"Indo-Pacific Strategy in an Era of Geoeconomics"[1]

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Introduction: What Is Geoeconomics?

Geoeconomics is one of the most important foreign policy phenomena today. States are increasingly turning to the use of economic instruments rather than traditional political and military ones to pursue their desired strategic ends.

At the same time, matters of how different countries use geoeconomics have received relatively little attention. Part of the reason for this is the fact that the term *geoeconomics* often does not have a clear definition. To bring the world closer to understanding this phenomenon, the word *geoeconomics* should refer narrowly to the practices that encouraged its widespread adoption: the use of economic instruments to produce beneficial geopolitical results.

With this in mind, in our book on the subject, *War by Other Means: Geoeconomics and* Statecraft, Jennifer Harris and I put forth the following definition: *the use of economic instruments to promote and defend national interests, and to produce advantageous geopolitical outcomes; and the effects of other nations' economic actions on a country's geopolitical goals.*

Today, seven economic tools are suited to geopolitical application:

- Trade policy, which can involve forming trade agreements to improve geopolitical ties or cutting off trade to coerce states into changing their geopolitical behavior;
- Investment policy, or the use of loans and debt to finance infrastructure projects for geopolitical benefits;
- Economic and financial sanctions to force geopolitical change;

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[1] This speech is drawn from: Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge: Harvard University Press, 2016); Robert D. Blackwill and Jennifer M. Harris, "The Lost Art of Economic Statecraft: Restoring an American Tradition," *Foreign Affairs* March/April 2016 Edition, https://www.foreignaffairs.com/articles/2016-02-16/lost-art-economic-statecraft; and Robert D. Blackwill and Ashley J. Tellis, *Revising U.S. Grand Strategy Toward China* (New York: Council on Foreign Relations, 2015), https://www.cfr.org/report/revising-us-grand-strategy-toward-china.

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- Cyber-tools, when used by a state to steal intellectual property, siphon funds, or disrupt economic activity as part of a larger geopolitical agenda;
- Economic assistance to influence another nation's geopolitical behavior;
- Financial and monetary policy, including efforts to establish a currency as a global reserve, and to get access to favorable exchange rates to influence another state's geopolitical behavior; and
- National policies governing energy and commodities, including supplies and sales to other countries to influence their geopolitical decisions.

To repeat, this is not the use of economic instruments for economic purposes. Geoeconomic approaches are concerned only with how states are exercising economic and financial tools to achieve their desired geopolitical aims.

The Era of Geoeconomics and China's Geoeconomic Role

Geoeconomics owes its modern resurgence primarily to three factors. The first is that today's rising powers are drawn to economic instruments as a primary means of projecting influence and conducting geopolitical combat, especially since the United States and its allies enjoy military superiority. The second is that, compared to previous eras, those states most prone to economic displays of power today have vastly more resources at their direct disposal, including state-owned enterprises. Third, today's markets—deeper, faster, more leveraged, and more integrated than ever before—exert more influence over a nation's foreign policy choices and outcomes.

Given the size and growth rates of its economies, as well as its geographic position as a passageway for much of the world's trade, the Indo-Pacific region will remain critically important for the foreseeable future. And the country best-suited to use geoeconomic tools to fundamentally change the existing security situation in the Indo-Pacific is the People's Republic of China.

Never in history has one government controlled as much wealth as does China. As its economic might has grown, so too has its ability and temptation to use this power to advance geopolitical ends. China is the world's leading practitioner of geoeconomics and the major reason regional and global power projection has become such an economic (as opposed to military) exercise. Although Beijing is bolstering its military power, it has avoided outright conflict. Instead, it uses the strength of its economy for both positive and coercive purposes to achieve its geopolitical goals.

China leverages its economic centrality in the Indo-Pacific to influence global policies toward Taiwan; to win concessions in regional territorial disputes and to attempt to weaken America's Asian alliance system. It boycotted and restricted trade with South Korea for accepting a U.S. offer to deploy missile defense systems. China's Belt and Road initiative improves its access to strategic ports and other critical infrastructure; the initiative also pressures countries that incur debts for the projects to acquiesce to Beijing's regional ambitions. The United States has no coherent policies to deal with China's geoeconomic actions—many of which are aimed squarely at U.S. allies and friends in Asia.

China's Rise and Global Aspirations

The profound test that the rise of Chinese power represents for the United States and its allies and friends in the Indo-Pacific is likely to last for decades. Beijing seeks to achieve these strategic goals:

- replace the United States as the primary power in Asia;
- weaken the U.S. alliance system in Asia;
- undermine the confidence of Asian nations in U.S. credibility, reliability, and staying power;
- use China's economic power to pull Asian nations closer to PRC geopolitical policy preferences;
- increase PRC military capability to strengthen deterrence against U.S. military intervention in the region;
- cast doubt on the U.S. economic model;
- ensure U.S. democratic values do not diminish the CCP's hold on domestic power; and
- avoid a military confrontation with the United States in the next decade.

