

China's Economic Rise amid  
Renewed Great Power Competition,  
America's Strategic Choices

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What are the economic concerns about China's rise and why do these concerns matter for the United States? Furthermore, what are the implications for relations with Beijing? These are timely, important questions now dominating public discourse in the United States, yet they are not new questions.<sup>1</sup> Similar questions were asked by Congress at the time of China's accession to the World Trade Organization (WTO). Then, objections largely centered on granting WTO accession to a communist, non-market economy with cheap subsidized labor that would presumably dump goods and commodities into the U.S. market, in addition to China's poor record on human rights. Yet, after much heated debate, China entered the WTO on December 11, 2001, and Congress granted China permanent normal trade relations with the United States.<sup>2</sup> This decision was consistent with the prevailing post-Cold War thinking.<sup>3</sup>

Economic engagement was part of the larger post-Cold War effort led by the United States to usher in a new era of globalization with expectations that engagement would spur transformation in China; that it would lead to liberalizing economic reforms. China's deepening economic relationship with the United States and integration into global markets would, according to prevailing thought at that time, promote China's abandonment of state-directed planning, subsidies for state-owned enterprises, and protectionist practices, and in turn, lead to adoption of greater reliance on market mechanisms and strengthened rule of law. The expectation was that accelerated economic growth and the emergence of a burgeoning middle class would give rise to demands for democratizing political reforms, much like what other Asian countries experienced in the 1980s and 1990s.

Michael Green, senior vice president for Asia at the Center for Strategic and International Studies (CSIS), describes the broader strategic context as conveyed to him by Joseph Nye, a Harvard professor and one of the architects of strategy in the Clinton administration. "The United States would 'engage and balance,'" Nye explained, bringing China into the World Trade Organization but discouraging revisionist behavior on China's part by revitalizing the U.S.-Japan alliance."<sup>4</sup> Engagement was not a naïve or foolish blunder, nor was it in retrospect, a mistake. It was bold, optimistic, and consistent with American post-Cold War attitudes, and ultimately proved to be an important test of whether a policy of open engagement would induce the leadership of the Chinese Communist Party to embark on a path of substantive reform.<sup>5</sup>

American ideals coupled with the commercial self-interest of American business and industry drove the policy of engagement, and even after the 1989 massacre of student protesters at Tiananmen Square, sustained momentum for China's accession into the WTO. Despite China's known unfair trade practices, it was thought that problems would eventually disappear as China adopted rules and norms as conditions of its accession to the WTO while deepening its integration into the global trading system. Yet, despite this strategy of engagement, China has not implemented expected substantive structural reforms consistent with the spirit, if not the letter, of its WTO obligations.

Over the past 18 years, China has become much wealthier and more powerful by exploiting the open global system of trade and investment while adhering to a statist, mercantilist-Leninist<sup>6</sup> approach to its economy and governance.<sup>7</sup> Chinese Communist Party (CCP) leaders from Deng Xiaoping to Xi Jinping, allowed a greater role for market forces when perceived to be in the party's interest, but consistently viewed the primary purpose of economic policy and activity as merely another means of enhancing the legitimacy of one-

party rule under the CCP in addition to strengthening the power of the Party rule over and above all other Chinese actors. Maintaining a monopoly on domestic political power — by all means necessary — has been the primary imperative for CCP leaders since 1949. They have consistently sought to enhance CCP legitimacy through state-directed economic success while maintaining Party control of the military and suppressing any challenges or threats to Party primacy. At the opening of the 19<sup>th</sup> Party Congress in October 2017 this goal was explicitly stated by Xi Jinping: “government, the military, society and schools, north, south, east, and west — the party leads them all.”<sup>8</sup> While there were reform efforts during the 1990s as China sought WTO accession, those efforts slowed following China’s accession into the WTO. Xi has now, arguably, accelerated the trend away from reform. Furthermore, Xi’s approach is entirely consistent with his predecessors’ in that there has always been unequivocal recognition that full economic liberalization would be incompatible with authoritarian, one-party rule.<sup>9</sup>

American optimism that engagement would drive structural economic reform in China has now clearly collided with the CCP regime’s strategy of reaping benefits from open access to markets and investment while keeping sectors of its economy relatively restricted or closed, in effect, a policy of partial disengagement. Over the past 18 years, optimism has yielded to pessimism. Initially, American public opinion of China following its accession to the WTO largely remained positive but never reached levels seen prior to the Tiananmen Square crackdown.<sup>10</sup> However, during the second term of the Obama administration, public opinion shifted to preponderantly negative. Pew Research Center polling conducted August 13, 2019 found 60% of Americans have an unfavorable opinion of China. This is a 13% increase in unfavorable opinion from 2018 to 2019, marking the largest 12-month shift in public opinion since the Tiananmen Square massacre.<sup>11</sup> American business and industry, the most avid supporters of engagement with China, have also become more pessimistic. This growing pessimism is reflected in the annual surveys issued by the American Chamber of Commerce in China. These companies have grown more frustrated over time with China’s market restrictions and intellectual property theft.<sup>12</sup> In fact, prompted by the complaints from American business, the United States brought 23 cases to the WTO against China for dispute resolution from 2004-2018 — of these, 19 originated during the administrations of George W. Bush and Barack Obama.<sup>13</sup>

