

On Hostile Coexistence with China

Remarks to the Freeman Spogli Institute for International Studies China Program

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President Trump's trade war with China has quickly metastasized into every other domain of Sino-American relations. Washington is now trying to dismantle China's interdependence with the American economy, curb its role in global governance, counter its foreign investments, cripple its companies, block its technological advance, punish its many deviations from liberal ideology, contest its borders, map its defenses, and sustain the ability to penetrate those defenses at will.

The message of hostility to China these efforts send is consistent and apparently comprehensive. Most Chinese believe it reflects an integrated U.S. view or strategy. It does not.

There is no longer an orderly policy process in Washington to coordinate, moderate, or control policy formulation or implementation. Instead, a populist president has effectively declared open season on China. This permits everyone in his administration to go after China as they wish. Every internationally engaged department and agency – the U.S. Special Trade Representative, the Departments of State, Treasury, Justice, Commerce, Defense, and Homeland Security – is doing its own thing about China. The president has unleashed an undisciplined onslaught. Evidently, he calculates that this will increase pressure on China to capitulate to his protectionist and mercantilist demands. That would give him something to boast about as he seeks reelection in 2020.

Trump's presidency has been built on lower middle-class fears of displacement by immigrants and outsourcing of jobs to foreigners. His campaign found a footing in the anger of ordinary Americans – especially religious Americans – at the apparent contempt for them and indifference to their welfare of the country's managerial and political elites. For many, the trade imbalance with China and Chinese rip-offs of U.S. technology became the explanations of choice for increasingly unfair income distribution, declining equality of opportunity, the deindustrialization of the job market, and the erosion of optimism in the United States.

In their views of China, many Americans now appear subconsciously to have combined images of the insidious Dr. Fu Manchu, Japan's unnerving 1980s challenge to U.S. industrial and financial primacy, and a sense of existential threat analogous to the Sinophobia that inspired the Anti-Coolie and Chinese Exclusion Acts.

Meanwhile, the ineptitude of the American elite revealed by the 2008 financial crisis, the regular eruptions of racial violence and gun massacres in the United States, the persistence of paralyzing political constipation in Washington, and the arrogant unilateralism of "America First" have greatly diminished the appeal of America to the Chinese elite.

As a result, Sino-American interaction is now long on mutual indignation and very short on empirically validated information to substantiate the passions it evokes. On each side, the other is presumed guilty of a litany of iniquities. There is no process by which either side can achieve

exoneration from the other's accusations. Guesstimates, conjectures, *a priori* reasoning from dubious assumptions, and media-generated hallucinations are reiterated so often that they are taken as facts. The demagoguery of contemporary American populism ensures that in this country clamor about China needs no evidence at all to fuel it. Meanwhile, Chinese nationalism answers American rhetorical kicks in the teeth by swallowing the figurative blood in its mouth and refraining from responding in kind, while sullenly plotting revenge. 君子报仇十年不长.¹

We are now entering not just a post-American but *post-Western* era. In many ways the contours of the emerging world order are unclear. But one aspect of them is certain: China will play a larger and the U.S. a lesser role than before in global and regional governance. The Trump administration's response to China's increasing wealth and power does not bode well for this future. The pattern of mutual resentment and hostility the two countries are now establishing may turn out to be indelible. If so, the consequences for both and for world prosperity and peace could be deeply unsettling.

For now, America's relationship with China appears to have become a vector compounded of many contradictory forces and factors, each with its own advocates and constituencies. The resentments of some counter the enthusiasms of others. No one now in government seems to be assessing the overall impact on American interests or wellbeing of an uncoordinated approach to relations with the world's greatest rising power. And few in the United States seem to be considering the possibility that antagonism to China's rise might end up harming the United States and its Asian security partners more than it does China. Or that, in extreme circumstances, it could even lead to a devastating trans-Pacific nuclear exchange.

