

“U.S.-China Relations and Geoeconomics: The U.S.-Japan Alliance in a New Situation”¹

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I am honored that the Asia Pacific Initiative has invited me to give this virtual presentation on “U.S.-China Relations and Geoeconomics: The U.S.-Japan Alliance in a New Situation.” I look forward to our discussion of these critically important issues, and to my next actual visit to Japan.

Before I directly address the United States, Japan and China’s geoeconomics challenge, I want first to review the strategic threat that China in my view poses to the West, and what the United States, Japan and others should do about it.

Put simply, the U.S., Japan and their partners must conduct a balancing strategy that deliberately limits China’s capacity to misuse its growing power, even as the United States and its allies continue to interact with China diplomatically and economically.

China’s sustained economic success over the last thirty-odd years has enabled it to aggregate formidable power, making it the nation most capable of dominating the Asian continent, thus undermining the traditional U.S. geopolitical objective of ensuring that this arena remains free of hegemonic control. The meteoric growth of the Chinese economy, even if Chinese per capita income remains behind that of the United States, has already provided Beijing with the resources necessary to challenge the security of both its Asian neighbors and Washington’s influence in Asia, with dangerous consequences.

Only a fundamental collapse of the Chinese state would free the West from the obligation to systematically balance Beijing, because even the alternative of a modest Chinese stumbling would not eliminate the dangers presented to the United States and its allies in Asia and beyond.

Of all nations—and in most conceivable scenarios—China represents and will remain the most significant competitor to the United States and Japan. China’s rise thus far has already bred geopolitical, military, economic, and ideological challenges to U.S. power, U.S. allies, and the U.S.-formulated international order. Its continued, even if uneven, success in the future would further undermine U.S. and allied national interests.

In my judgment, China’s malign intentions in this regard unfortunately are no longer in doubt.

Lee Kwan Yew put it this way regarding whether Chinese leaders are serious about displacing the United States as the number one power in Asia and in the world:

Of course. Why not? They have transformed a poor society by an economic miracle to

become now the second-largest economy in the world -- on track, as Goldman Sachs has predicted, to become the world's largest economy. They have followed the American lead in putting people in space and shooting down satellites with missiles. Theirs is a culture 4,000 years old with 1.3 billion people, with a huge and very talented pool to draw from. How could they not aspire to be number one in Asia, and in time the world?

The profound test that Chinese power represents for the United States and its allies including Japan and friends in the Indo-Pacific is likely to last for decades. Beijing seeks to achieve these strategic goals:

- replace the United States as the primary power in Asia;
- weaken the U.S. alliance system in Asia;
- undermine the confidence of Asian nations in U.S. credibility, reliability, and staying power;
- use China's economic power to pull Asian nations closer to PRC geopolitical policy preferences;
- increase PRC military capability to strengthen deterrence against U.S. military intervention in the region, especially regarding Taiwan;
- cast doubt on the U.S. economic model; and
- ensure U.S. democratic values do not diminish the CCP's hold on domestic power.

It is unsettling to recognize that China in recent years has made significant progress to advance some of these strategic objectives.

The United States and Japan and likeminded nations must urgently act in ways that stop this Chinese momentum and regain long term initiative in the Indo-Pacific.

Policy experts critical of these analyses will argue that China has no grand strategy. Although there may be those in Beijing who disagree with China's current strategic approach, its dominating elements are not a mystery. Chinese officials insistently argue that the U.S. alliance system in Asia is a product of the Cold War and should be dismantled; that the United States' Asian allies and friends should loosen their U.S. ties and that failure to do so will inevitably produce a negative PRC reaction; that U.S. efforts to maintain its current presence and power in Asia are dimensions of an American attempt to contain China and therefore must be condemned and resisted; that U.S. military power projection in the region is dangerous and should be reduced (while the PLA continues to build up its military capabilities with the clear objective of reducing U.S. military options, including in the context of a U.S.-China confrontation over Taiwan); and that the U.S. economic model is fundamentally exploitative and should have no application in Asia.

Not to take seriously official Chinese government statements along these lines is not to take China seriously. That Beijing does not hope to realize these policy goals in the short term does not reduce their potential undermining effect in the decades ahead. In short, if China were to achieve the policy objectives contained in these official statements, it would clearly replace the United States as Asia's leading power. If that does not represent a PRC grand strategy, what would?

