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DOES THE US NEED TO SEEK TO LIMIT CHINA'S ECONOMIC GROWTH IN ORDER TO
PROTECT ITSELF?

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INTRODUCTION:

RYAN HASS
Director, John L. Thornton China Center
The Brookings Institution

FEATURED DISCUSSION:

CAMERON F. KERRY
Ann R. and Andrew H. Tisch Distinguished Visiting Fellow, Governance Studies
The Brookings Institution

MARY E. LOVELY
Anthony M. Solomon Senior Fellow
Peterson Institute

PAVNEET SINGH
Nonresident Fellow, Foreign Policy
The Brookings Institution

LIZA TOBIN
Senior Director for Economy
Special Competitive Studies Project

MODERATOR: BOB DAVIS
Former Senior Editor
The Wall Street Journal

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HASS: Good afternoon everyone, and welcome to today's debate. My name is Ryan Hass. I'm the director of the China-- the China Center here, as well as a senior fellow at Brookings. And it's my pleasure to welcome all of you in person, as well as our live virtual audience from around the world, to today's debate, "Does the United States need to seek to limit China's economic growth in order to protect itself?" Today, I am immensely pleased to be joined by a group of leading experts and friends to help illuminate the strategic, commercial, and ethical implications of this question. They will engage in a spirited and I promise collegial debate that will be moderated by Bob Davis. Bob is a former senior editor at the Wall Street Journal. As a journalist, Bob covered economic relations between the United States and China for decades. And in 2020, he coauthored "Superpower Showdown," which chronicles the economic and trade battles between the two nations.

So now to briefly introduce our debaters. Mary Lovely is the Anthony M. Solomon senior fellow at the Peterson Institute. Her current research investigates the effects of China's foreign direct investment on global trade, the strategic reform of U.S. tariffs on China, and movements in global supply chains. Cameron Kerry is the distinguished visiting fellow at the Center for Technology Innovation at Brookings's Governance Center. He previously served in a number of senior roles, including as acting secretary of commerce. Liza Tobin is senior director of research and analysis for economy at the Special Competitive Studies Project. She previously served on the National Security Council staff as China director, where she led the development of multiple U.S. strategies and policies, including on trade and economics. And lastly, but certainly not least, Pavneet Singh is a nonresident fellow in the Strobe Talbott Center for Security, Strategy, and Technology, as well as the Artificial Intelligence and Emerging Technology Initiative at Brookings. He previously worked on China policy at the White House and the National Security Council staff, where I was proud to serve alongside him.

Before our debate gets underway, I would like to thank the Ford Foundation for their generosity in making this initiative possible. They have always shown respect to our research independence, and this event reflects only the views of the speakers themselves. A final reminder that we are on the record, and we are streaming live to an audience around the world. So if anyone has questions via email, they can send to events@brookings.edu or on X, otherwise known as Twitter, using the hashtag global China. A question-and-answer session will conclude our event today, so

please feel free to organize your questions to pose to the group after the debate ends. With that, Bob, I will turn things over to you.

DAVIS: Hello. Thank you so much. I appreciate the invitation. Is the sound okay? Good. So I thought I would start by just reinforcing how long it has been U.S. policy that a prosperous China is in America's interests. And I did this by looking at the national security strategies of the various administrations, which set out the overall defense strategy. So if you look back, the first one was done under Reagan. It said, "The U.S. desires a close, friendly, and cooperative relationship with the People's Republic of China outside of any alliance and without any illusions." So we're getting in that mode. Then the Bush administration post-Tiananmen, the first-- it's the first mention of engagement, says "Consultation and contact with China will be the central features of our policy, lest we intensify the isolation that shields repression." Then we fast forward to Clinton. And under Clinton, this is where we first get the specific language, "It's a stable--" he said, or the NSS said, "A stable, open, prosperous, and strong China is important to the United States." That was the same language picked up in 1998, 2000, 2002 under the Bush administration, 2006 under Bush, 2015 under Obama, 2021 under Biden. And then in September, just last month, Biden, at a press conference after the G-20, said, he said, "Well, I think China is in a difficult, difficult economic problem right now. But as I said, we're not we're not looking to hurt China sincerely, sincerely. We're all better off if China does well. If China does well by the international rules, it grows the economy." Now the great exception to all this, of course, was the Trump administration, which didn't use that language whatsoever and talked about China as a strategic competitor and as a revisionist power.

So I think we're back to that question. Is it-- is a prosperous China in America's interests? Or as the title of the program said, does the U.S. need to seek to limit China's economic growth in order to protect itself? And I thought we'd start with Mary, who is a-- who is our Ph.D. economist here, and ask her, you know, I mean, the the narrative now about China is all about China's economic problems. So has the problem essentially solved itself? Do we have to worry about China limiting its growth, or is China limiting its growth by its own mistakes?

