

THE BROOKINGS INSTITUTION

FALK AUDITORIUM

DE-RISKING THE ECONOMIC RELATIONSHIP WITH CHINA: VIEWS FROM THE INDO-PACIFIC

Washington, D.C.

Tuesday, October 3, 2023

UNCORRECTED TRANSCRIPT

PANEL DISCUSSION:

EMILY BENSON

Director, Project on Trade and Technology
Center for Strategic and International Studies

HUONG LE THU

Nonresident Fellow
Center for Strategic and International Studies

TANVI MADAN

Senior Fellow, Foreign Policy
The Brookings Institution

SHUJIRO URATA

Chairman
Research Institute of Economy, Trade and Industry

MODERATOR: MIREYA SOLÍS

Director, Center for East Asia Policy Studies
The Brookings Institution

* * * * *

SOLÍS: Good morning, everyone. And good evening to anyone watching from Asia. I am the director of the Center for East Asia Policy Studies at Brookings, and it's a great pleasure to co-host this event with the Research Institute of Economy, Trade and Industry, and in particular, to collaborate with its chairman, Dr. Shujiro Urata, who, close to 30 years ago, was my academic mentor when I first went to Japan to do my dissertation fieldwork. So, this event is particularly special to me. We have a very important topic for today's session regarding the future of the economic relationship with China. In the past few months, the Biden administration has emphasized that the goal is to de-risk, that is to try to ameliorate vulnerabilities, correct for overdependence, but not to decouple from China, which will have vast economic consequences. This may sound very palatable to many partners of the United States in the region, and perhaps it will be easier to coordinate because the approach now seems to be about de-risking. Today, however, we want to go deeper and then explore a range of views from the Indo-Pacific on what the de-risking strategy entails. Where are the areas of convergence? Where are the gaps that need to be addressed for a coordinated approach? And of course, we have to factor in how China might respond to these de-risking moves.

Let me introduce the experts in the panel in the order in which I will ask them to provide a short framing remarks. Emily Benson is director of the Project on Trade and Technology and senior fellow of the Scholl Chair in International Business at CSIS, where she focuses on trade, investment, and technology issues. Shujiro Urata is chairman of RIETI, Professor Emeritus at Waseda University, and senior research advisor for the Economic Research Institute for ASEAN on East Asia. A leading scholar of international economics, Dr. Urata is also a prolific researcher, and in the past three years, the pandemic years, he co-edited five books on globalization, development, and supply chains. Huong Le Thu is senior analyst at the Australian Strategic Policy Institute and a member of the advisory board of the Griffith Asia Institute. Dr. Le Thu's research interests include Vietnam's defense and foreign policy, Southeast Asia, security, ASEAN regionalism, and China-Southeast Asia relations. And last but not least, my colleague Tanvi Madan, senior fellow in the Foreign Policy program. Her work explores India's role in the world and its foreign policy, the U.S. and India's approaches in the Indo-Pacific. Tanvi's a leading expert on the Quad, and she has recently launched the podcast Global India, which I highly recommend to all of you. So, what I've asked the panelists to start us with is with counter perspectives on a de-risking approach towards China so we can begin to compare and

contrast where areas of similarity and difference exist. So, Emily, if you could please get us started.

Thank you.

BENSON: Thank you so much to you and Brookings for inviting me to participate today. It's a real pleasure to be here. Like she said, I will provide a brief overview of U.S. thinking on de-risking and also how this fits into the new think tank buzzword "economic security," which is, in some ways, really surpassed traditional trade when it comes to international engagement. So, I think when we're looking at de-risking, there's no common definition. And this is the same for economic security. I think in general, the way that I think about it — and a short advertisement, I wrote a very short piece in Barrons recently about this; it's about 750 words — and it's a very simple concept, which is the idea that you need to have a backup plan, a plan B for your supply chains. We tend to attribute this in international relations to the United States, focusing overwhelmingly on a geopolitical competition with China. That's true to a degree. I think what that misunderstands is some of the more concrete factors that have led to this rethink. First and foremost is COVID-related supply chain disruptions. I'm from Kansas City, Missouri, originally, where we produce a lot of Ford vehicles, and we had to shut down factories and furlough workers because of the supply chain disruption to semiconductors. That is not desirable long term, and that is destabilizing both to the U.S. economy and to our longer-term trade engagements with close economic partners. And so during COVID, we really realized that overreliance on a foreign jurisdiction poses systemic risks. This is not only related to the physical attributes of trade, getting a good or a service across a border, but also the exposure to the whims of a foreign government.

When China decided to shut down its economy, that had ripple effects that really led to this big rethink of supply chain policy. I think the other major factor that we tend to under discuss is climate change. And climate change, the effects of it are really accelerating. We've seen that in particular this year. We just lost Antarctic ice the size of Argentina. That will have profound effects on the way that we go about global trade. So, we have COVID, climate change, and then of course we do have China. And here the idea is that we need to prevent the leakage of very high-tech technology to a country that could potentially use it against us in a geopolitical competition. And so, we have the three Cs. We have COVID, climate change, and China.

What's interesting is that a couple of years ago when the administration came in, they identified pretty much the first month where they were in office, four critical sectors where we needed

to engage in additional supply chain security. Lessons through these critical supply chain reviews that covered semiconductors, critical minerals, batteries, and medical supply chains. And so in identifying those critical sectors, the administration was saying it's really important that we de-risk, that we build resiliency, that we have a backup plan in these particular supply chains. What's interesting is that a couple of years into the administration, a question has emerged, which is, to what degree do our close allies buy into this idea that we need to de-risk? And a year ago I would have said, "Well, I'm not convinced that everyone is entirely on board." However, the Russian invasion of Ukraine demonstrated in very real terms, particularly to Germany and the European Commission, an overreliance on a single source creates risk. Since then, the European Commission has unveiled its economic security strategy in June. Germany unveiled its strategy on China in July. Japan is currently reviewing their own economic security strategy. All of this is focused on de-risking as a priority and not entirely on decoupling with China in total.

And so at the end of the day, I think the big takeaway is that as allied economies, we are going through this risk reassessment where we realize we're confronting what Adam Tooze of Foreign Policy and The Economist, calls a "polycrisis" moment. We have a series of external factors that are putting pressure on us to rethink trade as we know it. And National Security Adviser Jake Sullivan made exactly that point when he was here at Brookings in April, that the the way we have gone about economic engagement has to change. And that is less a feature of policies that didn't work. And I think it's more of a feature of these changing exogenous circumstances. So let me leave it there for now.

