

Getting China Wrong

What Happens Next – 05.15.2022

Aaron Friedberg:

Thank you very much for giving me the opportunity to talk about my new book, Getting China Wrong. The book explains the strategy that the United States developed to deal with China after the Cold War described as engagement: economic, societal, scientific, technological cooperation, and so on.

Why did we adopt this strategy? Groups saw opportunities to make money in China strongly favored engagement. As the economic relationship deepened, those interests grew stronger and more influential.

There's also a big ideological component. If you look back at the history of the US over the 20th century, we've tried three times to create a liberal international system of democracies tied together by trade and international law.

After the first world war, Woodrow Wilson attempted to create a league of nations and that failed. At the end of the second world war, the US tried again and it didn't succeed because the Soviet Union wanted no part of it. Instead of creating a global order, we created a partial liberal order that consisted of us and our allies.

At the end of the Cold War, we wanted to create this integrated liberal system again.

At the time of the debates over whether China should enter the World Trade Organization, the belief was that China would become increasingly market-driven in its economic policies. That its economy would come to resemble those of other advanced industrial countries, would move away from state planning and towards a market-driven economy.

And that this engagement would set in motion forces that would lead eventually to Chinese political liberalization. And the most important mechanism there was economic growth. Trade leads to growth. Growth leads to the emergence of a middle class. Middle class has historically been the standard bearer of democratic political reforms. And the expectation was that that would happen eventually in China as well.

So why didn't this work? China has not liberalized economically. And China today is more repressive internally than at any time since the cultural revolution.

Why? The Chinese Communist Party developed a counter strategy to take advantage of what we were offering in engagement while at the same time maintaining their exclusive grip on political power, because that is their principal motivation. It explains almost everything they do domestically and internationally. This belief that it's essential that China continue to be ruled by the Communist Party. And they maintain political control through a mix of coercion and ideological indoctrination. For the first 15 years after the end of the Cold War, they really lay low, they didn't want to provoke the United States. And as they've become more confident of their power, they've become more assertive.

Larry Bernstein:

Was it a mistake to make an effort to include China in our liberal international order?

Aaron Friedberg:

I don't think it was a mistake to try. It was a gamble. And the problem is not so much that we made the initial bet, the problem is that we continued to double down on it, in spite of the mounting evidence that it wasn't paying off.

Larry Bernstein:

John Mearsheimer argued on a previous episode of What Happens Next that the American strategy to engage with China and assist it in economics, technological know-how, and educational attainment was a blunder because only China could threaten our global hegemony.

Aaron Friedberg:

I think he's right for the wrong reasons. He ignores the role of ideology and the character of the domestic political system. In his view, China, would've been a threat even if it had become a democracy. Which I simply don't believe. I think the real force that's driving Chinese policy is the regime. Yes, there would've been tension and friction with a rising China, even if it had been a liberal democracy. But I don't think we would be in intense rivalry if that change had taken place.

The question is whether it was naive to think that the change could happen, and that's where I think it was a gamble. The odds were very long. If we had had a deeper appreciation of the CCP regime, we would've been even more skeptical about the possibility of this paying off. But even so, I would say it was worth trying.

The alternative to it would've been to try to isolate China and weaken it right from the start, which would've probably gotten us similar antagonism, maybe worse. Perhaps China wouldn't have been as rich and powerful, maybe that would've been a better situation. I think it was Bismarck who said, "You shouldn't commit suicide for fear of death." Adopting a strategy that would've guaranteed that China became an enemy, when it wasn't clear that that was necessarily going to happen, would've been a mistake.

Larry Bernstein:

Did we consider instigating regime change in China using an approach like Reagan when he publicly called for an overthrow of the Soviet Union?

Aaron Friedberg:

We thought we were promoting regime change to put it bluntly. After the Tiananmen Square massacre in 1989, the US and other Western countries sanctioned China. And there was a big debate in the US, whether we should lift those sanctions and allow China once again to have most favored nation trading status. The Clinton administration decided not to try to use that lever to force the Chinese regime to treat political prisoners better because of the belief that the growing interconnection between our societies was going to push China in that direction regardless.

Deng Xiaoping said the United States is trying to undermine us. We need to come up with a way as, he said, to open the window and let in the fresh air without letting in too many flies. And the flies were these corrupting dangerous ideas.

So right from the start, the CCP leadership had a very realistic appreciation of the dangers of engagement. And they thought we were actively trying to promote a change in the character of their regime. And they were right. We weren't doing it in a sort of Reagan style tear down this wall effort to change the Soviet Union. But we were doing it in a kinder, gentler way, and that it would end up in the

same place. But they were having none of it. And they've evolved strategies and policies for making sure that that didn't happen.

