



**Statement Before the**

**Senate Foreign Relations Committee**

**Subcommittee on Multilateral International Development,  
Multilateral Institutions, and International Economic, Energy, and  
Environmental Policy**

***“A Multilateral and Strategic Response to  
International Predatory Economic Practices”***

A Testimony by:

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## **Introduction**

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for this chance to offer my thoughts on how the United States can respond strategically to practices in the international economy that pose a threat to U.S. interests.

Let me begin by commending the Subcommittee for highlighting—through this hearing and S.2757, the National Economic Security Strategy Act of 2018, co-sponsored by the Chairman and Ranking Member—the strategic role of economics in foreign policy and national security. Economics is often an uncomfortable topic for foreign policy experts, who prefer to leave these complex issues to finance or trade practitioners. But economic statecraft is a vital part of the diplomatic toolkit and can serve a country’s broad strategic ends—from positive ones like advancing a rules-based order to more sinister ones like coercing smaller countries to follow a larger country’s will. Enhancing understanding of “strategic economics”—America’s and other countries’—is essentially the mission statement of my program at CSIS, and I welcome the opportunity to lay out some of my thinking on the subject today.

## **Strains on U.S. Economic Leadership**

Since World War II, the United States has been the principal architect and champion of a rules-based international economic order. The order was founded on principles of market-based growth and development, free and open trade, and the rule of law. It was supported by international institutions created in the wake of world war and designed to prevent its recurrence, such as the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO). The order delivered rising prosperity across the globe unprecedented in human history.

Today, the international economic order—and U.S. leadership of it—is under stress. In the United States itself and other advanced economies, the order is viewed as having failed to deliver the kind of strong growth and shared benefits that it did in the decades following World War II. Externally, the order is under assault from new powers that are unhappy with a system of global governance established by advanced countries when the new challengers were weak.

## **The China Challenge**

Among the new powers, China poses a unique and fundamental challenge to the United States. The relationship between the two countries is complex. On one hand, they are intertwined by trillions of dollars of two-way flows of trade and investment. Total U.S.-China bilateral trade exceeds \$600 billion and, by one estimate, inbound investment supports 2.6 million jobs in the United States across a range of industries.<sup>1</sup> The United States and China also share overlapping interests in ensuring a stable, growing global economy and addressing transnational threats, from terrorism to health pandemics to climate change.

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<sup>1</sup> Wayne M. Morrison, “China-U.S. Trade Issues,” Congressional Research Service. April 16, 2018. Accessed May 07, 2018. <https://fas.org/sgp/crs/row/RL33536.pdf>.

On the other hand, the United States and China are economic competitors—and increasingly so as the Chinese economy approaches the size of America’s. Despite its nominal commitment to market-driven economics, the Chinese party-state continues to exercise a dominant role in the economy and society. Externally, China is a member of the main institutions of global economic governance, such as the WTO, World Bank, and IMF, but is dissatisfied with the balance of power in those institutions and increasingly willing to bend or break their rules to advance China’s interests.<sup>2</sup> Beijing has also begun to set up alternative institutions such as the Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB or so-called “BRICS Bank”).

Under President and Communist Party leader Xi Jinping, Beijing has slowed or reversed earlier steps toward reform and opening of its economy. It continues to restrict access to the Chinese market and to limit competition for foreign companies operating in the country through a combination of measures, from equity caps on investment to regulatory harassment. Foreign companies are often forced to surrender important intellectual property and engage in joint ventures as a condition for market access. Beijing also provides generous domestic subsidies, easy access to credit, and state-backed investment funds to support the growth of Chinese industries.<sup>3</sup> These unequal conditions have helped Beijing establish national champion firms—both state-owned and nominally private—that are increasingly competitive with U.S. firms in China and have begun to compete for market share in third countries.