Yet, in the face of favorable rulings in nearly all the resolved cases, market distorting subsidies, theft of intellectual property, and unfair tax and regulatory treatment of foreign competitors in the Chinese market, have not abated. The inability of the WTO to effectively address these concerns has now resulted in a more general alignment of views in the United States that it is time to take a tougher approach to China, that engagement and reliance on WTO dispute settlement alone are insufficient in dealing effectively with a non-market economy of this size. The administration of Donald Trump, recognizing the growing consensus that a stronger approach to China was needed, began using escalating tariffs and targeted sanctions in hopes of unilaterally coercing the CCP regime to commit to opening its market to fair competition, eliminating subsidies and preferential treatment of state-owned enterprises, and stopping the theft of intellectual property and the requirement of technology transfer as a condition for participation in the Chinese market. This approach was predicated on Beijing acquiescing quickly in the face of unilateral coercion by the United States. But these tactics do not appear to be politically sustainable for the United States, nor are they likely to be successful in driving real change in China. Limits to this plan

became starkly evident in the aftermath of the breakdown in negotiations in May 2019. It remains unlikely that an agreement achieving a significant degree of structural reform is achievable solely through unilateral pressure by the United States, despite an agreement to resume negotiations made at the June 2019 G20 meeting in Osaka.<sup>14</sup> Further limitations on this approach derive from slower global economic growth and the negative impact on key sectors of the American economy resulting from the tariff war.<sup>15</sup> These limitations, along with the lack of consensus within the Trump administration on whether to back away from the trade war to get a “great deal” or pursue it more vigorously, have led to confusion and some division over American support for a tough stance on China. Members of Congress are concerned about the mounting economic damage resulting from tariffs and are seeking alternative, more effective means of keeping pressure on China. A sustainable long-term strategy is needed to avoid either merely accepting the status quo ante, or the alternative of worsening economic headwinds from escalation of the tariff war. But neither approach achieves the goal of meaningful reform in China.

## The Growing Complexity of the Challenge

Prevailing pessimism and frustration over the trajectory of U.S.-China relations can be partly attributed to the fact that a succession of CCP leaders have carried out a consistent grand strategy in the face of American strategic intransigence, which now seems to border on strategic incoherence. The failure of the United States to properly consider this bilateral relationship within the context of the broader strategic environment emerging after the Cold War can be viewed only as a profound policy failure, especially with respect to formulation of foreign economic policy and steady application of economic statecraft. American policymakers, as with any great power competition in a time of transition, must fully assess the nature of the competition within the strategic environment, and the nature of primary competitors and their respective strategies.

### Assessment of China as a Primary Competitor

Since 1949, the primary imperative for the Chinese Communist Party has been to maintain its monopoly on domestic power. It has sought to do so by seeking legitimacy through economic success, achievement of national aspirations, and suppression of any threats to the Party and its leadership hierarchy. Under the leadership of Deng Xiaoping, China began an intense period of industrial, technological, agricultural, and military development under the watchful eye of the CCP.<sup>16</sup> For a quarter century, China focused mostly on internal economic development and military modernization under Deng’s original notion that the country would “hide its power and bide its time.” Deng and his immediate successors sought to extract the benefits of economic engagement while preventing changes they believed to be dangerous or destabilizing to the CCP’s monopoly of power.

Xi Jinping’s ascension to chairman of the Party and head of state has been marked by his consolidation of power, strengthened authoritarian reach of the Party, and more aggressive policies abroad. China’s foreign policy appears aimed at weakening the security alliances of the United States in the Asia-Pacific region and using all the tools of economic statecraft to assert Chinese power.<sup>17</sup> Four basic elements of Chinese international strategy are now emerging in the Xi Jinping era.<sup>18</sup>

The first element of this strategy is to retain control of the economy through a fusion of central planning with allowance for market forces under careful control by the CCP. The CCP and the state apparatus that it controls, maintain dominance over the economy. Xi has made explicit and bolstered this system of mercantilist-Leninism<sup>19</sup> by placing Party members in key positions in every important organization and business, whether foreign or domestic, to ensure Party control. Building off of past protectionist and mercantilist trade practices used to amass domestic wealth, the party-state continues to precondition market entry upon transfer of technology<sup>20</sup> and intellectual property to Chinese state-owned enterprises. These state-owned enterprises are also given preferential advantage in a Chinese market that remains restricted or closed to outside investment in a number of sectors. The goal of the regime is to create national champions in key sectors that monopolize the Chinese domestic market while seeking to build dominance in the international market. The CCP regime has persistently condoned the acquisition of intellectual property illicitly through a variety of traditional and cyber means. One recent report describes how eight of the world's biggest technology service providers were hacked by Chinese cyber spies connected to the Chinese Ministry of State Security in an elaborate multi-year invasion.<sup>21</sup> The economic cost to the United States alone is thought to be hundreds of billions of dollars per year.<sup>22</sup> To further bridge the innovation gap, Beijing is directing ever more resources into research and development in strategic sectors, seeking to create national champions that will play a dominant role in the global economy. The Chinese government's investment in R&D has been averaging 18% per year. If this trend persists it will likely exceed U.S. R&D expenditures by the year 2030.<sup>23</sup> Chinese investment in new advanced technologies including quantum computing, artificial intelligence, and 5G capabilities, coupled with the blurred lines between purely civilian or commercial use and military use, add to China's existing hard and sharp power capabilities.