Larry Bernstein:

The fall of the Soviet Union affected both American and Chinese strategic thinking. For the US, we thought that an open society that allowed people's access to the internet or even the fax would destabilize authoritarian regimes. The Chinese learned a completely different lesson from the demise of the Soviets that they could not tolerate dissent.

Aaron Friedberg:

I think you're exactly right on both sides of that equation. On the US and Western side, it just seemed inevitable. Remember the idea of the end of history, liberal democracy has proven its superiority over all other systems and eventually it's going to spread to every corner of the earth. People can laugh at that in retrospect. But it was a very, very widely held view in the late '80s and early '90s. And it's not hard to see why, given how dramatic the changes were in Eastern Europe and in the Soviet Union. And then Tiananmen was interpreted also as a sign that similar processes were going to play out in China.

On the Chinese side, as you suggest, these same events were interpreted as a warning. David Shambaugh, one of the leading scholars on Chinese politics, has made the point that the CCP leadership has obsessively studied what happened in the Soviet Union for the last 30 years. And Xi Jinping is more obsessive about it than almost anybody else.

And the key is not allowing any kind of challenge to the legitimacy and power of the Chinese Communist Party. Xi Jinping says the Soviet leadership lost its nerve and allowed people to criticize the history of the Soviet Communist Party, and we are not going to allow the same thing to happen.

Larry Bernstein:

Emerson Brooking on last week's episode of What Happens Next said that the internet in China has not opened society but instead increased authoritarian control.

Aaron Friedberg:

They have found ways to use it to their benefit. There's a famous speech that Bill Clinton gives in 1997, and he says, "Trying to regulate the internet is like trying to nail Jello to the wall," and everybody laughs. It turns out that you can nail Jello to the wall if you work hard enough at it. The Chinese Communist Party has hundreds of thousands of human beings who monitor social media. And they've developed the technological means to control and mediate content, to impose the Great Firewall that make it very difficult for outside information to get through without being monitored and controlled by the authorities.

Larry Bernstein:

25 years ago, I was a partner in Salomon Brothers Emerging Markets Proprietary Trading Department, and twice a year I visited the IMF to learn about developing countries' economies. 25 years ago, there were no Chinese economists working at the IMF who I met and today, the Chinese are omnipresent. The Chinese are all-in at the IMF.

Aaron Friedberg:

The CCP regime has adopted an accommodating policy towards multilateral institutions. Back to the '80s and the early '90s, the regime was suspicious of international institutions where China could be outnumbered and pushed around. They've long since moved past that. They attempted with some success to increase their leverage and control of a whole variety of international institutions, particularly those that are part of the UN system. The UN system operates on the one nation, one vote principle, and China has been able to cultivate support from a large number of poorer developing countries in Africa to put its people into positions of authority in various bodies within the UN system.

They either turn the direction of those institutions towards policies that favor China, or they try to neutralize policies that might be dangerous to them like in the UN Commission on Human Rights, no one believes that it has any interest in promoting human rights anymore.

In 2016, a court ruled on the law of the sea, finding that China had illegally taken control of some islands that should be controlled by the Philippines, and the Chinese just ignored it. They acted like it had never happened. So, in some cases they ignore.

The World Trade Organization, they found ways to bend the rules to advance their interest. They are now starting to create parallel institutions, which they dominate populated by weaker, poorer countries, particularly in the global South, which exclude the United States and other major Western countries. They haven't sought to overthrow the existing system of institutions, they've exploited it where they can, ignored it where they don't like what it's doing, and are building up a parallel structure of their own.

Larry Bernstein:

In November 2019, I attended a UBS Conference in London where the speaker was an Indian woman in charge of IP theft at the WTO. When she spoke to the audience, she pointed her finger at us like a schoolteacher would to her students, and she said that no multinational company had approached her about any IP theft by the Chinese. She said that the lack of corporate interest in visiting her office was proof that the IP problem is overstated. I was shocked by her naivete and recognized that there must be a widespread view among multinationals that the WTO was toothless and that it was not even worth trying to use the WTO legal structure to protect intellectual property rights.

Aaron Friedberg:

Well, maybe at best they're toothless. At worst, they're manipulated in ways that run counter to our interest. The UN system, it's largely been taken over and its activities distorted by China and countries that are supportive of China. We have sentimental attachment to it. At some point, we may need to re-examine that.

WTO is an example of an institution that was based on the belief that all of its members would over time converge towards similar market based economic policies. And that was certainly the deal under which China was admitted. That it was going to work towards them and become more like us. It wasn't created to accommodate a country operating on very different principles, especially one that turned out to be as big and powerful as China has become.

