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Subcommittee on the Indo-Pacific
“Standing United Against China’s Economic Aggression and Predatory Practices”

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Chairwoman Kim, Ranking Member Bera, and members of the Subcommittee – thank you for the opportunity to testify today. My testimony has three purposes:

1. First is to outline China’s strategy of economic coercion. This is a central element in Chinese leader Xi Jinping’s grand strategy. Collecting and exploiting leverage over foreign targets is how Xi approaches the outside world. The challenge this poses for us is much broader than the case-by-case bullying of individual countries. It is a vital but insufficiently recognized motive for the economic ties that China cultivates around the globe. Xi continually stresses that no Chinese business connection is simply or merely commercial.
2. My second purpose is to suggest how the United States and our allies should counter China’s strategy of economic coercion. Much of the debate on this matter has focused on mitigating the harm done to victims of China’s policies. We should also seek to deter China from bullying by imposing costs on its coercive behavior. Most of all, we must limit U.S. and allied exposure to Chinese coercion in the first place by limiting trade with China in strategic areas.
3. My third purpose is to warn that current U.S. policies are increasing America’s exposure to economic predation by China. The United States has important environmental interests, for example, but increasing our reliance on Chinese solar panels and Chinese components for electric vehicles is dangerous. It creates national security perils similar to those Germany inflicted on itself through becoming dependent on Russian energy. Our first principle should be to do no harm to ourselves.

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1. Economic Coercion is Xi Jinping’s Grand Strategy

How does China under Xi Jinping practice economic coercion, and why is it a problem?

Defined simply, economic coercion is a government’s use of economic power to pressure another government to change behavior. It is common for governments do it, certainly

including the United States. What China is doing, however, is unprecedented in our history. The United States has never faced a geostrategic rival with as much economic coercive power as Beijing wields today and credibly seeks to wield in the future.

There are some well-known examples of China's economic coercion over the last decade. China curbed exports of rare earth minerals to Japan to influence a territorial dispute. China let Philippine bananas rot at port to influence another territorial dispute. China blocked South Korean exports after Seoul deployed U.S. missile defenses. China has limited trade and diplomatic contact with countries that hosted the Dalai Lama. China banned imports of Australian goods after Canberra enacted laws to counter foreign interference and called for an investigation into the origin of Covid. China halted trade with Lithuania to punish its expanded ties with Taiwan.

These examples of Beijing's coercion are important, but they fail to convey the magnitude of this issue or its centrality to the future of peace and prosperity in the world. China's strategy of coercion is not just a challenge occasionally affecting countries and sectors randomly across the map. Nor does it simply reflect Beijing's "Wolf Warrior" diplomatic excesses of the moment.

Rather, economic coercion is a vital mechanism in Chinese strategy under Xi Jinping. It is fundamental and pervasive. China practices it every day and globally – including against the United States, and already with significant success.

Chinese leaders declare openly that they are using China's market and supply-chain power as leverage over trading partners and a means to impose their will in the world. In its Five-Year Plan published in 2021, the Chinese Communist Party laid out a geoeconomic strategy for exploiting what it called the "powerful gravitational field" of the Chinese economy.

This built on a pair of speeches in 2020 in which Xi called for economic "deterrence" power and "self-reliance". Xi said China "must sustain and enhance our superiority across the entire production chain." He also said China "must tighten international production chains' dependence on China, forming a powerful countermeasure and deterrent capability against foreigners who would artificially cut off supply."

Chinese officials call their policy "dual circulation," a clunky reference to prioritizing consumption of domestic goods (internal circulation) over dependence on foreign markets (external circulation). The goal could more plainly be called "offensive leverage." Beijing aims to decrease China's dependence on high-tech imports from other countries while making other countries more dependent on imports from China, especially for critical technologies. The purpose is to maximize global economic leverage for future coercive use.

None of this would be too unusual or problematic if not for China's size and the nature of its regime: deeply hostile to the United States and our allies, ambitious to subjugate Taiwan and

rewrite global order by force if necessary, and demonstrably successful at accumulating economic coercive power through techno-industrial policy. The more central Beijing gets to international trade and global supply chains, the more economic coercive power it husbands, the more likely it is to confront us and our allies and risk world war over Taiwan.

Beijing's aspirations may be greater than what it can realistically accomplish. But Xi Jinping, like his friend Vladimir Putin, does not seem to believe that his reach exceeds his grasp.

Policymakers around the world should take note.