SOLÍS: Thank you very much, Emily, for those framing remarks. I thought that they set the scene very well.

URATO: Thank you very much. First of all, I'd like to thank Dr. Mireya Solís and Brookings Institution for organizing and co-hosting this important conference with RIETI. And let me begin by saying that I'm an economist, international economist, as kind of being trained in economic-- international economics. So this economic security is a new area, which I'm still learning, try to study what it is. And so let me begin by responding to some of the questions that have been given to us by media before before the conference. First, on decoupling and de-risking, I guess we have already heard about maybe lack of definition of de-risking. But in my view, there are some differences between decoupling and de-risking. Talking about decoupling on de-risking, of course, we heard

about, you know, China is the main issue that they are discussing. And so let me just say that China is a threat from the point of view of [inaudible] politics. But at the same time, China is a big market, big business opportunities.

So, in order to deal with China, what the firms, the countries, governments are trying to do is to maximize the opportunity for business, but to minimize the risk. So, in order to kind of, you know, achieve this balance, that's very difficult. But that's what I guess de-risking is trying to do. Whereas decoupling to me is a kind of complete separation of China from the rest of the world or the rest of us. So, there are some differences in between decoupling and de-risking. Maybe the difference is a matter of the degree. Having said this, yes, having said this, I'd like to talk about how Japan, or Japanese government, is trying to perform de-risking strategy. And the Japanese government provided subsidies or other forms of economic assistance to Japanese firms to diversify their activities, to reduce the dependence on China to deal with this uncertainty on the China issue. And specifically, the Japanese government have provided subsidies to firms which are interested in investing in other East Asian countries, such as the ASEAN countries. At the same time, it's up to the government to provide subsidy to firms which are planning to invest back in Japan, or reshoring, you may call it.

So these two types of subsidies are given to Japanese firms to reduce risks from, you know, too much dependence on China. From economist point of view, first type of subsidy, which is given to firms interested in investing in ASEAN countries, can be justified for the reason that I mentioned, that is to reduce risk. But the-- what about the subsidy to firms who are interested in reshoring back to Japan? That is good for the Japanese economy because that will maintain employment opportunities and that will maintain the business of maybe important sectors in Japan. But-- but, you know, Japan is a country which is prone to natural, natural disasters such as earthquakes. So, having all of the firms, or firms or factories' activities back in Japan, cannot be really justified from that point of view. So, yeah, you need a balance between giving business opportunities back in Japan from the point of view of economic activities. But at the same time, you have to look at the possible cost of too much concentration in Japan. So, that's one important I think issue when we talk about the supply, and especially supply-- supply chain resilience.

And the-- just, I'd like to talk about the approaches that the Japanese government has already talked about subsidy. And also, we have kind of introduced export restrictions just like the United

States. But the one big difference between the U.S. and Japan is the imposition of tariffs on imports from China. That is one very important means that the U.S. government have introduced. Japan has not introduced additional tariffs on imports from China. And to me, being a middle-power country and being independent of international trade, I think it's very important to maintain rules rules-based, open, free trade environment, which is not consistent with the imposition of tariffs. So I'd like to see — well, the U.S., you know, imposed tariffs on China retaliated by introducing additional tariffs, which led to a tariff war — and I would like to see this tariff war to end. But since the U.S. and China, two superpowers seem to ignore or violate the WTO rules, what can a country like Japan do, right? Well, here I think that we can do several things.

First, well, the problem is the WTO. If WTO is functioning as it is expected, that is to enforce rules and so on, then China and the U.S. cannot really introduce these additional tariffs. But they did. So, what a country like Japan can do two things at least. One is to establish free trade agreements with like-minded countries to maintain a rules-based system. And the second is to establish so-called plurilateral agreements, trade agreements, which focus on some specific issues like digital trade with like-minded countries. So, there are at least two ways to establish trade rules, which I think Japan should really promote. And finally, again, one of the problems with the WTO is this function of a dispute settlement mechanism. Yeah, I have to say U.S. is a problem. And in order to deal with this problem, group of countries like EU countries, Canada, Australia, set up this mechanism called MPIA, Multi-Party Internal Arbitration Mechanism, which Japan finally joined in March this year.

So, this kind of mechanism should be, I think, promoted given the situation, so that these are things which I'd like to see happen-- to see happen, so that we can avoid a substantial cost coming from this tie force. Thank you very much.

SOLÍS: Thank you very much. I thought it was very interesting, your discussion on the difference of subsidies for insuring and diversification, but also when you talked about WTO free trade agreements, dispute settlement, all of those areas are where the United States and Japan are in a different place. So, I think we begin to see some of the challenges ahead. Huong, may I ask you to go next?

LE THU: Thank you, Mireya, and thank you for having me at Brookings and a part of this project. So, it's a great honor to be here with you. A couple of initial reflections on the-- really the new term of de-risking and how regional countries, especially in Southeast Asia, are reacting to it. And I'll

focus later on, specifically on the case of Vietnam. So first of all, I think the definition de-risking, obviously, by the very definition of it makes more sense than decoupling. And nobody would dispute with reducing risk, especially countries in the region. Nobody is interested in increasing risk or attention. So, and putting economic security at really the composition of the American strategy towards the region, the Indo-Pacific strategy, it has been a missing piece, really the economic component. So, I think in general, having that economic security at the forefront is really welcome, and for the regional countries is an integral part of broader security, right? There's no security without economic security. So in that sense, you know, de-risking shouldn't be much of controversy, is it?

But I think there is a lot of still unclarity. What does that really mean? Not everybody has the expertise that [inaudible] has to understand the definition. And I think it's still really relatively poorly defined and poorly explained to the countries in the region, for example, de-risking for home, for the United States. And if so, why does that matter for other countries in the region? What it is there for them, right? And in general, de-risking is still continuing the practice that are trying to disentangle from China. Obviously, in a protectionist way, the U.S. chooses certain critical sectors to protect. That makes sense for U.S. But countries in the region are very intricately interconnected with China and global trade system. So it's not going to be a straightforward solution for for them. And in general, I think de-risking may be a fancy term or whatever other terms can come up, but that might in practice mean that it is still a practical way of asking to choose, right? Because if we still a limiting access of China to certain sectors in certain trade aspects, then it is, for countries in the region, it does mean in practical sense forcing to choose, despite the official rhetoric coming from the U.S. government that it is not imposing the choice.

