

ADDRESSING THE CHINESE "THREAT"

by Doug Bandow

America stands astride the globe as a colossus, with the world's most productive economy, dominant military, and ubiquitous culture. Yet many Americans are uneasy about their nation's future.

The greatest concern is China. With the world's largest population, a swiftly growing economy, an ancient culture, and authoritarian politics, the People's Republic of China is seen as an almost inevitable American rival. Some analysts even view war as likely.

Unsurprisingly, PRC officials disclaim any interest in confrontation. They acknowledge domestic weakness and emphasize the benefits of cooperation.

Much depends on getting U.S.-China policy "right." Even today, any confrontation with the PRC, a nuclear-armed power, would be far different than the wars with Serbia and Iraq. A future U.S.-China conflict could become a global conflagration.

Moreover, a friendly PRC could help resolve a range of lesser security and political issues. Finally, there's the potential benefit of a growing economic relationship.

Although Washington should not follow an "anything goes" policy so long as American companies make money, an even worse strategy would be to treat the PRC as an enemy.

First, China is no longer communist in the traditional sense. With as much as two-thirds of the economy outside of government control, increasing personal autonomy, and an outward orientation, today's PRC is quite different from that of Mao Zedong; with only a hint of a smile Chinese officials speak of "socialism with Chinese characteristics."

Second, international integration has helped erode China's old totalitarian state. The World Trade Organization has nudged the PRC closer towards a rule of law. Foreign investment and trade have given China a stake in a peaceful global order. Observes

economist Friedrich Wu: "As profit margins fall and competition increases at home, the economic pressures of trade liberalization combined with the entry of foreign firms into the domestic Chinese market are pushing Chinese firms to internationalize."

Third, though Shanghai, Beijing, and other leading cities should impress visitors, rural China remains a century behind the PRC's modern urban landscape. Last year Shanghai's per capita GDP ran about \$14,000, but that of China nationally was only \$1700. A study team from the Center for Strategic and International Studies and Institute for International Studies recently observed "China remains firmly in the ranks of the world's low-income economies."

At the same time, America's per capita GDP ran \$42,000. Assuming recent growth rates continue—unlikely as the Chinese economy matures—the PRC's GDP won't surpass that of the U.S. until 2035, and even then America's per capita production will be four times as great. China faces potential labor shortages as its population ages and must bridge the vast gulf between urban and rural areas.

Fourth, trade with China is largely beneficial to America. Although trade disputes dominate news headlines, similar concerns emerged and ultimately disappeared regarding Japan. The CSIS/IIS researchers point out:

High-income countries, with a comparative advantage in skill- and capital-intensive goods production, are likely to find adjusting to China's economic rise less arduous than lower-income countries specializing in more labor-intensive goods production. The United States and other OECD countries are finding a growing market for their goods in China.

Fifth, the PRC isn't likely to catch up to the U.S. militarily until mid-century at the earliest. Beijing will be able to match America in East Asia more

quickly, but Washington's current advantage has always been artificial and is bound to ebb. America has the advantage of being allied with most of China's neighbors.

Of course, the pessimists could be right. Freedom gains might be lost. Economic liberalization can coexist with nationalism. China could eventually turn its growing power against America. All of these are possible, but not probable.

Treating China as an inevitable enemy and embarking upon a strategy of containment are far more likely to turn the PRC hostile. Nor is such a policy sustainable. Both Australia and South Korea have distanced themselves from U.S. support for Taiwan. Japan seems more nervous about Chinese foreign policy, but is unlikely to turn itself into a target by becoming overtly hostile.

Engaging in economic war makes no more sense. Much criticism is heard of the trade deficit with China, yet this number is simply an accounting aggregate for numerous individual transactions. The real question is whether America benefits on net from these transactions, and the answer is yes.

Issues involving Chinese currency practices are complex. Fears over Chinese investment in the U.S. are mostly emotional. The problems of American dual use exports and Chinese intellectual piracy are more serious. However, any action should emphasize rational negotiation and modest restraints, not arbitrary demands and blanket bans.

Perhaps most important, the U.S. should put its own house in order. Washington should push freer trade throughout Asia, develop a cooperative strategy towards China with allied states, and improve its international image, all to better position itself for future competition with the PRC.

America also should improve its economic competitiveness. Some analysts overstate the challenge being posed by China. Still, there is much that the U.S. could do to better its economic performance.

Washington should pursue tax reduction and simplification, spending cuts and deficit reduction, regulatory relief, consumer-directed health care, telecommunications freedom, and Social Security privatization. Despite its dramatic reforms, China retains many attributes of centralized control. Reinforcing America's commitment to market principles would cement America's economic lead over the PRC for years, and probably decades, to come.

China today is more free, more prosperous, and more responsible than China only a few years ago. There still is

reason for America to be watchful and wary about Beijing's policies. But the U.S. is acting from a position of strength, and should confidently engage, rather than timidly isolate, what is likely to be the world's next great power. We really have "nothing to fear but fear itself" when it comes to China.

NOTES

¹ Doug Bandow, "Searching for the Next Enemy," May 26, 2006, www.antiwar.com/bandow/?articleid=9043.

² Conversations with numerous Chinese officials and analysts, visit to Beijing and Shanghai, July 31-August 5, 2006.

³ Friedrich Wu, "The Globalization of Corporate China," *The National Bureau of Asian Research*, NBR Analysis Vol. 16, No. 3 (December 2005), pp. 5-6.

⁴ C. Fred Bergsten, *China: The Balance Sheet* (New York: Public Affairs, 2006), p. 18.

⁵ Bergsten, p. 19.

⁶ Howard W. French, "As China Ages, a Shortage of Cheap Labor Looms," *New York Times*, June 30, 2006, pp. A1, A10.

⁷ See, e.g., Chen Guidi and Wu Chuntao, "China's Forgotten Peasants: An Element of Unrest," *The Globalist*, July 31, 2006, www.theglobalist.com/DBWeb/StoryID.aspx?StoryId=5435.

⁸ Bergsten, et al., p. 74.

⁹ See, e.g., Daniel Griswold, "Who's Manipulating Whom? China's Currency and the U.S. Economy," *The Cato Institute*, Trade Briefing Paper No. 23, July 11, 2006, pp. 9-10.

¹⁰ See, e.g., Michael Phillips, "China's Currency Allies," *Wall Street Journal*, May 9, 2006, p. A4.

¹¹ Jerry Taylor, "CNOOC Bid for Unocal No Threat to Energy Security," *The Cato Institute*, Free Trade Bulletin No. 19, July 19, 2005. Interestingly, concerns are increasingly being expressed in China over foreign investment there as well. "The White Peril," *The Economist*, April 1, 2006, pp. 34-35.

¹² See, e.g., Bergsten, et al., pp. 99-108; "Economics Focus: Venturesome Consumption," *The Economist*, July 29, 2006, p. 70.

¹³ See, e.g., Andrew Neil, "What China Can Teach the West," *The Business online*, December 11, 2005, www.thebusinessonline.com.

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