LOVELY: Sure, thanks for the question, Bob. And it's great to be here. First, it's true that China's growth rate has fallen, but that's clearly something we would have expected anyway as its economy became more complex, more mature, and of course, facing certain problems, including the fact that its labor force has stopped growth, in fact, is starting to shrink. So we can expect the Chinese

economy to grow between four and five percent. Many observers think it could grow up to two percentage points faster if it had different policies, particularly ones that did not privilege state-owned sector above the private sector, and return to a more dynamic market environment. Having said all that, I don't think it's obvious at all that a more prosperous China is more dangerous than a slowing China. We all know that in auth-- authoritarian states, if the state wants to extract resources to be used for nefarious purposes, it has all the means at its disposal. So, it's not at all clear to me that slowing China's growth is in fact security enhancing. It may actually be the opposite.

DAVIS: So, I thought we'd switch to Pavneet. We're not going to go necessarily, one, two, three. Pavneet coauthored a report, one of the original reports, on Chinese technology advancements, which led to the creation of the Defense Innovation Unit. And I thought I'd ask, so how much of a competitor to China-- to the U.S. is China? And where do we need to impose limits? Yeah.

SINGH: Thank you, Bob. And it's great to see you and thanks for your reporting over the years. This is a tremendously complicated relationship and the subject matter itself is going to elicit opinions on both sides. But I think if you take sort of a sober view of just a competitive stance, I would say China is perhaps the most formidable competitor we've had since the end of World War II, leave aside the Soviet Union in the Cold War. But the dimensions of the competition are not your traditional military-to-military competition, even though that is quite substantial. In fact, the Chinese are laser-focused on the economic and technological dimensions of this competition. And on that score, if you look at the size of the economy, second largest economy in the world, first by purchasing power parity, if you look at the industrial policies that are highly focused on science and technology, whether it's Made in China 2025, or China Standards 2035, or subsequent science and technology strategies.

And then if you look at what I kind of refer to as their innovation and economic stack, from educating their workforce, from providing jobs in high tech science and technology, from investing in significant amounts of R&D, of emerging technologies, will make-- that which will make up the fourth industrial revolution, some of which we are already starting to experience in fits and spurts, but the bulk of which are coming over the next several decades. If you put that together, the sober analysis is they are an extremely formidable competitor, and we should take it very seriously with respect to limits. You know, the administration has a range of tools, export controls, investment screening, exclusion orders, tariffs, AD/CVDs, and they are applying those across the range. And as I suspect many of you know, in the coming weeks, we'll probably hear more about enhanced export controls. I

would focus, I mean, there are areas to increase limits on, you know, thinking about export controls and further limits on semiconductors, tooling, photoresist, etc., but my thesis, and what I've put in my argument is, it's really about thinking about the offense. Limits are going to be time-bound. Countries will get around that. And what we need to think about is, how are we investing in our own system and taking advantage of the tools that we have?

DAVIS: And Cam. Cam coauthored a very interesting report on the way to deal with the risk from China, but not to shut off China. So, maybe you can talk a bit about how you would limit it and where you would limit.

KERRY: Sure. Thanks, Bob. I mean, I think what we looked at along with Matt Sheehan at Carnegie, was really, I think, a microcosm of the competition that we are talking about. Research and development in artificial intelligence, particularly, and other advanced technologies. So really, the nub of what Pavneet is, is talking about. I am-- and, you know, what we proposed is. right, is a case-by-case approach. We called it, "Rebalancing the R&D Relationship with China," very similar to de-risking, which's become the the term of choice at least between the administration and the EU. Not cutting off full research cooperation altogether, but not business as usual. And, you know, we need rebalancing to maintain a connection but addressing the risk, but precisely because we are so entangled in our research relationship. Science today is, is extraordinarily collaborative across institutions, disciplines, and across national borders, and that's particularly true when it comes to A.I. And the U.S. and China are each other's largest collaborators in R&D. China is also a largest collaborator with most of our allies and with the leaders in A.I. research and development. There are some significant vectors for transferring knowledge, study by foreign students being a major one, publications, conferences and corporate labs. All of those things have value. They add value to the economy. They add value to the store of scientific knowledge, and they help to accelerate advances in technology. So, we need that. We need the students. You know, more than 50% of the student in American universities come from abroad, and many of those, Chinese students. And more than half of those Chinese students stay in this country to work after they graduate. Similarly, publication today increasingly means open publication, rushing to put things up on Ex Arca to do open source. But all of these things also have risk. There are dual uses. They trans-- their forms of knowledge transfer and they contribute to the technologies of repression. So, we need to do that. And, you know, to consider what's the knowledge that would be transferred in any given research collaboration. Who is doing the

research? You know, what are their party affiliations or do they come from one of the Seven Sons institutions that that support the army? And what is the general state of scientific knowledge? You know, is this something that would be obvious, it would be available, or is it contributing to something unique? All of these things are not things that either the government, or the private sector, or academia can do on their own, so it's going to take a collaboration and accommodation. And, you know, we talk about creating a new institution led by academia, led by the private sector, but with government participation to share knowledge, share guidance, and really to inform individual institutions, labs, principal investigators on how to deal with these these issues and the very difficult questions that they involve.