The second element of China's new international strategy is the buildup of hard power. In recognition of the vulnerability associated with China's historical role as a continental power, CCP leaders have sought to enhance its air force, to build a blue water navy, and to develop joint operational capacity. China's space, cyber, and nuclear forces are world class. China's land reclamation in the South China Sea and construction of military facilities there are a well-known part of a broader strategy of hard power projection. To further its maritime power projection, China has been expanding port access along the Indian Ocean.

The third element of Xi's international strategy is the launch of the ambitious Belt and Road Initiative whereby China seeks to lead broad integration in Eurasia through infrastructure projects, development assistance, foreign aid, and expanded trade and investment.<sup>24</sup> This is a long-term strategy designed to further build Chinese economic power and position China at the center of developing institutions, rules, and standards throughout Eurasia and along sea routes connecting Asia and Europe. This strategy builds off of China's dominant position as the major trade partner with most countries in the Asia-Pacific region. Notwithstanding the challenge of implementation, other countries in the region will have difficulty gaining leverage because of the absence of significant alternative sources of capital.

In 2016, China opened the Asian Infrastructure Investment Bank (AIIB) to further its influence. This bank is, arguably, the first step by China to create an alternative to the Bretton Woods institutions developed under American leadership. This step, coupled with the Belt and Road Initiative, is part of China's carefully orchestrated attempt to create an expanded

platform for international transactions in *renminbi*. If successful, these new policies will give CCP leaders more monetary tools to manage their currency as they diversify from holdings of U.S. Treasuries. These initiatives further Beijing's strategy to create an alternative or parallel economic order to the one constructed by the United States after World War II.

The fourth element of Xi's international strategy involves the use of what has been described as "sharp power."<sup>25</sup> In contrast to soft power, sharp power is more intrusive and coercive, yet diffuse, making it less attributable to the state.<sup>26</sup> Sharp power has been used to soften and mold opposition to Chinese interests, often employing censorship and informal sanctions. Examples include cutting off exports of rare earth metals to Japan when Japan arrested a fishing boat captain, reducing Chinese tourism in Taiwan after the election of Tsai Ing-wen, and imposing unofficial sanctions against South Korea when it decided to deploy the U.S. Terminal High Altitude Area Defense (THAAD) missile defense system.<sup>27</sup> Beijing has also sought influence through foundations connected to the CCP that fund think tanks and academic programs.<sup>28</sup>

Xi has used his anticorruption campaign to counter domestic opposition while playing upon nationalist sentiment in order to consolidate both his position as chairman of the CCP, and the Party's grip on all elements of Chinese society. The regime is intent on avoiding the fate of the Soviet Communist Party domestically and the Soviet Union internationally. Chinese strategists believe that adherence to mercantilist-Leninism avoids the economic and political mistakes made in Moscow, while offering a superior development model to that of the United States. Beijing appears determined to replace the United States as the dominant military, economic, and political power throughout the Indo-Pacific and to impose its influence globally using a coordinated strategy of economic statecraft combined with other instruments of power.

### **Nature of the Competition**

The growing intensity of competition between the United States and China is not occurring in isolation from the respective economic relations these two major powers have with other countries. Reactions of these other countries to the rivalry will matter. Furthermore, this competition has been building within the existing international order and its institutions governing international trade, investment, and monetary affairs. These are institutions that are proving to be ill-equipped to deal with this divergence over standards for governance, dispute settlement and myriad other issues, an inevitability in a system designed for market economies that is now also dealing with nonmarket economies. This is one reason for the impasse over efforts to reform the WTO. The liberal international order, developed and guided by American leadership, was highly successful in promoting trade and investment worldwide, yet it has been under mounting strain since the 1970s due to the rise of a variety of nontariff barriers, newer forms of protectionism, and the rapid development of technology, all of which require consensus on standards among market economies. In the absence of such convergence on standards, the liberal economic order is at risk of devolution into one dominated by economic nationalism, rising protectionism, and greater security risks.<sup>29</sup>

China's integration, along with other nonmarket economies, into a system poorly designed to accommodate countries committed to nonmarket practices, has compounded this problem, further eroding the consensus required to sustain the liberal economic order.