Some of the complaints against China from the squirming mass of Sinophobes who have attached themselves to President Trump are entirely justified. The Chinese have been slow to accept the capitalist idea that knowledge is property that can be owned on an exclusive basis. This is, after all, contrary to a millennial Chinese tradition that regards copying as flattery, not a violation of genius. Chinese businessfolk have engaged in the theft of intellectual property rights not just from each other but from foreigners. Others may have done the same in the past, but they were nowhere near as big as China. China's mere size makes its offenses intolerable. Neither the market economy in China nor China's international trade and investment relationships can realize their potential until its disrespect for private property is corrected. The United States and the European Union (EU) are right to insist that the Chinese government fix this problem.

Many Chinese agree. Not a few quietly welcome foreign pressure to strengthen the enforcement of patents and trademarks, of which they are now large creators, in the Chinese domestic market. Even more hope the trade war will force their government to reinvigorate "reform and opening." Fairer treatment of foreign-invested Chinese companies is not just a reasonable demand but one that serves the interests of the economically dominant but politically disadvantaged private sector in China. Chinese protectionism is an unlatched door against which the United States and others should continue to push.

But other complaints against China range from the partially warranted to the patently bogus. Some recall Hermann Göring's cynical observation at Nuremberg that: "*The people can always be brought to the bidding of the leaders. That is easy. All you have to do is tell them they are*

¹ For a gentleman, a decade's wait for revenge is not too long.

being attacked and denounce the pacifists for lack of patriotism and exposing the country to danger. It works the same way in any country.” There is a lot of this sort of manipulative reasoning at play in the deteriorating U.S. security relationship with the Chinese. Social and niche media, which make everything plausible and leave no truth unrefuted, facilitate this. In the Internet miasma of conspiracy theories, false narratives, fabricated reports, fictive “facts,” and outright lies, baseless hypotheses about China rapidly become firm convictions and long-discredited myths and rumors find easy resurrection.

Consider the speed with which a snappy phrase invented by an Indian polemicist – “debt-trap diplomacy” – has become universally accepted as encapsulating an alleged Chinese policy of international politico-economic predation. Yet the only instance of a so-called a “debt trap” ever cited is the port of Hambantota, commissioned by the since-ousted autocratic president of Sri Lanka to glorify his hometown. His successor correctly judged that the port was a white elephant and decided to offload it on the Chinese company that had built it by demanding that the company exchange the debt to it for equity. To recover any portion of its investment, the Chinese company now has to build some sort of economic hinterland for the port. Hambantota is less an example of a “debt trap” than of a stranded asset.

Then too, China is now routinely accused of iniquities that better describe the present-day United States than the People’s Middle Kingdom. Among the most ironic of such accusations is the charge that it is China, not a sociopathic “America First” assault on the international *status quo*, that is undermining both U.S. global leadership and the multilateral order remarkably wise American statesmen put in place some seven decades ago. But it is the United States, not China, that is ignoring the U.N. Charter, withdrawing from treaties and agreements, attempting to paralyze the World Trade Organization’s dispute resolution mechanisms, and substituting bilateral protectionist schemes for multilateral facilitation of international trade based on comparative advantage.

The WTO was intended as an antidote to mercantilism, also known as “government-managed trade.” China has come strongly to support globalization and free trade. These are the primary sources of its rise to prosperity. It is hardly surprising that China has become a strong defender of the trade and investment regime Americans designed and put in place.

By contrast, the Trump administration is all about mercantilism – boosting national power by minimizing imports and maximizing exports as part of a government effort to manage trade with unilateral tariffs and quotas, while exempting the United States from the rules it insists that others obey.

I will not go on except to note the absurdity of the thesis that “engagement” failed to transform China’s political system and should therefore be abandoned. Those who most vociferously advance this canard are the very people who used to complain that changing China’s political order was not the objective of engagement but that it should be. They now condemn engagement because it did not accomplish objectives that they wanted it to have but used to know that it didn’t. It is telling that American engagement with other illiberal societies (like Egypt, the Israeli occupation in Palestine, or the Philippines under President Duterte) is not condemned for having failed to change them.