At the same time, let me make clear that I do not support an effort to contain China. Indeed, the current challenge that China poses is so fundamentally different than that of the Soviet Union that the Cold War concept of Containment has little practical application to Beijing's current destabilizing policies in the Indo-Pacific and beyond. I hope politicians and experts will stop using the term Cold War regarding China. It confuses rather than clarifies.

In short, as the Biden administration has recently stressed, The U.S., Japan and others should work together not to contain China, but rather to make it systematically accountable for its actions which seek to undermine the West's vital national interests and democratic values.²

It is in this evolving economic and strategic setting that Beijing attempts to use geoeconomic measures to fundamentally alter the security situation in the Indo-Pacific to China's lasting benefit, at the expense of the United States, Japan and many others.

Geoeconomics is a transcendent foreign policy phenomenon today as nations increasingly use economic instruments rather than traditional diplomatic and military actions to pursue their tactical and strategic objectives.

However, the term geoeconomics often does not have a clear definition, even among experts.

With this in mind, in our book on the subject, *War by Other Means: Geoeconomics and Statecraft*, Jennifer Harris and I offer the following definition of geoeconomics: the use of economic instruments to promote and defend national interests, and to produce advantageous geopolitical outcomes; and the effects of other nations' economic actions on a country's geopolitical goals.³

Today, seven economic tools are suited to geopolitical application:

- 1) Trade policy, which can involve forming trade agreements to improve geopolitical ties or cutting off trade to coerce states into changing their geopolitical behavior;
- 2) Investment policy, or the use of loans and debt to finance infrastructure projects for geopolitical benefits;
- 3) Economic and financial sanctions to force geopolitical change;
- 4) Cyber-tools, when used by a state to steal intellectual property, siphon funds, or disrupt economic activity as part of a larger geopolitical agenda;
- 5) Economic assistance to influence another nation's geopolitical behavior;
- 6) Financial and monetary policy, including efforts to establish a currency as a global reserve, and to get access to favorable exchange rates to influence another state's geopolitical behavior; and
- 7) National policies governing energy and commodities, including supplies and sales to other countries to influence their geopolitical decisions.

Geoeconomics owes its modern resurgence primarily to three factors. The first is that today's major powers, especially China, use economic instruments as a crucial means to project influence and conduct geopolitical combat. The second is that, compared to previous eras, those

states most prone to economic displays of power, especially China, have vastly more resources at their direct disposal, including state-owned enterprises. Third, today's markets exert more influence than ever before over a nation's foreign policy choices and outcomes.

China's extraordinary economic growth in the past two decades has generated wealth and welfare for its citizens and stimulated the global economy. For this, Beijing is to be congratulated. But the PRC's economic surge has also produced widespread and corrosive geoeconomic consequences for the United States and Japan, and for many others. As the leading current practitioner of geoeconomics, Beijing has made foreign companies and many of China's trading partners, especially its smaller neighbors, asymmetrically dependent on China and thus reluctant to voice opposition, even when Beijing's geopolitical actions leave them disadvantaged.

As you all know, there are many examples of countries in the Indo-Pacific that revise policies, or remain silent, so as not to upset Beijing and risk loss of access to the largest economy in Asia.

A study by the Center for Global Development of 100 BRI contracts found uniquely restrictive secrecy requirements and clauses that could allow Chinese entities to influence the policies of debtor countries.

In 2016, the Sultanate of Brunei, in exchange for \$6 billion from China to develop a new oil refinery and to improve infrastructure, apparently agreed not to comment on China's construction of artificial islands in the South China Sea, and to censor journalists who criticize Beijing.⁴

In 2016, the Mongolian government apologized for the Dalai Lama's visit to Ulaanbaatar and indicated it would not again allow a visit by the Tibetan spiritual leader.⁵

Indeed, for more than a decade most EU governments have refused to meet with the Dalai Lama for fear of Chinese economic reprisal.

In 2017, after South Korea deployed a Terminal High-Altitude Area Defence (THAAD) missile defence system, China curtailed group tours to South Korea, and limited imports of certain Korean products into China.

