

China's America Problem

*Washington's
attitude toward
China is quickly
changing.*

BY RICHARD THORNTON

Although Chinese Communist leaders have believed that China was the middle kingdom around which all else revolved, in fact, the United States has been instrumental in shaping the destiny of the People's Republic since the beginning. These benchmarks, all derivative of larger strategy toward the Soviet Union, included: Franklin Delano Roosevelt's decision to include the Republic of China as a member of the Big Four during World War II, President Harry S. Truman's decision to cut off aid to the Kuomintang during the civil war, President Richard M. Nixon's decision to effect a rapprochement with Chairman Mao's China in 1971, President Jimmy Carter's decision to normalize formal diplomatic relations in 1979, and President Ronald Reagan's decision to agree to a *quid pro quo* over Taiwan in 1982.

All that changed in 1991. When the Soviet Union imploded there was no longer any reason for policy toward China to be derivative of strategy toward the Russians. Now, the United States was faced with the problem of how to stabilize the vast region formerly under Soviet control. The U.S. decision was to put China in the position formerly held by the Soviet Union in Washington's strategy. Thus, under President George H.W. Bush, the United States offered to assist Beijing in a rapid modernization of China, which was still struggling to emerge from the decades of chaos and instability arising from the Sino-Soviet split and the Great Proletarian Cultural Revolution. The Chinese accepted.

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The essential *quid pro quo* sought by the United States was that in return for China's agreement to be a strategic partner committed to the peaceful resolution of disputes, especially with regard to Taiwan, the United States was prepared to assist in a rapid modernization which would bring China out of the nineteenth century and into the twenty-first. It was Deng Xiaoping who brought together the essential decisions from within the Chinese leadership to establish the political, legal, economic, and social framework to absorb and utilize the enormous flow of wealth and technology needed to transform China into a great power.

Contrary to Chinese claims that their modernization strategy began with the late 1978 decision on "reform and opening up," and was carried out on the basis of their own efforts, reality was quite different. The history of foreign direct investment into China tells the story. Global FDI flows into China between 1978 and 1982 were negligible, totaling less than \$1 billion. That changed with Ronald Reagan, who negotiated the August 17, 1982, *quid pro quo* with Beijing over Taiwan. According to World Bank data, from 1983 through 1991, FDI flows into China increased to an average of more than \$2 billion per year and a total of \$22.2 billion over the period, a not unsubstantial amount, but still quite modest.

From 1992 through 2000, however, average annual global FDI into China exceeded \$35 billion. That is only part of the story, for accompanying foreign investment was the transfer of Western, mainly American, technology, industrial plant, and specialized know-how. Absent American policy decisions in support of these flows, China would still be a largely backward country.

The decision to include China in the World Trade Organization came next. Since its WTO accession in 2001, China has received nearly \$3 trillion of foreign direct investment, peaking at \$291 billion in a single year in 2013. American leaders hoped that Chinese inclusion would transform the centrally controlled communist regime into a rules-based market system on the path to a Western-style political system with a vested interest in stability. But if American leaders thought that the Chinese Communists would sacrifice political power for economic growth, they were supremely naïve. Although the choice between power and prosperity has become an increasingly difficult dilemma, in every case the Chinese have chosen the former over the latter, even while proclaiming support for Western rules—with Chinese characteristics. In truth, however, the Chinese have renounced their commitment to peaceful resolution of disputes and focused on the accumulation of wealth and power.

It is fair to ask: What has the United States reaped from this broken bargain? Instead of a strategic partner cooperating in maintaining global growth and stability, China has emerged as an avaricious power seeking to unseat the United States as global leader. Indeed, President Xi Jinping in a recent speech set forth China's claim to lead in the transformation of the "global governance system," calling for a "new style" of international relations that would be of "mutual benefit" for all. There can be little doubt about China's purpose. It is to replace the United States as the world's dominant power.

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China's Game Plan

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Xi Jinping

—R. Thornton

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Perhaps hoping to disarm American leaders, Xi has also just issued a white paper on China and the World Trade Organization, claiming that China has “faithfully observed and implemented WTO rules.” China is “letting the market play the decisive role in resource allocation,” “upholding the rule of law,” “fulfilling” its commitments to lower tariffs, and lowering non-tariff barriers. China is “liberalizing” trade in services, lowering the threshold for foreign investment in the service sector, strengthening intellectual property rights, and “fulfilling” commitments on transparency. China “firmly supports” the multilateral trading system and firmly supports the proper resolution of disputes through the dispute resolution system.

In truth, while China slashed tariffs and scrubbed thousands of regulations in accordance with its WTO entry commitments, it nonetheless adheres to a state-led economic model that runs counter to GATT/WTO free market principles. In a joint statement on May 31, 2018, the trade ministers of the United States, Japan, and the European Union “confirmed their shared objective to address non-market-oriented policies and practices that lead to severe overcapacity, create unfair competitive conditions for our workers and businesses, hinder the development and use of innovative technologies, and undermine the proper functioning of international trade.” Chinese policies and practices are the main subjects of concern here, even though no country is specified.

Fulfilling the spirit as well as the letter of its international trade promises would require a wholesale transformation of China’s culture of graft and corruption imbedded in the Communist system at all levels and in every

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sector of Chinese life and society. If future actions are anything like the recent past, China will continue to practice forced foreign technology transfer, industrial espionage, debt-trap financial diplomacy, and military expansionism. The blatant seizure of the Paracel and Spratley Islands and their militarization after promising not to do so is a graphic case in point, as is the establishment of military bases across the globe.

Chinese leaders think that they can use the World Trade Organization to imbed the Chinese economy ever deeper into the world economy, lessen China’s dependence

on the United States, reduce U.S. leverage, and utilize their size and low labor costs to advantage. They may be right, but only if the United States continues to permit it. The fact is that China has begun to challenge the United States be-

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fore it is sufficiently powerful to do so, going so far as to propose a “grand alliance” with Europe and Russia against America. China has yet to produce a sustainable wealth-generating economic system of its own and remains heavily reliant upon Western, mainly American, inputs. And that is its Achilles heel.

The brouhaha over efforts to enforce Iran sanctions has revealed that ZTE, one of China’s flagship telecommunications companies, cannot stay in business without access to U.S. components. Meanwhile, the Trump Administration’s tariffs on imports from China to remedy Chinese intellectual property infractions are criticized as an “own goal,” because they punish goods that are made in China by U.S. and allied foreign firms. Yet that also illustrates just how dependent China remains on foreign capital and know-how for its export earnings.

Moreover, the veil has been lifted. American leaders, especially President Donald Trump, are no longer beguiled by the promise of China’s future Pygmalion-like transformation from its corrupt Communist tyranny into some form of a Western-style political system based on the rule of law. China’s premature challenge to the United States is akin to a poker player attempting to fill an inside strait. The odds are astronomical, and the United States is no longer a gullible banker. The trends are now reversed. The United States has begun to modernize and rearm at a rapid rate. While China continues to grow stronger, the balance of power remains with the United States, which still holds the key to China’s success. Will China continue its challenge, falling further into the overconfidence trap, or retreat and wait for another opportunity in the future? In either case, it will not be with American wealth. Those days are over. ◆