III. Bolstering U.S. Economic Power and Leadership

Economics is at the core of American competitiveness. U.S. economic and financial strength provides the foundation for U.S. military power and alliances, technological leadership, and political influence in the region. At home, the United States benefits enormously from the open economic order in Asia, providing a vital and growing region for U.S. trade and investment. These contributions to the prosperity and security of the American people will be at risk if the United States does not renew U.S. economic power and leadership in the Indo-Pacific.

China has eroded America's economic influence by leveraging its huge market, pursuing anti-competitive trade practices, and seeking to revise the regional economic order with institutions and initiatives that advantage Chinese companies. As the dominant trading partner in the region, Beijing selectively uses development finance and market access as carrots and sticks to advance the Chinese Communist Party's domestic and foreign policy agenda.

Meanwhile, Beijing has been nimble in pushing new economic institutions and initiatives—including the Asian Infrastructure Investment Bank (AIIB) and its Belt and Road strategy—to create the veneer, and in some cases the reality, of an increasingly Sino-centric economic order in the region. China's growing economic clout further provides Beijing with the ability to challenge U.S. security interests, both directly by investing heavily in modernizing the People's Liberation Army and indirectly by using economic pressure to shape the decisionmaking of U.S. allies and partners about the breadth and future of their military ties with the United States.

Preserving U.S. economic interests in the Indo-Pacific will require a concerted effort to shape the regional economic order in ways that level the playing field and deny China the advantages it accrues from anti-competitive practices, including systematic intellectual property theft, state subsidies, and limits on access to China's market. While it would be preferable to steer China toward a different course, the current Chinese Communist Party (CCP) leadership in Beijing remains committed to a state-led economic model.

As a result, the United States should no longer center its economic policy on compelling Beijing to make fundamental structural changes to China's economy. Yet, nor should Washington's response be to sever America's economic relationship with China: Many areas of trade and investment are beneficial to the United States and actually provide leverage over Beijing. A broad-based decoupling of the U.S. and Chinese economies would prove unnecessarily costly to Americans. Instead, a more selective approach to economic interdependence is necessary to address the unfair advantages that China derives from maintaining a fairly closed economy at home while preying on U.S. economic openness.

The United States should respond with a determined economic agenda that simultaneously strengthens U.S. economic influence globally and in the region and reinforces sound governance and best practices for free, fair, and secure international economic activity. This should include revitalizing leadership in international economic institutions and emphasizing adaptations within these institutions that better reflect today's economic realities. Such an approach would target China's anti-competitive behaviors and policies with legal and trade actions, both bilaterally and, to a great extent, with international partners and institutions, including the World Trade Organization (WTO).

Washington should also commit to working collectively with other advanced economies in Asia and Europe on new high-standard trade and investment agreements that both create greater opportunities for U.S. businesses and undermine China's unfair and illegal trade practices. In doing so, the U.S. government should leverage the immense power of the U.S. private sector, augmenting the role of commercial diplomacy and focusing greater attention and resources to catalyze U.S. trade and investment in the Indo-Pacific. Success in this regard will require reversing U.S. withdrawal from multilateral trade mechanisms, and undoing the deeply counterproductive approach of imposing unilateral tariffs on key U.S. allies and partners.

In addition to renewing U.S. economic leadership in the Indo-Pacific, it will be essential for the United States to reinforce the preeminence of the U.S. financial system. America's deep and liquid financial markets are a key anchor of economic growth and stability, as well as leverage the United States can deploy in pursuit of vital national interests. Financial power further enables the United States to assist allies and partners, while using sanctions and other coercive economic tools to pressure potential adversaries. Sustaining the dominant role of the dollar and increasing transparency in U.S. markets will further enhance American's financial strength.

To reinforce America's economic position in the Indo-Pacific, Washington will have to look beyond simply shoring up traditional sources of financial power. The United States should play a more formidable role in shaping the future of financial technology (fintech). Ensuring that major global fintech companies are anchored in the United States, and that U.S. incumbent financial institutions incorporate and develop new leading fintech applications, will be critical to curbing China's ability to undercut America's financial power.