In 2017, Beijing used BRI loans to coerce the government of Sri Lanka to sign over the port of Hambantota, which China had renovated, on a 99-year lease after the project proved unprofitable. In economic terms, Hambantota was a poor Chinese investment. Yet, in geopolitical terms, gaining a shipyard on the southern tip of Sri Lanka with access to Indian Ocean trade routes is a strategic advantage for China.

Muslim-majority countries with strong economic ties to China complained little when the PRC claimed territory in the South China Sea, and have muted their criticisms of the PRC's repressive actions toward the Uyghurs in Xinjiang.

In 2018, when a Chinese delegation visited Hanoi to warn the Vietnamese government not to

allow Spanish oil company Repsol to drill in its exclusive economic zone in the South China Sea, Vietnam ended the project, costing Repsol \$200 million.⁶

In 2018, the U.S. hotel chain Marriott and clothing outfitter Gap apologized to the PRC after the companies made reference to Taiwan as separate from the PRC.⁷

In Cambodia, Hungary and Serbia, China has essentially bought off governments through corrupt business practices and bent them toward Beijing policies.⁸

When the U.K. protested the against oppressive Chinese policies in Hong Kong, Beijing sought to punish Britain with punitive economic measures.

When Australia called for an international investigation that would study the sources of the COVID-19 pandemic, China responded with tariffs on barley and beef exports and threatened to bar PRC citizens from travel to Australia.⁹

When foreign companies recently announced that they would no longer use Chinese cotton grown in Xinjiang, Beijing promoted internal boycotts that essentially ended the companies' business in China.

And just last week in a sterling example of the PRC's "Wolf Warrior" diplomacy, the Chinese Ambassador in Dhaka warned the Bangladesh government that it would "substantially damage its relations with Beijing if it showed interest in the Asian Quad."¹⁰

More generally, China's strength in the UN General Assembly and other UN organizations is importantly based on Beijing's inherent capability to economically punish smaller nations that vote against China's policy preferences.

And, as you all know, China's use of geoeconomic tools in the past decade, including the suspension of rare earth exports and organized boycotts of Japanese cars and other manufactured goods, attempted to coerce Tokyo to change its policies concerning the Senkaku Islands.

All these examples demonstrate Beijing's use of its enormous economic weight to attempt to force nations to adopt its geopolitical preferences.

But China's geoeconomic pressure is not always successful.

Just a few years ago, China was touted as a growth opportunity for Australian businesses. Daniel Andrews, premier of the state of Victoria, attended the 2017 and 2019 Belt and Road Forums and as recently as 2018 his state published reports touting its strong relationship with the PRC and the economic benefits it had produced.¹¹

But in April of this year, Australian Foreign Minister Marise Payne invalidated a pair of Victoria's investment agreements with the PRC that were "inconsistent with Australia's foreign policy or adverse to our foreign relations."¹² In this case, China's coercion not only failed to change Australia's policies, but it also prompted the government in Canberra to step in and

reverse Beijing's previous gains.

Other countries that welcomed China's Belt and Road Initiative find themselves disappointed.¹³ As the pandemic has forced more countries to refinance their investment deals with China, these nations worry that the PRC will take advantage of their distress through "debt trap" diplomacy.¹⁴

When it was unveiled in 2015, the China-Pakistan Economic Corridor (CPEC) was heralded as a signature BRI project and a symbol of the benefits a country could reap if it signed on to BRI. Now this project faces a backlash in Pakistan and Prime Minister Imran Khan has asked Beijing to renegotiate investment terms.¹⁵

Thanks to Tokyo's efforts, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) creates a free trade area that would allow signatories to resist Beijing's economic coercion more effectively.

And there is one more incandescent example of China's failed geoeconomic coercion over a long period. I have in mind the prolonged determination of the Taiwan government and people not to succumb to relentless Chinese economic pressure to join the Mainland.

Since 2016 China has:

- 1) selectively enforced agreements with Taiwan;
- 2) made it more difficult for scholars and business leaders to work in China;
- 3) worked to push Taiwan out of the international system and reduce its diplomatic allies;
- 4) coerced foreign businesses to refer to Taiwan as part of China;
- 5) cut all official cross-strait exchanges, reduced the flow of Chinese group tours and tourists, and banned individual travel by Chinese citizens to the island; and
- 6) prevented Taiwan from participating in bodies such as the World Health Organization (WHO) and the UN International Civil Aviation Organization (ICAO).