The size of China's market, its commitment to mercantilist-Leninism, and its assertive actions to challenge international standards underpinning the liberal economic order, have accelerated the breakdown of that order. It is now increasingly one characterized by rising economic nationalism and proliferation of protectionism. In the aftermath of two world wars and resulting economic devastation, the United States provided enlightened leadership and built a consensus that allowed for development of a rules-based liberal economic order.<sup>30</sup> The legitimacy of American leadership is closely linked to this rules-based liberal economic order, a system now at risk.<sup>31</sup> Without American leadership, consensus around this liberal economic order risks lapsing into one of intensifying economic nationalism and protectionism.<sup>32</sup> American foreign economic policy, as implemented by the Trump administration, has veered sharply toward economic nationalism in reaction to these developments in the international political economy, further weakening the fabric of international consensus needed to effectively address all these challenges.

In circumstances where persistent differences exist between major powers precluding the development of consensus on significant issues in international relations, the remaining mechanism to reconcile power and peaceful relations is balance of power.<sup>33</sup> China's status as a major power with the gravitational pull of its market, its commitment to a mercantilist-Leninist system, and its increasingly assertive challenge to established standards of the liberal economic order, is essentially a competing view with that of the United States and other liberal market democracies. It portends that balance of power dynamics will likely determine the distribution of power for the foreseeable future. American policymakers must recognize that either isolationist policies or attempts to unilaterally coerce other market economies by means of indiscriminately broad use of tariffs and sanctions, risks souring relations with advanced market economies in Europe and Asia, many of which also have China as a leading trade and investment partner. This would unnecessarily give advantage to China, as CCP leaders seek to enhance investment and trade with these countries while expanding influence through foreign aid, infrastructure investment, and trade relations with developing economies, with the ultimate purpose of shaping the balance of economic power away from the United States.

Great power competition driven by the rivalry between the United States and China is clearly underway as the balance of power is shifting. Paul Kennedy, in his review of great power competition over the past five hundred years, developed several observations relevant to circumstances now.<sup>34</sup> First, change in power is driven by economic and technological developments which then have bearing on social structures, military power, and the relative power of states. Economic power is the foundation of all other power, consequently affecting the balance of power. Second, different regions and societies experience faster or slowing growth depending not only on shifting patterns of technological innovation, trade, and production, but also on their receptivity to new modes of increasing output and wealth. Capital formation, investment, and technological innovation have direct bearing on relative power. Third, major shifts in military power follow alterations in economic growth, which in turn, are highly dependent on technological innovation. In summary, where no one power is hegemonic, the balance of economic power will be the dominant factor driving the overall balance of power. Since the United States is not in a position to exert hegemonic power over China, policies that shape a favorable balance of economic power are imperative elements of strategy for what will be a protracted challenge in managing relations with China for the foreseeable future.

The full effect of China's rapid economic rise must be understood from the vantage point of history as it applies to international relations and great power competition, as summarized in the preceding paragraphs. Failure to view it as such would be misguided. However, to fully understand the strategic nature of this emerging great power rivalry, other factors affecting the balance of power, that are unique to current circumstances, have to also be considered.

The first such factor to consider is the extent to which China's production is now networked into global value chains organized by individual firms and suppliers operating in the international economy. These proprietary cross-border production arrangements involve import and export of components, embedded intellectual property, and relevant services comprising the architecture of the modern integrated global economy. Advances in information technology, communications, and transportation facilitated the proliferation of global value chains under the umbrella of American security. These global value chains converge in three major production hubs: North America, Europe, and Asia. Chinese commercial entities are deeply integrated within global value chain networks through investment and direct participation. China's economic rise, especially since its WTO accession, is highly dependent upon this integrated web of trade and investment flow with other countries. As the United States veers toward greater protectionism and coercive economic measures aimed at other advanced market economies, reordering of global value chains away from the United States (as other advanced economies either hedge between the United States and China or consider retaliatory policies) might gradually create conditions for a less favorable balance of economic power for the United States. China's overtures in Europe, one of three major production and innovation hubs, if relatively successful, could present such a scenario. Worsening transatlantic relations play to Chinese aims.

The second factor to consider is the extent to which China is integrated into information technology networks. While there are potential benefits to the interdependence this connectivity provides, from a cybersecurity perspective it also creates significant vulnerabilities for sensitive defense networks, critical infrastructure, and intellectual property of private commercial entities. Beijing's ability and willingness to exploit these vulnerabilities have enhanced its relative power.

Third, consider that China is a member of major international organizations and a multitude of standard-setting bodies. Beijing is becoming increasingly assertive in trying to influence these organizations. For example, a recent review of documents pertaining to the UN's International Telecommunication Union, a body which has 200 member states and establishes common global specifications for technology, found that Chinese companies have made every submission to that body on surveillance technology for the past three years.<sup>35</sup> Half of the standards submitted have already been approved, according to that review. More investigation and analysis are needed regarding how Beijing is influencing the adoption of standards for emerging and foundational technology. Broad adoption of standards incompatible with the liberal economic order would negatively alter the balance of economic power in the direction of China.

The extent to which the lines have now become blurred between commercial and military use of technology – so-called civil-military fusion – and the race for relative advantage in the development of emerging and foundational technology, are certainly factors that will affect the balance of economic power. If Beijing, with its authoritarian worldview, sets standards that are adopted widely by countries whose leaders are attracted by authoritarian ideology, the United States and other liberal democracies will most probably find themselves in an unfavorable balance of power scenario.