Ultimately, American power rests on the strength of the U.S. domestic economy. While a comprehensive domestic economic agenda is beyond the scope of this report, America's long-term influence in the world will depend on prudent domestic policies and investments in the economic foundations of American power. As is recommended throughout this report, the United States should increase federal spending in basic sciences; research and development; science, technology, engineering and math education; and high-quality vocational and technical education. The federal government should also increase domestic investments in infrastructure, including both physical infrastructure, such as roads and ports, and in telecommunications infrastructure, which underpins the modern economy. U.S. leaders will also have to prepare for future financial crises and tackle head on the tax and entitlement reforms necessary to ensure that U.S. fiscal policy and debt levels remain sustainable across economic cycles. Ignoring these challenges threatens to undermine America's position as the premier financial powerhouse in the world—a key advantage over China.

Recommendations for U.S. Policy

PROMOTE U.S. TRADE AND INVESTMENT IN THE INDO-PACIFIC

Enhance U.S. commercial diplomacy in the Indo-Pacific at the Treasury, Commerce, and State departments

The Treasury, Commerce, and State departments should significantly increase personnel and professional training for commercial diplomacy, engaging with foreign countries and companies in Washington and abroad. The Treasury Department should expand its program to place attachés in an array of additional foreign capitals and major economic centers to provide technical expertise to U.S. missions abroad and to foreign counterparts. This could include placing Treasury attachés in Shanghai, Hong Kong, Taipei, Shenzhen, Manila, and Mumbai. An expanded attaché program would significantly augment the capacity of the U.S. government for engagement with U.S. companies abroad and with regional and international economic organizations and institutions. This should be paired with a parallel expansion of Commerce personnel at U.S. missions abroad, as well as significantly expanded and more rigorous economic and financial training for all foreign service officers, including a specific hiring authority to bring greater economic expertise into the State Department.

The State Department's policy and planning function should elevate commercial diplomacy for the department and the secretary by planning a series of public speeches, both domestically and in foreign capitals, to discuss an expanded U.S. approach. Further efforts should include increasing ambassador-level engagement in promoting U.S. commercial diplomacy and better linking priority countries for U.S. commercial diplomacy to U.S. strategic priorities in competing with China. The State Department should also station more officials in commercial diplomacy posts at consulates in foreign countries, creating better and more thorough engagement, information gathering, and communication across important capitals and business centers globally. Additionally, the State Department's Office of the Chief Economist and Office of the Undersecretary for Management should craft a plan for professional development of existing foreign service officers in economic and financial topics, including mentorship opportunities, and should authorize accelerated hiring for midcareer economic subject matter experts into foreign service posts.

Catalyze greater U.S. investment in the Indo-Pacific through the new U.S. International Development Finance Corporation, bilateral investment treaties, and the Export-Import Bank

The U.S. government can strengthen America's position in Asia by bolstering U.S. overseas private investment and reestablishing the United States as a vital economic partner in the region. This should include the rapid deployment of the newly chartered U.S. International Development Finance Corporation (DFC). As a part of this, the White House should be prepared to leverage policy guidance that enables DFC lending to upper-middle-income countries that have the potential to be strategic U.S. partners and to counterbalance surges of state-led investment by China. The Office of the U.S. Trade Representative (USTR) and the State Department should also pursue bilateral investment treaties (BITs), as well as trade-in-goods and trade-in-service agreements, with potentially strategic countries including India and democratic partners in Southeast Asia. The United States should also reauthorize the Export-Import (EXIM) Bank to become a bigger and more robust export credit agency to encourage private investments in larger projects. To achieve these goals, U.S. policymakers should make a priority of approving a new president and board for the EXIM Bank.