That said, we should not slight the tremendous impact of America’s forty-year opening to China on its socioeconomic development. American engagement with China helped it develop

policies that rapidly lifted at least 500 million people out of poverty. It transformed China from an angry, impoverished, and isolated power intent on overthrowing the capitalist world order to an active, increasingly wealthy, and very successful participant in that order. It midwifed the birth of a modernized economy that is now the largest single driver of the world's economic growth and that, until the trade war intervened, was America's fastest growing overseas market. American engagement with China helped reform its educational system to create a scientific, technological, engineering, and mathematical ("STEM") workforce that already accounts for one-fourth of such workers in the global economy. For a while, China was a drag on human progress. It is now an engine accelerating it. That transformation owes a great deal to the breadth and depth of American engagement with it.

Nor should we underestimate the potential impact of the economic decoupling, political animosity, and military antagonism that U.S. policy is now institutionalizing. Even if the two sides conclude the current trade war, Washington now seems determined to do everything it can to hold China down. It seems appropriate to ask: can the United States succeed in doing this? What are the probable costs and consequences of attempting to do it? If America disengages from China, what influence, if any, will the United States have on its future evolution? What is that evolution likely to look like under conditions of hostile coexistence between the two countries?

Some likely answers, issue by issue.

First: the consequences of **cutting back Sino-American economic interdependence.**

The supply chains now tying the two economies together were forged by market-regulated comparative advantage. The U.S. attempt to impose government-dictated targets for Chinese purchases of agricultural commodities, semiconductors, and the like represents a political preemption of market forces. By simultaneously walking away from the Paris climate accords, TPP, the Iran nuclear deal, and other treaties and agreements, Washington has shown that it can no longer be trusted to respect the sanctity of contracts. The U.S. government has also demonstrated that it can ignore the economic interests of its farmers and manufacturers and impose politically motivated embargoes on them. The basic lesson Chinese have taken from recent U.S. diplomacy is that no one should rely on either America's word or its industrial and agricultural exports.

For these reasons, the impending trade "deal" between China and the United States – if there is one – will be at most a truce that invites further struggle. It will be a short-term expedient, not a long-term reinvigoration of the Sino-American trade and investment relationship to American advantage. No future Chinese government will allow China to become substantially dependent on imports or supply chains involving a country as fickle and hostile as Trump's America has proven to be. China will instead develop non-American sources of foodstuffs, natural resources, and manufactures, while pursuing a greater degree of self-reliance. More limited access to the China market for U.S. factories and farmers will depress U.S. growth rates. By trying to reduce U.S. interdependence with China, the Trump administration has inadvertently made the United States the supplier of last resort to what is fast becoming the world's largest consumer market.

The consequences for American manufacturers of "losing" the China market are worsened by the issue of scale. China's non-service economy already dwarfs that of the United States. Size matters. Chinese companies, based in a domestic market of unparalleled size, have economies of

scale that give them major advantages in international competition. American companies producing goods – for example, construction equipment or digital switching gear – have just been put at a serious tariff disadvantage in the China market as China retaliates against U.S. protectionism by reciprocating it. One side effect of the new handicaps U.S. companies now face in the China market is more effective competition from Chinese companies, not just in China but in third country markets too.

Second: the U.S. effort to **block an expanded Chinese role in global governance.**

This is no more likely to succeed than the earlier American campaign to persuade allies and trading partners to boycott the Chinese-sponsored Asian Infrastructure Investment Bank (AIIB). That has isolated the United States, not China. Carping at the Belt and Road initiative and related programs from outside them does nothing to shape them to American advantage. It just deprives American companies of the profits they might gain from participating in them.