Since 2015, these efforts have been guided by “Made in China 2025,” the country’s ambitious plan to capture dominant positions for Chinese producers in 10 advanced sectors, from aerospace to robotics to biotechnology.<sup>4</sup> As discussed below, the fact that China has ambitions to move up the value chain in key industries of the future is not surprising; in fact, it is a rational and legitimate goal for Chinese policymakers as they seek to improve economic outcomes and avoid the so-called “middle income trap.” The problem is the tools China is using to achieve this objective: heavy state subsidies that distort competition, forced technology transfer and outright theft from foreign companies, and restrictions on the competitive playing field in China, leading to imbalances in China’s trading and investment relationships with the rest of the world.<sup>5</sup> Made in China 2025 represents a significant challenge to U.S. economic interests; by one calculation, almost half of all U.S. manufacturing exports to China are in sectors targeted by the plan.<sup>6</sup> If China’s plans to achieve sectoral dominance outlined in Made in China 2025 depend on breaking

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<sup>2</sup> Ikenberry, G. John, and Darren Lim, “What China’s institutional statecraft could mean for the international order,” *Order from Chaos*, Brookings Institution. April 13, 2017. <https://www.brookings.edu/blog/order-from-chaos/2017/04/13/what-chinas-institutional-statecraft-could-mean-for-the-international-order>.

<sup>3</sup> Wu, Kane. “Exclusive: Chip Wars - China Closing in on Second \$19 Billion...” Reuters. April 26, 2018. Accessed May 07, 2018. <https://www.reuters.com/article/us-china-trade-fund-exclusive/exclusive-chip-wars-china-closing-in-on-second-19-billion-semiconductor-fund-sources-idUSKBN1HX191>.

<sup>4</sup> Kennedy, Scott. “Made in China 2025.” *The New Southbound Policy*. Center for Strategic and International Studies. June 1, 2015. Accessed May 07, 2018. <https://www.csis.org/analysis/made-china-2025>.

U.S. Chamber of Commerce “Made in China 2025: Global Ambitions Built on Local Protections.” March 16, 2017. [https://www.uschamber.com/sites/default/files/final\\_made\\_in\\_china\\_2025\\_report\\_full.pdf](https://www.uschamber.com/sites/default/files/final_made_in_china_2025_report_full.pdf).

<sup>6</sup> Setser, Brad, “The Rising Bilateral Deficit with China and the Negotiations Over China 2025.” *Follow the Money*. Council on Foreign Relations. May 03, 2018. Accessed May 07, 2018. <https://www.cfr.org/blog/rising-bilateral-deficit-china-and-negotiations-over-china-2025>.

the rules and distorting global trade and investment relationships, these efforts must be opposed at both national and multilateral levels.

Beijing has also pursued assertive economic policies abroad to advance its economic and geostrategic interests. Some of these efforts have been coercive, others more complex in motivation and effect. On one hand, China has leveraged its economic size and purchasing power to intimidate smaller states into pursuing policies better aligned with Chinese strategic interests. A notable example was China's attempted economic coercion of South Korea over the deployment of the U.S.-built Terminal High Altitude Area Defense (THAAD) missile-defense system in 2017.<sup>7</sup> Other countries, from the Philippines to Norway, have also been subject to Chinese coercive diplomacy in recent years.

At the same time, Beijing has launched an ambitious plan to build connectivity infrastructure across the globe under the rubric of its Belt and Road Initiative (BRI). In part this plan is designed to offload excess capacity in Chinese infrastructure-related sectors like construction, steel, and cement. Some BRI projects could produce broader economic benefits in terms of local development and expanded trade. But BRI also runs the risk of producing a dangerous rise in debt levels in vulnerable emerging economies (a warning recently echoed by IMF Managing Director Christine Lagarde)—and potentially a loss of sovereignty for the countries involved.<sup>8</sup> It was this set of risks that led former Secretary of State Rex Tillerson to coin the phrase “predatory economics” to describe Chinese practices in an October 2017 speech at CSIS.<sup>9</sup> Meanwhile, there are concerns that strategically placed ports and other infrastructure projects built under the BRI banner could become the basis for Chinese military power projection.<sup>10</sup>

## Responses to Date

Since the opening with China in 1972, the approach of successive U.S. administrations to bilateral relations has been to engage with Beijing to elicit cooperation where possible and manage competition where necessary. The Trump Administration has chosen a more confrontational approach in some areas but in practice has, like its predecessors, pursued some mix of cooperation (e.g., on North Korea) and competition (especially on trade and investment).

