



Engagement With China Was a Success: Trade Helped Transform a Totalitarian State

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As the Trump administration pushes the U.S. toward a new Cold War with China, it has become conventional wisdom that America's opening to the People's Republic of China "failed." Trading with the PRC and bringing it into the World Trade Organization were supposed to turn the communist state into a liberal democracy. Since that didn't happen, runs the argument, the entire experience is invalid.

Indeed, some anti-China hawks opposed Richard Nixon's decision to end the really cold Cold War between Washington and Beijing, which didn't even recognize one another. Instead, in this view, the US should have tried to keep a cordon sanitaire around the PRC.

No doubt there was undue optimism about the prospect of transforming Chinese politics through engagement. I, for one, plead guilty to expecting too much. However, trade advocates did not imagine the instantaneous arrival of democracy. Observed Ian Johnson, a writer and long-time resident of China whose visa was canceled in March: "Some critics of China claim that engagement was always a naïve dream and, as evidence, point to the fact that China hasn't become more liberal. But most realists knew that democratization was at best a distant objective; the main idea was that pragmatic engagement would be more productive than blind confrontation."

Richard Nixon surely was right to stop treating the PRC as nonexistent. Playing the China card against the Soviet Union was an important geopolitical move in a dangerous international game. That strategy should inform current US policymakers who have foolishly allowed Beijing to play the "Russia card" against America, turning Nixon's strategy against Washington by forming an anti-American partnership with Moscow.

Moreover, if the US had relations – or almost any communication channel – with the mainland in 1950, Washington might have been able to reach a modus vivendi with Beijing forestalling its intervention in the Korean War. Unfortunately, Mao Zedong wrongly feared attack by the US while President Harry Truman erroneously believed that China was a Soviet pawn. With no direct contacts, official or informal, the two governments ended up fighting a needless and ultimately fruitless war for nearly three years.

Of course, Washington's opening to the PRC could have stopped at Nixon. President Jimmy Carter need not have established full diplomatic relations. Presidents Ronald Reagan and George

H.W. Bush could have restricted Chinese exports (which increased six-fold even before Beijing gained freer "most favored nation" trade status). President Bill Clinton need not have welcomed the PRC into the World Trade Organization. And subsequent administrations could have rejected cooperation with Beijing. In the view of Bradley Thayer of the University of Texas (San Antonio), Americans should have avoided this "greatest mistake" in foreign policy, ignoring "changes in the relative balance of power with China."

Although a more restrictive approach almost certainly would have resulted in a less economically successful PRC, that doesn't mean the world would have been better or safer. When Mao died China was going to change. The question was how, and who would influence the transformation?

For instance, had Washington shorted its welcome to Beijing – refusing to recognize the PRC or open markets to its goods – China might have shifted back toward Moscow. The shock of Nixon's move would have encouraged the Soviet Union to reciprocate, especially given the latter's growing economic and social problems.

Looking back we assume that Soviet communism was doomed. However, many events coincided to cause the "Evil Empire's" crack-up. Despite significant changes in Moscow, at the start of 1989 no one imagined that the Berlin Wall would fall and every Eastern European communist regime would be swept away. A more cooperative Beijing-U.S.S.R. relationship might have eased stress on the Soviet Union and empowered Chinese Communist Party hardliners, posing a greater challenge to the West.

An active U.S. attempt to limit the PRC's access to world markets surely would have inhibited Chinese economic growth, given the importance of the American market. However, obstructionism would not have halted China's progress. The most important determinant of the PRC's success was its domestic transformation. Noted former trade attorney and Cato senior fellow Scott Lincicome: "China's internal reforms – on privatization, trading rights, and (again) import liberalization, often in response to new WTO commitments – were major contributors to China's export competitiveness in the late 1990s and 2000s." Once the new government under Deng Xiaoping began freeing the Chinese economy, the PRC was going to grow wealthier, irrespective of how Washington responded.

Moreover, much of the world would have welcomed trade with China despite US objections. Even America's Asian and European allies would have recognized the PRC's economic potential and the obvious benefits of expanded commerce, especially if the US closed its market to Beijing. After all, NATO members purchased natural gas from the Soviet Union while beseeching Washington to defend them.

Even without WTO membership, China could have made its own trade deals with other countries. This would have spurred the Chinese economy. Although it would have expanded at a slower rate, the PRC still would have grown swiftly and significantly. And a US attempt to block such commerce, as well as prevent Beijing's accession to the WTO, would have unsettled Washington's relations with allied states.