And now, it's close to useless, in part for reasons that your story illustrates. That, although it has mechanisms and procedures for dealing with government support of industries or intellectual property theft, it is not able to do much about those things. Or it's not able to do anything in a timely fashion to offer relief to companies or countries that might bring complaints.

We've brought cases to the WTO and after a few years, they may be resolved in our favor. But, in the meantime, subsidized Chinese industries have captured market share.

The question is, what to do about it. We need a partial liberal international system with an economic system at its core that resembles the one that we ran during the Cold War, where the core members would be united by their genuine commitment to liberal principles. These countries have more than 50% of global GDP. So, we potentially have a lot of leverage in dealing with China if we can coordinate in using it.

Now, there are problems in moving in that direction, because it will require disentangling ourselves from the Chinese economy, not completely, but to a significant degree, and that's going to be costly. There's going to be resistance to it from groups that benefit from the existing arrangements.

But strategically, and in the long run, economically, it makes a lot of sense. And there's some evidence that we're starting to move in that direction.

The dream of the fully integrated global economy has not worked out, and the question is, what comes next?

Larry Bernstein:

In your opening remarks, you mentioned that the US put the UN and previously the League of Nations at the center of the liberal international order. Was this a mistake?

Aaron Friedberg:

We can't count on those institutions to keep the peace. The ability of the UN to act will be limited by division. We can't depend on it. We need to be strengthening those institutions that are made up of like-minded countries like the expansion of NATO to include Sweden and Finland.

Nothing that the UN is going to do will make any difference at all.

Yes, you want to have institutions where you can interact with countries regardless of the character of their domestic regimes. But the countries you're really going to rely on and work closely with are those that have similar values.

Larry Bernstein:

Does China's Belt Road Initiative contribute to China's global influence and should we care?

Aaron Friedberg:

Should we be concerned about China's efforts to expand its influence generally in the developing world? The global South is going to be a source of growing demand for their exports.

They see a world in which they're going to be denied access to the markets of the advanced industrial democracies.

And they're looking for future growth opportunities, particularly in Africa, an area with a growing population that if the per capita GDP can start increasing, even by a modest amount, there's a huge amount of purchasing power there. And maybe over the next several decades a place they can export.

It's partly also diplomatic. You make friends and influence people and they back you up. And that's useful in international institutions, or when the West or others try to criticize China's treatment of its Islamic minority population. What did the Chinese do? They rounded up a bunch of countries that wrote a letter saying, "No, we think China's handling of its ethnic population is great." It doesn't change anything, but it counters attempts to isolate and criticize them. It's useful diplomatically.

Then, they're going to expand their military presence. They have real concerns about the sea lines of communication, particularly across the Indian Ocean.

From the Persian Gulf to the Chinese coast. That's where their energy imports come from. They're very worried that we're the dominant naval power and we could cut those lines of communication.

Larry Bernstein:

The Chinese have opened bases and purchased ports at some of the naval chokepoints around the world. For example, Djibouti is a city-state on the Horn of Africa at the opening of the Red Sea. The Chinese just set up a base there. But they cannot defend it, what is the point of it?

Aaron Friedberg:

They are building a presence and developing military capabilities that can go that distance. They don't yet have a blue water navy. Ships that can operate for months at a time, hundreds or thousands of miles away from home ports.

Having bases for their military forces is going to be an important part of their efforts to project power. They just signed a deal with the Solomon Islands, which got everybody all upset, which may let the Chinese bring naval ships there, maybe even bring troops.

These bases and facilities and these power projection forces might not be able to stand up to the United States in a total World War III. Yes, they would be very vulnerable. Yes, the United States and its allies are superior and probably could destroy them, but they could be useful in a lot of contingencies short of that, and they could give China more clout and more presence and power than it currently has.

Proximity to these choke points, and you mentioned Djibouti going into the Red Sea, or the Suez Canal, around the Horn of Africa. Even if China couldn't guarantee or control the seas, so that it could continue to use maritime routes for commerce itself in a conflict with the US, it could conceivably use those positions to disrupt our ability to use the seas in ways that could slow down any effort to bring more forces in a war over Taiwan.

The large cargo vessel that got wedged into the Suez Canal. It was turned a few degrees the wrong way and took days or weeks to clear it out and ships had to be rerouted around the Horn of Africa. It shows you that geographic choke points still matter. The ability to disrupt their use matters even if you can't control them.