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<sup>7</sup> Glaser, Bonnie S., Daniel G. Sofio, and David A. Parker. “The Good, the THAAD, and the Ugly.” *Foreign Affairs*. Council on Foreign Relations. March 17, 2017. Accessed May 07, 2018.

<https://www.foreignaffairs.com/articles/united-states/2017-02-15/good-thaad-and-ugly>.

<sup>8</sup> Lagarde, Christine. “Fix the Roof While the Window of Opportunity Is Open: Three Priorities for the Global Economy.” International Monetary Fund. April 11, 2018. Accessed May 07, 2018.

<https://www.imf.org/en/News/Articles/2018/04/09/spring-meetings-curtain-raiser-speech>.

<sup>9</sup> Tillerson, Rex. “Defining Our Relationship with India for the Next Century: An Address by U.S. Secretary of State Rex Tillerson.” *The New Southbound Policy*. Center for Strategic and International Studies. October 18, 2017. Accessed May 07, 2018. <https://www.csis.org/events/defining-our-relationship-india-next-century-address-us-secretary-state-rex-tillerson>.

<sup>10</sup> Funaiole, Matthew P., and Jonathan E. Hillman. “China's Maritime Silk Road Initiative: Economic Drivers and Challenges.” *The New Southbound Policy*. Center for Strategic and International Studies. April 23, 2018. Accessed May 07, 2018. <https://www.csis.org/analysis/chinas-maritime-silk-road-initiative-economic-drivers-and-challenges>.

Recent administrations have used a range of bilateral, regional, and global tools to address economic differences between the two countries. These include:

### *Bilateral*

- Since the opening of bilateral relations, all administrations have set up some kind of formal process for managing economic differences and pursuing opportunities for deeper economic ties. There has been a succession of high-level dialogues, from the Joint Economic Commission (JEC) set up in the Reagan Administration to the Comprehensive Economic Dialogue (CED) briefly established but then suspended by the Trump Administration. These forums have involved enormous commitments of high-level U.S. government attention, and the tangible outputs have been few and far between, but the forums have served a useful purpose in building habits of cooperation and serving as a pressure valve for tensions in bilateral relations.
- The Bush and Obama administrations also devoted considerable time and energy trying to negotiate a bilateral investment treaty (BIT) with China to liberalize and create more certainty in direct investment flows between the two countries. These negotiations bogged down over a range of difficult issues and have effectively been abandoned by the Trump Administration.
- There have also been more forceful efforts to respond bilaterally to problematic Chinese economic practices, from direct pressure at the presidential level (e.g., President Obama's personal *démarche* to President Xi Jinping not to allow cyber-enabled theft of U.S. trade secrets); to blocking of sensitive acquisitions (Ant Financial-MoneyGram); to sanctions against individual companies (ZTE). These have been effective in getting Beijing's attention and arguably modifying Chinese behavior, but by their nature these interventions can only be used episodically.
- The Trump Administration has revived a number of trade remedies under U.S. law, including Section 201 safeguards, Section 232 national security provisions, and Section 301 procedures to deal with discriminatory and burdensome foreign practices. These are legitimate tools but, as discussed below, must be used judiciously to avoid causing undue harm to the U.S. economy, our allies, or the international rules-based order.

### *Global*

- Successive administrations have also worked across a range of international institutions to manage competition with China. These efforts have included the filing of trade cases at the WTO, most recently in March 2018 over China's forced technology practices. For all the flaws and delays in WTO dispute-settlement procedures, the United States has won most of the cases it has filed against China, and this remains an important part of the

economic policy toolkit.<sup>11</sup>

- Administrations have also worked through the IMF, multilateral development banks (MDBs), and less formal organizations like the G20 and G7 to shape rules and norms that, by design or effect, have worked to improve or constrain Chinese behavior in the international economy. While Beijing has chafed at the governance structure of these organizations, it has so far generally acceded to the substantive rules and procedures of existing institutions, again making these useful tools of U.S. economic statecraft.