DAVIS: And these-- and you've done great work, really, really interesting work on trying to figure out how Xi Jinping sees the world. I really would recommend, recommend some of the papers that you've done. But when we talk about trying to limit Chinese economic growth, won't that just feed into the the sense in China, the sense that Xi Jinping has that we're trying to contain China, we're trying to roll it back? Wouldn't that just make things really worse?

TOBIN: That's a great question, Bob. And I really appreciate Brookings for organizing this great event, so thank you for having me. Bob, really the horse is already out of the barn on that one. The CCP for a very long time has assessed that the U.S. is seeking to contain it. So that is a long-standing assessment of the party that's rooted in their ideology, this Marxist-Leninist ideology that really views things like U.S. democracy promotion, U.S. promotion of liberal, liberal values, of liberal capitalism and things of that nature as a threat, wherever they are around the world. And so that's kind of in the DNA of the CCP going way far back. So it long predates the U.S. shift towards strategic competition in 2017. So, I think that right now, whether the U.S. says we're not trying to contain China, or we are, it's really kind of cosmetic and it's not going to fundamentally alter the CCP's viewpoint.

But I think maybe there is a question behind your question, and this-- what we're here to debate really, should we be trying to limit China's growth? I sort of-- I think the question is framed wrong and that it's not the right way to frame a question about U.S. policy and what our objectives and our end state should be. Our objective should be framed around American interests: pursuing American security, American prosperity, and American values, not around outcomes in China. So, I think if you're starting your strategy and your policymaking around "What is the outcome for China," you're just going to go off on all kind of logical circles. Chinese outcomes are ultimately up to China

itself — the Chinese people, the governing regime — not up to Americans. However, I think we can still talk about the end state we would like to see in China. And I think that's different from saying that the U.S. is dictating where China is going. And the end state that we would like to see, of course, is a free, peaceful, and prosperous China. In that order. And that would be the best possible outcome for China, for the United States, and really for the entire world. So we can continue to hope for that future. We can talk about that future. That should animate State Department messaging. But really, it's up to China. And the CCP is moving China in the opposite direction, unfortunately. So, to our great regret and sadness. We tried for many years to engage China and invest in their development, and some of the, the examples you gave at the top kind of elucidated that.

DAVIS: And a follow-up question for you. So I really recommend, if people haven't read it, to read the papers that they wrote, you know, for this conference and particularly the back and forth afterward, because it's-- they're really, really quite good. And when I was reading the paper that you wrote, it struck me that you were actually concerned about China not growing. Not that the U.S. trying to limit China, but China on its own slowing. The impression that I had was you thought it might be like what happened with Japan. Japan was a big issue in the 1980s. I covered it endlessly. It seems ridiculous at the moment, but it was seen back then as even maybe a military threat. And then China's economy tanked, and we didn't care about China--Japan, rather. Japan's economy tanked; we didn't care about it. And you also sort of raised the issue of maybe a slower China would be a more militaristic China, kind of wag the dog kind of scenario. So maybe you can explain that. And do you-- is that just a concern or is there anything you would point to concretely that would give you a sense that China might be more militaristic than it is now if it was slowed?

TOBIN: So the point I was trying to make was not necessarily that, because that's a that's a great debate, is-- will China, will the CCP become more internally focused if it faces domestic problems or will it become more aggressive abroad? And I think there's, there's a great political science debate on that. But what I was-- the point I was trying to make was simply that, if now that China's growth is slowing rather dramatically and, you know, by all accounts, they're past the stage of miracle rapid growth probably forever. I mean, they'll settle into kind of perhaps mediocre growth trends, perhaps a little worse, perhaps a little better. But that is not a reason for U.S. policymakers to kind of take our foot off the gas in terms of doing all of the things Pav recommended in his essay, of doubling down on domestic competitiveness. Simply because China is already a massive economy.

They're already the second-largest economy in the world. They have lots of money and they can continue for many years to kind of shortchange the farmers, shortchange them on healthcare, social spending, because they're autocrats. They can make those choices and direct the resources to technology and to military development. This is not the same situation as the Soviets, where maybe they were spending 15 or 20 percent of their GDP on military development and they basically bankrupted themselves for military spending. That's quite different from the China situation where they have a large economy, even if they're only spending three, four, five, six percent of GDP on military. That's a lot of money.

DAVIS: And Pav, do you agree? I mean, do you think a slowing China is a more or less militaristic China?