It is unrealistic to imagine that China's grand strategy will evolve in a way—at least in the next ten years—that accepts American power and influence as linchpins of Asian peace and security, rather than seeks to systematically diminish them. China follows a grand strategy that will end U.S. primacy in Asia and alter the balance of power in that vast and crucial region. And although the People's Republic of China is undertaking an ambitious program of military modernization, as I noted earlier, its tools in pursuing that grand strategy for the foreseeable future are primarily geoeconomic.

Following the Communist Revolution in 1949, China has pursued the objective of maximizing its strength in order to recover the geopolitical primacy it enjoyed in East Asia prior to the Columbian era. China's primary strategic goal in contemporary times has been the accumulation of "comprehensive national power." This pursuit of power in all its dimensions—economic, military, technological, and diplomatic—is driven by the conviction that China, a great civilization undone by the hostility of foreigners, could never attain its destiny unless it amassed the power necessary to ward off the hostility of those opposed to this quest. In this conception, China's success as a state requires its leaders to possess greater capabilities than any other entity inside or outside its borders.

Preserving internal control remains the foremost objective of the CCP today. But the goal of ensuring continued and unchallenged Communist rule leads to a second operational aspiration: sustaining the high levels of economic growth necessary to preserve domestic social order. Since the founding of the Communist state, transforming the Chinese economy has remained an important political aim. Rapid economic expansion contributes to the

CCP's political legitimacy, increases its available resources for domestic and international ends, and underwrites its status and material claims in the international arena.

Although this development has generated wealth and welfare gains globally, it has also produced several unnerving strategic consequences. It has made many of China's trading partners, especially its smaller neighbors, asymmetrically dependent on China and thus reluctant to voice opposition, even when China's geopolitical actions leave them disadvantaged. Moreover, regional economic integration has shaped the leadership perceptions of many of China's trading partners in ways that lead them to worry about their dependence on—and vulnerability to—China. Even if such worry is sometimes exaggerated, it weakens their resistance to both Chinese blandishments and coercion.

The external advantages arising from China's high growth rates thus far have strengthened its capacity to aspire to a third operational aim deriving from its quest for comprehensive national power: the pacification of its extended geographic periphery and the elimination of U.S. primacy in the Indo-Pacific. Beijing has advanced a variety of policies designed to reach this goal. It has used its deep economic ties with its Asian neighbors to reduce regional anxieties about its rise while creating mechanisms to increase its influence with these regional neighbors. These have included renewed efforts to delegitimize the U.S. alliance system in Asia, acting on the recognition that Washington remains the critical obstacle in Beijing's quest for a neutralized periphery. Accordingly, China has actively promoted "a new security concept" that: rejects U.S. alliances as anachronisms; demands that Asian security be managed by Asians alone; and privileges China as the regional security provider of choice in a situation where, as Xi Jinping put it, "development is the greatest form of security."

Beijing's commitment to sustaining high economic growth through deepened international interdependence, therefore, provides it not only with internal gains—a more pliant populace and a more powerful state—but consequential external benefits as well, in the form of deferential neighbors who fear the economic losses that might arise from any political opposition to China. These gains are likely to persist even as China's economic growth slows down over time so long as Beijing's overall material power and its relative growth rates remain superior to those of its neighbors.

Given these outcomes, it should not be surprising that Beijing has consciously sought to use China's growing economic power in a choking embrace designed to prevent its Asian neighbors from challenging its geopolitical national interests.

China's Geoeconomic Threat to U.S. Allies in Asia

Take, for example, the PRC's policies toward Taiwan. The CCP has always considered reunifying Taiwan with the mainland as a core national objective, but it has not had the military power to challenge the United States and take over the island by force. Although China's military has grown more powerful, Beijing has adopted a primarily geoeconomic approach to isolate Taiwan diplomatically and to bring the island under its thumb. China already has significant leverage over Taiwan's economy; today, thirty percent of Taiwan's exports by value go to China (excluding Hong Kong), and of the island's ten most profitable firms, eight do significant business on the mainland.[3]

The election of pro-independence President Tsai Ing-Wen in 2016 prompted a strong geoeconomic response from Beijing to bring Taipei decisively into its orbit. China reduced tourism to Taiwan by more than thirty percent, causing significant losses of revenue in Taiwan.[4] It also demanded that Taiwanese universities, which depend on tuition fees from Chinese students, as well as Taiwanese businesses dependent on mainland capital, put out statements endorsing the idea of "one China." Foreign firms have not been immune to Beijing's pressure. For example, in May, 2018, the Chinese government asked airlines to refer to Taiwan as a part of China on their booking web sites, with an implied threat of losing business if they refused. Twenty carriers, including British Airways, Lufthansa, and Air Canada, caved to this request.[5]

In addition to punitive measures, Beijing has used economic sweeteners to persuade the few remaining countries that conduct formal relations with Taipei to switch to the PRC. With promises of increased development aid and infrastructure projects across Latin America and Africa, along with deals to increase market access, the PRC has continued a full-fledged geoeconomic offensive to strip away Taipei's few remaining supporters. Since 2017, Panama, Burkina Faso, and the Dominican Republic have all cut official diplomatic ties with Taiwan. The moves Beijing has made to weaken Taipei and force it to accept painful demands are designed to bring reunification closer to reality.