It would be better to constrain and temper Xi's aspirations now – through coordinated deterrence and strict limits on China's access to technology, capital, and data controlled by the United States and its allies – rather than wait until he has taken fateful and irrevocable steps, such as attacking Taiwan, that could lead to superpower conflict. Understanding Beijing's economic coercion strategies, and beginning to counter them more effectively, is a necessary step.

2. A View from the State Department

When I served at the State Department, from 2017 to 2021, official discussions of Chinese economic coercion were still generally in their infancy.

U.S. policy in those years was productively exploring a wide range of economic-policy tools that Washington had long failed to apply effectively (if at all) toward China. These included tariffs, export controls, sanctions, inbound and outbound investment restrictions, cross-border data restrictions, and more. But when it came to countering Beijing's economic coercion, our efforts were mostly focused on identifying the problem, calling it out publicly, and establishing a foundation of common understanding on which U.S. and allied policy countermeasures could be built.

In July 2020, State Department Assistant Secretary Dave Stilwell used an address on the South China Sea to observe that Beijing's coercive activities had become a global scourge affecting governments, people and industries far beyond Southeast Asia:

A few years ago, many believed that Beijing's South China Sea abuses were mostly a local phenomenon, a kind of limited indulgence for a rising power finding its way in the world. Today we know that the Chinese Communist Party's neo-imperial ways aren't incidental to its character but are an essential feature of a nationalist and Marxist-Leninist mindset. Beijing wants to dominate its immediate neighborhood – and eventually impose its will and its rules on your neighborhood too, wherever you may be.

You could be a university student in Australia, a book publisher in Europe, or the general manager of an NBA franchise in Houston. You might work for an international hotel chain, a German car company, or a U.S. airline. You could be a 5G customer in Britain – or anywhere else in the world. Wherever you are, Beijing increasingly wants to stake claims, coerce, and control. By its nature, it cannot accept a pluralistic world with fundamental freedoms of choice and conscience.¹

By late 2020, some U.S. and allied officials had begun informal discussions of the need to push back collectively on Beijing's economic coercion, possibly through an "Economic Article 5" mechanism on the NATO model. These discussions picked up especially after Beijing's coercion of Australia intensified in April 2020. But in those initial months they could only advance so far.

3. Institutionalizing Economic Deterrence

Today the U.S. and allied conversation has matured, as demonstrated by this hearing and a range of other initiatives. At the end of this week, President Biden and G-7 leaders meeting in Japan are expected to issue a special statement condemning economic coercion (though China may not be mentioned by name). Here in Congress, several relevant bills are under consideration, including the "Countering Economic Coercion Act" of Senators Coons and Young. In Brussels, the European Union has been working since 2021 on an "anti-coercion instrument" that recently won provisional political agreement from member states.²

To date, in dealing with Chinese economic coercion, U.S. and allied policymakers have mostly focused on ways to cushion the blow for victims, in hopes of making them less likely to bow to Beijing's will. Proposed measures to aid Beijing's victims have included export credit, sovereign loan guarantees, political risk insurance, reduced tariff barriers, and even direct funding to buy certain coercion-affected goods. Such allied-support measures are worth considering.

But it is important to recognize that Beijing will not likely be deterred unless it also faces the credible threat of costs for its economic aggression. U.S. and allied policymakers should consider how penalties can be readied so that China can be deterred.

To be sure, the Coons-Young bill includes authorities to "increase duties on imports from foreign adversaries committing economic coercion."³ That's a start.

But do U.S. officials know with confidence which import duties would impose the most harm on Beijing while minimizing costs to us? The same question applies to export restrictions – and to restrictions on the flows of capital and technology. We aren't used to thinking in such mercantilist terms, neither unilaterally nor with allies. But we must have answers to these questions to counter China's economic coercion strategy.

Georgetown University's Victor Cha testified last week before the House Rules Committee, highlighting areas in which China depends heavily on imports from the United States, Japan, Australia and other countries that it has targeted for coercion:

The eighteen countries that are previous and current targets of Chinese economic coercion export over \$46 billion worth of goods to China upon which the country is more than 70 percent dependent as a proportion of its total imports of those goods, and over \$12 billion in goods upon which China is more than 90 percent dependent. These states can band together and practice economic deterrence by promising collective retaliation on these high-dependence goods should China act against any one member of the collective. . . .

Collective resilience might sound too mercantilist for the ears of some liberals and globalists, but it's a necessary competitive strategy to protect the liberal international order.