So, I think those are the big questions. It's much more political and security embedded than just economic one. In general, obviously, the countries in the region are not very vocal in that regard. They won't come out and criticize. China has criticized the term de-risking as a, you know, false narrative, really. But I think one of the more direct responses to de-risking came from is Singapore's Straits Times, saying that de-risking is actually introducing risk to everyone and involving more of a capacity to the global financial system. It's not reassuring anyone in particular.

Now, aside from the term and from the narrative coming from it, what are the real implication that might be there? Because I think the scope-- nobody is really able to predict the the full scope and full implications is just as still in terms of speculations right now. I think it is very important to stress the

idea of trust here. And it's beyond, obviously just economic numbers. It is very much political. The idea of fracturing is basically basing on the political and strategic trust that the U.S. has to certain selected partners and allies in the region, including economically. So, it is again, I think there are a lot of times it comes with their idea that cooperating with like-minded partners, again, it's more than just economic. It is also political.

So, I think countries in the region are also worried to fully embrace this approach because that also may have implications. They are more entangled in the intensifying great power competition and U.S.-China competition. So that kind of cautious approach to this de-risking idea is also a way of signaling that they don't want to be more entangled than they need to be anyway.

Vietnam is a very interesting case because it has emerged as one of beneficiaries of this trade war in the recent years as the tariff war between U.S. and China. A lot of redirected investments, as well as redirected bases for companies and manufacturers, have come to Vietnam, in particular, due to proximity to China, but also its macroeconomic features and increasingly obviously for the political reasons. A couple weeks ago in mid-September, President Biden visited Vietnam to upgrade the relationship, the bilateral relationship, to a comprehensive strategic partnership. And while this is very much been analyzed through the lenses of political and security elevation of the relationship, of course the idea of more cooperation in technology and support for Vietnam's role in the global supply chain, especially its emerging role in the semiconductors, has been the focal part of this trip, as well as this evolving relationship.

Vietnam is obviously actively understanding the opportunities that come from the great power competition between U.S. and China, and this so-called trade war. There are other countries in the region also benefiting, but I think we have to distinguish between mid, short and mid-term, as well as long, long-term implications, because, yes, it is a window for opportunities for these countries in short to mid-term. But I think in long-term, it introduces more risks and more challenges to these countries, including the countereffect that this really much, this strategy wants to achieve, which is even becoming more dependent with China, given that the supply of their interdependency with China, and in terms of trade and supply.

And in recent cases, there are a lot of worries that China will channel its products through the third-party countries, including the ones the economies in Southeast Asia. So, there are a lot of challenges there for countries to grapple with, and including that, you know, that in the long-term can

introduce some punitive actions from both the U.S. and China, as should they be continue to be entangled in this evolving situation. So, I think in general, really doesn't matter for the countries in the region, how you call it, you call it decoupling, de-risking, or any other term. But I think it is-- what matters is the practical effect on their economies. And given that the region is primarily still a developing economy, as a region, they are interested in open trade, open market access to market so that the more protectionist policies from the U.S., the more insecure they will, they will feel. I'm not sure if I ran out of time, but I'll leave it there and we can dive into that later in the Q&A.

SOLÍS: Thank you very much. We'll have much to discuss for those really insightful set of remarks. I really appreciated the the way you describe Vietnam's balancing act in the sense that as many countries try to de-risk diversification towards Vietnam becomes a very attractive proposition. But Vietnam is also worried about the risk of decoupling, the risk of more protectionist policies coming their way. Tanvi, if I can go to you.

MADAN: Thank you, Mireya. I'm going to talk about kind of India's approach to economic security. And I'm going to start with something the Indian foreign minister said last December. He said, "To my mind, neither technology nor globalization should be considered really economic issues. I think they're very strategic issues." And he went on to lay out the kind of key elements of India's economic security approach and indeed, his quote kind of reflects India's attitude these days to a renewed focus to economic security. And I say renewed because this is not a very new thing. And it's always to some extent had a de-risking approach, but it's usually been de-risking from the-- in terms of the whole world. And now it is motivated by some old factors, including kind of domestic desire for strategic autonomy, but also now intensified-- its intensified concerns for China about China really driving this effort. I'm going to do-- lay out kind of three things. One is why-- where is this intensified concern about China coming from? Second, what has India's response been in the economic-- in terms of the economic security approach it's taking in? Third, what are the implications for the U.S. and other like-minded partners?

So, on the first, India's view of China as an economic partner has evolved, much like it has here. What you've seen in India is from a-- going from a focus largely on the opportunities that China represented economically to increasingly worrying about the vulnerabilities that it poses to India. And this has resulted from India's increased strategic concerns about China, particularly inflection point in 2020, where there was the one-two punch of China's COVID approach, which India worried about

because of its economic security approach and decoupling to some extent, but also its lack of transparency. And the second thing was the fatal India-China boundary crisis. And what these kind of two crises did is intensified Indian concerns about economic overdependence and exposure to China, inroads to Chinese companies, particularly those with close links to the state, the inroads they had made into certain sensitive Indian sectors, and also concerns about broader avenues of Chinese influence within India. And so, what you saw is in response, India seeking to identify or reduce or even mitigate India's vulnerabilities, particularly in critical sectors, you can call it. It was less like decoupling, though, in certain cases. India decoupled from TikTok, for example, overnight. But otherwise, it was more like de-risking or disentangling.

And this effort of kind of this de-risking has involved kind of three prongs. One is what you could think of as denial or limiting Chinese access, which has involved policy measures designed to restrict or increase scrutiny, extra scrutiny on Chinese activities in the economic, technology, telecommunications, but even public public diplomacy, education, and civil society, and media sectors from Chinese entities.

The second prong is indigenization or reshoring, which has been an emphasis or re-emphasize and what India calls "atmanirbhar bharat" or self-reliance, which is involved a reactive element, discouraging imports and investments from China, and a proactive element, which is kind of a drive to incentivize Indian and foreign companies to manufacture in India. And this has led to things like production-linked incentive schemes in particular sectors that India worried about over dependence, the pharmaceutical sector, for instance, electronics, solar panel manufacturing. And so you've seen in this and many more, you've seen investments in that. You've seen subsidies to encourage this, and you've also seen a renewed Indian interest, which was new for this Modi government in bilateral trade agreements as well.