SINGH: I mean, it's a great question. I'll preface, I'm not an expert in China's military per se, but what I observe is that a lot of the technologies of the future are essentially dual use. As a point of reference, if you look at the United States, we have any number of lists out there, but the Department of Defense has been quite clear that there are 14 critical and emerging technologies that range from cyber, AI, biotech, hypersonic weapons, etc. Eleven of the 14 of those technologies are derived and led in the commercial sector, and that's in R&D, commercialization, and scaling. The Chinese are quite focused on this. They have industrial strategies, civil-military fusion, Made in China 2025, where they have invested significant amounts into these technologies to modernize not only their economy and grasp leadership in the fourth industrial revolution but to use in concepts of operation when it comes to military competitiveness. So if we're thinking about the South China Sea and the East China Sea and we're thinking about power projection in places that are far geographically from the U.S., we will be competing with a competitor adversary that has mass, that has advanced technology, and has proprietary technology. Which previously, in previous conflicts, we had the overmatch in some of these technological revolutions that gave us the, the time advantage. If, if China does slow down, I don't think it slows down their military capacity per se because they are leveraging and integrating a lot of these advanced technologies into their concepts.

DAVIS: So let me throw this up, open to anyone want to answer it. So, what would-- if you had your druthers, what should the U.S. be shooting for? I mean, what's the ideal economic relationship with China? Is it always a China that's number two? China that, you know, sends us, you

know, semiconductors for cars, but not leading-edge semiconductors, sends us furniture and so on, but is always essentially number two? Whoever would like to take it. I mean everyone --.

LOVELY: Well, I think that was the Chinese fear, and going back probably to 2001 when it joined the World Trade Organization, that it understood that it could not become a rich country by being the world's factory and sort of growing on the backs of workers being underpaid, and amazingly developing very rapidly in terms of productivity. So they realized they had to turn to technology and increasing the productivity of their manufacturing sector, their service sector, their government sector. So we tend to see, I think, everything or there's a tendency to see everything through what's in our own interests, and also to see everything as a threat. So Pav just mentioned as competitor, you mentioned as a competitive adversary, there's no talk about competitive collaborator.

And yet if — and I agree — we are going to be the two leading technological powers of the world, you know, are we headed to a world which is completely bifurcated where China — which is increasingly making deeper and deeper inroads into the global south, we already know through the BRICS — is there going to be two worlds? And think about that world. You say, "Well, that's okay, we'll have our standards. They'll have their standards. We can be number one." How are we in a world where there's biotechnology revolution and half the world engages in certain types of standards? Think about cloning or other things, or other uses of A.I. That's not a world that I particularly want to live in.

In other words, it's-- there are other paths to think about how the U.S. and China could collectively create some guide-- you know, guideposts, some guardrails on how we use these technologies. And completely thinking about it in terms of competition, I think, doesn't allow for that type of discourse. We hear, at least from President Biden, talk about China as a competitor and a collaborator where possible. And I think we, by making this all about national security and not about commercial security and also ethical security, what do we-- how do we want the world to be shaped? We pre-- you know, we really preclude some of those opportunities.

DAVIS: And Cam, you were--.

KERRY: Go ahead, Bob.

DAVIS: No, I was going to say, I like this notion of a competitive adversary. I mean, you were trying to sort of lay out a way you can collaborate, and it sounded good, and like case by case, we should look at it. Does this make sense? Does that not make sense? But is it practical, I mean, do we

have enough information to, you know, to do that? Is it-- wouldn't it be better to separate a little bit more?

KERRY: I'm-- look, I don't think this is an either-or situation. We have to do both. We have to collaborate in a lot of ways because we are we are intertwined. We will, regardless, continue to be. And, you know, I see China as in a race not just with the United States, but in a race with itself. You know, it has faces not just economic challenges, but, you know, a big part of what I dealt with in China was anti-corruption and rule of law. I'm-- and we heard President Biden talk about, you know, a China that plays by the rules, in those early statements spoke about and an open China. Some of those things are bifurcating. China wants to create a different set of international rules, a different international order. And we are certainly seeing the forking of, of the global internet. But there will still be areas of collaboration.

And, you know, I mentioned the corruption issue. You know, it was a little bit of a strange portfolio because, you know, dealing with the Ministry of Supervision, you know, was dealing with people who had a complete identity with the party committee on discipline and inspection. And we saw Xi take anti-corruption and use it as a political instrument. But, you know, seeing that, you know, that had to be done for the survival of the party. Other things have to be done for, you know, the survival of the economy and China's survival. They are racing, you know, to develop clean energy at the same time as they're, you know, building coal plants at an extraordinary pace. Now, they are trying to wring out debt without bringing down the economy. You know, this is a delicate dance. And, you know, I agree with the views that that, you know, China under pressure is potentially a threat, certainly a greater threat. We have seen that. But, you know, Xi, you know, under pressure, COVID, with the worsening of U.S. relations, will double down on nationalism and xenophobia. He's far from the only one to do that, so he's not unique there. He is unique when it comes to the control of the levers of public opinion.