President Tsai has tried to mitigate Taiwan's dependence on the PRC by seeking to increase trade with other countries in the Indo-Pacific. This "Southbound Policy," however, has not made up for the losses that Beijing's geoeconomic coercion has caused, and since other Southeast Asian nations also depend on China for trade, many are reluctant to pursue closer ties to Taiwan.

In fact, even as the PRC has adopted a more aggressive approach to its territorial disputes in the East and South China Seas, its economic preeminence in the region continues to grow. Total trade between China and ASEAN exceeded $460 billion in 2016.[6] China's emergence as the most important trade and investment partner for virtually all of Southeast Asia lends a preemptive, foreshadowing quality to any geoeconomic threats Beijing may issue. You will no doubt recall the more brazen actions China has taken against Japan because of tensions surrounding the Senkaku/Diaoyu Islands, including the

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[3] Josh Horwitz, "The Charts That Show How Trump's 'One China' Statements Could Jeopardize Taiwan's Economy," *Quartz*, December 15, 2016, https://qz.com/861507/charted-taiwans-economy-is-more-dependent-on-china-than-ever-before-making-trumps-threats-dangerous/.
[4] "2017. Visitor Arrivals by Residence," Tourism Bureau, Republic of China, http://admin.taiwan.net.tw/statistics/year_en.aspx?no=15.
[5] Erika Kinetz, "Airlines Caving to China's Demands Despite White House Protest," *USA Today*, May 22, 2018, https://www.usatoday.com/story/travel/flights/todayinthesky/2018/05/22/china-airlines-demand-taiwan-orwellian/631815002/.
[6] "ASEAN Trade and Investment," Association of Southeast Asian Nations, 2017, https://www.aseanstats.org/wp-content/uploads/2017/08/ASEAN_trade_and_investment.pdf.

suspension of rare earth exports and organized boycotts of Japanese cars and other manufactured goods.

However, because of the sheer size of its economy, China can afford to exercise geoeconomic coercion more subtly, and can often win concessions without having to carry out overt threats. Consider Vietnam, a country with claims to islands in the South China Sea and which has sought to resist China's growing influence. Nevertheless, Vietnam is highly dependent on the PRC for rubber, and major Chinese imports are used in the goods Vietnam ultimately exports. Thus, in March, 2018, when a Chinese delegation visited Hanoi to warn the Vietnamese government not to allow Spanish oil company Repsol to drill in its exclusive economic zone in the South China Sea, Vietnam ended the project, costing Repsol $200 million.[7]

If geoeconomic coercion softened Vietnam's stance toward its territorial claims, economic incentives have kept nations like Brunei silent about them. With declining oil reserves, the sultanate of Brunei has come to depend on Chinese investments to maintain growth and stability. The country has resisted calls from the rest of ASEAN to issue a joint statement addressing the situation in the South China Sea; instead, it has agreed with China, Laos, and Cambodia to resolve territorial issues bilaterally. In 2016, in exchange for $6 billion from China to develop a new oil refinery and to improve infrastructure, Brunei apparently agreed not to comment on China's construction of artificial islands and to censor journalists who criticize Beijing.[8]

China's arsenal of geoeconomic tools is also potent enough to influence advanced economies that have U.S. support. The case of Beijing's actions in 2016 and 2017 against South Korea for allowing the U.S. military to deploy the THAAD missile defense system stands out. In March 2017, China banned group tours to South Korea, which cut visits from Chinese tourists by sixty-six percent. Beijing also prevented Chinese online video sites from purchasing the rights to broadcast new South Korean television programs and songs. In addition, Chinese consumers boycotted South Korean products, which cut sales of South Korean cosmetics and cars in half from 2016 to 2017, and the South Korean retailer Lotte, which opened ninety-nine stores in China, saw eighty-seven of them shut down because of alleged fire safety violations after THAAD's deployment.[9]

The Belt and Road Initiative: China's Largest Geoeconomic Project

Investment from China is not always benign for recipient countries. Indeed, Beijing often uses the debt that developing nations owe to it for infrastructure projects as leverage to gain control over important trade routes, including for geopolitical purposes. Nowhere is

[7] Ankit Panda, "Vietnam Requests Spain's Repsol Suspend Work in Disputed South China Sea Oil Block," *The Diplomat*, March 25, 2018, https://thediplomat.com/2018/03/vietnam-requests-spains-repsol-suspend-work-in-disputed-south-china-sea-oil-block/.

[8] Luke Hunt, "Has China Bought Brunei's South China Sea Silence?," *The Diplomat*, February 14, 2018, https://thediplomat.com/2018/02/has-china-bought-bruneis-south-china-sea-silence/.