And what has been the effect of all these intimidating PRC measures on the citizens of Taiwan? Every poll demonstrates that Taiwanese year by year are ever more resolute, ever more opposed to joining the People's Republic of China.

Indeed, this is the principal reason that the Cross-Straits situation is now so dangerous, as *The Economist* recently emphasized, "the most dangerous flashpoint between China and America."

I am reminded of the observation of my mentor, Henry Kissinger, that major diplomatic issues often are not permanently resolved. Rather a foreign policy triumph – in this case Taiwan's admirable and growing resistance to China's geoeconomics pressure – "only buys an admission *ticket* to a more difficult problem" – in this case the increasing possibility that China will use force to try bring Taiwan under its control.

Colleagues, I hope I have now prepared the way to propose twenty specific policies the United States, Japan and similarly minded countries should now employ to meet China's geoeconomic pressures.

These countries should:

- 1) Avoid efforts to get nations to refuse BRI as a matter of principle. Although some countries have turned down BRI in recent years, many developing nations need the money. Attempts to get others to reject funding will often fail, just as did the campaign to boycott China's AIIB.
- 2) Coordinate international investment campaigns with regional partners to provide viable alternatives to Belt and Road funding in strategically important areas. While the West and its partners in the Indo-Pacific cannot match the size of BRI, they can use the strength of their alliances to determine what development targets in key regions need to be met and where to direct funding. Japan's record of providing high-tech, high-quality projects that employ more local workers and have lower interest rates should be a model. The Asian Quad might also have a role here, although India will be hesitant to march forward under an anti-China flag.
- 3) Ratify and expand multilateral trade deals that exclude China. As Japan recognized when it resurrected the TPP, free trade agreements provide countries that might be vulnerable to Chinese coercion with other alternatives. The United States ought to join the CPTPP for this purpose, and, of course, China should not be invited to become a member. Other agreements, such as Japan's 2019 trade pact with the EU, should also be encouraged.¹⁶
- 4) Use the positive power of the innovation and networks of the advanced economies to attract other nations. The United States, Japan, the EU, and others cannot and should not use geoeconomic coercion as does China. Instead, our nations should focus on their strengths: technology advancement, strong economic growth, and an ability to blunt Beijing's assertions that free-market systems are inferior to state capitalism.
- 5) Begin a consultation process among allies to identify geoeconomic vulnerabilities and to design resiliency and diversification efforts to address those vulnerabilities. The pandemic revealed developed countries' reliance on Chinese manufacturing for everything from masks to auto parts, and accelerated American and Japanese efforts to move supply chain links out of China.¹⁷ Washington, Tokyo, and other partners should also reboot their alliances for offensive and defensive geoeconomic action. This should include developing a policy to ensure that if one ally suffers Chinese economic coercion, another does not take advantage by filling in behind.
- 6) Diversify supply chains through regional trade partnerships. The U.S. intention to broaden production along with international partners decreases the reliance on Chinese manufacturing and distribution and would provide greater protection against PRC coercion, sabotage, and surveillance. The successful redistribution of supply chains will significantly reduce Western strategic risk, diminish punitive Chinese trade policies, and remove a significant source of income for China.¹⁸
- 7) Create a coalition of like-minded nations who could provide direct support to countries suffering the effects of PRC geoeconomic action. Such a coalition would pool funds in

order to cover the economic costs to a particular constituency or agree to purchase goods that have been boycotted by the PRC.¹⁹ Even if payments to cover all losses is not feasible, encouraging partner nations to purchase each other's goods would strengthen solidarity and create new markets for products that are vulnerable to Chinese geoeconomic tactics.

