Forum for American Leadership

U.S. Economic Policy and the Strategic Competition with the Chinese Communist Party
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The Chinese Communist Party (CCP) has set as its chief aim to supplant the United States as the world's preeminent power and remake the world in its own image. The outcome of the U.S.-CCP strategic competition will determine the direction of the twenty-first century, and U.S. economic policy will play a decisive role in this contest.

To ensure the United States prevails in this competition, policymakers must leverage the broad range of economic policy tools at our disposal in a comprehensive fashion. First, the United States should go on the offensive through trade agreements with third countries in order to achieve broad supply chain goals and the promotion of U.S. standards over Chinese ones. Second, the United States should adopt targeted defensive measures such as export controls and investment restrictions to ensure that U.S. economic policy does not strengthen the CCP's position, including by contributing to China's military development, facilitating its abuse of human rights, or increasing the capabilities of its surveillance state. Finally, any effective strategy requires coordination with allies to ensure the effectiveness of our measures and building a broad coalition to push back on China's efforts. This three-part strategy gives the United States the best possible chance to outcompete the CCP and protect both U.S. economic and national security.

The nature of the CCP's aims and strategic threats to U.S. national security, and the reality of our intertwined economies, has brought about a new debate about industrial policy. Recognizing that this debate is deserving of its own review entirely, we intend to address it in a companion piece. As a general matter on the point, U.S. policymakers should be guided by the notion that though the United States needs to do more to ensure domestic investment, the wise approach is through competitive tax and regulatory measures coupled with limited, targeted subsidies and directed defense spending when needed.

A Clear Acknowledgement of the Reality at Hand

In recent years, it has become increasingly clear that the CCP, under the leadership of Xi Jinping, is a revisionist power intent on displacing the United States as the pre-eminent global power.

China has flouted international economic rules and engaged in a broad range of unfair trade practices, including intellectual property theft, discrimination against U.S. goods and services, and massive industrial policies in an attempt to supplant the United States as the world's economic leader. In many respects, unlike the United States, China is not sitting still and instead is working on an active trade policy agenda to achieve greater market access throughout Asia, including with the recently concluded Regional Comprehensive Economic Partnership.

At the same time, China has also sought to expand its geopolitical influence through a more assertive foreign policy. Whether it be purchasing record amounts of Russian energy products to keep Putin's economy afloat and quell domestic unrest from the economic and personnel loses in Ukraine, brokering normalization agreements in the Middle East, or expanding influence in strategic sectors like infrastructure development in Latin America and Africa, the Chinese have signaled not just the intent, but increasingly the capability, to challenge the U.S.-led order and architecture. All the while, the CCP continues to effectuate gross human rights abuses and repression domestically.

Securing U.S. National Economic Security

An overriding priority for the United States is developing a comprehensive economic agenda for the U.S.-CCP strategic competition. At the same time, policymakers should be clear about what is not the focus of this economic agenda—redressing trade deficits or ensuring strict reciprocity. In particular, the United States should adopt a three-part strategy to outcompete the CCP, deter its economic aggression and global ambitions, and preserve the United States as the preeminent economic superpower.

1. **Employ pointed defensive measures.** Because of the CCP's exploitative economic practices, outcompeting it will require the United States to take novel defensive measures, including a potentially expanded CFIUS, bolstered export controls, increased efforts to prevent the theft of U.S. IP for the use of Chinese civil-military technology, and an outbound investment regime. But officials should be cognizant that taking overly-broad measures or using vague criteria (or both) can threaten U.S. competitiveness by weakening the efficiency of markets, undermine the ability to develop allies and partners, and eventually prove counterproductive.

    - Restraints on Investment: The United States should adopt investment restrictions that target national security concerns and investment in certain sensitive sectors. This tool should first and foremost prevent U.S. capital flowing to CCP domestic development of sensitive military technologies and come with transparent guidelines and associated mechanisms. It should not be designed to prohibit all investment in China but rather focused on the harms we are trying to prevent, clear and administrable for U.S. investors, designed to bring along like-minded partners, and on net do more harm to malign Chinese actors than it imposes on U.S. investors.

    - Export Controls: The advanced technology of U.S. companies should not enable Chinese military capabilities. Though the Biden Administration has determinedly implemented new export controls, the implementation has been mixed. In particular, if the United States assesses that an export control action is needed to prevent U.S. companies from sending a particular technology that is national security sensitive to China, the U.S. should also prohibit companies from financing China's indigenous development of that technology. This approach will allow for greater transparency and allow policymakers to get a holistic sense of the problem while simultaneously filling a gap in the export control toolkit to focus on technology flows. Likewise, it is critical to coordinate export control restrictions closely with partners, as unilateral controls often harm U.S. companies and fail to meet their objectives because China can find non-U.S. substitute goods.