DAVIS: And Liza, what do you think? I mean, in terms of like collaborate, not collaborate. China's number two?

TOBIN: I think it's-- we have to recognize that the CCP is the one changing the status quo here. The United States for decades has been open and reached out continually to China for collaboration in bilateral and multilateral contexts on everything from science to technology. We've even had intelligence and military exchanges, mil-to-mil dialogs, climate change talks. And the CCP,

nine times out of ten, is the one shutting down the dialog channels, refusing to pick up the phone, backing out of its agreements.

So, I think you have to start with that very realistic understanding of who's on the other side of the table. But, you know, to get to the heart of the matter on these, you know, this dynamic in terms of research, collaboration, and sharing science, and then to bring it back to the question that we're here to discuss, which is should we slow China down? We need a policy of brain drain. We need to continue welcoming Chinese students with the commonsense guardrails that Cam was describing just now. We need those guardrails, and some of those are in place and they need to be continuously updated and evaluated, but right now, you hear that talent, Chinese artificial intelligence talent, science, and tech talent wants to leave the country because of the political and commercial environment that Xi Jinping has created with his policies. That should be a boon to the U.S. if we can just fix our immigration policies. Canada and others are smart enough to benefit from this. So there's that small percentage of problematic Chinese researchers that we need to try to filter out, but the vast majority of them, let's bring them here. Let's benefit from these unfortunate policies that Xi Jinping is enacting and that will slow China down. I mean, talent is our biggest gap in terms of competitiveness. So that will have a negative effect on China, and we should actually run headlong into those policies.

DAVIS: Yeah, but, but sensitive filters. Not something that brands, you know, every Chinese student or Chinese surnamed researcher as a potential threat. But some--.

TOBIN: Sure, which I would argue are the policies that are in place. I mean, you mentioned the Seven Sons universities, those are exactly the visa screening policies that were put in place in in late 2020, those very narrowly focused, and they had an impact on, I think, fewer than 1% of Chinese researchers and students applying for visas in the United States. So it got a lot of bad press, but it wasn't accurate.

DAVIS: Pav, I want to ask you, so I mean, China is clearly ahead — excuse me — in some areas like solar, electric vehicles, critical minerals, this trying to stay ahead of China, just trying to limit China, does it also mean limiting foreign direct investment from China? So, in other words, it's been very controversial now that there have been some-- Ford, for instance, is talking about a JV with, you know, the leading Chinese battery manufacturer. Does that make sense to you? Should we, should we encourage that sort of investment so the U.S. would play catch up?

SINGH: Yeah, and if I could just comment on the previous question, which is-- I don't know that there's a lot of disagreement that China's economy will be larger than the United States one day, and frankly, India's economy will probably be larger than the United States one day just based on population numbers and productivity rates and where they are. I think the key part of this last question is just what norms and standards and values do we want to underwrite: economic transactions, political transactions, and social transactions. And we, of course, worked very hard after World War II to bake those into multilateral institutions. What we find today is that the WTO, the World Bank, the IMF, you know, the variety of institutions that we have that are meant to bind and shape behavior are being abused and violated in every which way. And although there are dispute mechanisms and so on and so forth, we just haven't utilized them or applied them. And I couldn't agree more with Liza that we shouldn't stop aspiring for the world that we want, despite the fact that others may have a stronger economy. We may be second, we may be third, but we shouldn't stop aspiring to a stronger economy.

To your question on limiting foreign direct investment, you know, this is a tricky question. I spent a lot of time looking at sort of early-stage venture capital investment, which is previously the ungoverned area for people to get insight into our innovation community. What we found across the board was that for a small amount of dollars in our startup technology leading-edge companies, you can get a lot of insight and transfer of intellectual property that was ungoverned, as I said, by the federal mechanisms that exist when it comes to foreign direct investment. You know, I think it's now in the open source that several of the previous investments that China was putting into the U.S. were for strategic reasons. They weren't for economic reasons. I'm all for job creation, I'm all for enhancing productivity, you know, reducing inflation. But if it's, if it's not on the level, which we discover through our intelligence analysts, which we discover through open source collection and other things, I think we are very-- we have the right to say we're going to reject this investment when it comes to things like batteries. This is a very controversial topic at the moment. The Inflation Reduction Act obviously is providing a significant amount of subsidies to resuscitate a manufacturing sector here in the United States.

We discovered over the last three to four years that in light of COVID, in light of economic tensions, that our supply chain for critical minerals was not resilient. We found ourselves wanting, whether it was semiconductors, batteries, pharmaceuticals. So, I don't think it's a problem if the United States policymakers say it is now time to resuscitate our manufacturing industrial base. I don't think

it's a problem if we use tools like subsidies and tax credits. Where it becomes conflictual is when companies come from overseas and take advantage of those subsidies in addition to their state-backed subsidies, and then go around the world and dump in markets to outcompete U.S. companies. Now, U.S. companies are not alone in accepting blame. We've had generations-- decades, I should say, of share buybacks, dividends, outsourcing, offshoring, and so we also need to be introspective about the corporate management and how we conduct business in order to build a manufacturing base. It can't be that we just penalize others.