The United States seems to be acting out of nostalgia for the simplicities of a bipolar world order, in which countries could be pressured to stand with either the United States or its then rival. But China is not hampered by a dysfunctional ideology and economic system, as America's Soviet adversary was. What's more, today's China is an integral member of international society, not a Soviet-style outcast. There is now, quite literally, no country willing to accept being forced to make a choice between Beijing and Washington. Instead, all seek to extract whatever benefits they can from relations with both and with other capitals as well, if they have something to offer. The binary choices, diplomatic group-think, and trench warfare of the Cold War have been succeeded by national identity politics and the opportunistic pursuit of political, economic, and military interests wherever they can be served. Past allegiances do not anywhere determine current behavior.

The sad reality is that the United States, which led the creation of the Bretton Woods institutions that have been at the core of the post-World War II rule-bound international system, now offers these institutions and their members neither funding nor reform. Both are necessary to promote development as balances of supply, demand, wealth, and power shift. The new organizations, like the AIIB and the New Development Bank, that China and others are creating are not predatory intrusions into the domain of American-dominated international finance. They are necessary responses to unmet financial and economic demand. Denouncing them does not alter that reality.

Other countries do not see these organizations as supplanting pre-existing lending institutions long led by the United States. The new institutions supplement the World Bank Group and regional development banks. They operate under slightly improved versions of the lending rules pioneered by the Bretton Woods legacy establishments. China is a major contributor to the new development banks, but it does not exercise a veto in them as the U.S. does in the IMF and World Bank. The AIIB's staff is multinational (and includes Americans in key positions). The New Development Bank's first president is Indian and its principal lending activity to date has been in South Africa.

Washington has chosen to boycott anything and everything sponsored by China. So far, the sad but entirely predictable result of this attempt to ostracize and reduce Chinese influence has not curbed China's international clout but magnified it. By absenting itself from the new

institutions, the United States is making itself increasingly irrelevant to the overall governance of multilateral development finance.

Third: the U.S. campaign to block China's international investments, cripple its technology companies, and impede its scientific and technological advance.

The actions of the Committee on Foreign Investment in the United States (CFIUS) to prevent Chinese investment in American industry and agriculture are well publicized and are becoming ever more frequent. So are official American denunciations of Chinese telecommunications companies like Huawei and ZTE amidst intermittent efforts to shut them down. In an ominous echo of World War I's anti-German, World War II's anti-Japanese, and the Cold War's anti-communist xenophobia, the FBI has begun issuing loud warnings about the menace posed by the large Chinese student presence on American campuses. Washington is adjusting visa policies to discourage such dangerous people from matriculating here. It has also mounted a strident campaign to persuade other countries to reject Chinese investments under the "Belt and Road" initiative.

In the aggregate, these policies represent a decision by the U.S. political elite to try to hamstring China, rather than to invest in strengthening America's ability to compete with it. There is no reason whatsoever to believe this approach can succeed. China's foreign direct investments have more than doubled over the past three years. Third countries are openly declining to go along with U.S. opposition to intensified economic relations with China. They want the capital, technology, and market openings that Chinese investment provides. U.S. denunciations of their interest in doing business with China are seldom accompanied by credible offers by American companies to match what their Chinese competitors offer. You can't beat something with nothing.

It's also not clear which country is most likely to be hurt by U.S. government obstruction of collaboration between Chinese and American STEM workers. There is a good chance the greatest damage will be to the United States. A fair number of native-born Americans seem more interested in religious myths, magic, and superheroes than in science. U.S. achievements in STEM owe much to immigration and to the presence of Chinese and other foreign researchers in America's graduate schools. The Trump administration is trying to curtail both.

China already possesses one-fourth of the world's STEM workforce. It is currently graduating three times as many STEM students annually as the United States. (Ironically, a significant percentage of STEM graduates in the United States are Chinese or other Asian nationals. Around half of those studying computer sciences in the United States are such foreigners.) American loss of contact with scientists in China and a reduced Chinese presence in U.S. research institutions can only retard the further advance of science in the United States.

China is rapidly increasing its investments in education, basic science, research, and development even as the United States reduces funding for these activities, which are the foundation of technological advance. The pace of innovation in China is visibly accelerating. Cutting Americans off from interaction with their Chinese counterparts while other countries continue risks causing the United States to fall behind not just China but other foreign competitors.