The other thing, which hasn't really happened yet, but which I think is coming, would be an increasing Chinese military presence in closer proximity to the United States. So, last year, there was discussion of a Chinese naval base on the west coast of Africa, which would allow Chinese ships and potentially submarines to operate more easily in the North Atlantic. China might seek access to bases in Latin or Central America that would set everybody's hair on fire in the United States, because it would force us to concentrate more of our scarce resources closer to home, instead of projecting them into China's backyard.

Larry Bernstein:

China isn't North Korea. North Korea can screw around and block the Suez. But China is the biggest beneficiary of the global international order. If China disrupted the Suez, how is it going to trade with Europe?

I don't really understand their grand strategy if they're the primary beneficiary of international trade.

Aaron Friedberg:

For a long time, the Chinese have felt completely on the defensive. We had them boxed in with our alliances, our forward military bases in Northeast Asia. There was not much they could do about that, let alone project power further afield.

They now have missiles that can threaten bases in Japan or that can attack aircraft carriers in mid-ocean. They have been pushing back against our ability to project power into their backyard, and now, they're beginning to project their own power further afield. From where they sit, the status quo is not a very comfortable one. A world in which they have to import all this energy from the Middle East, and they're potentially vulnerable to blockade and military action by the US and its allies.

And there is no easy solution to that. If you look at the overland routes across Eurasia, the pipeline is motivated by a desire to find some alternative ways of transporting goods and resources that relies less on the oceans and is not as vulnerable to interdiction.

Now, does that make sense economically? No, but those investments are insurance.

Larry Bernstein:

Before Pearl Harbor, Japan chose war partly because of its fear of losing access to oil, rubber and other critical commodities. Does China have similar concerns today?

Aaron Friedberg:

They're concerned about their reliance on imported food, imported energy, and these overland pipelines, connections to Russia and Central Asia are a desire to reduce that vulnerability. This is a regime that seems to be girding itself for intensifying rivalry and potential conflict with the United States.

It is true that China has benefited from the existing international order. I don't think they have any desire to see it closed down. However, the way in which they benefited from it is lopsided. They would like to see us continue to be open to their exports, open to their investment, continue to supply them with technology, with capital, continue to be open to students, while constricting access to their society, and they have no intention of relaxing that.

Larry Bernstein:

Thousands of Chinese students' study at American universities. Many of us expected that when the students returned to China that they would see the benefits of an open society and demand it back home but that didn't happen.

Aaron Friedberg:

Over the last four decades, 400,000 Chinese students studied in the United States. Some have chosen to stay in the United States and continue to go back to China periodically. They become US citizens because they see the advantages of living in a free society. Unfortunately, those people's influence back home has proven to be extremely limited. The regime has cracked down and tightened up more and more.

The gaps are not as big as they were back in the 1990s. People may say, "Well, I can have a big screen TV and have a cell phone and a car. I don't need to be in the United States for that." They present the United States as racist, violent, unable to deal with the pandemic and so on. So, there's nothing but criticism, and that does have an impact on people who live and study here.

Larry Bernstein:

Next topic: Ukraine. Will China support Russia and undermine sanctions?

Aaron Friedberg:

What we've seen so far is that they're supporting them politically and diplomatically by blocking efforts to condemn them, by not participating in sanctions, and by repeating their propaganda. China's official position on the war is "It's the fault of the United States and NATO." They don't criticize Russia in any way. They've given them diplomatic cover. The important question going forward is, what they're going to do to help them economically, because certainly the Russians are going to be hurting, and that may be advantageous to China because Russia has things that China wants, particularly resources.

The constraint on what China does with Russia is the concern about so-called secondary sanctions. We've warned them, if they allow their companies to do things that are contrary to the sanctions, we are going to impose sanctions on China. They haven't sold spare parts for Boeing aircraft, which they have and which the Russians need.

They're going to find ways to help the Russians out, that either aren't in violation of the sanctions or are hidden from view. The Chinese have long experience in working with countries that we are trying to isolate and sanction, and North Korea is a prime example. Iran is another.

Larry Bernstein:

Trade results in interdependency. China owns and operates Boeing and Airbus airplanes. They can't run these planes without spare parts. If we cut them off, then China will have to build their own planes. Planes are one of the few exports we have to China.

Aaron Friedberg:

The thing about interdependence is, as the word suggests, it's a two-way street.

The assumption was interdependence would change them.

They are trying to make themselves less dependent on us. They're trying to keep us dependent on them. So, they're trying to shift the terms of that interdependence, so they have more leverage than we do, to increase their freedom of action even as it keeps us constrained.

Larry Bernstein:

Next week our special guest will be Paul Kennedy, and he's going to discuss his classic work from 30 years ago, *The Rise and Fall of the Great Powers*. How do you think about Paul Kennedy's thesis in the context of the US/China rivalry?