[9] See Tom Hancock and Wang Xueqiao, "South Korean Consumer Groups Bear Brunt of China's THAAD Ire," *Financial Times*, August 20, 2017, https://www.ft.com/content/f3c78afe-821d-11e7-94e2-c5b903247afd.

this more evident than in China's most ambitious geoeconomic undertaking, the Belt and Road Initiative (or BRI). Originally marketed as a plan to establish land and sea routes around Eurasia and Africa, BRI has since expanded into a program that encompasses most of the world, including the Arctic and Latin America. In addition to physical infrastructure and power plants, China is building fiber-optic telecommunications cables and Beidou navigational satellites to provide to the developing world. While many of these projects are still in planning stages, Beijing has already spent billions of dollars on BRI infrastructure around the world. Although the precise size of the program is difficult to measure, according to some estimates, Beijing has already put $300 billion into Belt and Road, and spending could balloon well past $1 trillion in the coming years.[10]

BRI has two major strategic purposes, both of which are threatening. By opening new investment venues for its state capitalist system through BRI, Beijing can maintain the authority to direct its firms' activities for geopolitical purposes. Investments in more advanced economies as BRI expands to Europe and other parts of Asia could force recipients to transfer sensitive technology to China. Constructing digital networks around the developing world could also provide Beijing with the ability to monitor communications and employ cyber operations for geopolitical purposes.

The second goal of BRI is to use aid to gain strategic assets located at choke points along major trade routes. Importantly, much of the funding for BRI projects comes from loans with interest rates of two percent or higher. If recipient governments cannot pay their debts on Chinese-funded ports and other infrastructure, Beijing can take control of that infrastructure for extended periods of time. This serves to improve Chinese power projection and to erode U.S. military primacy in the Indo-Pacific. BRI investments in Pakistan and its port of Gwadar, for example, reduce Chinese dependence on trade routes in the South China Sea and could lessen the ability of the United States and its allies to contain China in a crisis.

Notably, Beijing also used BRI loans to coerce the government of Sri Lanka to sign over the port of Hambantota, which China had renovated, on a 99-year lease. The port, located on Sri Lanka's southern coast and away from the busier shipyards in the capital of Colombo, did not generate significant economic activity; most firms refused to invest because they feared it would not be profitable. Only China, which has a geopolitical interest in drawing South Asian countries away from India and the United States, financed the project. However, Beijing demanded that its state companies be given the contracts, and it provided loans at rates greater than six percent to pay for the labor. As others feared, Hambantota saw very little traffic; in 2012, only 34 ships docked there. Sri Lanka owed more than $8

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[10] For data on the size of Belt and Road, see Jonathan Hillman, "How Big is China's Belt and Road?," CSIS, April 3, 2018, https://www.csis.org/analysis/how-big-chinas-belt-and-road; Anja Manuel, "China Is Quietly Reshaping the World," *The Atlantic*, October 17, 2017, https://www.theatlantic.com/international/archive/2017/10/china-belt-and-road/542667/; and Cecilia Joy-Perez and Derek Scissors, "The Chinese State Funds Belt and Road but Does Not Have Trillions to Spare," American Enterprise Institute, March 2018, https://www.aei.org/wp-content/uploads/2018/03/BRI.pdf.

billion to China, and since the shipyard generated little revenue, it leased the port to China for $1 billion.[11]

In economic terms, Hambantota was a poor investment. Yet in geopolitical terms, gaining a shipyard on the southern tip of Sri Lanka with access to Indian Ocean trade routes is a strategic advantage for China. Although Beijing has not yet moved naval forces into the port, it now controls an area of coastline that it could use to bypass blockades or shut down regional shipping in the event of a confrontation with India or other U.S. partners.

Yet even with the looming threat of being caught in a "debt trap," many developing countries cannot refuse China's large offers. For instance, Malaysia, whose public debt reached $251 billion amid Chinese BRI investments, has openly worried about the leverage that debt provides Beijing. However, it continues to rely on Beijing to bail out 1MDB, the Malaysian state development fund. In 2015, Chinese firms purchased $2.3 billion in 1MDB-owned power plants for debt relief.[12] Despite its claims to South China Sea territory, Malaysia accepts Chinese money to fuel growth and stay solvent.

BRI is Beijing's most comprehensive geoeconomic tool, designed to enhance all aspects of Chinese power in the Indo-Pacific and beyond. By controlling investment flows to countries without other options, China can directly influence those countries' external policies.

China and International Institutions

The CCP's desire to expand its regional influence is bolstered by the final element of maximizing comprehensive national power: enhancing China's status as a central actor in the international system. Now that China has become a consequential economic power, its membership in organizations like the U.N. Security Council, the IMF, and the World Bank have taken on additional significance. China's material capabilities have made it fundamentally relevant to all institutions of global order.