- Market Access: The use of targeted sanctions remains a key defensive measure in the U.S. economic policy toolkit. In particular, the United States should focus its short-term sanctions efforts on denying threatening Chinese companies access to U.S. goods, services, and capital, particularly public and private capital markets. We should not be providing Chinese firms that pose national security threats to the United States open access to our financial markets. Likewise, the United States must ensure that Chinese firms operating on U.S. exchanges comply with U.S. securities laws and abide by the required level of transparency and accountability.

2. **Go on the offensive.** To outcompete China, the United States must unleash the element that has historically given it the edge and will continue to: the U.S. private sector and technology companies, paired with expanded market access through (new) trade agreements. These offensive measures are also critical to counter China's expansive trade policy and achieve U.S. supply chain resilience goals. Moreover, such policies are necessary to open up new markets for U.S. businesses and workers as we begin a policy of strategic decoupling from China and the United States rightly re-assesses economic relations with the CCP, decreases engagement in the Chinese market, and implements restrictive measures when necessary. Since these defensive measures will result in a substantial loss of market access for U.S. companies, policymakers must ensure that this can be compensated by finding new markets to make up for lost revenue. Further, U.S. government levers, including economic sections at embassies around the world, must be more aggressive in promoting U.S. business interests and drawing stark contrasts with the PRC's unfair and threatening business practices.

- Trade Agreements: The United States should aggressively pursue renewed trade agreements that promote U.S. economic and national security interests. Well-designed trade agreements make U.S. firms and products more competitive and are crucial to making it easier for allies and partners to link supply chains with the United States. They also help demonstrate to the world that the United States has a concrete, superior approach to the Chinese economic agenda. The United States has fallen behind China in establishing such agreements in recent years, and certain Biden Administration initiatives such as the Indo-Pacific Economic Framework (IPEF) lack critical elements that would make them effective, such as market access. Where trade agreements already exist or do not make sense, the United States should focus on offering alternatives to Chinese financing and technology and supporting partner efforts to develop their own domestic industries.

- Taiwan: Among other trade agreement partners, the United States should prioritize trade agreements with Taiwan and the Indo-Pacific. A trade agreement with Taiwan is economically advantageous to the United States by opening up new markets for U.S. products and linking key supply chains, but it is also a national security imperative. In particular, a trade agreement can help protect Taiwan from economic coercion from China by helping Taiwan diversify away from China and reduce its reliance on the mainland for trade. This is crucial as the CCP's economic and military threats against Taipei become more bellicose.

- DFC and EXIM: This offensive strategy must also harness the tools of the Development Finance Corporation (DFC) and Export-Import Bank of the United States (EXIM). Both DFC and EXIM must recognize the importance of their national security mandate and operate accordingly. By expanding the U.S. presence and commitment in infrastructure products abroad, the United States can gain additional access to new markets, cement allied- and friend-shoring of supply chains in strategic sectors, and provide a viable alternative to exploitative Chinese technology and infrastructure.

3. **Leverage bilateral engagement and multilateral coordination.** The United States cannot outcompete China alone, and strong relationships with allies and partners provides the United States with a distinct advantage over the CCP. Holding the CCP to account in multilateral fora while working bilaterally and multilaterally with allies to present a desirable counteroffer to other countries should give a significant boost to the United States in the strategic competition with China.

    - Bilateral and Multilateral Cooperation with Allies: Coordination on development and enforcement of export controls, cooperation in economic areas of strategic significance (e.g., AUKUS), and loosening U.S. technology controls to enhance cooperation with trusted allies can maximize U.S. advantages.

    - Multilateral Fora: The United States should utilize multilateral fora, particularly the G7 where it can coordinate China policy with key allies, to advance its strategic goals and economic agenda. For instance, Washington should encourage G7 partners to build out the work of the Investment Screening Expert Group and maximize its efficiency by turning pledges and statements into action. Elsewhere, the United States should work within the World Bank to substantially decrease the number of loans provided to China given its status as the world's leading bilateral lender. And more broadly, at the International Monetary Fund, the United States should work with allies to pressure China to change the exploitative business practices it continues to employ in relation to low-income countries. China claims it wants to be a responsible international stakeholder, but its actions show otherwise.

This paper is a product of the Forum for American Leadership's Geoeconomics Working Group.
