

# The Wire *China*

OPINION

## Myths and Realities in Sino-American Relations

To stumble into cold war or hot war based on mostly bipartisan myths would be a historic tragedy.

BY WILLIAM H. OVERHOLT – JANUARY 10, 2021



The U.S.-China relationship has been dogged by several pervasive myths. Overholt wants to set the record straight.

*Credit: Lintao Zhang/AP Photo*

The recent toughening of the U.S.-China relationship is inevitable. China has changed in multiple adverse ways — from Xinjiang to Hong Kong to the South China Sea — which necessitates a more demanding relationship. But recent U.S. policy has also made things worse, because it has been based heavily on myths. Below, I outline six of the most pernicious and damaging myths undermining U.S. policy.

**Myth 1: President Trump said that cutting off all relations with China would save us \$500 billion, based on the trade deficit, which he blamed on China and specifically on China's predatory undervaluation of its currency.**

Actually, China's currency was slightly overvalued. The trade deficit does not measure net benefits from an economic relationship. Famously, when China assembles a Nike shoe and sends it back to the U.S., the trade deficit shows over \$100 but only \$2 stays in China for the assembly and the benefits go predominantly to Americans. Trump's trade war sought to reduce the trade deficit and restore manufacturing jobs, but his policies increased the U.S. trade deficit, reduced manufacturing jobs, and raised costs for American families.

**Myth 2: Our engagement with China was based on a belief that it would make China a democracy, or at least a liberal, Western-style society. Therefore the policy of engagement has failed and should be reversed.**

Asia advisors to President-elect Biden promote this. But notwithstanding some quotations from past presidents' political hype, the decisive arguments for engagement in congressional testimony were always about peace and prosperity. Balancing the Soviet Union, peace in Korea, non-proliferation, anti-terrorism, avoiding gratuitous conflicts, environmental cooperation, economic competitiveness and business opportunities were the focus of America's engagement policy — not democratization.

By and large, it worked. Engagement with China enabled half a century of big power peace and the most extraordinary increase in prosperity in global history. No longer is Africa stagnant. No longer does Latin America lead the world down every financial crisis. The poorest, most unstable countries — the ones that create the most security concerns for America — are raw materials producers, and Chinese demand has lifted them up.

Of course, in the face of engagement, China's maritime aggression, theft of intellectual property and denial of market access require firm action. The U.S. should diversify away from dependence on China for vital supplies like rare earths. But America's future is not improved by revisionist history that mischaracterizes engagement. So far, it has been one of the great successes of human history.

**Myth 3: American job losses can be blamed on China, and we must fight back by "reshoring" manufacturing jobs.**

Faced with a decline of manufacturing jobs, both parties in Congress have found it politically convenient to blame China. But the decline has proceeded steadily

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[China/TIE W17 Overholt The Great Betrayal.pdf](#)) since 1947, and, as happened with agricultural jobs, technology and automation is the primary cause. McKinsey forecasts that the world will lose 800 million manufacturing jobs by 2030, and so far, China's loss of manufacturing jobs is about fifteen times America's.

Research says business relocations to China have cost real U.S. job losses of roughly 3 million, but no research has assessed how many of those companies would have shed jobs anyway due to financial or technological challenges. This is not a minor footnote; look at Intel's current

damaged position because it failed to outsource in time. Nor do we have research showing how many jobs China has saved. GM, for example, was about to become insolvent; China's market opening made it salvageable.

Instead of blaming China, Washington needs to manage the inexorable transition from a manufacturing to a service economy. Addressing the social problems caused by such a transition — made visible by Trumpism and justified rage against the political elite — will require large expenditures and moderation of America's egregious inequalities. But if America fails to do it, choosing instead to scapegoat China, it will be unable to maintain a competitive economy as other countries make trade agreements. More broadly, it will be difficult for the U.S. to be the global leader if, in an era of geoeconomics, it isolates itself in reaction to globalization.

#### **Myth 4: China is Superman, and whatever its strong industrial policy sets out to do, it will succeed in.**

When China announces that it's going to take over all key industrial technologies, much of Washington believes it, panics, and overreacts. But China's 2025 and 2035 plans are in part re-runs of Japan's industrial policy in the 1970s, which also alarmed Americans. While Japan had some very expensive successes, they had even more very expensive failures. Their last big effort, called the Fifth Generation computer/Artificial Intelligence program in 1982, was a total flop.

