

INTERNATIONAL POLICY DIGEST

Six Strategies to Counter Chinese Challenges

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2021 marks the 100th anniversary of the Chinese Communist Party and China is celebrating. Since Deng Xiaoping began economic reforms and opening up China in 1978, the country has lifted 800 million people out of poverty, according to the World Bank, and become the world's second-largest economy after the United States. But today, the direction of China's reform process is unclear, it doesn't always play by long-established international trade rules, and it's presenting new challenges. How should the United States respond?

China's economic reform process, which largely involves transitioning its model from a state-managed economic system to a more market-oriented one, has benefitted China as well as other countries. This is reflected in strong U.S. exports there, which rose by 455% from 2001, when China joined the World Trade Organization, to 2019, as compared with overall U.S. exports worldwide which increased by 126%.

But over the years, China's reform process has slowed, halted, and even reversed at times due to concerns of instability and other factors. And because reform typically involves the withdrawal of subsidies from industries, the potential short-term impact, which can include higher unemployment and social unrest, is feared by the Chinese Communist Party. This can make the reform process more dangerous than a high wire act.

Nevertheless, many agree that economic reform is an essential pathway for China to become a more responsible stakeholder in the rules-based international system. It's also critical to China's future growth, prosperity, stability, and ability to escape the middle-income trap, a situation in which a country pulls itself out of poverty and attains a certain higher per capita income due to various advantages but gets stuck at that level.

With this in mind, it's important to heed the words of former President Barack Obama, who in 2016 said, "we have more to fear from a weakened, threatened China than a successful, rising China." Whatever lies ahead, one thing is certain: China poses significant challenges to the United States. Consequently, the U.S. should implement the following six strategies.

No. 1. Rebuild trust and unite our allies, then approach China as a unified force.

Many of our friends, including the European Union, the UK, Canada, Australia, Japan, and South Korea, have similar problems with China. Combined with the U.S., this group represents approximately 60% of the world economy and has much more leverage acting together than

individually. Nevertheless, this is a delicate issue. Many of our allies are dependent on Chinese markets to various degrees, and no country wishes to become an economic battleground.

President Joe Biden has been laying the groundwork for better relations with our allies while directing attention to China. This became evident in June 2021 at the NATO summit in Brussels. In the final communiqué, NATO leaders agreed that “China’s growing influence and international policies can present challenges that we need to address together as an Alliance.”

No. 2. Cooperate where we can and negotiate where we can’t.

The United States and China should work together where we have similar interests. This includes issues involving climate change and the environment, global economic development and world hunger, nuclear proliferation, terrorism, and peacekeeping missions.

Difficult areas for continued negotiations are vast and include intellectual property piracy, pressure on U.S. firms to hand over technology in exchange for Chinese market access, unfair restrictions placed on U.S. firms operating there, the export of goods benefiting from massive subsidies in violation of World Trade Organization rules, and the investment of enormous state resources in an attempt to dominate key technologies of the future.

No. 3. Recommit to multinational institutions.

This involves strengthening the United Nations and the World Trade Organization, which former President Donald Trump weakened by rendering its dispute settlement mechanism inoperative in 2019 by blocking appellate division appointments. According to Daniel Ikenson, former director of the Cato Institute’s Center for Trade Policy Studies, the U.S. has won 87.5% of the cases it has brought to the World Trade Organization. The United States and other countries should work more closely through multinational institutions to establish more ways to cooperate and effectively remedy disputes.

No. 4. Join the Comprehensive and Progressive Trans-Pacific Partnership.

This organization, which was largely constructed by the United States, would have represented 12 members, 40% of world output, and one-third of global trade if it wasn’t rejected by Donald Trump in 2017. With U.S. membership, it will act as a check on China’s power in the Asia-Pacific arena.

No. 5. Develop a new Marshall Plan to counter China’s Belt and Road Initiative.

China’s Belt and Road Initiative, announced in 2013, is a network of railways, roads, pipelines, utility grids, and ports that link China to other regions and creates the world’s largest platform for economic, policy, trade, finance, and cultural cooperation that spans 138 countries.

Implemented in 1948, the United States’ European Recovery Program, also known as the Marshall Plan, was designed to help rebuild Western Europe after World War II. It paved the

way to modernize industry, improve economic growth, remove trade barriers, and prevent the spread of communism.

A new American initiative similar to the Marshall Plan would not only help countries become more economically vibrant and more politically secure, but also strengthen U.S. interests and make export markets more lucrative. Some would argue that Biden's Build Back Better World presents such an opportunity but many of the details have yet to be figured out.

No. 6. This is a Sputnik moment requiring critical investments at home.

The challenges presented by the former Soviet Union were crystalized when it launched Sputnik 1 into space ahead of the United States in 1957. At that moment, America realized there was a serious threat on the horizon and would need to do what was necessary to catch up.

Today, the challenges presented by China are different, but nevertheless have jolted us out of a deep sleep and revealed the critical need to strengthen the United States and boost American competitiveness. To this end, it is vital that we direct investments in American R&D, education, healthcare, and infrastructure, and support the Biden administration's efforts to do so.

One evening in Nanjing, China, I had dinner in the building that formerly housed the American Embassy. Prior to the end of World War II, Nanjing was the capital of China. This city, which now is the capital of Jiangsu Province, suffered tremendously at the hands of the Japanese in what is known as the Nanjing Massacre. With a common cause, the United States and China became partners in an effort to defeat the Japanese. Today, however, many in the United States and China increasingly view each other as a threat.

The United States and China should work constructively to overcome difficult obstacles and both countries need to better understand what's at stake. The bottom line: How we view each other today may determine whether we are friends or adversaries tomorrow. And friends can accomplish a lot more than adversaries.