Expand technical assistance programs that bolster U.S. investment in the Indo-Pacific, including the Infrastructure Transaction and Assistance Network

To deepen U.S. economic ties in the Indo-Pacific, it will be essential to assist regional states in enacting economic and legal reforms that make them more attractive and viable destinations for foreign investment. To that end, the U.S. government's Infrastructure Transaction and Assistance Network (ITAN) promotes high-standard U.S. investment by helping partner countries strengthen legal frameworks for projects, increase transparency, and review project proposals to ensure that they do not include hidden long-term costs. Congress should expand the resources available to the Office of Technical Assistance at the Department of Treasury and to the Transaction Advisory Fund launched in September 2019 under ITAN. Within the Office of Technical Assistance, Congress should increase resources for the Government Debt and Infrastructure Finance (GDIF) program, which helps countries implement debt management practices and develop domestic debt markets to make countries more attractive to private U.S. investors. Lastly, the Department of Commerce should continue to ramp up its outreach program, Access Asia, which aims to connect American firms with opportunities in the region. These efforts should be coordinated with the new DFC to pool resources and ensure that initiatives are not duplicated.

Continue to support an open global trade and investment regime for energy resources

Asia will play an outsized role in future global energy demand.[72] The United States should continue U.S. exports of crude oil and liquefied natural gas (LNG) to the Indo-Pacific, as well as promote free trade in these key commodities, avoiding calls for limiting U.S. energy exports. Abundant U.S. supply to global oil markets has had a demonstrated calming effect on market prices during times of geopolitical turmoil, which has the benefit of avoiding price spikes even for countries that import little U.S. crude oil. The Overseas Private Investment Corporation (OPIC) should prioritize support for LNG import terminals in key importing markets throughout the region. Congress should allow the Department of Energy to continue to streamline the approval process for LNG export licenses, including by amending the Natural Gas Act to allow automatic approval for export to countries that do not have a free trade agreement with the United States. This open approach to crude oil and LNG exports will provide considerable security and economic benefits for the United States and U.S. partners in Asia.

Include key Indo-Pacific partners in the Generalized System of Preferences program

U.S. policymakers should seek opportunities to deepen America's economic ties with strategically important countries in the Indo-Pacific, including by offering special status under the Generalized System of Preferences (GSP) program. For instance, the United States has good reasons to strengthen its economic relationship with India in the context of U.S. strategic competition with China. If India addresses unfair limits on market access for U.S. firms, the United States should return India to the GSP program. USTR should revisit its recent decision to revoke GSP status for approximately one-third of Thailand's trade with the United States. Finally, USTR should also consider the effects on U.S. competition with China as it reviews Indonesia's participation in the GSP program.

STRENGTHEN AND LEVERAGE AMERICA'S FINANCIAL POWER

Promote financial market transparency by passing beneficial ownership disclosure requirements for U.S. companies

Congress should enact proposed legislation to require the collection of ultimate beneficial ownership information from companies in the corporate formation process. More transparent commercial entities will enhance economic stability and limit the ability of commercial and strategic challengers to undermine U.S. businesses and national interests or engage in corruption. Specifically, this will limit the ability of China to set up anonymous front companies in the United States to purchase U.S. assets or technology and otherwise threaten critical sectors, data, or infrastructure. Additionally, it will help U.S. firms and authorities to conduct due diligence to know which companies may be linked to banned partners under sanctions or export control laws. Attracting capital to the United States, including Chinese capital, to provide important liquidity and a basis for growth need not mean sacrificing market transparency, a priority for which the United States should strive.

Delist foreign companies, including Chinese firms, that do not meet audit and disclosure requirements from U.S. exchanges

At present, several Chinese firms that list securities on U.S. exchanges are not in compliance with regulatory transparency requirements, specifically audit and disclosure requirements put in place by the Securities and Exchange Commission (SEC). This is the result of the Chinese government blocking the release of full audit reports of certain publicly listed Chinese companies. This lack of compliance and transparency means that U.S. investors do not have the legally required information necessary to assess the riskiness of these investments. To end this practice, Congress should adopt pending legislation that would require all foreign companies listing securities in the United States, including Chinese companies, to comply with audit and disclosure requirements within three years or cease to be permitted to list securities on U.S. exchanges. The SEC should conduct a special review of noncompliant firms to ensure that they are moving into compliance with this new legal framework, specifically ensuring that firms grant U.S. regulators full access to review audits.

