Chinese Economic Decoupling Strategy against the United States

TRANSCRIPT

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- Dr. Thomas J. Duesterberg, Senior Fellow, Hudson Institute
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Patrick Cronin:

Well ladies and gentlemen, welcome to the Hudson Institute. I'm Patrick Cronin, the Asia Pacific Security chair. And I want to thank you all for joining us for what should be an hour long discussion on Chinese economic decoupling strategy and the United States or against the United States. Our program coincides with the publication of a major new report written by Dr. John Lee, an expert on economic and national security affairs, a Hudson senior fellow, a former senior policy advisor in Australia, among many other accolades. Dr. Lee's monograph, which is available now in print, is entitled Understanding and Countering China's Economic Decoupling Strategy from the United States. And it can also be downloaded for free on the Hudson website at hudson.org.

And we're also fortunate today to be joined virtually by another Hudson senior fellow, Dr. Thomas Duesterberg, who's also a former senior US official with deep expertise in manufacturing, trade, economics and foreign policy. I'd like to take the first few minutes of this program to offer my own interpretation of some of the highlights of this important new report, John, make a few observations turn to you, turn to Dr. Duesterberg, and then have a brief conversation, and as time permits a few questions from the audience before we wrap up today's program.

The first thing that struck me from reading this very rich in depth report is the United States and China are both seeking a level of decoupling, economic decoupling, but they're doing it in very different ways. And that's the big picture here. And as Dr. Lee argues in this report, the US seeks to disentangle some aspects of its economic activity from China, and China seeks to dominate vast parts of the Asian economy, and importantly, decouple the high tech, high value segments of the Asian economy from the United States. So a very much displacing the United States in this greater economic market.

The second point is not to be lost in all the economic data, the great rich data in this report, and great research that John has brought to bear here. But not to be lost in that is the big geo-strategic questions. And I think this is a very important part of this report, why it really links the economic to the geo strategic. He talks about Xi Jinping's old dimensional diplomacy in which Xi Jinping is trying to create and control the destiny of so-called strategic support states, especially along China's great periphery.

The third point is that the decoupling of China is not new. And this is very much central to John's argument that this is something very much seen since at least the mid nineties. Dr. Lee says that China was never a true champion of globalization and interdependence. And recently, it's been trying to dominate trade supply and value chains, high technology, capital and currency markets, and often at the expense of the United States. Beijing, he argues, wants to make China less dependent on advanced economies and make those advanced economies more dependent on China, a concept embedded in, say, the dual circulation policy, which gets excruciating analysis in this report, a very important concept.

A fourth point is that China's faced some serious headwinds. So this is not a report simply saying that China's got these grand ambitions and will be able to realize them, but actually has an equal set of challenges. It's not likely to fall prey to the say the Layman Brothers collapse, Dr. Lee argues. Yet, China's sort of heavy handed approach to relations, economic and otherwise, is kind of telegraphing certain, very big ambitions before China can actually seize those
ambitions. And it's in that dilemma for China where they're creating countervailing strategies and bringing others together. And I think we'll talk more about that.

Ultimately and the fifth point here is that Dr. Lee is quite optimistic for the United States and allies because of their enormous leverage, if they use it wisely. And he sees an opportunity in particular to prevent the emergence of a sinocentric sub zones in those areas that matter to the US, and force China to build geo-economic plans are more fragile ground. So we have to make choices. And if we make those choices, we'll have an easier time strategically, he argues, on this.

And six, the final two sections of this report alone are just so invaluable. The penultimate one for all of the data that brings to bear what China's doing, both strengths and weaknesses in the final section on the recommendations. But Dr. Lee argues that we need to compete in commercially profitable maritime into Pacific economic zones that are going to drive most of the rest of the century's economy, help advanced economy, such as Japan, South Korea, Taiwan bordering China, diversify away from Beijing, set common industry rules for high value sectors, link market access to adherence to high standards, seek alternatives to China's strings attached financing, ensure our institutions to resist predatory economic practices. That's already a heavy lift. That's a lot there.

Some of these things are happening. Some need to be further developed, as Dr. Lee will undoubtedly talk about. And he even goes more ambitiously and wants to see the United States go beyond the Indo-Pacific economic framework, which is more rule setting, to rejoining and seeking membership in the comprehensive, progressive Trans-Pacific Partnership, the TPP, that the US has left behind.

He also wants us to convince Europe to reject the false dichotomy between strategic success and economic opportunity. That may be a bit of overreach. We can talk more about that. But a great report. I haven't done justice to his own analysis. As with all the things that are complex, they need to be read in depth. So definitely read the full report and listen to what Dr. Lee is about to say. And Dr. Duesterberg's expert comments on these issues.

I want to just make three observations before we open this up to turn to John. The first one is how I see this report grounded in some of the best recent scholarship looking at China's long term plans and ambitions to largely compete and outcompete the United States, and in fact to displace the United States. I could cite a number of books. The one I would pick up most readily would be Rush Doshi's book, partly because he was sort of first to, I think, make this most comprehensively in his 2021 Oxford University Press on The Long Game: China's Grand Strategy to Displace American Order, because in that book, Rush, who's an official at the National Security Council now working with Kurt Campbell, working on a lot of these issues, it's very much in sync, I think, with what Dr. Lee is talking about in this paper. But I won't hold you accountable to Rush Doshi's thesis, which in that book, he talked about three phases of China's displacement strategy.