When the Chinese government perceives that international institutions are not advancing its interests, it has attempted to create and strengthen economic alternatives that often exclude the United States. For example, China has pursued the Regional Comprehensive Economic Partnership (RCEP), an ASEAN-initiated free trade agreement that China has ardently championed, and the Asian Infrastructure and Investment Bank, a rival to the Asian Development Bank. In other regions of the world, Beijing has initiated the Forum on

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[11] See Ben Blanchard, "Sri Lanka Requests Equity Swap for Some of its $8 Billion China Debt," *Reuters*, April 9, 2016, https://www.reuters.com/article/us-china-sri-lanka/sri-lanka-requests-equity-swap-for-some-of-its-8-billion-china-debt-idUSKCN0X60CH; and Maria Abi-Habib, "How China Got Sri Lanka to Cough up a Port," *New York Times*, June 25, 2018, https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html.

[12] See Takashi Nakano, "Malaysia Reveals National Debt Far Higher Than Figure Under Najib," *Nikkei Asian Review*, May 24, 2018, https://asia.nikkei.com/Politics/Malaysia-in-transition/Malaysia-reveals-national-debt-far-higher-than-figure-under-Najib; and "Malaysia's 1MDB Sells power Assets to China Firm for $2.3 Billion," *Reuters*, November 23, 2015, https://www.reuters.com/article/us-malaysia-1mdb/malaysias-1mdb-sells-power-assets-to-china-firm-for-2-3-billion-idUSKBN0TC0PT20151123.

China-Africa Cooperation, the China-Arab Cooperation Forum, and a variety of similar bodies that privilege China's position and undermine standards of governance set by the OECD, the World Bank, and other international economic institutions.

Regional Responses to Chinese Geoeconomic Policy

Despite its economic centrality, China is not the only Indo-Pacific actor that employs geoeconomic tools to pursue policy objectives. In particular, Japan, as part of its strategy to promote a "free and open Indo-Pacific," utilizes economic instruments—cooperative rather than coercive—to defend its national interests and reduce Beijing's regional influence. These include not only initiatives by private Japanese firms to place more of their assets in other Asian countries, but also efforts from the Japanese government to seek investment contracts in the region. As part of its "Partnership for Quality Infrastructure" initiative, Japan is projected to spend $200 billion on alternatives to BRI projects around the world.[13] Vietnam has welcomed Tokyo's assistance; Japan is the largest foreign investor and provider of development aid to Vietnam, and by the end of 2016 Japanese entities invested $42 billion in over 3,200 projects there.[14] Across Asia, Tokyo has sought to offset Beijing's ability to provide low-cost investments by employing more advanced technology and hiring more local workers.

Japan has similarly implemented other global geoeconomic initiatives. Its total development assistance in 2017 was nearly $12 billion, making it the fourth-largest provider of aid in the world and the largest in Asia.[15] Tokyo also restarted negotiations for the Trans-Pacific Partnership (TPP) after the United States withdrew from the agreement in 2017; because of this effort, a version of TPP encompassing the other eleven members passed in March 2018, creating a free trade area that would allow signatories to resist Beijing's economic coercion more effectively.

Despite Japan's initiatives, it cannot match the sheer size of China's BRI and needs friends to amplify its policy impacts. India has been a willing partner in efforts to mitigate China's regional economic leverage. New Delhi, which has refused BRI funding, has sought Japanese investments for its own projects; in 2017, Japan invested $4.7 billion in Indian infrastructure, including high-speed railroads connecting India to Southeast Asia.[16] Additionally, Japan and India have worked together to respond to the Chinese acquisition of the port of Hambantota by proposing large investments in the capital of Colombo and the

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[13] "The 'Expanded Partnership for Quality Infrastructure' Initiative Directed Toward the G-7 Ise-Shima Summit Meeting Announced," Japanese Ministry of Economy, Trade, and Industry, May 23 2016, http://www.meti.go.jp/english/press/2016/0523_01.html.

[14] Gary Sands, "In Contrast to the OBOR Fanfare, Japan Quietly Builds Friendships in Vietnam," Foreign Policy Association, September 25, 2017, https://foreignpolicyblogs.com/2017/09/25/contrast-obor-fanfare-japan-quietly-builds-friendships-vietnam/.

[15] *Japan Donor Profile*, Donor Tracker, March 2018, https://donortracker.org/sites/default/files/donor_pdfs/DonorTracker_profile_Japan_4.pdf.

[16] Trividesh Singh Mani and Sandeep Sachdeva, "Japan Is Building India's Infrastructure," *The Diplomat*, August 2, 2017, https://thediplomat.com/2017/08/japan-is-building-indias-infrastructure/.

Trincomalee port in Sri Lanka's east.[17] They have also proposed a jointly-financed Africa-Asia Growth Corridor as an alternative to BRI.

India is also responding independently to China's geoeconomic statecraft. India uses economic instruments, such as infrastructure investments in Bhutan, Nepal, Bangladesh, Myanmar, and Thailand, to address the rise of China. It has sought to reduce trade barriers with its neighbors, increased the sizes of the loans it provides to African countries, and expressed interest in working with Vietnam to develop offshore oil and gas. Like Japan, India uses positive forms of geoeconomics, not coercion, to reduce the dependence of the countries in the Indo-Pacific on Chinese investments.