## Implications for Future Relations

Great power competition has now evolved in a highly networked international political economy. Hopes for an open international economy at the end of the Cold War characterized by expanding free trade and cross-border investment, have been met with declining consensus over rules underpinning that order. Beijing's exploitation of the open international economy is the outward manifestation of the CCP regime's adherence to mercantilist-Leninism, and it is this philosophy that drives deep-seated resistance to structural changes for the purpose of protecting the Party's monopoly on power. The failure of open-ended American engagement and reliance on the WTO dispute settlement process, and most importantly, the high use of the Appellate Body to drive a steady trajectory of structural reform, have culminated in widely held views in the United States that this status quo is unacceptable. Boustany and Friedberg presented a simple way of thinking about economic relations between the United States and China before introducing the complexities of relations of the rest of the global economy.<sup>36</sup> The spectrum of possibilities ranges from circumstances in which both countries are open to investment and trade, to the status quo whereby the United States is open and China is partially closed, to partial disengagement where both are partially closed, to the extreme circumstances in which both are closed. The latter would be a Cold War containment situation which would have a significant negative impact on both countries as well as the global economy. Since China's accession to the WTO, relations between the two powers have fallen between the two ends of this spectrum. However, economic relations with other countries matter in any escalating dispute between these two powers.

The Trump administration's policy toward China can be described as escalatory decoupling. It imposes unilateral escalation of tariffs on Chinese goods, which disrupts global value chains, with intent to separate or decouple the two economies. But this policy is one part of a broader protectionist policy that has included a wide range of tariffs, secondary sanctions, and restrictive trade practices targeting important democratic market economies in Europe and Asia. These other economies all have strong trade and investment ties with China, which they are reluctant to relinquish. For these countries, abrupt disruption of economic ties without alternatives would be potentially damaging. Most of these countries have rising security concerns with China, yet they are unwilling or unable to curtail economic relations with China. An American policy of escalated decoupling combined with coercive protectionist policy directed toward other major economies will likely impair relations

with allies and major trade partners, potentially damaging American prospects for future economic growth, diminishing relative power, and effectively isolating the United States. In contrast to passive isolationism, these current policies are more malignant, and will begin to invoke a backlash of retaliation by countries naturally aligned with the United States. This would only enhance China's relative power and lead to greater security risks for the United States. Escalatory decoupling from China, without allies, would likely hasten a rising wave of economic nationalism, diminish American legitimacy as leader of the liberal international order, and potentially harm the United States' position in a system driven by balance of economic power.

American policymakers should not be deluded into thinking that unilateral coercive measures will change Beijing's fundamental economic strategy. The so-called Phase One agreement signed with China in January 2020 does not solve important concerns over cybertheft of intellectual property and the use of subsidies. The agreement merely offers a tenuous reprieve from further escalation of the tariff war but does nothing to address the fundamental differences driving this great power rivalry. Enforcement of this agreement depends on further tariffs, which have already demonstrated their limits. Achieving a more comprehensive agreement between the United States and China suggests that more than U.S. pressure alone will be needed given the difficulties encountered in reaching this superficial agreement with China. American strategy must take into account that balance of power dynamics are now driving great power relations for the foreseeable future. Since economic growth and technological innovation are the foundations of power, American strategy and economic statecraft must reflect the need to shape a favorable balance of economic power in this highly integrated international economy, hence the need for allies.

Preserving or enhancing the relative power advantage of the United States along with the widest array of countries committed to the liberal economic order based on shared interests, values, high standards, and enforceable rule of law, is the primary objective needed to address the challenge presented by Chinese mercantilist economic policies. Such cooperation between rule-abiding market economies would facilitate the acceleration of sustainable and equitable economic growth and promote investment in research and development needed for technological innovation. To achieve this end the United States should expand efforts to complete high-standard trade and investment agreements with as many market economies as possible in Asia and in the EU. Building more formalized networks around enforceable high standards that link the major production hubs in North America, Europe, and Asia could then be expanded to willing market economies in other regions. By setting high standards for participation in global value chains and investment in such open-architecture networks, rule-abiding market economies would be maximizing aggregate leverage to test Beijing's will and capacity for reform to meet international norms and standards. Lacking such capacity, Beijing would face the prospect of being at a disadvantage in the international economy by its own volition. In other words, if the CCP regime chooses to resist structural reforms, Chinese commercial entities would be facing less favorable terms for participation in global value chains and investment opportunities. Beijing would be actively selecting a pathway for deeper disengagement and the negative consequences of self-isolation. This would serve to further test the intentions of the CCP

leadership toward reform. In this way, the United States along with rule-abiding market economies, would be shaping a favorable balance of economic power that either promotes reform in China or prepares the United States and other market economies for deepening great power competition.