Finally: the U.S. military is in China's face.

The U.S. Navy and Air Force patrol China's coasts and test its defenses on a daily basis. U.S. strategy in the event of war with China – for example, over Taiwan – depends on overcoming those defenses so as to be able to strike deep into the Chinese homeland. The United States has just withdrawn from the treaty on intermediate nuclear forces in part to be able to deploy nuclear weapons to the Chinese periphery. In the short term, there is increasing danger of a war by accident, triggered by a mishap in the South China Sea, the Senkaku Archipelago, or by efforts by Taiwanese politicians to push the envelope of mainland tolerance of their island's unsettled political *status quo*. These threats are driving growth in China's defense budget and its development of capabilities to deny the United States continued military primacy in its adjacent seas.

In the long term, U.S. efforts to dominate China's periphery invite a Chinese military response on America's periphery like that formerly mounted by the Soviet Union. Moscow actively patrolled both U.S. coasts, stationed missile-launching submarines just off them, supported anti-American regimes in the Western Hemisphere, and relied on its ability to devastate the American homeland with nuclear weapons to deter war with the United States. On what basis does Washington imagine that Beijing cannot and will not eventually reciprocate the threat the U.S. forces surrounding China appear to pose to it?

Throughout the forty-two years of the Cold War, Americans maintained substantive military-to-military dialogue with their Soviet enemies. Both sides explicitly recognized the need for strategic balance and developed mechanisms for crisis management that could limit the risk of a war and a nuclear exchange between them. But no such dialogue, understandings, or mechanisms to control escalation now exist between the U.S. armed forces and the PLA. In their absence Americans attribute to the PLA all sorts of intentions and plans that are based on mirror-imaging rather than evidence.

The possibility that mutual misunderstanding will intensify military confrontation and increase the dangers it presents is growing. The chances of this are all the greater because the internal security and counterintelligence apparatuses in China and the United States appear to be engaged in a contest to see which can most thoroughly alienate the citizens of the other country. China is a police state. For Chinese in America, the United States sometimes seems to be on the way to becoming one.

It's hard to avoid the **conclusion** that, if Washington stays on its current course, the United States will gain little, while ceding substantial ground to China and significantly increasing risks to its wellbeing, global leadership, and security.

Economically, China will become less welcoming to American exports. It will pursue import substitution or alternative sourcing for goods and services it has previously sourced in the United States. With impaired access to the world's largest middle class and consumer economy, the United States will be pushed down the value chain. China's ties to other major economies will grow faster than those with America, adversely affecting U.S. growth rates. Any reductions in the U.S. trade deficit with China will be offset by increases in trade deficits with the countries to which current production in China is relocated.

China's role in **global governance** will expand as it adds new institutions and funds to the existing array of international organizations and takes a larger part in their management. The Belt and Road initiative will expand China's economic reach to every corner of the Eurasian

landmass and adjacent areas. The U.S. role in global rule-making and implementation will continue to recede. China will gradually displace the United States in setting global standards for trade, investment, transport, and the regulation of new technologies.

Chinese **technological innovation** will accelerate, but it will no longer advance in collaboration with American researchers and institutions. Instead it will do so indigenously and in cooperation with scientists outside the United States. U.S. universities will no longer attract the most brilliant students and researchers from China. The benefits of new technologies developed without American inputs may be withheld rather than shared with America, even as the leads the United States has long enjoyed in science and technology one-by-one erode and are eclipsed. As cordiality and connections between China and the United States wither, reasons for Chinese to respect the intellectual property of Americans will diminish rather than increase.

Given the forward deployment of U.S. forces, the Chinese **military** has the great advantage of a defensive posture and short lines of communication. The PLA is currently focused on countering U.S. power projection in the last tenth or so of the 6,000-mile span of the Pacific Ocean. In time, however, it is likely to seek to match American pressure on its borders with its own direct military pressure on the United States along the lines of what the Soviet armed forces once did.