Discourage challenger currencies and payments

The centrality of the U.S. financial system is a core U.S. advantage in the Indo-Pacific, providing substantial influence, efficiency, and opportunities for wealth creation. This asset will be diminished, however, if service providers in foreign jurisdictions offer alternative, reliable payments, clearing, or settlements mechanisms. This will be particularly concerning to the United States if these alternative mechanisms are explicitly designed to avoid U.S. jurisdiction and be "sanctions-proof." The United States should therefore discourage the development of alternative payments or settlement mechanisms beyond their current, nascent state by engaging with Europe and other major financial services and payments centers. The United States should also seek to support U.S.-based or U.S.-linked cross-border payment mechanisms that feature high levels of efficiency, low costs, and full digital functionality in order to compete with challenger payments platforms from China.

Alongside Washington's tough enforcement posture for U.S. sanctions on Iran, the United States should still seek to engage constructively with Europe over its INSTEX payment mechanism, which is designed to facilitate humanitarian and other trade with Iran permitted under the terms of the Joint Comprehensive Plan of Action (JCPOA) nuclear deal. Even while discouraging sanctions evasion in the Euro currency area or as facilitated by European central banks, U.S. authorities should ensure that INSTEX is legally permitted to operate so long as it only facilitates humanitarian trade. This will diminish the incentive for European banking authorities to violate U.S. sanctions and create a payments mechanism that is insulated from U.S. sanctions. Additionally, the United States should work closely with Europe to promote U.S. leadership in blockchain-based and other new technologically enabled payments networks for major global currencies, primarily the dollar, including by harmonizing regulatory requirement applicability to new technologies for money transmission. These measures will mean that the nascent alternative payment systems, including as developed by China, remain relatively costly and cumbersome as an alternative to the more reliable and efficient incumbent U.S. and European payments systems.

Develop and exercise strategic concepts for coercive economic statecraft

The United States has come to rely heavily on tariffs, sanctions, and investment controls as part of its foreign policy toolkit. However, there is still a long way to go in developing sound strategies and methodologies for the use of these instruments, as well as rigorous, empirical study of their utility and success. Given the direct linkage with national security issues, U.S. defense and intelligence agencies should support new research and tabletop exercises that explore how these tools affect the economy and financial system of the United States, U.S. allies, and target countries.

Moreover, the Treasury, State, and Commerce departments, in coordination with the Defense, Energy, and other relevant departments, including the intelligence community, should lead an effort to define a set of guiding principles for the use of these tools and methodology for deployment. Furthermore, the Office of Management and Budget should oversee a request in the president's budget for sufficient personnel to capably deploy these measures, including the capacity to, on an ongoing and regularized basis, study the utility and strategy for deploying coercive economic measures.

SUPPORT U.S. LEADERSHIP AND INNOVATION IN FINANCIAL TECHNOLOGIES

Create a regulatory framework for financial technology acceleration to compete against foreign jurisdictions, including China

The United States, a highly regulated and supervised market, should do more to encourage innovation in fintech, positioning U.S. regulators to move quickly on licensing and chartering, and to provide more interpretive guidance to new firms, particularly new technology entrants into the financial services space. Other jurisdictions, including China, are aggressively promoting fintech development to accelerate and improve financial services offerings in their countries. Without more concerted U.S. action, other jurisdictions will be able to offer certain financial services with greater efficiency and lower cost, undermining U.S. superiority in the financial services sector. To maintain a preeminent position in this sector and accelerate fintech innovation in the United States, U.S. regulators should pursue a pilot regulatory framework to encourage and facilitate development of innovative financial technologies in the United States as stand-alone applications and within existing, incumbent financial institutions. In particular, the United States should seek to facilitate the development and application of new technologies to improve provision of services and financial products in the insurance, lending, payments, settlement, clearing, and tokenized asset space.

Several U.S. federal regulators have established innovation offices, including at the Financial Crimes Enforcement Network (FinCEN), the Office of the Comptroller of the Currency (OCC), the Securities and Exchange Commission, and the Commodity Futures Trading Commission (CFTC), some of which include labs. To help scale fintech applications, Congress should provide these offices with additional resources to support enhanced dialogue with innovators and the regular provision of guidance for industry. Moreover, to achieve the full effect of federal initiatives, state financial regulators should harmonize their definitions and requirements among themselves and, to a greater degree, with federal regulators. This will mean including a "passport" system to apply across jurisdictions and manage compliance with the patchwork of 50 sets of state requirements.