Other Asian nations are taking steps to resist Beijing's economic pressure. Nepal, Myanmar, and even Pakistan have sidelined some Belt and Road projects, including hydroelectric dams worth a combined $20 billion, because of the risk of incurring excessive debts that Beijing could use as leverage against them.[18]

The Need for a Comprehensive Strategy

The efforts that China's Indo-Pacific competitors have made to reduce the PRC's geoeconomic leverage are significant. However, China is the world's second-largest economy and is extremely important as a provider of raw materials and manufactured goods in Asia. China simply has more money to spend and a greater ability to use its state-owned enterprises for geopolitical ends. As powerful as Japan and India are, their combined efforts cannot counter Belt and Road. What is required is a coordinated, geoeconomic initiative to reduce China's capabilities to economically coerce other nations. Such a strategy should involve expanding free trade areas and market access to reduce Beijing's economic centrality, providing alternatives to BRI in strategically important areas, and increasing economic and security cooperation to harmonize responses to Chinese coercion. Critically, any policy designed to offset China's primacy in Asian markets must involve the United States, the only country with a larger economy than China's.

Although the United States has a larger economy than does China, it has not used economic statecraft effectively. Despite boasting the most powerful economy on earth, the United States too often reaches for the gun instead of the purse in its foreign policy. The country has hardly outgrown its need for military force, but over the past several decades, it has increasingly ignored geoeconomic tools in its efforts to influence the behavior of its allies and adversaries. Structural factors contribute to this problem. The United States does not directly control its largest companies' activities; in fact, U.S. multinationals and other special interests often urge the government not to pursue geoeconomic policies that might reduce their profits. In addition, since the end of the Cold War, the United States has

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[17] Lasanda Kurukulasuriya, "Japan Claims a Stake in Sri Lanka's Ports," *The Diplomat*, January 24, 2018, https://thediplomat.com/2018/01/japan-claims-a-stake-in-sri-lankas-ports/.
[18] Saibal Dasgupta and Anjana Pasricha, "Pakistan, Nepal, Myanmar Back Away From Chinese Projects," *Voice of America*, December 4, 2017, https://www.voanews.com/a/three-countries-withdraw-from-chinese-projects/4148094.html.

championed international institutions like the WTO and other arrangements that promote free and open trade. Thus, while the United States can use the dollar's status as an international reserve currency to enact complex sanctions, it cannot use the kinds of selective import restrictions and debt traps that China employs without destabilizing the liberal international order and global capital markets it helped create.

Changing perspectives about the role of economics in foreign policy have also stopped Washington from using its entire policy capacity. For the country's first 200 years, U.S. policymakers regularly employed economic means to achieve strategic objectives. But somewhere along the way, the United States began to tell itself a different story about geoeconomics. Around the time of the Vietnam War, and on through the later stages of the Cold War, policymakers began to see economics as a realm with an authority and logic all its own, no longer subjugated to state power—and best kept protected from unseemly geopolitical incursions. International economic policymaking emerged as the near-exclusive province of economists and like-minded policymakers. No longer was it readily available to foreign policy practitioners as a means of working the United States' geopolitical preferences in the world.

The consequences have been profound. At the very time that geoeconomic statecraft has become a lost art in the United States, U.S. adversaries are embracing it. China, Russia, and other countries now routinely look to geoeconomics as a means of first resort, often to undermine U.S. power and influence. The United States' reluctance to play that game weakens the confidence of U.S. allies in Asia. It encourages China to coerce neighbors and lessens their ability to resist and gives Beijing free rein in vulnerable states in Africa and Latin America. These costs weigh on specific U.S. aims, but they also risk accumulating over time into a structural disadvantage that Washington may find hard to reverse. It is long past time for the United States to restore geoeconomics to its rightful role in its foreign policy.

Unfortunately, President Trump's geoeconomic actions have been at best unhelpful and at worst counterproductive. He withdrew the United States from TPP in his first week in office and has refused to exempt Japan, India, and other critical partners from global steel and aluminum tariffs. At the same time, the president has proposed lifting a ban on Chinese telecom company ZTE from purchasing American microchips, as part of wider negotiations to open Beijing's markets to U.S. firms.

Policy Prescriptions for the Period Ahead

The capacity to execute a strategy to address China's geoeconomic policies exists; the question is whether like-minded nations can find the will to do so. The United States and its Asian allies and partners should become strategically proactive in meeting the Chinese geoeconomic challenge. To accomplish this, Washington and its friends in the Indo-Pacific should implement the following policies:

Geoeconomic Instruments as Incentives

1) Avoid efforts to get partners to refuse BRI as a matter of principle. Although some countries have turned down BRI in recent years, many developing nations need the money. Efforts to get others to reject funding will fail, just as the campaign to boycott China's AIIB did.

