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## Upcoming Events

- December 5: Straight Talk on Trade: Ideas for a Sane World Economy (CSIS)
- December 10–13: 11th WTO Ministerial Conference (Buenos Aires)
- December 13: Trade Enforcement (CSIS)
- December 18: Western and Chinese Infrastructure Development Abroad (CSIS)

# PREDATORY ECONOMICS AND THE CHINA CHALLENGE

BY MATTHEW P. GOODMAN

"We need to collaborate with India to ensure that the Indo-Pacific…does not become a region of disorder, conflict, and predatory economics." This was the heart of Secretary of State Rex Tillerson's high-profile speech on U.S.-India relations, delivered at CSIS on October 18. The last two words of this sentence, a none-too-subtle reference to mercantilist economic policies by China, raised eyebrows. To be sure, the phrase contained some truth, but it likely grated on many ears in Asia and could be counterproductive if the United States does not offer its own, more positive vision for economic integration of that vital region.

Tillerson was right that many of China's trade and investment practices are problematic—and becoming more so as the country takes a more assertive turn under President Xi Jinping. Most blatant is Beijing's use of economic coercion to achieve its diplomatic objectives. It cut off tourist and retail trade with South Korea earlier this year after Seoul installed the U.S.-built Terminal High Altitude Area Defense (THAAD) missile-defense system. When the previous government in Manila defied China's maritime claims in the South China Sea, Beijing effectively embargoed Philippine bananas. And Norwegian salmon exports fell victim to Beijing's displeasure at Oslo's awarding the Nobel Prize to Chinese dissident Liu Xiaobo in 2010.

At the same time, China's trading partners have a growing bill of particulars about Beijing's mercantilist practices. These include widespread market-access restrictions, from equity caps on investment to regulatory harassment; pervasive subsidies directed at national champions that tilt the competitive playing field against foreign firms in China and in third markets; and widespread forced technology transfer and intellectual property theft. Moreover, U.S. businesses and national security experts alike fear that these self-serving practices will persist: the "Made in China 2025" plan makes explicit Beijing's ambitions to dominate key industries of the future such as robotics, aerospace, and advanced biotechnology.

Secretary of State Tillerson highlighted another area of concern when he answered CSIS president John Hamre's first question after his speech, about the meaning of "predatory economics." Tillerson cited financing schemes for large infrastructure projects that saddle recipient countries with unsustainable debt and could even compromise their sovereignty. He said the United States is having a quiet conversation with other countries about alternative financing mechanisms. President Donald Trump echoed these points in his speech earlier this month in Danang, Vietnam, calling on the World Bank and Asian Development Bank to focus on high-quality infrastructure investment and suggesting that U.S. development institutions such as the Overseas Private Investment Corporation (OPIC) might offer new alternatives to Chinese-tied finance.

These efforts could be constructive. But the Trump administration needs to be careful not to cast all of China's economic behavior as "predatory." Asian countries want access to the large Chinese market, and increasingly they want Chinese technology and capital—including to support infrastructure development. Xi Jinping's signature "Belt and Road Initiative" is broadly welcome in the region, and Washington should not give the impression that it opposes Beijing's efforts—a mistake the Obama administration made in 2015 when it tried to rally support against the Asian Infrastructure Investment Bank (AIIB).

To be sure, the United States should brush China back when it violates the letter or spirit of the rules-based economic order. We should call out Beijing when it uses economic coercion to force its will on smaller countries. Using U.S. trade laws and World Trade Organization (WTO) procedures to challenge illegal Chinese subsidies or forced technology transfer policies is vital to protecting our economic interests and to defending an order that has served both countries well. Of course we need to do all this in a way that does not cause more damage to the order, as the Trump administration's

## PREDATORY ECONOMICS AND THE CHINA CHALLENGE *(continued)*

unilateral and protectionist language worryingly suggests it might. It is also worth asking what role U.S. private-sector participants can play in protecting the rules-based system.

China's systematic efforts to acquire strategic technologies from the United States and its allies have also been portrayed as a form of "predatory economics." Again, there are legitimate concerns here, not only for our national security but also for our economic competitiveness where Beijing tilts the playing field in its favor. Certainly we need to "protect the crown jewels": among other things, Washington should ensure that the Committee on Foreign Investment in the United States (CFIUS) has the resources and analytic capacity to screen out Chinese investments that genuinely threaten national security. The bipartisan bill tabled this month by Senator John Cornyn (R-TX) and others is an attempt to address these concerns but runs the risk of producing too prescriptive a process and having a chilling effect on legitimate inbound foreign investment.

Moreover, we cannot only play defense. There are two critical things we need to do on offense. First, we need a positive economic agenda that extends our decades-long work on promoting growth around the world, opening markets, and creating high-standard rules of the road. Secretary Tillerson, and later President Trump in his speech in Vietnam, was on the right track in calling for a "free and open Indo-Pacific." But the president gave away the most powerful tool we had for moving that objective forward, the Trans-Pacific Partnership (TPP), and replaced it not with a credible regional trade strategy but merely with criticism of trading partners—including key strategic allies—for "unfair" practices that feed bilateral trade imbalances. This was accompanied by tough-sounding but nonspecific talk of negotiating one-sided bilateral agreements that no self-interested Asian country would agree to. (For a more constructive U.S. agenda in the region, see the report issued by CSIS last month, updating our Asia Economic Strategy Commission report earlier in the year.)

The other essential task for the United States is to invest in ourselves. Without updating our sagging domestic infrastructure, retooling our education system and training programs for the twenty-first century economy, and promoting research and development in industries of the future, we stand little chance of competing with a China that is making a concerted effort to do all of those things. And foreign policy experts like those of us at CSIS can no longer get away with leaving those questions to the domestic policy community; they are the essential foundations of popular support for U.S. international engagement, and we need to have something to say about them.

All four of the strands of a successful U.S. response to the China challenge that I have mentioned—holding Beijing to account, protecting the crown jewels, adopting a positive economic agenda, and investing in ourselves—will only succeed if we coordinate closely with like-minded allies and partners. The United States has neither the scope of vision nor adequate leverage to take on China alone. We need help from our North American, European, and Asian partners in filing joint WTO cases, sharing information about China's strategic technology acquisitions, working together toward multilateral rules on infrastructure finance—and even investing in our domestic infrastructure.

In 1967, the French intellectual Jean-Jacques Serban-Schreiber published Le Défi Americain ("The American Challenge"), a seminal work warning of the threat to Europe's economic and cultural prowess from pervasive American technology and ideas. Servan-Schreiber did not accuse Americans of "predatory" behavior or advocate pulling up the drawbridge to protect fortress Europe; rather, he called on Europeans to learn from Americans and to join forces with each other to meet the challenge. There are lessons here for the United States today as we confront "le défi chinois."

In asserting on his recent Asian trip that, "I don't blame China," President Trump went too far in absolving Beijing of responsibility for mercantilist actions that undermine the global economic order. Moreover, his proposed unilateral and protectionist solutions are misguided and harmful to U.S. interests. But in one respect he is right to put "America first": without our own coherent international economic strategy, built on strong domestic foundations, we stand little chance of rising to today's China challenge.

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