Of course, it would have been harder for China to increase trade without WTO membership, though Beijing then would not have had to live up to the organization's international obligations. Despite criticism of Clinton administration policy, Washington struck a tough deal while gaining

legal means to hold the PRC accountable. As Lincicome explained: "most of those problems – for example, on industrial subsidies and intellectual property – are covered by WTO rules and can be litigated through dispute settlement." Nor would Washington's initial refusal have been accepted as final; the US would have faced constant pressure to drop its objection.

Such American obstructionism would have resulted in a more hostile China as it marched to economic greatness, only more slowly. A weaker PRC might have posed a lesser geopolitical challenge to Washington then. However, the ultimate threat from a more hostile China might have been even greater.

Moreover, engagement offered at least two extraordinary benefits. The first is that Americans, Chinese, and other peoples around the world are better off economically. The second is that China is more liberal today than it would have otherwise been.

Engagement resulted in enormous economic gains worldwide. The PRC's inexpensive imports improved living standards and made exports more competitive. Argued Lincicome, blaming China's entry into the WTO for America's subsequent economic struggles "ignores the documented benefits of increased US trade with China over the past two decades – benefits that often accrued to the US working class and manufacturing sector." Lower prices resulting from trade are especially important for people with the lowest incomes. By one estimate, consumers gained \$101,250 in benefits for every lost manufacturing job.

Thus, decoupling, if more draconian than a sensible effort to diversify supply chains for uniquely important goods, would hurt Americans as much or more than China. Consider the administration's full-bore assault on Huawei. Scott Kennedy of the Center for Strategic and International Studies warned: "A strategy of high-tech decoupling meant to weaken and isolate China's semiconductor and telecom sectors, in fact, is likely to result in the opposite of what its advocates seek to achieve. Such an approach would hurt the economies of the United States and its allies and damage US national security as well."

His argument likely would surprise policymakers who emphasize politics over economics. A ban would cost the dominant US semiconductor industry substantial business. Alas, explained Kennedy: "although China's growth is likely to slow because of debt and demography, no other combination of markets could make up for the lost sales if US firms are shut out. This is why so few US companies, particularly in high tech, are outright abandoning China." In turn, the PRC would be forced to speed the development of a domestic chip industry, reducing China's reliance on the US. Finally, less profitable American companies would have less funds to devote to research that provides substantial benefits for the military.

Imports, including those from the PRC, are not to blame for reduced employment in America's manufacturing sector. The vast majority, up to 90 percent, of lost jobs over the last two decades are due to productivity gains. That is, more stuff is being produced with less labor. Which is good for America and Americans. Moreover, some Chinese gains came at the expense of other exporters, such as Japan. And today the PRC is losing business to other low-wage producers, such as Vietnam. A good society still should aid those who lose their jobs, but far better to help them move into new fields than shut off an important engine of economic growth.

Equally significant, many imports, including a third of goods from China, are intermediate goods, used for exports. For this reason President Donald Trump's protectionist misadventures

proved particularly damaging economically. For instance, artificially hiking steel prices made automobiles less competitive. Moreover, the existence of foreign competition is an important spur for innovation, efficiency, and entrepreneurship. Lincicome reported on research demonstrating "that Chinese import competition encouraged many American manufacturing firms to invest and innovate more – another ‘pro-competitive’ effect."

In considering the economic benefits of engagement, it is important to remember that China is home to 1.4 billion people, most of whom are not influential CCP apparatchiks, but normal people attempting to improve their lives and care for their families. Welcoming the PRC into the global circle of exchange brought upwards of 850 million people out of immiserating poverty. Indeed, the University of Michigan's Yuen Yuen Ang stated that China "has accounted for more than 70 per cent of global poverty reduction since the 1980s, the most successful case in modern history."

This is a huge, marvelous, fantastic, moral achievement. There still is poverty in the PRC, evident when one leaves the big cities and coastal regions. But today babies live, children thrive, and families prosper, all of whom were otherwise doomed to suffer like their ancestors over the centuries. This may be the most important economic achievement of engaging China.

Contact with the West is, however, about more than economics. Commerce helps humanize distant peoples who formerly seemed to be "the other." No one who travels to another country and meets customers and business partners can easily treat them as abstract and instrumental in the future. Friendships are developed; cultures are understood; stereotypes are broken. Ideology and nationalism still can prevail and destroy – World War I is one tragic example – but resistance to militaristic nostrums increases. And results in a stronger human foundation upon which to base peace in the future.