Aaron Friedberg:

Well, first I have great admiration for Professor Kennedy and for that book, even though I think he was wrong. If you look at the cover, the successive hegemonic powers rising and then declining so the Americans are about to step down, and who's stepping up? It's not China, but it's Japan.

He put a lot of emphasis on defense burden that draws away from more fruitful investment. And, I don't think that was true when we've been spending 3% of GDP.

Countries don't stay on top forever.

Their GDP gap has closed, and the reason why we're as concerned about China as we are today is precisely for that reason. If they still had 1% of global GDP, we wouldn't be too worried about them. The fact that they have 17 is an issue and we have 25, and we and our friends and allies have 50, but they're in a position to pose a significant challenge.

Japan, at the outbreak of the second World War, had a GDP that was something like one/tenth the size of the United States, and they still gave us a run for our money. The Soviet Union, in retrospect, had a GDP that was much smaller than we thought and may only have been about half that of the United States, but they were able to mobilize resources and build up their military in ways that were quite threatening.

And that's the way I see China now. A country that's not quite in our league, but has done a lot of smart things over the last 30 and 40 years, has taken advantage of the opportunities that were offered to them.

One of the biggest mistakes that the Soviets made is that they tried to cut themselves off from the world. They tried to build a parallel system that was them plus a bunch of countries that they dominated in Eastern Europe, China, Cuba and Angola. They didn't want to be integrated into the Western economic system because they saw it as corrupting and dangerous.

That sort of self-containment laid the ground for their collapse. The Chinese are trying to maintain absolute control, build their power relative to ours, but still stay plugged in to this open economic system from which they benefit.

Larry Bernstein:

How should we change our policies towards China? A number of the gray beards in DC want to maintain the same Chinese engagement strategy.

Aaron Friedberg:

First of all, I think you're right that there is a community that does want to continue with the current policies. I mean, that's the definition of insanity, you keep doing the same thing you've been doing, even when it's not working.

For a long time, the US government was reluctant to be critical of the CCP.

I think the Trump administration used language that was not particularly helpful. We need to emphasize that our problem is not with the Chinese people but with the Chinese Communist Party regime that has values that are inimical to ours and is pursuing policies that challenge our interests and are dangerous to our values.

We have to move out of the world of happy talk.

The key is going to be partially disengaging ourselves economically from China.

We saw this during the COVID pandemic with the whole question of medical supplies and the shocking realization that we're completely dependent on China to make personal protective equipment and to manufacture drugs that we need. There's a consensus now that that's not an acceptable situation, that you're too vulnerable to leverage from a hostile regime.

We have to do things to reduce our dependence on supply chains that run through China.

We could have a relationship where we're selling them agricultural products, and they're selling us consumer products where there isn't a lot of strategic risk, and if that's a more or less balanced relationship that's acceptable.

We have a lot of leverage. They still depend on our market. 20% of their exports go to the US and something like 40% go to us plus other democratic countries.

Larry Bernstein:

A few weeks ago on What Happens Next, Lee Buchheit who specializes in sovereign debt restructurings discussed the West's expropriation of Russian Central Bank's assets. How do the Chinese view this economic weapon? Talk about interdependency.

Aaron Friedberg:

Their faith in mutual deterrence that we wouldn't do that because of the consequences for us that they might take in retaliation.

What's happened in Ukraine is causing people to recalibrate. I have no doubt that there were people in China and in Russia who realized that it was possible that we might do this, but evidently never thought that we really would.

Larry Bernstein:

I agree.

Aaron Friedberg:

And that seems to be true in the West, too. People weren't even fully aware, so that's a shock to the system.

Xi Jinping and the people are looking at the world in a much darker way than we've imagined and are thinking about the possibility of conflict with the US and maybe sooner rather than later.

Chinese analysts and Chinese political leaders were skeptical of the willingness and ability of the United States and other democracies to do things that would impose costs on their own societies.

It's one of the reasons why what's happening with Ukraine now is important. China's watching what it may tell them about the resolve of democratic countries.

Larry Bernstein:

I end each episode on a note of optimism. Aaron, what are you optimistic about?

Aaron Friedberg:

I'm optimistic about the tendency I see in democratic countries to recognize the challenge that's posed to them by authoritarian regimes.

That's the key to everything. If we can cooperate among ourselves, if we can mobilize our populations, if we can do some things that are going to require some expenditure, then I have no doubt that we can defend ourselves and our interests. I worry about it in relations with our allies, but we've come a long way, and we're moving in the right direction. And, I hope that that will continue.