To be sure, all this is easier said than done (as Cha notes). There are complex considerations of law, policy, escalation risk, allied coordination and more. These complexities are why U.S. policymakers would benefit from more deliberate and robust mechanisms for studying these issues and readying appropriate policy tools.

One such mechanism could be an official investigation under Section 301 of the 1974 Trade Act into China's use of unfair coercive practices against U.S. (and allied) targets. This would follow on the broad 301 investigation into Chinese unfair trade practices undertaken by the U.S. Trade Representative in 2017-2018, which examined the issues, held public hearings, received expert testimony, documented findings, and teed up countermeasures.

A new 301-style investigation could elevate this issue internationally, contributing to deterrence while it is underway. It could impose a price on China for its coercive activities, helping Western policymakers understand what kind of response is appropriate. The evidentiary, policy innovation, and deterrence value of the exercise would be greater, of course, to the extent that allies are involved or pursue coordinated efforts of their own, perhaps beginning with the G7 plus Australia.

Western policymakers need a better understanding of the tools they have available. They should devise multilaterally, if possible, the policy structures needed for collective economic resilience and deterrence. They should consider creating a standing consultative body to institutionalize allied response to China's strategy of economic coercion. That body could perform long-term study, develop a common threat assessment, consider policy options, host

exercises, etc. It can do for this Chinese economic strategic challenge what NATO did, starting in the late 1940s, for the Soviet military challenge of the Cold War.

4. Is China's Coercion Self-Defeating?

It is worth noting that there is debate over how successful China's economic coercion really is. The record is not uniform. Sometimes Beijing succeeds in cowing targets and winning notable concessions. Sometimes Beijing fails, causing targets to harden their positions and refuse concessions.

A recent Center for Strategic and International Studies (CSIS) report analyzed eight cases since 2010 and found that "the most salient characteristic of China's economic coercion is that it simply is not very effective."⁴ Beijing was judged to have scored "wins" only in coercing Mongolia (about the Dalai Lama) and the Philippines (on South China Sea), while it suffered "losses" in coercing Japan (on rare earths), South Korea (on missile defense), Australia (on various matters), Canada (on Huawei) and Lithuania (on Taiwan). CSIS assessed the outcome in Norway (regarding Liu Xiaobo's Nobel prize) as "mixed."

This scorecard highlights interesting complexities in the exercise of economic coercion. Beijing sometimes finds its cards are weaker than anticipated. Target countries sometimes prove surprisingly resilient politically and adapt commercially by finding new markets other than China for their goods. China has learned that accumulating leverage can be easier than using it. When it generates fear and loathing among foreign governments and businesses, it spurs diversification away from the China market. That can diminish China's leverage with those targets in the future.

And yet.

China's record of economic coercion extends far beyond those eight cases. In fact, China exercises economic coercion every day, and has considerable success in doing so.

Consider the way the world deals with the Xinjiang situation. This is perhaps the largest and clearest example of the success of China's strategy of economic coercion. Multiple countries have condemned the Chinese government for perpetrating genocide against its own Uyghur Muslim citizens. But China has faced almost no consequence at all, neither in the sphere of diplomacy nor business. Its impunity testifies to its coercive economic power.

The same goes for Beijing's depredations in Tibet, Hong Kong, the South China Sea and beyond. China engages in behavior every day that not only violates the basic human rights of its own people, but abuses its neighbors, sometimes violently; disregards the sovereignty and other rights of foreign states and individuals around the world; and threatens the peace and prosperity of its region and beyond.

Ask the fishing boat captains from the Philippines whom Chinese forces have attacked. Ask the citizens of Sweden, Australia and elsewhere who have been kidnapped abroad and imprisoned in China for criticizing Chinese policies. Ask the businesses worldwide that have had their intellectual property stolen by Chinese hackers, spies and “talent plan” recruits. What price has China paid for these actions? The answer is nothing substantial. Again, the weakness of the response demonstrates that China’s strategy of economic coercion is potent and successful.

Then there is Taiwan, which Beijing harasses through economic coercion aimed directly at it and also at other countries. This is designed to keep the island diplomatically isolated, militarily ill-defended and therefore a softer target.

If Beijing follows through on its credible threats to invade Taiwan, it will be driven in part by a calculus that enough countries would rather allow Beijing’s takeover than risk the economic consequences of opposing it. Countries also fear Beijing’s military might, of course, but economic factors would be a key consideration for policymakers in many countries. When analysts note amid the economic disruptions of the Ukraine war that China has 10 times the economic power (and global interconnectedness) of Russia, that signifies that China’s strategy of economic coercion is a powerful reality.