Encourage development of blockchain payments applications

Millions of unbanked and underbanked people around the world, including in areas China is targeting with its Belt and Road, will be able to access financial services through blockchain applications in the years ahead. The companies that develop these applications will control tremendous amounts of user data and have outsized influence on these countries and their relationship with the global financial system. Rather than ceding these critical opportunities to China, the United States should empower U.S. firms to lead in this space by embracing and encouraging the development of blockchain-based payment applications, both for domestic use and for cross-border purposes. To this end, the White House, in coordination with the Treasury Department, should lead an effort to consider regulatory, legal, and other incentives to promote U.S. fintech development of digital wallet, banking, and peer-to-peer payment applications.

In so doing, the United States will compete directly with some of China's leading digital payment applications outside of China. By promoting U.S. fintech teams in delivering the leading decentralized payments applications to both incumbent financial system users and new digital financial users, the United States will harvest a major economic opportunity. The United States will also achieve a position of influence, including through regulatory means, to encourage privacy and reliability in these technologies and discourage illegitimate surveillance in service provision.

Fund and support rigorous education and academic research in blockchain technology

To compete with China, which has directed central bank resources toward digital currency and blockchain research, the United States should cultivate professionals entering the job market who can understand, develop, and innovate using blockchain payment infrastructure. The rising U.S. business and consumer interest in digital assets has not been accompanied by a sufficient growth in computer science or engineering courses that teach blockchain technology beyond an introductory level. While student interest has driven many university campuses to introduce blockchain and cryptocurrency classes in recent years, these are mostly one-off courses and do not offer a formal concentration or accreditation in building blockchain applications.[73] The U.S. government, possibly led by the National Labs or Department of Education, should establish a grant program to fund rigorous blockchain technology courses and graduate-level research on cryptocurrency-related topics.

REVISE THE ECONOMIC ORDER IN THE INDO-PACIFIC AND GLOBALLY

Pursue new high-standard multilateral trade and investment agreements in the Indo-Pacific and Europe

The United States should pursue a comprehensive multilateral trade and investment agreement with allies and partners in Asia to help reduce economic dependence on China and to afford greater opportunities for growth through expanded trade between the United States and the region. Achieving a broader free trade framework between the United States and Europe will also serve to expand economic opportunity in these markets and underscore rigorous rules on labor, environmental standards, currency, and intellectual property protection and enforcement.

Moreover, the inclusion of high-standard rules on subsidies, intellectual property protection, and currency manipulation in multilateral trade agreements in Asia and Europe will develop and implement clear and enforceable rules and market principles for broad swaths of the global economy. This will reinforce for China that its trade distortions and unfair economic practices will not be allowed to predominate in major trading economies of the world.

USTR should therefore develop and articulate the conditions under which the United States would join the successor agreement to the Trans-Pacific Partnership (the Comprehensive and Progressive Trans-Pacific Partnership), while continuing work toward a U.S.-European Union (EU) trade agreement. USTR should also work to negotiate a digital trade agreement with the European Union and close security allies and fellow advanced economies, building upon the recently signed U.S.-Japan digital trade agreement. These agreements help set high standards to facilitate trade and the free flow of data. Digital trade agreements should also include provisions on preventing data localization and technology transfer and ensuring companies' use of encryption technologies, which would further isolate China if it continued these unfair practices.

Use tariffs sparingly against allies and partners

Using and threatening to use tariffs on specious national security grounds against NATO members, including Canada and Germany, as well as critical Asia-Pacific allies such as Japan and South Korea, and key Southeast Asian partners like Vietnam has undermined U.S. efforts to build multilateral support for countering China's anti-competitive practices. Building effective coalitions on trade and investment issues will require a less confrontational U.S. approach toward other advanced economies and key partner states. While the United States may need to impose tariffs or take other punitive actions against allies and partners to counter specific trade abuses, such tariffs should be employed sparingly and only in a targeted manner.

