the framework, because OFAC’s inclusion of a foreign entity on the specially designated nationals list deters third-party persons from transacting with that designated entity, while providing restrictions on public securities only restricted to U.S. persons. Further, Mr. Barr’s approach, in my view, covers debt and equity securities, public and private companies. And so this is a way for those companies that the president of the United States have serious concerns about to be dealt with in the capital markets system. But I have to say, I agree wholeheartedly with the point that it’s important for the major capital market jurisdictions to share a common view about potential Chinese market access. Increasing the education of individual and institutional investors about the risks in China, regulators on the same, is critical in the short term, while these issues related to market access for those companies actively engaged in the military technologies sphere to continue to be debated. And while many see it as a huge risk for U.S. objectives should we separate in areas that would create, quote, “global fragmentation,” I’d argue we can survive this. Fragmentation has always occurred as the economies have grown, as countries have integrated, as populations have expanded, as new ideas have been brought forth. We’ve survived the French accounting, the metric system, beta versus VHS, Apple versus Microsoft, and certainly AC versus DC—not the band, the power. So, look, we can get through that fragmentation. I appreciate the report also including a section on U.S. objectives on values. As I mentioned before, my SDR bill has a specific section prohibiting SDRs to go to countries that have recently committed genocide. The Congress has acted here as well, having passed multiple bills related to the treatment of the Uighurs, and materials coming out of the Xinjiang province, where 45 percent of the globe’s polysilicate is produced for solar panels, and 84 percent of China’s cotton is cultivated. It’s my hope that U.S. companies that have footprints in Xinjiang will not continue to stick their heads in the sand while the world learns more and more every day about the ongoing genocide against the Uighurs. In summary, the U.S. government and policy leaders like CSIS can’t lose the momentum that we have in taking a deeper look into our relationship with China. It does not have to be an all-or-nothing approach, and the thoughtful method that CSIS outlined today can help build that consensus within the U.S. government, the American business community, and with our allies and partners around the world. Matt, thank you, and Stephanie, for the invitation, and it was delightful to be with you this morning.

Mr. Goodman: Well, thank you so much, Representative Hill. That was just a terrific tour de force. And you covered a lot of ground there with a very clear set of issues laid out and a clear, you know, point of view, which is great. And you’ve given us a great sort of touchstone to work from when we get this all-star panel to join us in a second. Let me bring Stephanie Segal, our senior fellow,
onto the – into the conversation. If you’re willing, French, to take a couple of questions from us, let me ask the first one. Which is you hearkening back a couple times to our experience working on Japan 30-plus years ago. And, you know, in that case, in especially that structural impediments initiative, we were pretty intrusively going into Japan, trying to help promote reform there that was in the interests of the United States and Japan, we thought, I think – and I still believe that, by the way. Not everybody in Japan loved it, but it was a – but there was actually surprising support for some of the things we were proposing, including capital market reform. You know, I guess my question is: Today when you think about China there feels like there’s a little bit of a tension because, you know, we clearly want China to reform. We want them to have, you know, financial openness, financial stability. And for one or more of those reasons – whether it’s, you know, for access for our companies or for, you know, the growth that it provides, the stability it provides, or just to avoid some kind of real problem which, you know, we seem to be possibly on the brink of right now in China, potentially. It feels like we ought to engage more on one hand. But on the other hand, you know, some of the things you’re suggesting would be, you know, suggesting disengagement. So, I guess that’s a fundamental question, is, you know, should we be trying to, you know, engage and reform China, improve some of these things? Or should we step back and let them figure it out?

Bill Reinsch:

Rep. Hill: Well, it’s a key question. It’s one I thought about a lot because, as I noted in my remarks, Japan and the United States were tied together by an economic partnership and a military partnership and a friendship – a deep friendship following World War II. And so, two friends came together in those structural impediments talks. And they were tough. But both sides learned a lot about each other’s domestic economies. Both sides came together and resulted, I think, in a consensus document. And it took a lot of work. And you were at the forefront of that work. Here, we have that rival context that really wasn’t present in the Japan-U.S. context. I think Japan was a manufacturing center. They were proud of their extraordinary growth between 1960 and 1990, no doubt, and their markets reflected it, their exports reflected it. But at the heart, both sides could learn from each other. That’s true here in the Chinese context. And we’ve tried engagement centered around, as you know, the secretaries of treasury in the ’90s and in the Bush administration, and more recently between the secretaries of state and the secretaries of treasury in bilateral dialogue. But has it produced concrete results where we’re moving the ball? And that’s why I raised intellectual property from the 1990s. I think President Clinton thought he made progress. And yet, I think the theft has doubled down and become much more sophisticated. So, this is the challenge. For two sides to come together and work on things, they have to have a recognition and respect for each side, and that the global trading system is worthy of joining and participating in. And that’s why I argue that the pivot that leader Xi has made, say in 2013, is to essentially create a parallel system, one that attempts to run alongside of the dollar-based monetary system. I don’t think that’s realistic for China. I think their capital markets today are realizing that as people can’t come up with the money to make debt payments. So I
don’t think it’s the right strategy for China. So, in my view, the bilateral conversation is pressing them that the future – the best future for the people of China is to continue to move forward in the global trading system, the global diplomatic system, the multilateral system, and not try to create a parallel separate universe that’s RMB-centric. And again, that’s one of my main objections to the Treasury SDR support that we’ve seen in this administration.