The economic statecraft and diplomacy required of the United States to achieve consensus in negotiations with the EU and other market economies in Asia-Pacific region will not be easy, but addressing the challenge posed by Beijing's mercantilism should be a significant incentive. For example, the United States should build on the negotiations with Japan to consider a pathway into the Transpacific Partnership, or what is now the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The digital trade agreement that has been agreed upon between the United States and Japan is an example of high standards that could be applied more widely. If the United States renegotiates entry into CPTPP with higher standards, momentum will develop for other countries to accede to the agreement, effectively building an open-architecture agreement needed to shape the balance of economic power. The United States announced a trilateral arrangement called the "Blue Dot Network" on the sidelines of the 35<sup>th</sup> ASEAN summit in Thailand in November 2019. The purpose is to develop trust standards for infrastructure investment. This nascent program should be expanded to cover other disciplines, and should be incorporated into a more formal structure such as the CPTPP in order to have greater international impact. This formal plurilateral trade and investment agreement with enforceable high standards would yield more substantive impact on global value chain development and investment in a wide range of disciplines, and ultimately help to shape the balance of economic power.

While a number of impediments remain with the EU, a strong transatlantic relationship built on consensus is indispensable to shaping a favorable balance of economic power and addressing the impact of emerging technology on security. Washington should start discussions with the EU on how to achieve convergence on standards for emerging and foundational technology while putting aside legacy disputes. In the absence of a formal trade and investment agreement with the EU, the United States should work to develop cooperative strategies in the various standard-setting bodies in multilateral, regional, and industry organizations. Convergence of American and European efforts to set standards along with other market economies would help and certainly augment what might be instituted in the event of a high-standard trade and investment agreement. Cooperation, at the very least, could counter ongoing Chinese efforts to have these organizations adopt standards inconsistent with broad international norms.

Washington should also cooperate with allies to minimize vulnerabilities from theft of intellectual property and trade secrets, surveillance, and sabotage or disruption, and to slow the diffusion of critical technology.<sup>37</sup> The United States has recently enhanced its foreign investment screening program. Efforts should be made to expand information sharing between the United States, EU, and Japan as well as other democratic market economies, to more effectively exclude malign actors seeking to extract intellectual property and trade secrets. More formalized approaches could include setting up a shared database or a registry of malign actors, and developing coordinated foreign investment

screening policies. Similarly, cooperation with partners will be necessary to establish a more effective export control regime. Cooperation in these areas might also lead to greater cooperation in trade negotiations and convergence of views on standards. These defensive measures in conjunction with allies also enhance multinational leverage needed to confront Chinese abuses.

Expanding networks of high-standard trade and investment agreements with strong enforcement, targeted investment screening in cooperation with allies, and coordinating with allies to set standards in international organizations, would be less disruptive to global value chains and economic growth, and more effective than unilateral coercive efforts. The pressure on Beijing would be greater than unilateral tariffs and sanctions imposed on China, as well as other market economies, without the collateral economic damage that has been inflicted on the U.S. and the international economy. The added benefit of this approach is that it aligns the incentives of other market-based democracies in Europe and Asia with the United States while jointly setting defined rules of engagement with China. Furthermore, private sector commercial actors are more likely to accept this strategy rather than the broad use of tariffs and sanctions by the United States. Aligning private sector interests with national strategy is vital to the conduct of sustainable policy. Finally, the broadest aim of strengthening what is now a partial liberal economic order, might be advanced rather than policies that weaken it, the purpose being to shape the balance of economic power to favor countries choosing to adhere to rule of law and high standards. In effect, the United States, along with countries committed to a rules-based liberal order, would be using and directing a strategy of partial disengagement<sup>38</sup> to defend that order from those who choose not to meet the international standards while maintaining a pathway for them to participate if they truly reform.

## Conclusion

The United States has a strategic imperative to constructively address the erosion of consensus underpinning the liberal economic order. China, with its economic rise, adherence to mercantilist-Leninism, and exploitative behavior inconsistent with WTO commitments and international norms, has compounded mounting problems confronting the order that emerged after 1945. Consensus that has been the foundation for peaceful relations among great powers, is now devolving into a system driven by balance of power. Balance of power will be driven primarily by economic growth and technological innovation in a highly networked political economy. Maintaining peaceful relations with China in a rules-based order in which the United States and other market-based democracies can preserve their values and thrive, is a grave challenge.

American policymakers must make a choice with profound strategic implications. If the choice is to continue with aggressive tariffs and sanctions applied to China and allies alike in an attempt to coerce behavior, the United States will accelerate a descent into economic nationalism characterized by beggar-thy-neighbor policies that can only lead to global and domestic economic decline and heightened insecurity. These policies will merely serve to isolate the United States and weaken its legitimacy to lead – a very dangerous prospect in an international environment driven by balance of power dynamics.

The alternative is for American policymakers to recognize the strategic context, conduct economic diplomacy with other countries committed to strengthening the liberal economic order, and coordinate with allies to build targeted defense against vulnerabilities. The trajectory of relations between the United States and China, with implications for widespread economic prosperity and international security, will depend on which approach to strategy is chosen.

## Endnotes

<sup>1</sup> See “Organizational Statements, Permanent Normal Trade Relations with China,” [http://lobby.la.psu.edu/040\\_PNTR/orgstatements\\_china.html](http://lobby.la.psu.edu/040_PNTR/orgstatements_china.html). Supporters and opponents (individuals and organizations) illustrate the intensity of the debate over whether to grant PNTR status to China.