I think you've also seen a third prong. So, you have denial, you have indigenization. The third prong was diversification, or you could call it friendshoring. And this has been seeking alternative sources of capital goods and technology from more like-minded countries to, among other things, diversify India's dependence. And in turn, India, much like Vietnam, has been seeking to take advantage of other countries desire to diversify or friendshore as well. And so, you've seen that greater than, therefore that greater investment for Indian bilateral relationships, but also experimenting with issue or interest-based coalitions like the Quad, but also like I2U2, which is U.S.,

India, Israel, UAE, and focus on technology and food security. And then you have the most recent announcement of IMEC, the India-Middle East economic-- India-Middle East-Europe economic corridor, which we'll see where it goes. But this is very much in that same vein.

Finally, just kind of some challenges and opportunities, I think, that this poses for the U.S. and other countries in terms of the opportunity space as kind of is evident from just this last point I made about diversification, but also the three prongs. These teams parallel or converge with kind of the American ones pretty closely in some some areas. And indeed, India's concerns about China and its resultant approach have opened the door to kind of an interest in increased economic and technology cooperation with the U.S. You see this also with the initiative and critical and emerging technologies that the U.S. and India launched earlier this year and led by the national security advisors. But the path is also opening the door not just to this economic and technology collaboration with the U.S., but also with other major-- major and middle powers who are seeking a partnership with India, in part because Delhi prefers to maintain a diversified portfolio of partners. It doesn't want to replace overdependence on China with over-dependence on the U.S. So, it's diversifying its dependence, so to speak.

Having said that, there are some-- and the final point I'll make is just highlighting some challenges. One of the challenges and the limits to kind of this approach or the challenge it might pose for us, for us here, is that sometimes kind of the idea, you know if this is coming from a similar instinct on concerns about overdependence in China, that's one thing. But if, if it is actually reinforcing a protectionist instinct in India that could affect a larger set of companies. And so, there's also the kind of related aspect that the economic and technology restrictions vis-à-vis China that India is imposing and adversely affect all foreign companies, either by design because of that protectionist instinct or inadvertently, as we've seen in some case, these restrictions can also complicate or limit the operations of multinationals looking to diversify that work across India and China, which India realizes. So, you've seen Apple, for instance, wanting to invest in India, but getting some-- the Indian government giving it some leeway in terms of imports from China of certain components for the for the supply chain. So you are seeing some learning, but this is a real challenge. And there is also the reality that on certain issues, including global economic governance, data localization, sanctions, India's views can actually overlap with those of China more than the West in some in some cases. And these are usually issues that reflect Indian concerns about over-dependence on foreigners in

general, infringements in sovereignty or the needs of the developing world. You can also see another kind of limit, and this is more for India, but also for any company that is doing business in India, is that that is seeking to de-risk itself is-- for the foreseeable future. China will remain an important part of not just global supply chains but India supply chain, and particularly for an an India that is looking to further industrialize, and particularly in the manufacturing space, it will be China will continue to be a key source of import imports. So by volume, you're actually seeing India's imports from China increase while the share of China in India's import kind of mix is actually dropping. But nonetheless, the volume I think, will continue to increase for a bit.

And then finally, I would say one challenge is that for domestic, economic, and political reasons there are still limits to what India has been willing or able to do to make itself an attractive economic partner as other countries try to diversify. And this is particularly limited what it is able to offer in terms of trade. And so you see this particularly in India's region, where much like the U.S. is offering a lot of other things, including investment in infrastructure. But the thing that a lot of its neighbors want is market access, which it is not offering. I'll stop there.

SOLÍS: Thank you, Tanvi. That was terrific. And I appreciated your discussion of how India's thinking on China has changed quite dramatically, has become more skeptical, and that there is obviously the the border dispute that had such a profound effect. And we should not lose sight of the de-risking, decoupling debates are also propelled because of these growing national security risks. I also think it's interesting that you're talking about what India is doing on all these levels, and perhaps that will see a more proactive foreign economic policy coming from India, but one that not always align with the United States. Data flows is is an item you mentioned. And for later, I would like to discuss whether given the weight of India in the developing world, whether India's economic security, will have particular influence in how other countries are thinking about how to hedge in this era of uncertainty.

So now let me then transition now to a conversation with all of you, and then I'm going to bring you all in with your comments and questions. But to stir the pot, let me be a little controversial and say that de-risking is like comfort food. We like the term. It makes us feel better, more assured that we're not going to break the world economy, that we're not going to transition to a fractured international economic system. But that perhaps there is a little bit of wishful thinking in the de-risking rhetoric that makes us feel reassured. It has a very good vibe. It's supposed to be more restrained,

focused, measured, and tried to just tackle the areas where there is particular risk and leave the rest alone. But perhaps the world is a little messier than that, and perhaps you can move with de-risking intentions and end up producing decoupling. And it could be that-- what I want to get from all of you is, you think that there is a different philosophy behind both and that that has a concrete way in which you would sort out policies that are very different. If you have a de-risking or a decoupling strategy, you could tell them apart.

Let me tell you why I'm skeptical. I think that when you look at the combination of measures that are being put in place, you're talking about a broader separation that perhaps de-risking conveys. When you think about the Trump-era tariffs that have remained in place, when you think about export controls that are likely going to increase and not decrease as we tackle new areas in that technological frontier, the yard is likely to get bigger. When you talk about industrial policy subsidies, there's going to be substantial competition there. So, I would love to hear from all of you whether you think that indeed there is something that separates de-risking from decoupling. And quite candidly, if you think that the United States is practicing de-risking and not decoupling? Any takers?

BENSON: Sure, I'm happy to kick this one off. If I could just very quickly respond to what I think your three main points are about, potentially in favor of the argument that the U.S. is actually decoupling tariffs, export controls, and subsidies. I think each one of those has sort of a different political economy behind the policy. If you look at tariffs, it's really hard to be that guy that says, "Well, I'm reducing tariffs, I am weak on China." That's a very fast way to lose a political constituency in an election cycle. And that way there's sort of like sanctions where they're very difficult politically to unwind. So, I think that's one bucket. They stand alone in their unique features. Export controls, I think even with a broadening scope of controls potentially to include quantum technology, artificial intelligence, additional semiconductors, if we ever manage to get the final October 7th rule, that still does conform to de-risking because it fits into this very narrow application of what we define as critical from a national security perspective, meaning we want to prevent the leakage of those technologies.