- 8) Continue anti-dumping cases against China and WTO action against Chinese subsidies to state-run firms as well as forced technology transfers. The WTO provides an avenue for multilateral cooperation, and utilizing it strengthens a preexisting organization designed to combat economic manipulation.
- 9) Punish China's geoeconomic coercion by imposing punitive retaliatory tariffs on Chinese exports.
- 10) Help countries assess the viability and sustainability of BRI projects.²⁰ If the United States, Japan, and others cannot provide an alternative to BRI, they should do their best to ensure that countries in the Indo-Pacific and elsewhere do not enter deals that make them more susceptible to Chinese coercion. The International Monetary Fund (IMF) and World Bank and bilateral efforts by the U.S., Japan and others can serve this purpose.²¹ The United States and Japan should also help ASEAN create its own transparency initiatives that can help countries make better-informed decisions about Chinese investment, and ensure that projects adhere to appropriate financial and engineering practice.²²
- 11) Formalize mechanisms to gather information on Chinese geoeconomic practice toward companies and foreign governments and share those findings with partner countries, and with publics. Many of China's BRI contracts are negotiated in private and terms are not publicized.²³ This creates an obvious asymmetry and hinders comprehensive responses to Beijing's coercive tactics.²⁴
- 12) Enhance intelligence-sharing for Chinese cyber threats, develop stricter cyber security standards, and focus on building digital infrastructure in areas that lack it. These governments should also share knowledge of cyber threats and make developing encrypted, high-quality digital communications networks a top priority in their response to BRI.
- 13) Collaborate on viable alternatives to China's 5G technologies.
- 14) Work with India to counterbalance Chinese geoeconomic activity in the Indian Ocean region and elsewhere. Especially in the face of an increasingly assertive China, the United States, Japan, and like-minded nations benefit from India as a robust democratic power that is willing to independently balance Beijing's rising influence in Asia. The U.S. and Japan should:
 - build on existing investment partnerships with India to counterbalance Belt and Road Initiative projects;
 - advocate much more actively for India's long-pending request for membership in the Asia-Pacific Economic Cooperation (APEC) forum; and

- vigorously support India’s “Act East” policy to strengthen its power projection and influence into Southeast and East Asia.
- 15) The United States and Japan should strengthen their alliance. No other U.S. relationship approaches that with Japan in maintaining the current balance of power in Asia to deal with the rise of Chinese power, including its geoeconomics dimensions. The fact that Prime Minister Suga was the first foreign leader to visit the Biden White House shows that both countries place a clear priority on their partnership.
 - 16) The United States and Japan should substantially expand their security cooperation to encompass all of Asia.
 - 17) The United States and Japan should seek to avoid trade disputes.
 - 18) The United States and Japan should bolster cooperation with Vietnam, Australia, India, and other nations concerned with the rise of Chinese power.
 - 19) The United States and Japan should rethink some of its most basic premises about power projection and economics. They need to strengthen the many elements of geoeconomics in their foreign policies.
 - 20) The United States and Japan should increase economic assistance as a geoeconomic instrument in their foreign policies.

In implementing these policy prescriptions, the US-Japan alliance would grow stronger, and China’s capacity to geoeconomically coerce other nations would become weaker.

Let me conclude with a few remarks about the role of U.S. diplomacy in responding to Chinese policies, including its geoeconomic applications. The key to re-establish Asian stability for the period ahead is for the United States—with its allies, partners, and friends—to successfully balance Chinese power as I have discussed in this presentation, but at the same time to conduct artful diplomacy with Beijing. I repeat -- to conduct artful diplomacy with Beijing.

If there is no willingness by either the U.S. or China to take the other’s vital national interests into account, to show restraint, the road opens to sustained confrontation and perhaps even, *in extremis*, military conflict.

But such a dangerous outcome is not inevitable. It can be avoided if the political leadership in Beijing and Washington displays sustained caution in a conceptual framework with these objectives:

- construct off-ramps through diplomacy to avert confrontations over mutually incompatible vital national interests;
- avoid making subsidiary issues tests of national strength and prestige;
- compromise on less important matters;
- muzzle inflamed government public rhetoric regarding the policies and actions of the

other;

- search for areas to cooperate intensively on global governance, such as climate change, public health, the world economy, and non-proliferation;
- accept that for the foreseeable future the United States and China will have incompatible political systems and two fundamentally opposed concepts about the sources of political legitimacy and how best to organize societies; and
- reject regime change as a policy objective in word and deed.

The perilous even catastrophic alternative to this mutual accommodation between the United States and China is clear for all to see.

The United States and Japan should do everything they can to avoid these worst-case outcomes, while stoutly defending their vital national interests and democratic values.

Thank you for your attention. I look forward to your comments.

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