Mr. Goodman: OK. Terrific. Well, again, a lot there to unpack and that I’d like to follow up on, but I want to give Stephanie a chance to jump in here. So, Stephanie, over to you.

Stephanie Segal: Great. Thanks, Matt. And first, let me just thank the congressman for coming and speaking today on this really critical topic. You covered a tremendous amount of ground. And as Matt mentioned, you’ve been engaged in East Asia, engaged in economic issues from the perspective of the executive branch, from the private sector, and now on Capitol Hill, so we really could not have had a better perspective and a better kickoff to this event this morning. So let me just thank you for joining us. Because you covered so much ground, I have a lot of questions. But let me – let me stick with the issue that you raised of the importance of a consensus approach, whether we’re talking about a bilateral consensus politically, but you also mentioned the importance of having the private sector onboard as well as allies and partners onboard. So, there’s kind of three different constituencies there –


Ms. Segal: – that need to have a common approach. So how would you assess the prospects in those three areas – the bipartisan approach, the collaborative approach with the private sector, and a common approach with allies and partners?

Rep. Hill: And this also is linked to Matt’s question because the bilateral trade between Japan and the U.S. was important to both countries. And here that’s true with China, but China’s trade with Europe is very, very important. China’s trade in the Indo-Pacific area is important. And therefore, that’s why I think this allied approach is critical now, and we’re 30 years past Japan-U.S. discussions. And that’s why this has to be a multilateral approach and the democracies have to take the lead, and that’s why I believe it’ll be stronger. You asked for an assessment of where we are. I think progress was made. I credited Steve Mnuchin, the treasury secretary, and Mike Pompeo in my remarks for really making progress in some areas on telling this story, technology being probably the top. And you deal with that greatly in your report. This is the concern of the military leaders in our free countries as well as the private sector, civilian use. So, you touched on AI and biotechnology, for example. But in the Trump administration, you certainly saw this finding allied consensus centered around what? Telecommunications. As I said on the House floor one day, there’s a right
way and a Huawei to handle telecommunications policy. And so, you’ve seen Japan, the U.S., now the U.K. understand the risks of full integration of Huawei components in their system. And in the future, to control telecommunications is to control finance – both C2C, B2C, and B2B – and that is – as money becomes more digital, more transferred through individuals by electronic means. And so, I think we made progress. I think the Huawei discussions by the G-7 are a good example of it. And I think we need to carry through and continue that, and you noted that in your report. You’re going to talk about it today with the Canadian and Indo-Pacific partnerships on AI, for example, and biotechnology. That’s the way we build not only an allied consensus, but also a private-sector consensus in technology. When we get out of technology, we’ve got to recognize we need to do this for trade generally and for diplomacy generally.

Ms. Segal: I wonder – I know we’re at 9:30 and I know you have other pressing business to attend to. I want to maybe take advantage of just two more minutes of your time, if I could. You commented on bilateral conversations, what the U.S. should be pushing for. I just want to make sure that I understood that correctly. Are you in favor of the U.S. engaging with China on these economic issues?

Rep. Hill: Absolutely. The question – and this is something that I’m not – have the information to know the answer to. And it’s possibly a good topic for a future CSIS event, which is tell me the successes of the ’90s treasury secretary and 2000s-led bilateral with China, and now the secretary of state and secretary of treasury bilateral with China. You tell me what they’ve accomplished, and I’ll tell you maybe where to go from here. But I’m a big believer in the two biggest economies in the world having an intimate, regular dialogue, obviously on military and strategic purposes but also on economics and sharing with each other why we feel the way we feel. And it’s important for America to lead there, along with our G-7 allies, and make sure our talking points, our demarches are all in the same vein, because I believe Xi is taking China down the wrong path. And that’s got to be a voice not just from the United States, but from our allies around the world. So, I think dialogue is very important.

Ms. Segal: Thank you for that. Matt, I don’t know if you want to have any kind of concluding comments for this portion of the program.

Mr. Goodman: I just want to thank Congressman Hill again. I know you’ve got other things you’ve got to do, but this has been terrific. And really appreciate, by the way, the homework you and your team did in reading the report and, obviously, absorbing some of the things that Stephanie was commenting on. That’s really unusual and we really appreciate that attention to it, in addition to your comments and thoughts. So, thank you so much, and –


Mr. Goodman: Not another 30 years before we get to do this again, so. Thanks so much.