So, I'm still convinced that those are relatively, excuse me, relatively surgical in nature in terms of subsidies. If you look at the 52-billion-dollar chips in Science Act, 39 billion is slated for production capacity in the United States. That is roughly equal to one fabrication facility and a half, 1.5 fabrication facilities. That's not enough to completely reconstitute global supply chains. If you combine the 52 billion here with the commensurate package in Europe and then you take the tax credits into

Korea into account and you look at this forthcoming additional package in Japan, potentially all of that could significantly retool global supply chains that would facilitate over time a decoupling. But that is extraordinarily difficult to pull off. If you look at this rapid U.S. example in Japan, the United States engage in very intensive bilateral negotiations with the Japanese government. IBM liberalized a host of patents, and Rapidus Corporation in Japan is now pooling resources in order to scale up to nanometer semiconductor production in Japan. That was extraordinarily labor intensive, and I'm skeptical that we can replicate that type of deep cooperation across other jurisdictions, especially when other jurisdictions still need to invest in infrastructure or retool their taxation system. So, to be determined.

One last comment on subsidies is the IRA. China has already spun one-half of an IRA this calendar year so far, and the cash is out the door. And I think that the United States, again, if we're thinking of really investing in friendshoring, defining alternative jurisdictions, defining who's a friend, we will need far more subsidies to follow through on the agenda. And I'm very skeptical that we have the political appetite here to continue spending as the drama from last weekend demonstrates.

SOLÍS: Thanks, Emily. And Tanvi?

MADAN: Just to kind of reinforcing that, I think it's, you know, I think we should stop talking about globalization because it's just going to-- it's going to be a different kind of globalization. I like Emily's word, retooling. It is going to be a retooling of globalization. And in some ways, in part, it is, because I think for a number of countries, China's decoupling, which we often, I mean, you know, we think we started it, but a lot of countries, it's not just the U.S., where part of that political pushback has come from the fact that it was seen as asymmetric lack of reciprocity. And so, I think you will see a rejigging. But the reality is, the global realities that made globalization happen the way it did will to some extent continue I think you'll see.

You know, one other issue area we haven't talked about is immigration. And I think you've even seen in the last two years, you saw even on immigration, countries were not de-risking as such, but, you know, changing their attitude towards that. We might see that change again as countries focus on innovation agendas. But nonetheless, that was another area. So, I think you will see you're not going to see India decoupling in most areas, but I do think we will see decoupling in some areas, either because countries like the U.S. and India are carving out certain sectors where, yes, I think they're pretty kind of clear that they do want to in critical strategic sectors. But I think some might,

even if it wasn't intended for decoupling or the reason that, you know, if you are a business and you have to make big investments, and you-- if there's a certain amount of uncertainty and you don't know what where government policy is going to go, you might just decide that whether it's the geopolitical risk, you know, we haven't mentioned the Russian invasion of Ukraine, that I think is also added. You don't know if there's going to be sanctions. You don't know if-- you know in an authoritarian regime, someone's going to take a decision suddenly overnight that will change the whole landscape and put pressures on you. So, I think that might lead to something nearing decoupling or at least, you know, intensified de-risking that could result in decoupling. And then I think finally, as I said, I think China is continuing to decouple. If not-- if, you know, if it might have started it, there'd of been a reaction now, I think its own counterreaction will mean, I do think there will be some areas that because China's decoupling we will see that too. One space that it'll be very interesting to see if we do whether we de-risk or decouple or diversify, is electric vehicles. And let's see where Europe and the U.S. and, you know, I've already seen in India, turning down investments from Chinese companies in that space, but that's one area I'd watch.

SOLÍS: Thank you very much. Please go ahead.

URATO: All right. I'd like to begin with the, holding up to comment on this decoupling or de-risking strategy, its impacts on businesses. Businesses, like you said, and I said earlier, they they are very much concerned with uncertainty and de-risking or decoupling, these, you know, government strategy can change very quickly, it happens. And so, what businesses like to see is the certainty coming from government policy. I know it is very difficult for the government to come up with certainty in this respect because economic security has something to do with risk, and risk is uncertain. But having said this again, businesses say "Please make the, say policies, as transparent as possible," so that they can respond to these policies if they're clearly understood. So, that's the first point.

On decoupling from China, yes. On decoupling or de-risking China and de-risking or decoupling from U.S. And if that continues, tit for tat, that that's a-- we fall into the so-called prisoner's dilemma. And that's what we'd like to avoid. That presents them a case that would not only hurt two countries, the U.S. and China, but the rest of us like Japan, Vietnam, and other countries. So, how can we avoid going to or falling into present dilemma? What we need is, of course, communication. And and that is very difficult under current circumstances. But I would like to see much more communication between countries, not only, you know, U.S. and China, and of course, like so-called

friendshoring type countries too. So, like-minded countries need to really communicate much much more than we have done.

And finally, I'd like to just repeat about the importance of setting up a rules-based trade and investment order, which we can still do if like-minded countries get together and to work on this so that we can avoid-- we can reduce the cost of economic cost of pursuing economic security. Economic security is justified under current circumstances. But what we need is to minimize the cost, economic cost of pursuing economic security. Thank you.

SOLÍS: Thank you very much. So I'm glad that all of you have brought to the discussion. Huong, you had a comment on this? I'll just ask my question next after you.

LE THU: I'll speak very quickly, very short. So, I would just add to the discussion that-- and I would start with what, what others said, that the communication is very critical. I think from the regional perspective, regional understanding, there is merely no such communication and no sufficient strategic communication and explanation in terms of what is the difference between decoupling and de-risking, and what is and what are the new policies of the U.S. in the in this regard. Yeah, I mean, decoupling seems unattainable, really. And in fact, while pursuing this tariff war, there are certain sectors that actually have gone up between U.S. and Chinese trade. So, it is very confusing for the region. I think that's the first point that strategic messaging needs to be delivered enough to the region. It is certainly not. And as Tanvi also mentioned, China has been pursuing the self-sufficiency measures for a long time. And that somehow doesn't meet with that much of controversy, at least rhetorically, in terms of narrative from the region.