DAVIS: Anyone else, in terms of the question about foreign investment?

LOVELY: Well, I'd just like to correct one thing. I think if you're talking about the foreign CATL, it's actually not a joint venture. It's a technology leasing--.

DAVIS: Right. Where they get to get the money, right?

LOVELY: Well, and to get the technology, right? So, I mean, in my view, Ford should definitely learn from CATL, which allegedly is the best technology in the world, and we should be using it here in the United States. I don't think we should be too proud to learn from others. And so we'll see how that battle works out. I know GM is against it. GM, of course, propped itself up for years with profits that it earned in the Chinese market so-- and U.S. companies did take subsidies, subsidies from Chinese provincial governments for years. So there's that, I guess. You know, this is an interesting discussion. I think that the recent industrial policy in the United States came from basically, well, laying bare of our own weaknesses that happened during the pandemic. And I agree with you, Pav, that it's time that we looked at home. And I'm afraid that, well, part of it is maybe thinking about this as an international race helps to propel our investments. But there is a fear that we move in areas that neglect basic talent development here at home, like the fact that, you know, we can go three miles from here and find a crumbling school where kids' talents are being wasted. So, I don't want that discussion to go in that direction.

I think there's also another concern, which is, that as we focus myopically on the home front, which is overdue and needed, we lose sight of the fact that we live in a much bigger world and it's much bigger than number one and number two, or as Fred Bergsten, the founder of Peterson Institute where I work, calls it, the G-2 world is not the only world. There's another world out there. And we have a lot of allies and friends, and more allies and friends that we'd like to cultivate, particularly in the Pacific, who are looking for, "Has the U.S. closed off our access to its markets," and have seen the

disruptions that have happened over the-- and changes, rapid changes in policy that are happening, and wondering if we're a, we're a committed and stable partner. And without them, we can't actually do this. We are a large economy, right? Still the world's largest, number two exporter in the world. But we know that over time, as the rest of the world grows, which we hope will happen, that's going to be a declining share. And so the idea is, how do we bring them into this process? It's not just about us versus China. It's about us, you know, gathering in the favor of rules-based system, upholding values that share this human commonality with our allies. And I think that's something that gets lost a lot in this debate about who's going to win this technology war.

KERRY: Yeah, I want to double down on what Mary just said because, you know, we had, we had the discussion about, you know, will the U.S. at some point be surpassed by China. And I think, I think we all agree that that's going to happen at some point, I mean, you could--.

LOVELY: Maybe not.

KERRY: Maybe not?

LOVELY: Maybe not.

KERRY: Maybe not, I agree. But, you know, we may be worried about China as the, you know, the the sick man of the global economy someday the way that people did about Japan after the period that, that you talked about. And you know, the the global economy is not immune if China ails, but that, that was not where I was going with this. So to pick up on on what Mary said, yes, we may be the number two economy in the world at some point, or the number three economy, but put together the U.S. and the European Union and the other members of the G7 and, you know, you have more than 50% of the world's GDP and significantly surpassing China. And that is a fundamentally influential alliance, and, you know, we need to keep building on that. And, and we are seeing progress with allies on on dealing with China and making the pivot towards a new order. I mean, EU yesterday just released its own critical technologies list, very similar to the U.S. list that was was just released you know, and similar enough in time and in timing that, you know, clearly there's some collaboration there. The EU has been sort of a push-pull when it comes to China. But I think that there are enough people who realize that, you know, after lecturing the United States on fundamental rights at great length — and I've been, you know, the object of a lot of those those lectures, you know — that they need to get serious about standing up for that with respect to China. And, you know, even in Asia, you look at Australia, Japan, other countries, they've been kind of remarkably forthright about their

concerns about China, considering that that, you know, while they are exposed to China's regional bullying, they are also far more exposed to China's economy than we are. So, you know, there, there are alliances that we are building on, and we should continue to build on.

DAVIS: Sure, that's clearly a big, a big strength. So we're talking a little bit about tools, foreign direct investment, yes or no? What about tariffs? So, we're talking about electric vehicles. Chinese electric vehicles are streaming into into Europe. They're not streaming into the U.S. because the Trump administration put a tariff on electric vehicles. Tariffs have been off the, off the economic toolbox for a long time before the Trump administration. Liza, let me ask you, do you think that we should be using tariffs? The concern when Trump used tariffs was that they were going to tank the world economy. Clearly, they didn't. Liza, do you think that we should be using tariffs more, as a way, as a tool?