Such is China’s multifaceted economic coercive power today. And this coercive power will only multiply if Beijing amasses more leverage over the global economy, one supply chain and critical technology at a time.

5. Preventing China from Becoming a 21st-Century Super-OPEC

Historical analogies help underscore what is at stake here. Consider OPEC, and consider Russia’s natural gas policies.

China is working to become a super-OPEC of the 21st century, a single country that decisively controls crucial economic inputs for the world economy, especially semiconductors and materials needed for “green” energy. Its aim is not just commercial but strategic – to give itself leverage for coercion.

To safeguard our own security, the United States and our allies have to counter China’s strategy. Allowing China to achieve OPEC-like power over advanced industries would give Xi Jinping the means to cripple the U.S. and allied economies, blunt our technological edge, and undermine our military strength.

If Xi gets his way, China’s economic coercive power over Asia and the world would dwarf what Vladimir Putin created by tying Western Europe to Russia for gas supplies. Putin hoped that the dependency of Western Europe’s states would ensure their acquiescence in Russia’s conquest of Ukraine. He would likely have been correct if the Ukrainians had not mounted such a

courageous and skillful resistance. By making itself so dependent on Russian energy, the Europeans effectively encouraged Russia to launch the war. It is a powerful cautionary tale for Europe and America.

The United States and our allies require a strategy of “constraintment” to counter China’s economic coercion. “Containment” is an unrealistic term regarding China. “Constraintment” takes note of the realities of economic interdependence and aims to adjust them to serve Western security interests. Constraintment can provide deterrence, working to deflate the confidence of Chinese officials that they can achieve their aims through aggression and war. We do not want Chinese officials to feel optimistic about their coercive economic leverage over us and our fellow democracies.

The new U.S. and allied export controls on semiconductor technology are an step in the right direction. If enforced diligently, the rules could foil Xi’s ambition to make China a home for advanced chip manufacturing. They can ensure that China remains dependent on the United States and its allies for these critical supplies. (While we are at it, U.S. officials should not ignore so-called “mature” semiconductor production. We do not want China to dominate the global production of chips needed for lower-end electronic goods crucial for critical infrastructure and autos.⁵)

Constraintment should strive to maintain a favorable balance of dependence in a wide range of areas. It should, for example, strengthen the dominance of the U.S. dollar as a global reserve and trading currency, extending Washington’s ability to monitor and punish money laundering, weapons proliferation, bribery, and other dangerous actions by Beijing. Constraintment should remind China of its dependence on foreign sources of food and energy while reversing the United States’ growing reliance on Chinese batteries, solar panels, and other green technology.

The green technology point is especially crucial because trend lines appear to be moving fast in the wrong direction. As Washington subsidizes solar energy, electric vehicles, and other renewable technologies, is it protecting against the risk of growing dependency on China? Failure to do would be grave strategic neglect.

National Security Advisor Jake Sullivan recently gave a speech underscoring the importance of both greening U.S. energy supplies and limiting "dependencies that could be exploited for economic or geopolitical leverage."⁶ Yet there appears to be nothing in the administration’s approach, or in the language of the Inflation Reduction Act or other such bills, to ensure that we are protecting ourselves properly. We should reduce risks that U.S. subsidies and green-energy targets give greater coercive power to China. We should carefully review the downsides of Chinese renewables exports to the U.S. energy market.

Let's draw on the wisdom of the Hippocratic Oath: China already has enormous coercive economic power in the world, even over the United States in some sectors. As policymakers manage America's energy transition, they should first do no (additional) harm to ourselves.

¹ <https://asean.usmission.gov/the-south-china-sea-southeast-asias-patrimony-and-everybodys-own-backyard/>

² <https://www.consilium.europa.eu/en/press/press-releases/2023/03/28/trade-political-agreement-on-the-anti-coercion-instrument/>

³ <https://www.young.senate.gov/newsroom/press-releases/young-coons-introduce-bill-to-counter-economic-coercion-of-allies-and-partners>

⁴ <https://www.csis.org/analysis/deny-deflect-deter-counter-chinas-economic-coercion>,

<https://www.aspi.org.au/report/chinese-communist-partys-coercive-diplomacy>

⁵ <https://foreignpolicy.com/2023/04/03/chips-biden-xi-china-sanctions-semiconductors/>

⁶ <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>