### *Regional*

- In the region of the world where U.S. and Chinese interests most directly collide—the Asia-Pacific (the Trump Administration prefers to use the term “Indo-Pacific”)—U.S. policy over the past several administrations has been focused on promoting trade and investment liberalization and establishing rules and norms that were partly designed to shape Chinese economic behavior.
- Since 1989, the Asia-Pacific Economic Cooperation (APEC) forum has been the principal venue for advancing these objectives. APEC’s non-binding, consensus-based approach to decision-making can be tedious and deliver few tangible short-term results, but the forum has resonance in an Asian context and has proven over time to play a useful role in promoting U.S.-preferred norms.
- At the heart of Asia-Pacific—and effectively China—economic strategy in both the Bush and Obama administrations was the Trans-Pacific Partnership (TPP). This mega-regional trade agreement brought together 12 Asia-Pacific countries representing 40 percent of global GDP to slash tariffs and non-tariff barriers to trade and establish high-standard rules to govern the regional trading system in important areas such as the digital economy, state-owned enterprises, and labor and environment standards. As I have argued before, TPP had a powerful effect on Chinese thinking about its own economic strategy—mostly a positive effect from a U.S. perspective.<sup>12</sup> But TPP became the victim of a contentious U.S. presidential election in 2016 and—in one of the most consequential (and in my view ill-advised) policy decisions of his presidency—President Trump withdrew from the deal on his third day in office.

### **Key Elements of Successful Economic Statecraft**

Individually these bilateral, global, and regional approaches by recent administrations have been more or less effective, as discussed above. Missing so far in the Trump Administration’s approach is a comprehensive international economic strategy that would have a broader effect in

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<sup>11</sup> Bown, Chad P. “Is the WTO One of Trump's 'big Quagmire Deals'? Here's What's at Stake.” *The Washington Post*. February 28, 2017. Accessed May 07, 2018. <https://www.washingtonpost.com/news/monkey-cage/wp/2017/02/28/is-the-wto-one-of-trumps-quagmire-deals-heres-whats-at-stake>.

<sup>12</sup> Goodman, Matthew P. “Chapter 2: Going on the Offensive.” *Meeting the China Challenge: Responding to China's Managed Economy*. January 2018. Accessed May 7, 2018. [https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180126\\_Lewis\\_MeetingChinaChallenge\\_Web.pdf?ccS38O06FR8XG\\_yUn7GS1YrJXOTCzkIM](https://csis-prod.s3.amazonaws.com/s3fs-public/publication/180126_Lewis_MeetingChinaChallenge_Web.pdf?ccS38O06FR8XG_yUn7GS1YrJXOTCzkIM).

shaping Chinese actions in a way favorable to U.S. interests. What follows are, in my view, some of the key elements of an effective strategy.

*Fact-based analysis*

Smart economic strategy starts with cool-headed analysis of the challenges and opportunities that face the United States. There has been a tendency among Washington analysts recently to dismiss the benefits of economic engagement with China over the past 40 years and to exaggerate the current threat.<sup>13</sup> The fact is that the United States has seen enormous benefits economically from the rise of 600 million Chinese to the middle class and from the trillions of dollars of trade and capital that now flows between the two countries. To be sure, these aggregate benefits have come with distributional costs for many American workers and communities; and, as enumerated above, many Chinese economic policies and plans today are deeply problematic for U.S. interests.<sup>14</sup> But this is no excuse for revisionist history that brushes past the undeniable benefits of U.S.-China economic engagement over the past four decades, or the continued opportunities in the relationship today.