<sup>2</sup> See House Report 106-632, “Permanent Normal Trade Relations with China,” 106<sup>th</sup> Congress (1999-2000), <https://www.congress.gov/congressional-report/106th-congress/house-report/632/1>, the committee report accompanying H.R. 4444, the legislation granting PNTR to the PRC for a thorough explanation of the reasons for granting this nondiscriminatory treatment of economic relations with China at that time. Also, the report describes an amendment in H.R. 4444 which replaces section 406 of the Trade Act of 1974 to create a trade remedy to address Chinese dumping into the U.S. market in recognition of some of the risks of granting PNTR.

<sup>3</sup> Ibid.

<sup>4</sup> Michael J. Green, *By More than Providence: Grand Strategy in the Asia Pacific Since 1783* (New York: Columbia University Press, 2017), 427.

<sup>5</sup> For a concise discussion of this argument see Charles W. Boustany, Jr. and Aaron L. Friedberg, “Answering China’s Economic Challenge: Preserving Power, Enhancing Prosperity,” The National Bureau of Asian Research, NBR Special Report #76 (February 2019), [https://www.nbr.org/wp-content/uploads/pdfs/publications/special\\_report\\_76\\_answering\\_chinas\\_economic\\_challenge.pdf](https://www.nbr.org/wp-content/uploads/pdfs/publications/special_report_76_answering_chinas_economic_challenge.pdf).

<sup>6</sup> Ibid. Boustany and Friedberg use terminology to describe the CCP’s approach to economic policy.

<sup>7</sup> Stewart Paterson, *China, Trade and Power: Why the West’s Economic Engagement Has Failed* (London: London Publishing Partnership, 2018), provides a detailed analysis of the motives of the CCP for joining the WTO and how it exploited China’s position as a non-market economy to drive export-led economic growth, enhance foreign direct investment, and acquire technology. Also, see “The Report of the Commission on the Theft of American Intellectual Property,” The National Bureau of Asian Research (2013), <https://www.nbr.org/publication/the-ip-commission-report/>, for an early foundational study of the means by which China has illicitly obtained American intellectual property as a means to advance technologically.

- <sup>8</sup> Nectar Gan, "Xi Jinping Thought –The Communist Party's tighter grip on china in 16 characters," *South China Morning Post*, October 25, 2017, <https://www.scmp.com/news/china/policies-politics/article/2116836/xi-jinping-thought-communist-partys-tighter-grip-china>.
- <sup>9</sup> Boustany and Friedberg, "Answering China's Economic Challenge."
- <sup>10</sup> See successive polling by the Pew Research Center tracking American public opinion.
- <sup>11</sup> Laura Silver, Kat Devlin, and Christine Huang, "U.S. Views of China Turn Sharply Negative Amid Trade Tensions," Pew Research Center, August 13, 2019, <https://www.pewresearch.org/global/2019/08/13/u-s-views-of-china-turn-sharply-negative-amid-trade-tensions/>.
- <sup>12</sup> See the American Chamber of Commerce in China last report, "2018 China Business Climate Survey Report," January 31, 2018, <https://www.amcham.org.hk/news/2018-china-business-climate-survey-report>. 75% of those questioned reported feeling less welcome than in the past and nearly half complained that foreign firms are treated unfairly compared to Chinese firms.
- <sup>13</sup> This is information provided by the WTO on its website.
- <sup>14</sup> For the most direct statement of the CCP's decision to resist unilateral pressure from the Trump administration, see the English translation of a paper issued by the State Council Information Office of the People's Republic of China on June 2, 2019, "China's Position on the China-U.S. Economic and Trade Consultation," Xinhua, [http://www.xinhuanet.com/english/2019-06/02/c\\_138110404.htm](http://www.xinhuanet.com/english/2019-06/02/c_138110404.htm).
- <sup>15</sup> There have been numerous reports of the hardship faced by farmers and ranchers in the U.S. Also, see Ana Swanson, "Trump's Trade War Could Put Swiss-Size Dent in Global Economy, IMF Warns," *New York Times*, October 8, 2019, <https://www.nytimes.com/2019/10/08/us/politics/trump-trade-war-imf.html>.
- <sup>16</sup> Ezra Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge: Belknap Press, 2013).
- <sup>17</sup> Charles Boustany and Richard J. Ellings, "China and the Strategic Imperative for the United States," *Asia Policy* 13, no. 1, The National Bureau of Asian Research (January 31, 2018), <https://www.nbr.org/publication/china-and-the-strategic-imperative-for-the-united-states/>.
- <sup>18</sup> Ibid.
- <sup>19</sup> See Boustany and Friedberg, "Answering China's Economic Challenge" for the first use of this description of the CCP's ideological approach.
- <sup>20</sup> "Two key aspects of China's technology transfer regime to pressure technology transfer are: foreign ownership restrictions, and administrative licensing and approvals. These two aspects are furthered by the non-transparent and discretionary nature of China's foreign investment approval system, wherein Chinese officials may use oral

communications and informal administrative guidance to pressure foreign firms to transfer technology." See the updated 301 report: "Update Concerning China's Acts, Policies, And Practices Related To Technology Transfer, Intellectual Property, And Innovation," Office of the United States Trade Representative (USTR), November 20, 2018, <https://ustr.gov/sites/default/files/enforcement/301Investigations/301%20Report%20Update.pdf>.