The other point is that with the de-risking, it's clear that there are certain key strategic sectors that the U.S. government want to focus on. And we've mentioned some of them, including tech, semiconductors, quantum computing, A.I., and biotechnology, and so on and so forth. Again, from the regional perspective, those are very high-level sectors, where not, not all of them have advanced in this area. So, they need a lot of investment. They'll need a lot of know-how transfer. They need a lot of assistance. This is not, and they're not going to be on the same page as U.S. and the more advanced economies, the allies. So, there is a lot of gaps in these key sectors, and they will prove you know whether this de-risking strategy is successful or not. This is a key.

And finally, I would add to is the point of this sustainability of this strategy, like with the TPP or later CPTPP, the U.S. ended up withdrawing. We have now the IPEF, a new initiative that involve,

when it comes to Southeast Asia, some of them, not all of them. And again, there has been a very cautious and rather restraint response. Similarly, when the first time the Indo-Pacific strategy was announced, it was a lot of confusion, and the regional countries have for a long time emphasized the confusing element of it. What does it mean is that policies, that narrative is a strategy. And we had to wait quite a number of years, even including to the next administration, to have that strategy fleshed out in details and explain to the regions of our long-time vision. A number of years that was-- there was no, well, warm welcome from the region for the Indo-Pacific strategy, simply because they didn't understand what that entails. And I think this might be similar trap that the de-risking is falling into, lack of sufficient explanation and understanding.

And finally, the very last point I would say is, I think countries in the region also are mindful of the domestic politics factor there, and whether they are protracting response or how do they response. Also, it's a question mark, how sustainable this policy will be, given that there is a looming election coming up as well. So, they won't respond until there is certainty, but there's also the domestic factor in it.

SOLÍS: Thank you very much for that. Very interesting. So, time is running fast. I have a couple of questions I would like to ask before I open up to the audience. And, you know, I think it was really important, like all of you did, to bring China more to the center of our discussion. And as I mentioned, in many ways, China started de-risking or decoupling from the world economy first, and with this self-reliance push they made in China 2025, the Internet wall, there are many things that China has done that increase the risk factor for many of its counterparts. But taking that into account, I have two questions for the panel. One is that the United States has moved to a different theory of the case of how you compete with China on technology, and National Security Adviser Sullivan, I think it was almost like a year ago in a speech — I don't think it was a Brookings, but somewhere else it does happen — said that, you know, in the past, the approach was that the United States was thinking of a sliding scale approach. You know, as long as we were ahead in some technologies from China, that was considered sufficient. Now, because of China's civil-military fusion, it's a different calculus. And therefore, the United States should try to prevent China holding certain technologies for as long as possible, stave them off for as long as possible. Are our close partners in the region align with that definition of what it takes to compete with China on technology? That would be my first

question. How is India, Japan, Vietnam, and others thinking about the new direction on the restrictions on technology that go to China? So, why don't I start there first.

URATO: Well, I have to say, I mean, this new strategy that Jake Sullivan, I guess, outlined, honestly speaking, I didn't know that that happened. But as far as I am-- I see the Japanese government, I'm sure that they they know these are changing the U.S. policy on technology or export restrictions. And so, Japanese government and the U.S. government are working very closely in this area. I'm sure that the Japanese government will follow what the new U.S. strategy is, and that's my, that's my guess. I'm sorry. So, that's all I can say.

SOLÍS: Thank you. And I forgot I had a second question to add to this issue. How is China likely to respond to the de-risking measures? Emily, for example, I know you've done a lot of work on export controls, and China recently tightened exports of germanium and gallium. But for the most part, I think after October 7th, the tone of the discussion was that China had been restrained in its response to that very important decision. Are we going to expect more from China going forward? So just add that to the mix whenever you'd like to respond to these questions.

URATO: China will continue [inaudible] positively or negatively responding to the challenge that the U.S. is imposing, and China will respond or retaliate [inaudible].

SOLÍS: Thank you. Did that-- did the mic work? [Inaudible.]

URATO: What I said [inaudible] U.S. policy is changing, change in U.S. policy, China will respond. I don't know if it's positively or negatively, hard to express this, but they they do retaliate. They do follow by, you know, a lot by expanding the U.S. as positively or negatively, depending on how you look at it. Yes, I mean, right-- outright, you know, response. Thank you.

SOLÍS: Thank you very much. I believe I'll go down the panel.

BENSON: So, I think there are there are a couple of things here. And this is controversial, so hopefully this doesn't get me canceled. But I actually do not see the current approach to export controls as a massive departure. Sure, it's significantly wider than in the past, but one of the primary attributes of export controls is that they have been ubiquitously aimed at preventing leakage of high-grade technology that could have a destabilizing effect on the global peaceful order. That is the same today with the current pursuit of export controls, but the target scope is a little bit broader, and the technologies are different. Historically, export controls have been aimed overwhelmingly at the nonproliferation agenda. We're seeing export controls shift to confront today's challenges. Again, this

is mostly an attribute of a changing international system with the proliferation of new and emerging, and foundational technologies. If you look at Iran, for example, export controls have been exceedingly effective at making centrifuges cost a lot more and take a lot longer to obtain. That's a job well done. And I think that's really the goal of the U.S. export controls currently, is to prevent a long-term destabilizing effect on the global order in terms of Chinese responses.

I think there have been several cases throughout the past year whether or not it's making it more difficult for economic intelligence firms to operate in the Chinese market or the exclusion of micron chips from advanced infrastructure in China, or, as you note, the July application of this new rule to implement licensing restrictions on gallium and germanium. Now that the dust has settled on the gallium and germanium response, we see that it was essentially a warning shot, which again I think is a reflection of the acknowledgment that the export controls could have been a lot worse for China. They did not respond in kind. There's also a deteriorating macroeconomic environment in China, and so they're not probably able to respond in kind right now.

But what's interesting, and other colleagues have noted, is the role of the private sector here. So, if you recall right after the gallium and germanium licensing restrictions, a lot of mining companies came together and said, "Don't worry about it. This is a warning shot. We can scale up any time we want. We can absolutely find an alternative supply." Well, who's working on it? I have not seen any new news that's about contracts or new processing facilities, and that's something that will have to change moving forward. We really need to get that last 10 or 15% of the supply chain finished where we're actually building the facilities. And so, this is a good opportunity to demonstrate the utility of the friendshoring agenda, and also our ability to carry it out together.