We should also be careful not to view all aspects of Chinese economic strategy as equally threatening to U.S. interests. China has reached the limits of a 40-year-old development model based on low-value-added production. As mentioned earlier, it is no surprise that it wants to move up the value chain or has plans to succeed in new industries such as electric vehicles and advanced biotechnology. The problem is not so much *what* Beijing is doing as *how* it is doing it—via subsidies, forced technology transfer, restrictions on competition, and other discriminatory policies. Rather than signaling opposition to China’s development objectives, the United States should be focused on forcing China to abandon or modify its problematic policies and to level the playing field for American companies.

Moreover, China is not as capable or coordinated as it appears to many outsiders, and it is far from certain that Beijing will be able to pull off its ambitious plans. The country faces an array of daunting challenges, from managing escalating debt to staving off environmental catastrophe. China needs to pull off the rare feat of breaking out of the middle-income trap while dealing with a rapidly aging population.<sup>15</sup> As CSIS documented in a report a few years ago, the Chinese government is notoriously compartmentalized and uncoordinated, both among central ministries and between Beijing and local levels of government.<sup>16</sup> Xi Jinping’s attempt to assert greater

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<sup>13</sup> Campbell, Kurt M., and Ely Ratner. “The China Reckoning: How Beijing Defied American Expectations.” *Foreign Affairs*. Council on Foreign Relations. February 28, 2018. Accessed May 07, 2018. <https://www.foreignaffairs.com/articles/united-states/2018-02-13/china-reckoning>.

<sup>14</sup> Autor, David H., David Dorn, and Gordon H. Hanson. “The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade.” National Bureau of Economic Research. University of Chicago Press. January 2016. Accessed May 07, 2018. <http://www.nber.org/papers/w21906>.

<sup>15</sup> “China 2030: Building a Modern, Harmonious, and Creative Society.” Development Research Center of the State Council, the People’s Republic of China. The World Bank. 2013. Accessed May 7, 2018. <http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>.

<sup>16</sup> Goodman, Matthew P., and David A. Parker. “Navigating Choppy Waters: China’s Economic Decisionmaking at a Time of Transition.” CSIS Simon Chair in Political Economy. Center for Strategic and International Studies. March 2015. Accessed May 7, 2018. [https://csis-prod.s3.amazonaws.com/s3fs-public/legacy\\_files/files/publication/150327\\_navigating\\_choppy\\_waters.pdf](https://csis-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/150327_navigating_choppy_waters.pdf).

party control of economic affairs may produce better coordination of policy, but it is likely to come at the expense of lost initiative and slower progress toward its development goals.

None of this is an argument for complacency; the challenges are real. But a U.S. strategy based on the premise that almost everything China does is a threat—or is bound to succeed—is itself likely to fail. Not only will we squander opportunities to serve a growing market of 1.4 billion consumers, or to win Chinese cooperation on shared concerns like terrorism and climate change, but we are also likely to target the wrong risks and fail to counter the ones that really matter. The Obama Administration’s handling of the AIIB launch in 2015 is a case in point: by implying that the United States was outright opposed to the initiative and working to kill it, the Administration turned the spotlight back on U.S. behavior rather than on legitimate governance and operational questions about the new bank. Similarly, if the Trump Administration gives the impression that its “free and open Indo-Pacific” strategy is primarily designed to counter China’s Belt & Road Initiative, the United States will “lose the room,” since most developing countries in Asia and beyond want—or at least feel they *need*, in the absence of alternatives—Chinese-financed infrastructure. Instead, we should be focused on specific concerns like debt sustainability and procurement practices that disadvantage competitors to Chinese companies abroad, to the detriment of recipient countries as well as the United States.

#### *Playing offense and defense*

In addition to being based on clear-eyed analysis, a successful economic strategy must contain both offensive and defensive elements. Every baseball fan knows that winning consistently requires both great pitching and great hitting. As suggested earlier, there is a worrisome tendency in Washington to focus primarily on threats and the defensive policies needed to ward these off, potentially missing opportunities and imposing costs on our own interests that outweigh the benefits.

