

COVID-19 Is Accelerating Trends in the US-China Relationship

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May 7, 2020

Some are expecting the COVID-19 pandemic to hasten an more tense era of geopolitical and military competition between Washington and Beijing, akin to the Cold War. But economic experts say that the United States and China are more like a pair of divorced, resentful parents who share custody of a child. There will be opportunities for collaboration and partnership, but fewer each day as the couple drifts apart. Policy makers, they say, would do better to spend their limited time in search of opportunities to work together on shared interests, not quickening a final split with fiery rhetoric.

Instead, much of Washington appears drunk on China-bashing, with Secretary of State Mike Pompeo and others, like Sen. Tom Cotton, R-Tenn, suggesting (and then walking back) that China may have engineered COVID-19 in a lab. Some hawks in Washington have pushed for greater economic penalties on China for its role in underplaying the dangers of COVID-19. A GOP strategy memo leaked last month to Politico helps explain why: focusing on China gives Republicans something to talk about that isn't Trump's handling of the coronavirus pandemic. On Thursday, House Minority Leader Kevin McCarthy, R-Calif, announced the creation of a new China Task Force, composed of 14 House Republicans. McCarthy's recieved criticism for refering to COVID-19 as the "Chinese coronavirus." He's said that the task force may spend some time investigating the origins of the virus, even though the U.S. Intelligence Community and the World Health Organization have both said it occurred naturally.

Trump himself launched a "trade war" with China, citing unfair trade practices. He placed tariffs on Chinese goods, which make American consumers pay more for them, drawing Chinese retaliation against soy and agricultural goods. A trade deal that both countries signed in January offered some relief but the positive effects have since waned.

The pandemic, which brought severe shortages of drugs, masks and other things made in China, underscores the growing concern at the Pentagon about the U.S. military's own dependence on Chinese supply chains.

“The COVID pandemic is likely to accelerate the trend towards partial disengagement, in part because it has made companies (and many Western governments) more aware of the risks of relying too heavily on China for drugs, personal protective equipment, ventilator parts and other items,” said Aaron L. Friedberg, a professor of politics and international affairs at Princeton. “As the crisis abates, there will be a shift in the distribution of production away from China as companies seek to redistribute portions of their supply chains to other countries.”

The fraying U.S-China relationship is likely to make American consumers pay more for a wider range of goods, said Simon Lester, the associate director of the Herbert A. Stiefel Center for Trade Policy Studies at the libertarian leaning Cato Institute.

“Stopping trade with China will mean that producers who wish to sell to the U.S. need to reconfigure production, which will involve short-term dislocation costs as well as long-term additional costs if the new location is higher cost. Those costs will be passed along to U.S. consumers to some extent,” Lester said. “In addition, U.S. producers will lose access to a large market if they can no longer sell in China.”

There will also be costs to U.S. tech and innovation. The United States and China could diverge on everything from Internet governance to the development of AI, Oklahoma State University professor Kimberly Houser argued in an October paper.

But other aspects of those trade fights have been helpful for the United States, particularly in terms of bringing manufacturing activity back. “By confronting US companies with costly disruptions that were largely beyond their control, the trade war triggered at least a partial awakening to the intrinsic vulnerabilities of modern global supply chains,” management consultancy Kearny wrote in an April 7 report.

The Kearny report found that U.S. imports from China dropped roughly \$90 billion last year. “This contraction is almost exclusively driven by a collapse in imports from China, which declined by 17 percent, likely as a direct consequence of the trade war.” More importantly, China was losing ground to other countries as an exporter to the United States. “U.S. manufacturing imports from other Asian... countries increased by \$31 billion in 2019. Similarly, manufacturing imports from Mexico rose \$13 billion.” Early data from April suggests that Chinese exports have recovered somewhat.

Friedberg says a complete decoupling is unlikely.

“Over the last four decades the U.S. and Chinese economies have become deeply intertwined, with an increasing volume of goods and capital flowing in each direction. If those ties were totally cut there would be significant costs to both sides. However, on balance, the U.S. is still much more important to China (which is heavily reliant on U.S. markets, capital, and technology) than China is to the U.S.,” he said.

Still, Kearny says, more companies are re-evaluating whether China is actually a “cheap” supplier after all. The pandemic will “compel companies to fundamentally rethink their sourcing

strategies. At minimum, we expect they will be increasingly inclined to spread their risks rather than put all their eggs in the lowest cost basket, as many long did in China,” they write.

What does this mean for Washington and national security watchers? Basically: chill. While a new task force may make political sense for conservative lawmakers, it’s unlikely to change the economic and demographic realities that are pushing the countries apart anyway, even if that drift is occurring far slower than some in Washington would like.

“The intensifying U.S.-China rivalry is driven by deeply rooted forces, primarily the narrowing gap in the material power of the two countries and the vast divergence between the ideological foundations of their domestic political systems,” said Friedberg. “What is happening is not simply a result of the policies of any individual leader and things are therefore unlikely to change in the near term. [Chinese President Xi Jinping] could remain in power for many years to come and, regardless of who is elected president in 2020, the U.S. is going to continue to ramp up its efforts to compete with China.”

Friedberg and Lester say U.S. policymakers should tone down the rhetoric and work with China where they can.

“It’s hard for policymakers to do much while the Trump administration is setting the tone. But they can make reasonable proposals such as cutting tariffs on medical supplies to help with the pandemic fight,” said Lester.

Friedberg said, “the two sides might also discuss how to be better prepared for the next global health emergency and they could coordinate efforts to help restart the global economy and to deal with the devastating consequences of the pandemic, especially in the developing world.”

He added: “I would not attach high probability to any of these possibilities and, even if they occur, I do not expect them to change the fundamentals of what is going to be an increasingly contentious relationship.”