Enhance U.S. cooperation with the World Bank and Asian Development Bank to support high-quality infrastructure projects in the Indo-Pacific

China's Belt and Road has received substantial attention—and with it Beijing has garnered considerable influence—by seeking to address the massive infrastructure needs in the Indo-Pacific and beyond. While Washington should not seek to match Beijing dollar-for-dollar in infrastructure spending, the United States can leverage existing regional institutions that provide high-quality financing by increasing available capital and identifying additional ways to partner with them. For example, the United States has increased its support for the Asian Development Bank (ADB), and the U.S. Agency for International Development (USAID) has launched a partnership with the ADB focused on energy projects in the Indo-Pacific. Further supporting the ADB would provide an important alternative and counterpoint to the Belt and Road. The United States should also help fund the World Bank's Global Infrastructure Facility, which helps recipient countries to plan project financing, preparation, and structuring efforts to stimulate the flow of external private capital. Finally, the Treasury Department, in conjunction with the National Security Council and the State Department, should launch a review of whether the United States should join the Asian Infrastructure Investment Bank.

Lead on setting high standards for development finance

China's Belt and Road has both undermined U.S. influence in the region and brought with it a spate of problems associated with corruption, financial nonviability, debt burdens, and environmental damage. The United States can help to curb these harmful lending practices by ensuring that BRI investments are held to higher standards. To this end, the White House should lead an interagency process to craft principles for development finance related to materials, labor, environmental stewardship, and debt that the United States would then promote globally. The Treasury Department should take the lead on coordinating with other advanced and developing ally economies to refine and communicate these principles. This should include consulting with other G20 partners to cooperatively advance and implement the six G20 principles for quality infrastructure investment agreed upon by the group at the Osaka Summit in June 2019. These include maximizing the positive impact of infrastructure to achieve sustainable growth and development, raising economic efficiency through the perspective of life-cycle cost, integrating economic and social considerations in infrastructure investments, and strengthening infrastructure governance.[74]

The Treasury Department should also lead a domestic and international effort to encourage private-sector firms to abide by these standards, which will serve to enhance economic stability, as well as America's influence and reputation as a responsible steward internationally. Finally, U.S. leadership in standard-setting should include technical assistance to help countries evaluate project bids, from feasibility studies, environmental assessments, competitive procurement, financial accounting, and other issues. This technical assistance should be elevated as a priority for the U.S. government, and at the Treasury Department in particular, with a commensurate increase in staff, budget, and public messaging.

Update, strengthen, and reform the World Trade Organization

The U.S. Treasury Department, in close coordination with the White House, should lead an effort to reform the Bretton Woods institutions, which still have a critical role to play in advancing U.S. interests and reducing the need and opportunities for alternative China-led bodies. This will require revisiting guidelines and policies for lending resources and standards, and bolstering the reputation of these institutions as the international lender of first resort to contain fallout from global crises. The United States should allow developing countries a larger voice and voting share in Bretton Woods institutions to prevent the formation of parallel or rival lending institutions that could balkanize the global financial system. Without meaningful reform at the WTO, growing dissatisfaction with its record on dispute resolution could lead one or more major economies to withdraw. The U.S. Congress should insist that the WTO define its criteria for "developing country" status, which is currently self-identified and provides benefits to these countries relative to advanced economies. It should also move to eliminate the consensus decisionmaking process to establish and enforce key rules, particularly to prohibit anti-competitive practices such as below-market financing, subsidies for state-owned enterprises, and discriminatory regulatory treatment. The United States should also stop blocking the appointment and reappointment of judges to the WTO's Appellate Body.

Make any additional tariffs against China more targeted

U.S. tariffs on China have effectively created macroeconomic pressure and, if maintained, have the potential to slow China's rate of growth over the short term. As such, they can be effective policy instruments for the United States to demonstrate resolve and address China's unfair trade and investment practices. Going forward, U.S. tariffs against China should target products and firms that garner anti-competitive advantages under China's industrial development strategy, and where China presents a supply chain risk, such as communications network technology. The U.S. administration should avoid imposing additional tariffs on basic consumer goods where tariffs increase costs for U.S. consumers without providing meaningful strategic benefits.