The United States certainly needs to defend our interests against harmful foreign policies and practices, including by China. This includes “protecting the crown jewels,” i.e., ensuring that critical assets and technology are not lost to strategic rivals through acquisition or cyber-enabled theft. Among other things, this means we need a Committee on Foreign Investments in the United States (CFIUS) that has the resources and analytical tools to screen out foreign investments that genuinely threaten national security. The bipartisan bill submitted last fall by Senator Cornyn (R-TX) and others—S.2098, the Foreign Investment Risk Review Modernization Act (FIRRMA)—is appropriately motivated by this objective. But it is important to avoid broadening the scope of CFIUS review so wide that it creates two unintended consequences: first, overloading the process with thousands of cases that causes CFIUS to miss the most serious threats to national security; and second, having a chilling effect on foreign direct investment more broadly, which has been an overwhelmingly positive force for growth and employment in the United States.

Also on the defensive side of the ball, Washington needs to brush Beijing back when it pursues economic policies that harm our interests or damage the rules-based order. We should use all legitimate tools available—U.S. trade remedies; WTO dispute settlement procedures; tough, results-oriented bilateral negotiations—to protect our economic interests and defend a rules-



based order that has served us well for 70 years. But again, we need to be smart about how we do this, spending our time and political capital on foreign practices that are most harmful to long-term U.S. interests. This means targeting Chinese government subsidies, forced technology transfer, and restrictions on competition that, as discussed above, bolster the Made in China 2025 plan. By contrast, trying to reduce the bilateral trade deficit through large Chinese purchases or export restraints is likely to produce at best temporary gains as long as deeper macroeconomic forces remain at play; at worst, it will create further distortions in the global system that could potentially harm the United States and our allies.

Second, we need to use the right tools—and use them judiciously. Unilateral tariffs are likely not only to impose heavy costs on our consumers and downstream businesses, but also to violate our international obligations, do harm to the rules-based order, and punish key allies like Japan and the European Union that are critical to addressing a shared challenge from China.

This leads to the other side of an effective economic strategy: smart offense. The United States needs a positive economic agenda that pulls allies and partners into collaborative work to promote growth around the world, open markets, and create high-standard rules of the road for the international economy. Working with like-minded countries in this way helps spread U.S.-preferred rules and norms and offers an alternative to the more statist Chinese approach. This was the organizing principle behind TPP and the Transatlantic Trade and Investment Partnership (TTIP), two mega-regional trade deals pursued by the Obama Administration but effectively abandoned by President Trump early in his term.

In the absence of initiatives like TPP and TTIP, the United States needs to find other tools on the offense side of the strategic economic game. The Trump Administration is on the right track in calling for a “free and open Indo-Pacific” (FOIP) in that critical part of the world. While still missing many details—including a credible trade strategy to replace TPP—the FOIP initiative contains two promising strands: creating alternative financing mechanisms to China’s largesse in the region through BRI; and working in the World Bank, Asian Development Bank (ADB), and other multilateral institutions to promote high-quality infrastructure investment. The former has taken shape in the form of efforts to create a new Development Finance Corporation (DFC) with more resources and authorities (e.g., to take equity positions in large projects). The latter has been boosted by the Administration’s recent decision to support a capital increase at the World Bank. Both of these strands of work should be supported and extended.

Two other areas for further work include pulling China into international arrangements that would help to constrain their problematic behavior. China is not a member of the Organisation for Economic Cooperation and Development (OECD), the club of advanced economies that agrees on codes of conduct in areas such as export credits and non-corrupt practices. These codes are not binding on members but use moral suasion to create a more level playing field in the international economy. Whether by pulling China into the OECD or extending these disciplines through other means, China’s practices in these areas could be brought in better alignment with international norms.

China is also not a member of the Paris Club, the informal gathering of creditor countries to coordinate solutions to payments problems by debtor nations. As mentioned earlier, concerns have been mounting about the sustainability of debt burdens in certain low-income and emerging countries that have been targets of Chinese largesse, including through BRI. Beijing has resisted signing on to well-established rules of the road when it comes to avoiding unsustainable lending and addressing debt problems when they arise,<sup>17</sup> including joining the Paris Club. Membership would require China to share information, including on financing terms, with other Paris Club members, as well as grant “comparability of treatment” with all bilateral creditors. It would also demonstrate China’s willingness to play by the rules rather than seek advantage at the expense of debtor nations and other official creditors.