TOBIN: It's a really interesting question. And a noteworthy development in the last couple of weeks was when the EU announced that it's doing an investigation into Chinese subsidies, into electric vehicles. And so that could potentially lay the groundwork for the EU to take some protective actions because, of course, as you point out, it is Germany and Japan and other major auto exporters that are really on the chopping block when it comes to this flood of Chinese EVs that, that they should be expecting. China is now the world's leading auto exporter. China struggled for decades. They had this as a target of becoming an automobile powerhouse, and they failed to do so with the internal combustion engine. So you have to give them credit that they got there with EVs, and now they're leading the world in exports. It may vary a bit quarter to quarter, but they're right up there at the front.

And as you noted, the U.S. has some degree of insulation because of these tariffs, and I think that's a good thing. So tariffs under the last administration were criticized because they are a blunt instrument, but when you look at the tools that we have in our trade toolkit, there's not that many. And I think what they did was to kind of-- they were used first as a negotiating table-- a negotiating tactic to bring the Chinese side to the table in a serious manner and try something new. And so I think going forward, countries and economies like the EU, the United States, and Japan have common cause in thinking about how do we create sort of a new market that is free from Chinese distortions, how do we pool our market demand? I think one lesson we're starting to learn from this American experiment in industrial strategy that we're doing with the IRA and the CHIPS Act is, you can take care of the supply side, but you also need the demand. So, who's going to buy all this, all these chips, and all these solar

panels that hopefully will be making it home very soon? You need to have a steady and large source of market demand and China is currently dominating a lot of these supply chains. So we have to wean ourselves off that and start directing the demand to back here at home and other democratic market economies.

DAVIS: Mary, I mean, you work for a think tank that, I wrote in one story that looks at tariffs the way the Catholic Church looks at the devil. So, what do you think?

LOVELY: Well, I work for a think tank, and I was raised a Catholic, so I guess that's fake. Yeah, and I was an economics professor for 30 years before this, so I'd say that's even more. We had an experiment, I agree with Liza about that, and it was an attempt to use tariffs as a, as a form of bullying. And I think it backfired on us. It certainly helped to erode our reputation as upholding the rules-based system. We have other tools in our toolbox which are perfectly consistent with the World Trade Organization, which is anti-dumping duties. And we have been pursuing anti-dumping duties and countervailing duties for years. So we have tools that are consistent with the rules. We didn't want to follow them. We wanted to end up with somewhere different. And I think that eroded the trust that our allies and friends have with us now.

So, am I glad that we have the tariffs on EVs? Yes, I am because I think we're in a weak position from years of underinvestment. But I will note when we think about the U.S., the recent-- sorry EU action, the Financial Times reported the other day, 91% of the EVs that are coming into Europe from China are coming from EU-Chinese joint ventures, so they're badged with EU badges. So, the world is a complex place where production has been fragmented, and that has to-- we have to look at what the economic costs of breaking up these systems are. And I agree with you very much, Liza. We're going to have to look at where is the demand gonna come from. And I can tell you right now, it's going to cost you a lot more for these things. And clearly, we all agree that for certain national security issues, we're very much willing to pay that cost. But I'm not willing to pay the cost for everything. I don't know why I'm still paying higher prices for children's toys, for tablecloths, or other things, that in my view, have no relationship to national security. So, I think we have to be targeted, we have to be narrow, we have to use defensive tools when we can and remember that we are being watched as the leader of the rules-based system. And we need to renew our commitment to that system.

DAVIS: Alright, let me switch to the audience, questions from the audience. Over there.

AUDIENCE MEMBER: Chris Scott, Asia Times. The language that stood out to me was when I believe [inaudible]. Thank you, sorry. Chris Scott, Asia Times. The language that stood out to me was from Liza, when you said that we need-- we're looking for a free and prosperous, free, peaceful, and prosperous China, in that order. But my question is — it's a two-part question — did China, when we gave permanent normal trade relations, ever agree to our definition of free in any sense? And then the second part of that question is, then if they didn't, why would that be first? Free, peaceful, and, you know, why the why that emphasis?

DAVIS: Great. Go ahead.

TOBIN: Great question. So, I think the session agreements that China signed onto to join the WTO are one thing, and this is part of a international multilateral rules-based system where the rules are written down, and there are certain ways to observe and measure over time whether China is meeting its commitments. And my sense is that largely China has failed. They certainly met some of the commitments, but not others. We can debate how do we give them a C minus or an F plus, we can have these debates, but clearly, it was not a raging success to bring China into the WTO and have them gradually change into a market oriented, ever more open, ever more fair, ever more transparent economy. So, I think that's one thing. I think the way I put it is, what do we hope for the future of China? I think we have to just step back and look at the vast sweep of Chinese history and realize that the CCP has been around for a long time, and we have to recognize the fact that they're currently the the regime in power and it's not the U.S.' place to make that decision. But there have been many different, many different regime types in China. And I think that we can anticipate in the future that it could shift. And that's certainly not up to America, that is that is a choice for China itself.