China can afford bigger subsidies than Japan's, but China's resources are going to be squeezed. Xi Jinping's overarching priority for political control is at war with his economic ambitions. The Party Committee has final say over all strategic business decisions, even in private companies, which is like having a politician make decisions at Apple. The result is a spectacular waste of resources: China has subsidized its semiconductor industry with \$103 billion and aircraft with \$45 billion — and still failed to compete.

The U.S. and its allies can bolster industries while maintaining private, competitive sectors. When a Chinese product, such as Huawei with 5G, threatens to dominate the world because its competitors are largely excluded from the China market, the West should ban it. But broad, panicky protectionism is counterproductive.

#### **Myth 5: War with China is inevitable — so we should focus resources on our military.**

Perhaps the most influential baseline view of the U.S.-China relationship is the Thucydides Trap. From the time of ancient Greece through World War II, when a rising power met an established power, war resulted roughly three out of four times. But two crucial things have changed since World War II: Economics has become more decisive for international influence; and military technology has become hugely more destructive. Both sides are likely to lose if one or both pursue the military power-grabbing path to leadership.

In today's world, becoming a successful big power relies primarily on economic, not military, strategy. This is a fundamental shift in the way the world works. The U.S. won the Cold War by building successful economies while the USSR went bust. Japan became a big power without

much of a military. Germany became Europe's leader through economic superiority. South Korea overcame its inferiority to North Korea with an economy that is now 50 times larger than North Korea's. Deng Xiaoping cut back China's military from 16 percent of GDP to 3 percent and settled 12 of its 14 land border disputes in order to prioritize economic growth. The subsequent economic takeoff made China a major power before the current military buildup began.

Economic strategies for power differ significantly from military strategies, because when the U.S. and China compete economically for leadership both can prosper. Moreover, if protagonists recognize the new reality, the risk of hot war drastically declines. But if either the U.S. or China behaves like a pre-World War II power, if they abandon successful economic strategy and focus on military spending and competition, the Thucydides Trap is self-fulfilling. Graham Allison's recent book, *Destined for War*, details the consequences. But gratuitous escalation of the risk of military conflict is not a law of history, particularly recent history. Much increased risk comes from our failure to understand that the geopolitical game is now primarily a geoeconomics game. As shown by its Belt and Road Initiative, China has a much better understanding of the new game.

### **Myth 6: Xi Jinping's China is doing what China always intended to do — China will always be aggressive in its quest for global prominence.**

On the contrary, China is always changing. The urban reformist liberalizing China of Deng Xiaoping and Jiang Zemin differed radically from Mao's murderous agrarian populist China. Their successor, Hu Jintao's China, reacted against the social stresses caused by their market reforms, curtailing social and market liberalization. Xi Jinping was chosen to deal with the centripetal forces of Hu Jintao's decade: indecision, stalled reforms, ministers ignoring the prime minister, local governments ignoring the center, the private economy overrunning the state economy, civil society threatening the role of the Party, and military leaders focused on real estate deals.

Generational change comes fast and hard in China. Xi Jinping has addressed the fears of disintegration created by his ineffectual predecessor, but in an extreme and reactionary form that has unsettled much of China's elite. I was involved with Chinese leaders making decisions about Hong Kong in the 1990s; their promises regarding Hong Kong were sincere, and they would be appalled by Xi's repudiation. The idea that there is an insidious, permanent determination behind Xi's extreme political repression is a sinophobic fantasy. The only constants are the determination that China will become rich, powerful and safe — the desire to become a world leader.

The next version of China will be either much better or much worse. America must be prepared for either. It would be a history-changing error to lock in an antagonistic relationship, but these mostly bipartisan myths lead gratuitously toward a cold or hot war. If China seeks to militarize the Philippine territory of Scarborough Shoal, let us prepare for a fight. When predatory Chinese practices threaten Western economies, let's ban their Huawei's. When China abuses Uyghurs in Xinjiang, let America lead the denunciations. We must address these issues firmly. But to stumble into cold war or hot war based on myths would be a historic tragedy.

William H. Overholt is a senior research fellow at Harvard Kennedy School. He has authored several books on China and Asia, most recently publishing *China's Crisis of Success* (<https://www.cambridge.org/core/books/chinas-crisis-of-success/E88E24D20DDEB8F05F4B2CD8FFA90E2E>) (2018). He previously worked as the President of Hong Kong's Fung Global Institute, led RAND's Center for Asia Pacific Policy, and worked in investment banking for over two decades. [@WilliamHOverhol](https://twitter.com/WilliamHOverhol) (<https://twitter.com/WilliamHOverhol>).