*Whole of government, whole of nation*

Smart economic statecraft draws on all the resources of the U.S. government—and beyond. This begins with the President, who must put a visible priority on the strategic economic dimension of foreign policy and national security, including through a Presidential Policy Directive or equivalent statement. He should task the National Security Council and National Economic Council—working seamlessly together, including through co-reporting lines of relevant senior officials—with establishing a robust interagency process for development and implementation of an international economic strategy. They should pull in all relevant agencies—not just ones with an obvious economic focus like Treasury, Commerce, and Office of the U.S. Trade Representative, but also the State Department, which is a key player in economic diplomacy.<sup>18</sup> And of course the White House needs to have robust processes for coordinating with Congress on these issues.

It is not just the Federal government that needs to contribute to a successful economic strategy. Washington needs to do more to coordinate with states and cities, which are most directly impacted by both the opportunities and risks of economic ties with China. Washington also needs to leverage the private sector better, for example in shaping an effective response to BRI.

*Rebuilding domestic foundations*

Finally—and arguably more important than another element—we need to invest in ourselves. A strong, competitive economy is the essential foundation for a successful international economic strategy. We need to rediscover the winning formula that brought us such success in the postwar period: modern infrastructure, education and skills training to prepare workers for the new economy, and investment in basic research and development critical to leadership in industries of the future.

At the moment we are failing in all these areas. As other nations race ahead to build new infrastructure, ours remains vastly underfunded and continues to deteriorate. A McKinsey report

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<sup>17</sup> Hurley, John, Scott Morris, and Gailyn Portelance, “Will China’s Belt and Road Initiative Push Vulnerable Countries into a Debt Crisis?” Center for Global Development. March 05, 2018. Accessed May 07, 2018. <https://www.cgdev.org/blog/will-chinas-belt-and-road-initiative-push-vulnerable-countries-debt-crisis>.

<sup>18</sup> Goodman, Matthew P. “Downgrading State’s Economic Diplomacy.” The New Southbound Policy. Center for Strategic and International Studies. June 29, 2017. Accessed May 07, 2018. <https://www.csis.org/analysis/downgrading-states-economic-diplomacy>.

from June 2016 estimated that the United States would need to invest more than \$150 billion per year between 2017 and 2030 to meet the country's infrastructure needs.<sup>19</sup> Meanwhile, we stand near the top of the OECD in terms of education spending per student, yet ranked 19<sup>th</sup> in the 2015 PISA rankings of performance in science, reading, and mathematics.<sup>20</sup> And while our private sector fuels the bulk of R&D investment in the United States, as a nation we commit the equivalent of just 0.6 percent to R&D through public spending, less than many other similarly developed nations.<sup>21</sup>

These are areas where CSIS plans to do more work in the period ahead, in an effort to help rebuild domestic support for our international economic engagement.

### **The Role of Congress**

Congress has an important role in crafting and executing a successful international economic strategy. S.2757, co-sponsored by the Chairman and Ranking Member, is a good start. It accurately diagnoses the challenges faced by the United States in the international economy and outlines many of the key elements of a successful strategy. In line with my earlier points about playing both offense and defense, it is important in my view for Congress to ensure that the executive branch, in developing its plan, keep an eye on both threats *and* opportunities in the international economy.