Western engagement has been particularly important for the PRC. It is difficult for Americans to imagine Mao's China. A brutal consolidation of power after the 1949 revolution. Mass starvation during the Great Leap Forward. Social convulsions throughout the Cultural Revolution. There was no respect for individual liberty: a privileged elite dictated how the rest of the population lived. Everything – job, marriage, home – was decided by the CCP.

That world has been swept away.

The death of Mao was the necessary first step to end Maoism, what might be called totalitarianism with Chinese characteristics. Contact with the West encouraged relaxation of restrictions on individual autonomy as well as economic life. Although China did not become democratic it shifted to a much looser form of authoritarianism.

For instance, academic exchanges burgeoned. Universities invited me to speak and I went, without Beijing's approval. I always assumed that someone in the audience would report back to some government agency, but over the years students asked me about Tiananmen Square, said they wished they could vote for their legislators, and wondered if they could get through the Great Firewall to my articles. They made these comments in class, in front of everyone.

NGOs developed. Of course, they could not challenge the CCP's monopoly on power. But they could urge more general reform. I attended conferences which the Cato Institute and other foreign groups helped organize. These activities were conducted openly, without any government interference.

Students flowed both ways. Indeed, Chinese collegians became a major source of revenue for American universities. Tourism swelled, including visitors from the PRC. I realized the depth of the changes occurring in China during the early 2000s when I visited Thailand and stood in immigration lines with multitudes of PRC citizens. What communist country allowed its people to freely travel? Every other communist state feared that its people wouldn't return. Not Beijing.

Business relationships flourished, with executives and staff traveling both ways. Chinese businessmen talked about how "of course" they breached the Great Firewall. How else could they get the information they needed? They publicly professed loyalty to the CCP. But they lived a life apart from the deadening restrictions imposed the retrograde communist system.

Everywhere I went there were party representatives – for universities, companies, and more. Yet their role increasingly looked nominal and symbolic. Everyone kowtowed appropriately to CCP functionaries, but practical decisions appeared to pass them by.

Religious liberty emerged, carefully and fitfully, but steadily. Much depended on the province, but CCP officials, realizing that there likely were more Christians than party members, increasingly appeared to leave believers alone if the latter did not challenge the state. When in the PRC I attended both international and local (official) churches. I have American friends who visited underground churches, admittedly a much riskier venture.

There was an independent media, which could report on local misdeeds. The government even revealed the number of demonstrations and protests across the country – tens of thousands – which challenged local authorities. The mad Mao years appeared to cause the CCP to create multiple safety valves through which disagreement, anger, and dissent could be safely expressed and dissipated.

Of course, those who challenged Beijing ended up silenced and often imprisoned. China was nowhere near a free society. However, it was much freer than the Soviet Union, with an exit for the dissatisfied. Students told me that they wanted to study in America and their government rarely stood in their way. Compared to the lives of their parents and grandparents, young people enjoyed a vastly better and freer life. And much of that was thanks to Western engagement.

Unfortunately, Xi Jinping, whose family, ironically, suffered during the Cultural Revolution, appears determined to revive Maoism. At least, he demands absolute obedience to the CCP and exalted leader, meaning XI However, blame for that does not fall on Western trade and commerce. XI, like Mao, demonstrates that people matter in politics, especially in a system susceptible to one-man rule. Mao made the CCP and then wrecked life for the Chinese people. He left the scene and a more responsible, though still largely authoritarian, group took over. However, among them were liberals who lost the battle over political reform. Significantly, there *were* liberals in the top ranks of the party. There probably still are. XI could well be followed by a more liberal leader. If so, continuing contact with Americans, Europeans, and other free peoples will be particularly important.

Today Beijing is moving rapidly in the wrong direction. XI appears to imagine himself as Mao reincarnated. The PRC is suppressing human rights at home and challenging international norms abroad. Yet the future is neither frightening nor fixed. There is much that the U.S. should do. Policymakers should start by removing unnecessary barriers to economic growth and innovation at home. Abroad Washington should cooperate with like-minded states while expecting its

friends to take over primary responsibility for defending themselves. Equally important, Americans should travel to China, meet Chinese people, engage Chinese society, and take the lead in helping to break through the Great Firewall, empowering the PRC's citizens to decide on their future.

Finally, policymakers should not waste their time ruing trade decisions made years ago. As the great political theorist Dionne Warwick warned: "A fool will lose tomorrow reaching back for yesterday." In fact, opening the US market and inviting China into the WTO were the right policies. America and the PRC benefited. Both were changed for the better. More will be required to turn China into a liberal society. But that prospect would be dimmer and more distant absent decades of Western engagement with the PRC.

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