- <sup>21</sup> Jack Stubbs, Joseph Menn, Christopher Bing, "Inside the West's Failed Fight Against China's 'Cloud Hopper' Hackers," Reuters, June 26, 2019, <https://www.reuters.com/article/us-china-cyber-cloudhopper-special-repor/special-report-inside-the-wests-failed-fight-against-chinas-cloud-hopper-hackers-idUSKCN1TR1DK>.
- <sup>22</sup> See Commission on the Theft of American, Intellectual Property, "The Report of the Commission on the Theft of American Intellectual Property" The National Bureau of Asian Research (May 22, 2013), <https://www.nbr.org/publication/the-ip-commission-report/>.
- <sup>23</sup> James Manyika, William H. McRaven, and Adam Segal, "Innovation and National Security: Keeping Our Edge," Council on Foreign Relations, Independent Task Force Report, No. 77, (2019): 37, <https://www.cfr.org/report/keeping-our-edge/>.
- <sup>24</sup> See Nadège Rolland, *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative* (Seattle: The National Bureau of Asian Research, May 23, 2017).
- <sup>25</sup> Christopher Walker and Jessica Ludwig, "From 'Soft Power' to 'Sharp Power': Rising Authoritarian Influence in the Democratic World," National Endowment for Democracy *International Forum for Democratic Studies*, (December 2017):13, <https://www.ned.org/wp-content/uploads/2017/12/Introduction-Sharp-Power-Rising-Authoritarian-Influence.pdf>.
- <sup>26</sup> "How China's 'sharp power' is muting criticism abroad and stealthily trying to shape public opinion in its favour," *Economist*, December 14, 2017, <https://www.economist.com/briefing/2017/12/14/how-chinas-sharp-power-is-muting-criticism-abroad>. Sharp power is described as seeking "to penetrate and subvert politics, media, and academia, surreptitiously promoting a positive image of the country, and misrepresenting and distorting information to suppress dissent and debate."
- <sup>27</sup> Kristian McGuire, "Dealing with Chinese Sanctions: South Korea and Taiwan," *Diplomat*, May 12, 2017, <https://thediplomat.com/2017/05/dealing-with-chinese-sanctions-south-korea-and-taiwan/>.
- <sup>28</sup> Eric Lipton, Brooke Williams, and Nicholas Confessore, "Foreign Powers Buy Influence at Think Tanks," *New York Times*, September 6, 2014, <https://www.nytimes.com/2014/09/07/us/politics/foreign-powers-buy-influence-at-think-tanks.html>.
- <sup>29</sup> Robert Gilpin, *The Political International Economy* (Princeton, NJ: Princeton University Press, 1987). Expanding on the theory of hegemonic stability propounded by Charles Kindleberger. Gilpin states, "Other powerful states must also have an interest in the

growth of market relations; the hegemon can encourage but cannot compel other powerful states to follow rules of the open economy. This, three prerequisites—hegemony, liberal ideology, and common interests—must exist for the emergence and expansion of the liberal market system.”

<sup>30</sup> Ibid.

<sup>31</sup> Robert Kagan provides a spirited defense of the liberal international order and essential role of American leadership in *The Jungle Grows Back: America and Our Imperiled World* (New York: Penguin/ Random House, 2018). He also describes the factors that have eroded American legitimacy, putting this order at risk.

<sup>32</sup> Gilpin, 75.

<sup>33</sup> Hans Morgenthau develops this argument in *Politics Among Nations: The Struggle for Power and Peace* (New York: Alfred A. Knopf, 4<sup>th</sup> edition, 1986), 22, saying. “in a world whose moving force is the aspiration of sovereign nations for power, peace can be maintained only by two devices. One is the self-regulatory mechanism of the social forces, which manifests itself in the struggle for power on the international scene, that is, the balance of power. The other consists of normative limitations upon that strength, in the form of international law, international morality, and public opinion.”

<sup>34</sup> Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House Inc. 1987) provides detailed analysis of the role of economic change and technological innovation in shifting power dynamics among great powers in the modern era.

<sup>35</sup> Anna Gross and Madhumita Murgia, “China shows its dominance in surveillance technology,” *Financial Times*, December 26, 2019, <https://www.ft.com/content/b34d8ff8-21b4-11ea-92da-f0c92e957a96>.

<sup>36</sup> Boustany and Friedberg, “Partial Disengagement: A New U.S. Strategy for Economic Competition with China,” *The National Bureau of Asian Research* (2019), 5, <https://www.nbr.org/publication/partial-disengagement-a-new-u-s-strategy-for-economic-competition-with-china/>.

<sup>37</sup> Boustany and Friedberg cover this in some detail in “Partial Disengagement...” with emphasis on how cooperation with allies is necessary.

<sup>38</sup> Ibid.