There are other ways Congress can help. First, the U.S. government must be adequately resourced to support an effective economic statecraft. This means sustaining funding not only for economic agencies like the Treasury and Commerce departments and USTR, but also for the lead agency under this Committee's jurisdiction: the State Department. As I have written before, State brings something unique to the U.S. government's international economic policymaking, what I call "reach"; no other agency is present in over 190 countries around the world and able to operate across countries and societies.<sup>22</sup>

Resources also mean people, and the Senate would contribute to an effective economic statecraft by acting as expeditiously as possible to confirm senior officials to key undersecretary, assistant secretary, and ambassadorial positions in the U.S. government; key vacancies at present include

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<sup>19</sup> Woetzel, Jonathan, Nicklas Garemo, Jan Mischke, Martin Hjerpe, and Robert Palter. "Bridging Global Infrastructure Gaps." McKinsey Global Institute. McKinsey & Company. June 2016. Accessed May 07, 2018. <https://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/bridging-global-infrastructure-gaps>.

<sup>20</sup> "PISA 2015: Results in Focus." Organisation for Economic Co-operation and Development. 2018. Accessed May 7, 2018. <https://www.oecd.org/pisa/pisa-2015-results-in-focus.pdf>.

<sup>21</sup> Boroush, Mark. "U.S. R&D Increased by \$20 Billion in 2015, to \$495 Billion; Estimates for 2016 Indicate a Rise to \$510 Billion." National Center for Science and Engineering Statistics. National Science Foundation. December 14, 2017. Accessed May 07, 2018. <https://www.nsf.gov/statistics/2018/nsf18306/>.

<sup>22</sup> Goodman, Matthew P. "Downgrading State's Economic Diplomacy." The New Southbound Policy. Center for Strategic and International Studies. May 07, 2018. Accessed May 07, 2018. <https://www.csis.org/analysis/downgrading-states-economic-diplomacy>.

the Under Secretary of State for Economic Growth, Energy, and the Environment, and the ambassadors to South Korea, Australia, Saudi Arabia, and South Africa.<sup>23</sup>

Congress can also ensure that the other unilateral and multilateral financial tools the United States has in its economic toolkit are fully supported and resourced. We will not be able to compete with China's economic statecraft unless we have fully functioning agencies like the U.S. Agency for International Development (USAID), the U.S. Trade and Development Agency (USTDA), the Overseas Private Investment Corporation (OPIC), and the U.S. Export-Import Bank (EXIM). To be clear, the combined financial firepower of these agencies will never match the trillions of dollars that China is promising to spend through initiatives like BRI. But competing in economic statecraft is not just a function of money; when added to the first-class products and services, non-corrupt practices, and capacity building that American companies bring to their international operations, relatively small amounts of financing from agencies like OPIC and EXIM can produce a winning formula.

Against this backdrop, Congress can also give a boost to U.S. economic strategy through expeditious approval of relevant legislation, including S.2463, the Better Utilization of Investments Leading to Development (BUILD) Act, as well as sensible reforms of CFIUS and the export-control regime. Early approval of the capital increase at the World Bank would also strengthen an important multilateral source of leverage for the United States, including in supporting U.S. efforts in the infrastructure competition in Asia.

Finally, in my view it will be important for Congress to fully assert its constitutional authority over trade in the period ahead. The current administration has worrisome protectionist tendencies that risk doing harm to our economic and diplomatic interests, and it has yet to lay out a coherent trade-negotiating strategy. While supporting a tough line on China's bad behavior in the trade arena, Congress can insist that the administration not do damage to our international obligations or our alliances, and that it come up with a comprehensive and credible trade strategy to open markets and strengthen international rules.

## **Conclusion**

Again, I commend the Subcommittee for shining a light on problematic practices in the international economy today and on the role of "strategic economics" in foreign policy and national security. With the right analysis, tools, and resources—and confidence in our position—the United States can develop and implement an effective economic strategy in response to these challenges.

I thank you for the opportunity to offer my thoughts and look forward to answering Members' questions.

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<sup>23</sup> "Trump Nominations Tracker: See Which Key Positions Have Been Filled so Far." *The Washington Post*. Accessed May 07, 2018. [https://www.washingtonpost.com/graphics/politics/trump-administration-appointee-tracker/database/?utm\\_term=.4d8dcfef0840](https://www.washingtonpost.com/graphics/politics/trump-administration-appointee-tracker/database/?utm_term=.4d8dcfef0840).