2) Coordinate international investment campaigns with regional partners to provide viable alternatives to Belt and Road funding in strategically important zones. While the West and its partners in the Indo-Pacific cannot match the size of BRI, they can use the strength of their alliances to determine what development targets in key regions need to be met and where to direct funding. Large and economically successful countries in critical areas, such as Japan, India, and Australia in Asia but also Saudi Arabia in the Middle East, could identify concerns and, with support from the United States and other donors, provide targeted grants and loans as an alternative to BRI. This effort should include public funding from government and multilateral aid agencies, as well as investment through the private sector. Japan's ability to provide high-tech, high-quality projects that employ more local workers and have lower interest rates should be a model.

3) Ratify and expand multilateral trade deals that exclude China. Free trade agreements are vital to any strategy to address Beijing's geoeconomic coercion because they provide countries that might be vulnerable to it with access to other markets, including the large U.S. market. This makes China less central to the economies of its neighbors. The United States ought to rejoin the TPP for this purpose. Other agreements, such as Japan's recent trade agreement with the EU, should also be encouraged.

4) Use the strength and positive power of the innovation and networks of the advanced economies to attract other nations. The United States, Japan, the EU, and others cannot use geoeconomic coercion as well as China can because they do not directly control their industries; the use of such tactics by liberal states would also undermine the rules-based international order. Instead, these nations should focus on generating strong economic growth and blunting Beijing's assertions that free-market systems are inferior to state capitalism.

Resisting Geoeconomic Coercion

5) Begin a consultation process among allies to identify geoeconomic vulnerabilities and to design resiliency and diversification efforts to address those vulnerabilities. In light of the geoeconomic threats that Beijing poses, Washington, Tokyo, and other partners should reboot their alliances for offensive and defensive geoeconomic action. This should also include developing a policy to ensure that if one ally suffers economic coercion, another does not take advantage by filling in behind.

6) When China proposes to construct or retrofit infrastructure that could be used for military purposes in strategically important areas, provide incentives to stop recipient countries from giving China control should they default on debts. Beijing is

using BRI to build ports and bases for its naval forces to project power in the Indian and Pacific Oceans. Using higher aid flows and other applicable diplomatic incentives and disincentives, the United States, Japan, and their partners should do all they can to prevent this.

7) Develop common regulations for investigating Chinese investments in strategic sectors, and for blocking those investments if they pose security risks. The United States is reforming the Committee on Foreign Investment in the United States (CFIUS) so it can identify and stop Chinese acquisitions of U.S. firms that manufacture products with strategic uses. The United States, Europe, and their Indo-Pacific partners should implement uniformly stringent rules against this practice.

8) Continue anti-dumping cases against China, calls for Beijing to bring its currency to its market value, and WTO action against Chinese subsidies to state-run firms and forced technology transfers. Given the importance of China's economic system for its geoeconomic coercion, the United States, Japan, and like-minded nations should pressure Beijing to change its ways.

Security and Alliance Management

9) Enhance intelligence-sharing for cyber threats and develop stricter security standards, and focus on building digital infrastructure in areas that lack it. China's expansion into many new sectors through BRI, combined with its efforts to build telecommunications networks and satellite systems for the developing world, make Western firms more vulnerable to cyber-theft and other forms of espionage. In response, Western governments should share knowledge of cyber threats and make developing encrypted, high-quality digital communications networks a top priority in their response to BRI.

10) Work with India to foster its rise as a great power as a counterbalance to Chinese activity in the Indian Ocean and elsewhere. Especially in the face of an increasingly assertive China, the United States, Japan, and like-minded nations benefit from the presence of a robust democratic power that is willing to—and capable of—independently balancing Beijing's rising influence in Asia. They should:
    - substantially loosen restraints on military technology transfer to India;
    - markedly increase military-to-military cooperation with India, especially among navies;
    - further incentivize India to sign defense cooperation agreements with the United States, including the Communications Compatibility and Security Agreement (COMCASA) and the Basic Exchange and Cooperation Agreement for Geospatial Cooperation (BECA);
    - build on existing investment partnerships to counterbalance Belt and Road Initiative projects;
    - advocate much more actively for India's long-pending request for membership in the Asia-Pacific Economic Cooperation (APEC) forum and in the global nonproliferation regimes; and

- vigorously support India's "Act East" policy to strengthen its power projection and influence into Southeast and East Asia.

11) The United States and Japan in particular should seek to strengthen their alliance. No other U.S. relationship approaches that with Japan in maintaining the current balance in Asia and dealing with the rise of Chinese power. Indeed, without close and enduring U.S.-Japan security cooperation, it is difficult to see how the United States could maintain its present power and influence in Asia. Thus, as Japan continues to emerge from its post–World War II self-imposed security constraints, the two sides should:
    - substantially expand their security cooperation to encompass all of Asia, with the United States helping to upgrade the Japan Self-Defense Forces (JSDF), including Japan's capabilities for joint/combined-arms/amphibious operations;
    - intensify ballistic missile defense (BMD) cooperation;
    - seek to avoid trade disputes (the United States should exempt Japan from its tariffs on steel and aluminum);
    - support both sides' continuing cooperation with Vietnam, Australia, India, and other nations concerned with the rise of Chinese power; and
    - expand their liquefied natural gas exports and infrastructure in the region.