SOLÍS: Thank you very much. Any other comments before we open up.

LE THU: Can I comment on the technology question? And just to draw a parallel to the previous case of the Huawei ban, because I did a study on the regional responses in Southeast Asia on it, and draw a parallel to the current landscape. So, just a preface is that the technology landscape capability and policies across 10 Asian countries, or 11 if you count Timor as well, is very, very, very diverse. We have a very advanced Singapore, but we have also in the region countries like Laos and Myanmar, where you don't have even, you know, very stable or reliable Internet, or Vietnam for that matter, which had issues with its undersea cables, four out of six had been disrupted for months, for example.

So, this is a very, very diverse landscape, yet the demand and growth is very rapid. So, a Google report, look at only the Internet economy of the region. This is going to be the fastest growing regionally when it comes to digital economy and the connectivity and an Internet economy in itself. So in 2020, this region is going to be producing trillions, it becomes a trillion twenties, so to speak. And so, it's a huge market, huge potential, huge growth there, while it's still very very uneven and diverse.

What they are interested in is, like I said before, a lot of access to support in their digital ambitions. They have huge digital economy ambitions. But also, there are some countries, more than others, have very high ambitions in terms of industrial policies. And Vietnam being an example of that. I mentioned earlier in their opening remarks about its ambitions in playing a bigger role in the global semiconductors supply chain. Now, I think ideally they want that support from both U.S. and China, and what they are afraid, and that was fleshed out in that Huawei ban in the 5G choices, is that they are worried about the potential of "digital iron curtain," right? They are not in the position to be in either can because, for example, yes, when U.S. and some partners and allies introduced the Huawei ban for the 5G, a lot of countries in the region have been using Huawei for their 3Gs and earlier generations, and it's very hard to shift, right? And there have been, of course, security considerations in among the countries in terms of choice. And while they'll never ban outright Huawei, they opted for - some of them opted for other providers. And that, for example, Vietnam and Singapore and a couple of others as well, opted not to choose Huawei, but they will not outright ban Huawei.

I think there is also an issue of, you know, security considerations there. And when it comes to this time, I think with de-risking, it is very hard for both countries to choose again. And I think they need a lot of assistance, which China also has been providing in various initiative, whether it's training the IT capacity in the region, building the incubators. This is something that is a huge demand of the region, especially during and post-COVID, where everyone was into that digital Asian bandwagon. But a lot of countries in the region don't have that capacity. And I would just say that they do want to have a cake and eat it, and the prospect of that "digital iron curtain" is certainly something terrifying for the region.

SOLÍS: Very, very interesting.

MADAN: [Inaudible]

SOLÍS: Okay. Thank you very much. So you've been very patient. Now it's time for questions.

I might take two questions at a time depending on how many hands I see up. Antoine?

AUDIENCE MEMBER: Antoine van Agtmael, Brookings trustee and a former active investor in Asia. Two questions. One is, will there be a point where China's regional dominance becomes so great that de-risking simply becomes too risky for its Asian neighbors? Second question is, I have been surprised by how fast the obsession with efficiency has turned into an obsession with de-risking, but both have their costs. Have there been any serious studies made on-- to quantify the impact on efficiency of de-risking efforts, you know, on economic growth and inflation? Let's not forget it's a form of protectionism. And I find it interesting to see the example of how business visits to China have dropped off 99%. I mean, that's a stunning statistic for someone who travels quite a bit to China.

SOLÍS: Thank you very much. If I may add [inaudible] Professor Todo's question, and then I'll ask the panel to respond.

AUDIENCE MEMBER: Thank you very much. I'm Yasuo Endo from [inaudible] University Tokyo. I should, one, mention-- that I'll mention, the lack of communication which leads to our kind of concerns in the region. And in that sense, I believe that Japan could play a significant role in bridging the U.S. and Asian countries. And also, I would like to ask Huong and Tanvi whether you would agree with that. And if so, what kind of our areas, in particular Japan, could play a significant role? Thank you very much.

SOLÍS: Thank you. Excellent questions all around. Responses from the panel?

URATO: Can I respond to the first question about the possible China's dominance in East Asia? I think you're talking about firstly, economic dominance. I mean, China was [inaudible] but I think political dominance, I guess dependent, but pretty much depends on, as far as I see, it depends on the economic dominance too. So being an economist, I'd like to talk about the possible Chinese dominance in economic activities or GDP, I guess, in East Asia. Well, without considering the problem they're having right now, if we look at the long-term trend like that show, you know, demographic change, the population is going to decline quite, you know, quite soon. I guess working population, working population is going to decline much faster, earlier, than the population itself. And so, so I mean from that point of view, this is just one factor which, well, has a very strong impact on future economic activity in China. What I'm trying to say is that it's very unlikely that China will become a dominant in East Asia, considering or comparing China's performance and performance of other countries like India, which is going much faster than China, Indonesia, some other Southeast Asian nation countries, you know, ASEAN countries. So again, I think, I mean, that's a very interesting

question that you posed. But from the economist's point of view, this is a very unlikely possibility. And that's my response to the first question.

SOLÍS: Thank you very much. Tanvi?

MADAN: Yeah, I think I think the question of China's responses or China's dominance is connected in some ways to that China's response question in my mind, and I'll just say something about that. But I think part of it is in terms of questioning whether there's a straight-line trend to that regional dominance, both geopolitically and economically, partly because I think it depends on what others do. Will-- you know, do you take it as a fait accompli if you're a smaller state in the region? But-- yes, if you think it's inevitable and that you don't have other choices. So, I think our framing needs to be, not, I want you to choose me. It is, I am coming to you with choices because I think it regionally, and Huong might think differently, but I think in the region there's a general tendency to want that choice. And so as long as we're offering it, and I think this is where not just the U.S., but Japan, Australia, India, Korea, European countries can play a significant role in Japan.

I would just say I would recommend my colleague, Mireya's new book on "Japan's Quiet Leadership," because I think, you know, pointing out that while we think about it as dominance, once we start breaking down the numbers, China as a trade partner, yes. But as an investment partner, if we clubbed together kind of the like-minded significant economic and technology role, if you start thinking about connectivity, Japan in particular, but Korea as well, India and South Asia, you start to see Europeans. We just don't think about it as a collective because there isn't a collective security mechanism. But I think you, as long as you see this collaborative, coordinated mechanisms amongst like-minded and it means making things, as Emily was saying, things like the Mineral Security Partnership real, I think you will see countries not wanting one one large kind of hegemon.