DAVIS: Another question? Why don't we go here and then way in the back, and then we'll-- two together. Go ahead. Yep. Oh, he's going to go first and then you'll go second, or you'll go first and he'll go second.

AUDIENCE MEMBER: Thank you. Thank you, great panel. Jean-François Boittin, working with MEDEF, the French business association. So, I'm wondering-- Biden seems to agree that the U.S. is the champion of the rules-based system. Is that true as far as the WTO is concerned? Where the U.S. actually has done a lot of things to undermine the WTO by breaking the dispute settlement system, or by insisting that national security is something that any country can invoke and that it cannot be adjudicated in any way, which is a major weakness in the system.

DAVIS: Got. it. Let's go to the other person back there.

AUDIENCE MEMBER: Yes, my name is Roger Cochetti. I'm an editorial contributor to The Hill newspaper. My question is-- to drill down a little bit on one tool in the toolbox the panel has discussed, what that is, is the actual effectiveness of export controls-- U.S. only export controls on intellectual property. In today's world, given what China has today intellectually, can we conclude that there are any areas, or most areas, or few areas where export controls purely — not on products, not on money, not on anything else — but export controls purely on American export controls, on purely intellectual property can be effective?

DAVIS: So Mary, why don't you take the question on the-- whether the U.S. has rules-based, and Pav, why don't you take on the unilateral controls?

LOVELY: I honestly think there's no question that the U.S. has been helping to erode the rules-based system, so I basically accept your premise. The United States would justify that by saying China broke the book first. So, that's where we are, that's where the WTO is, and we're unable to move forward. So I think that that shows that this discussion we're having today about how we form some kind of world in which us and China both exist peacefully we hope, is really essential to moving forward. Pavneet, in his piece, talked about the fact that — I believe it was you — that the rules are-- don't cover all the new things that are coming up, like even digital trade, right? It's clear that this is preventing us from moving forward.

DAVIS: Pav, on the unilateral?

SINGH: Yeah, it's a great question. And let me caveat the conversation around export controls of any kind, whether it's IP or software or some product, is that export controls, tariffs, etc., are used as tools to shape behavior. So the idea is that we hope that the transgressor will come into line and then we can remove the export control at some later point in time. Maybe it's not been that effective at achieving that outcome, but I think that any time you think about the defensive tools, you should always be pairing it with, what are you doing to fill the gap? So, export controls are often used because someone is trying to get access to leading-edge technology. What are we doing to ensure that we are two or three generations ahead? On the specific question of intellectual property that resides in someone's head, or that is sitting in GitHub or on the Internet somewhere, I mean, honestly, I just don't see how we can reasonably think that we can circumscribe that. But when it comes to, you know, photoresist technology or some sort of DUV or EUV lithography, a product that we know who

produces it, there's one manufacturer in the world, okay, maybe we can put some some guide-- guardrails around that. So-- but it has to be paired with: what are you doing? It has to be paired with: are you creating the trade and market access that Mary mentions, that Liza mentions? Are you investing in the fundamental innovation capacity that you need?

You can't do defense alone. And I think to be quite honest, I think that is a hamstring that we have, that we focus on the defense first and then we leave the hard stuff and just say the private sector will take care of it. And the truth is, the private sector doesn't take care of it. Can I offer one last thought, which is to Mary's point? I hope no one walks away from this thinking that we don't believe in international coalitions and trade and partnerships. I mean, the Quad, AUKUS, EU relationships are of utmost important, utmost importance, IPEF, the Indo-Pacific economic framework. If it ever turns into a trade agreement that replaces CPTPP, or our involvement in it, is absolutely essential. We need a-- we can't spend our way into leading on these things. I totally take that point. But we need to have clear eyes about what we are up against.

DAVIS: Maybe one more? Anybody else, one more? Back there. I think this will be the last. We're probably going over anyway.

AUDIENCE MEMBER: Yeah, thanks also to Brookings to make this event public to everybody in the world, so thank you a lot. So my question, it's kind of basic but I'm from El Salvador, so I'm not from the U.S. or China and I-- sometimes it's not obvious to me when people mention the U.S. is under threat. And I think Liza, sorry if I'm misquoting you, but you mentioned like, this is threatening us. So my question is, what from the from the U.S. perspective, what specifically is more under threat? It's my allies, It's my technological supremacy, it's my economic supremacy? So I will really appreciate clarifying.

DAVIS: To you.

KERRY: So I guess my answer would be, it's economic supremacy first and foremost or economic strength. You know, there is, I, I think the line is probably in every single one of those national security strategies, that, you know, "Economic security is national security." We don't always in policies hold true to that and prioritize that. I think currently we are with things like like the IRA, the CHIPS, you know, the-- I think we we are investing in the United States in ways we need to do more of. And I think to me, that is the key. And I think that's something that we probably all agree on.

DAVIS: All right. I think our time has expired. I want to thank everyone for a great debate and for the very great excellent questions from the audience. Thanks very much.