The adversarial relationship that now exists between the U.S. armed forces and the PLA already fuels an arms race between them. This will likely expand and accelerate. The PLA is rapidly shrinking the gap between its capabilities and those of the U.S. armed forces. It is developing a nuclear triad to match that of the United States. The good news is that mutual deterrence seems possible. The bad news is that politicians in Taiwan and their fellow travelers in Washington are determinedly testing the policy frameworks and understandings that have, over the past forty years, tempered military confrontation in the Taiwan Strait with dialogue and rapprochement. Some in Taiwan seem to believe that they can count on the United States to intervene if they get themselves in trouble with Chinese across the Strait. The Chinese civil, suspended but not ended by U.S. unilateral intervention in 1950, seems closer to a resumption than it has been for decades.

As a final note on politico-military aspects of Sino-American relations, in the United States, security clearances are now routinely withheld from anyone who has spent time in China. This guarantees that few intelligence analysts have the *Fingerspitzengefühl* – the feeling derived from direct experience – necessary to really understand China or the Chinese. Not to worry. The administration disbelieves the intelligence community. Policy is now made on the basis of ignorance overlaid with media-manufactured fantasies. In these circumstances, some enterprising Americans have taken to combing the dragon dung for nuggets of undigested Chinese malevolence, so they can preen before those in power now eager for such stuff. There is a Chinese expression that nicely describes such pretense: 屎壳螂带花—又臭又美 – “a dung beetle with flowers in its hair still stinks.”

All said, this does not add up to a fruitful approach to dealing with the multiple challenges that arise from China’s growing wealth and power. So, **what is to be done?** 该怎么办？

Here are a few **suggestions**.

First, accept the reality that China is both too big and too embedded in the international system to be dealt with bilaterally. The international system needs to adjust to and accommodate the seismic shifts in the regional and global balances of wealth and power that China's rise is causing. To have any hope of success at adapting to the changes now underway, the United States needs to be backed by a coalition of the reasonable and farsighted. This can't happen if the United States continues to act in contempt of alliances and partnerships. Washington needs to rediscover statecraft based on diplomacy and comity.

Second, forget government-managed trade and other forms of mercantilism. No one can hope to beat China at such a statist game. The world shouldn't try. Nor should it empower the Chinese government to manage trade at the expense of market forces or China's private sector. Governments can and – in my opinion – should set economic policy objectives, but everyone is better off when markets, not politicians, allocate capital and labor to achieve these.

Third, instead of pretending that China can be excluded from significant roles in regional and global governance, yield gracefully to its inclusion in both. Instead of attempting to ostracize China, leverage its wealth and power in support of the rule-bound order in which it rose to prosperity, including the WTO.

Fourth, accept that the United States has as much or more to gain than to lose by remaining open to science, technology, and educational exchanges with China. Be vigilant but moderate. Err on the side of openness and transnational collaboration in progress. Work on China to convince it that the costs of technology theft are ultimately too high for it to be worthwhile.

Fifth and finally, back away from provocative military actions on the China coast. Trade frequent “freedom of navigation operations” to protest Chinese interpretations of the U.N. Convention on the Law of the Sea for dialogue aimed at reaching common understandings of relevant interests and principles. Ratify the Convention on the Law of the Sea and make use of its dispute resolution mechanisms. As much as possible, call off military confrontation and look for activities, like the protection of commercial shipping, that are common interests. Seek common ground without prejudice to persisting differences.

In **conclusion**: both China and the United States need a peaceful international environment to be able to address long-neglected domestic problems. Doing more of what we're now doing threatens to preclude either of us from sustaining the levels of peace, prosperity, and domestic tranquility that a more cooperative relationship would afford. Hostile coexistence between two such great nations injures both and benefits neither. It carries unacceptable risks. Americans and Chinese need to turn from the path we are now on. We can – we must – find a route forward that is better for both of us.

Thank you.