I think the other thing is effort. And I think this is a frustration for China. In some ways you'd think it's a large country. It feels like it should be able to dominate its neighborhood. Problem for China is it surrounded by several large countries. So, you know, India, Japan, Korea, in terms of especially economically, but also in the region, I mean, the countries in Southeast Asia aren't with whom it has geo-- has had geopolitical tensions, aren't exactly small as well. And so, I think in some ways you will see that as long as these countries themselves are growing, you will see that, you know, they will have, I think they will, they will try to kind of resist this dominance, so to speak, and benefit from other countries diversifying.

So even if, you know, it's Chinese companies going in, investing in Vietnam or Indonesia, and then trying to export here, at least we haven't created a single point of failure and at least they're going to have to do it from there rather than here, so distributed. And the reason I think it's connected to China's response, I think because of that reality, that it will get resistance in Asia to some extent of choices offered. I actually think along with continuing to occasionally have retaliatory moves like, you know, restrictions, export restrictions, I think you'll see, one, China invest a lot more or double-down on self-reliance. And the other thing I think you'll see it do is invest a lot more. And-- but I mean in money and but also time, in terms of the developing world outside Asia, so, Africa, Latin America. Because the other thing that that'll help them do is impose standards, potentially. It's their own standards.

SOLÍS: Great. Thank you very much. I've been remiss. I have not brought the online audience and we care about the online audience very much. So I'm going to ask a question that we received. I'm going to take one more question that, I think I saw someone raise your hand, and then I'll go first to Emily and Huong because I didn't give you a chance in the last round. You can address the previous questions or the new ones and then it'll be a wrap in 3 minutes. So, a lot to accomplish. So, I think that this question comes-- it comes from Max Murray-Brooks from the U.K. government, and I think it ties in very much with the discussion just now. And he's basically asking whether we're actually seeing a more natural process where labor cost increases in China are leading to these relocation of manufacturing activities and the slowdown of the economy might be another factor that we add the demographic shift. So again, whether China's economic influence in the region — and here I'm adding words that is not his question — might also be impacted by these broader demographic economic trends. And then one last question.

AUDIENCE MEMBER: Great. Thank you very much. Daniel Mellsop from the American Enterprise Institute. This is the topic of of conversation amongst all the policymakers around the region now, so it's really important that you're having this. First, a comment on the de-coupling versus de-risking. I think it's pretty clear that no one wants decoupling, right? That's what we're doing with Russia. That's what we do with the long-term goal with North Korea, Iran, you know, we don't want to know. No country really wants to decouple with, with China. I think our politicians are being quite clear on that. It's de-risking and not decoupling as the as the sentence they're using for countries in the region, though, you know, China is the number one export market trading partner for most countries in

the region. So, they least of all don't want decoupling. When it comes to the de-risking options, it's a little bit different to the U.S., the policy levers. The the idea of countries in the region imposing sanctions, trade sanctions on China is, you know, something that very few would be willing to to comprehend, given the the risk. It actually increases the risk, it doesn't decrease. So, the other side of that coin is trade liberalization with with partners in this this friendshoring idea. But that's currently butting up against the trend, at least here in the U.S., of of moving away from trade liberalization. So, I'd be keen to get some views from the panel on on how we sort of make that, make those two competing ideas work.

SOLÍS: Thank you. We need another panel on that, but one minute left, Emily and Huong, and then we'll see someone else that-- well, we're borrowing your time. Go ahead.

BENSON: Let me try to shoehorn my response into several questions there. I think the 99% drop in business visits is alarming at face value, but it's worth unpacking some of the features of why that may be the case. And I don't think there's one reason in particular. I was talking about this with a friend the other day. We always point the finger first at the United States as leading a certain policy, but China has engaged in a lot of behavior that is chilling investment. And if you look at the U.S. bid to implement this new app on investment screening mechanism, sure, that is probably having already a chilling effect on bilateral investment in China. At the same time, there are some very practical reasons that explain the lack of bilateral business ties. For example, last time I looked at price flights to Beijing, it was \$15,000 for economy. There is an insufficient supply of literal airplane flights to China right now. Also, people are traveling less. We're living in the Zoom era, and I think we need to kind of step back sometimes and think there are other factors at play. It's not all of this sort of "doomsday" geopolitical competition. Of course, those features are there, but there are some practical hurdles as well.

SOLÍS: Thank you very much. And very briefly, if you don't mind.

LE THU: Thank you. Very briefly on on the question of dominance, just quickly and to relate to what Tanvi stated, yes, Southeast Asian countries don't want to make outright choices. I would argue that some of them have made choices long time ago. It's a question of whether they stick to it or not or are making new choices. That's another thing. But they want to have options. They want to have alternatives. Japan has been mentioned, and other countries, including the EU, Australia, India, and so on and so forth. Japan plays a very important role, especially in Southeast Asia, because--

and in fact, in terms of soft power, it is it is really the choice if they had to make. I think the trust towards Japan is the highest in the region. So, the proposition of Japan playing a really important role in strategic communication is one of the key one in terms of diplomatic role. I wanted to make a point back to the dominance, and this is something I've written before and I've advised U.S. government, that you have to be in it to win it. And in terms of China's being there and very intertwined in every possible way with the region, whether they like it or not. China is in RCEP, for example, U.S. is missing in the trade. There is no question about, you know, who's going to set standards. You can't set standard if you're not there. Simple as that.

And in terms of economic versus national security, there is also a question of really mundane factor of affordability that was a factor in 5G Huawei as well. And it will be a factor in many other things, including infrastructure. Yes, for example, countries in the region are apprehensive of Chinese security challenges, and Vietnam being at the forefront of it and perhaps staying more away than other countries from BRI. But that doesn't change the fact that the Vietnamese market, as well as any other market, are overflowed with Chinese products simply because of the quantity and the prices. And that's not going to change. And the more users restrict Chinese products, the more they will overflow the Southeast Asian and developing countries, Latin America, Africa included. So, the argument of affordability is something that U.S. often forgets, but it is often the one that really leads in decision-making in the regions also there.

SOLÍS: Thank you very much. Thank you for joining us today. Can you please join me in thanking the panelists for excellent remarks today.