The Future of U.S. Geoeconomic Policy

The Trump administration has indicated that it is preparing to take steps similar to some of the prescriptions just outlined. In a July 2018 speech to the U.S. Chamber of Commerce, Secretary of State Mike Pompeo announced that the United States would pursue $113 million in new investment partnerships in the Indo-Pacific region as an alternative to BRI. This is a helpful first step and an important recognition that Chinese investments demand a U.S. and allied response. However, the proposed $113 million is nothing compared to the billions that China has already spent on BRI and the $1 trillion that it apparently intends to spend. The United States needs to invest significantly larger amounts of money.

More broadly, the time has come for the U.S. foreign policy establishment to rethink some of its most basic premises about power and economics. Although reasonable minds can differ on the specifics of a geoeconomic vision, it is worth ensuring that it derives from the right framework. Four features are essential.

First, strategists need to think about new tools. A clearer reading of U.S. history no doubt offers insights into geoeconomics' rightful role today, but the world has changed too much for policymakers to revert to earlier approaches. Many of Thomas Jefferson's and George Marshall's geoeconomic feats would be unthinkable today, and some of today's favored geoeconomic tools, such as state-sponsored cyber-warriors who hack foreign companies' networks, have become available only recently. Others, such as sanctions or energy politics, although nothing new, now operate in such vastly different landscapes as to render them good as new. Any effort to put geoeconomics back in foreign policy needs to begin with ascertaining what its modern instruments are, how they work, and what factors make them more or less effective. That will have to entail a set of debates—stretching across U.S. universities and think tanks, Congress, and the executive branch—that begin to set geoeconomics apart as a distinct discipline, endowed with its own principles that can guide action in specific cases.

Second, the United States needs to figure out its own norms for the acceptable use of geoeconomics. With the largest economy in the world, a shale boom that is remaking geopolitical realities around the world, and a financial sector through which the vast majority of global transactions must pass, the country still has a lot to work with. But before choosing to use its geoeconomic heft, Washington has to decide just how comfortable it is doing so.

The task is not easy, since many geoeconomic approaches carry real tradeoffs. But this is true of every foreign policy option. Too often, geoeconomic approaches are considered in isolation, unlike those involving military statecraft, which tend to be debated within the logic of best-known alternatives. The criticism that a given sanctions program is misguided because its costs outweigh its benefits, for example, misses the real question of how these tradeoffs compare to those of other political or military options. Policymakers also tend to measure geoeconomic plans by the wrong standards—judging them by their economic, rather than their geopolitical, impacts.

But even when assessed more logically, certain geoeconomic tools are simply out of the question for the United States. This is partly a result of the country's beginnings as an experiment in the deliberate curtailing of state power; democratic constraints prevent a U.S. president from, for example, suspending private contracts with foreign governments to gain leverage in a geopolitical dispute. Moreover, as the world's leading supplier of public goods—underwriting the world's deepest capital markets, issuing the world's leading reserve currency, securing maritime trade routes—the United States has a profound geopolitical interest in keeping shows of economic coercion to a minimum. For now, however, it is hardly clear that Washington's discomfort with geoeconomics reflects anything more than the residual workings of a set of assumptions honed in the past several decades. There are no doubt legitimate debates to be had about the wisdom of various geoeconomic approaches. But these are debates worth having.

Third, the United States needs to work geoeconomics into the bloodstream of its foreign policy. At a minimum, that will require U.S. leaders to explain in detail to the American public and U.S. allies what today's brand of geoeconomics consists of. When U.S. diplomats meet with their foreign counterparts, they should devote time to forging a common understanding about the rightful role of geoeconomic power in grand strategy. Leaders will also need to call out geoeconomic coercion when it takes place, so as to put countries on notice that it will not go unanswered, and develop responses to it with like-minded partners.

Fourth, policymakers need to grapple with important questions about how to allocate resources within the realm of foreign policy, whatever one thinks of overall spending levels. They need to ask, for example, what the United States is getting for its post-9/11 military spending. The answer is, less and less: although military power is of course still vital, it is yielding diminishing returns. So Congress should shift the Pentagon's resources toward the application of geoeconomic instruments to advance U.S. national interests—say, foreign aid or investment promotion.

In making these policy shifts, the United States would regain its historic status as a powerful geoeconomic actor on the world stage. It would acquire the ability to counter the growing economic coercion practiced by authoritarian governments in Asia and Europe against their neighbors and beyond. The leading democracies would gain new tools for shaping geopolitics in positive ways. And the United States' system of alliances would grow stronger, thereby reinforcing regional orders and the global balance of power.

Of course, none of these measures can be implemented in a day, and many will take years to be put in practice. Indeed, adopting them will require a fundamental shift in how the United States defines foreign policy—an intellectual shift that can come about only with presidential leadership and sustained congressional support. And so whether the Trump Administration and Congress and their successors digest this compelling reality ranks among the most important questions of American grand strategy.