So this gives you a sense, again, that there's a big backstory. This hasn't just start. It wasn't just a reaction to the Trump administration or any one administration. There's a long history to all of this. And it didn't even start in 1989 as Rush sort of focuses on that beginning point. And yet that's where he saw China increasingly trying the first phase of blunting us hegemony.
And by 2008, with this global financial crisis in particular being a watershed, it shifted to a much more actively accomplish something kind of thinking. And it did that for seven years or so until you finally get to the unleashing great changes unseen in a century. These are quotations from Xi Jinping.

And the point is that China went in the space of a relatively short period of time to not just wanting to think about blunting American power and catching up, but to much more actively to kind of outcompete and displace. And I think that's consonant with your thinking in this report. Very important to understand there's always a big backstory to current events.

The second observation is to note how Dr. Lee, I think, very judiciously straddles the argument, the controversy, if you will, over are we facing a strong China or a weak China? You don't really take that bait. You kind of do bit of both. It's both a strong China and a weak China, and it more accurately I think describes the complexity of China and why we need some humility in trying to forecast what's happening with China.

But we can't afford to be either complacent or fatalistic. I think the 14th Five Year Plan alone that you focus on, which has now really much in incorporated everything, other grand initiatives like the Made in China 2025 initiative for dominating critical technologies, that China really does prefer a certain decoupling path that you've outlined so well in this long report.

I think when I read professor Lin Yifu, for instance, so this is the former World Bank chief economist, one of the deans at Peking University, one of the most prominent voices in China on China's economic growth. He argues that China should be able to, in theory, have 8% economic growth out to 2035, despite all of the headwinds that they face. Now, he actually says that maybe it's more likely to be 6%. But even so, he's very bullish on the Chinese economy. And he's a very good economist. So he's not a lightweight on these issues. And yet that's the bullish side of what China could do. And if they had that and they're able to double their GDP by 2035, and have that kind of big growth, we're facing a much more potent powerful China that's able to enact a lot of these kind of ideas in this report.

On the other hand, Hal Brands and Michael Beckley in their new book, Danger Zone, talk about peak China and whether there are dangers, big dangers, in this decade alone because we have to get through this immediate period when China's both stronger and more insecure and not sure about its future. And we don't really know. And I don't think the Chinese know which future they're facing either. So I think in fairness, you are straddling this sort of don't be complacent, don't be fatalistic is exactly right for where we should be analytically.

And the third and final quick observation is that economic competition doesn't happen in a vacuum here. So not only, again, do I want to praise your work for kind of putting the geopolitical context, but where you stop short, I want to note for the readers that you don't answer the question about whether we're going to be in a new cold war, whether we're going to have a hot war for Taiwan, whether we're going to have a forever war, if you will, with China in terms of long term competition, although you might lean toward that last basket a little bit.

But the question of Taiwan, just that flashpoint alone, since this is the Danger Zone that Brands and Beckley and so many others are focused on right now, your implicit assumption in this work, if I could make one small, it's more of an observation than a criticism, that you don't answer that question, whether more economic integration of Taiwan into the international economy, like
supporting their membership into TPP, would contribute to triggering a kinetic conflict with China. And that's a big question.

So how these economics and geo-economics tie into the military and the geopolitics are big unanswered questions. But this report I would argue is the essential reading for trying to then debate that discussion. So John, I've said too much, maybe, about your report, but I hope my comments have been accurate enough and fair. But I want to turn over to Dr. Lee for his comments. And again, congratulations on the wonderful report.

John Lee:

Patrick, thank you for those words. I was delighted to have Patrick and Tom on this launch with me. Patrick and Tom are two scholars at Hudson and in his town who merged the economic and the strategic, particularly when talking about China. So for me, in terms of this report, I'm delighted to have both these two people helping me launch it.

I perhaps will talk about Patrick's question after remarks by Tom and myself. But I thought I'd just spend 15 minutes giving my summary of the report. Patrick's done probably a much better job than I could have done, but I am obliged to give you my 15 minute summary of this report.

I think that, one, if I look back at American politics in the last few years, it's obviously been a very disruptive time. But for me, the one positive legacy of the Trump administration is that it identified genuine problems in the global economic system. It may not have had the solutions. But it identified and called out genuine problems in the global economic system and China's role in being a major cause of those problems.

The catch phrase of America First, which wasn't popular worldwide, including in my country, but it did demand for free, fair and reciprocal trade, or reciprocal economic arrangements. Joe Biden has abandoned the America First moniker. But in a sense, his objective in important ways. It's not that different to the Trump administration in his context. So from currency manipulation, to cheap loans, to state owned enterprises, subsidies to SOEs, both point a finger at China for being the main culprit in producing some of the distorting effects in terms of America's interaction with the global economy.

Now, because America is having this conversation, it has led to the popular narrative that America is decoupling to strengthen its economy and weaken China's, while China is merely responding or being forced to respond to American economic aggression, as it puts it, by going on a self-sufficiency drive.

Now, I'm very grateful to the Smith Richardson Foundation for supporting my work in this area. And one reason why I really wanted to write this report was to correct what I think is this misleading interpretation of history or economic history. China might have never used the term economic decoupling, but China has been pursuing a far more ambitious, and, in my view, malignant version of economic separation from America long before America started having this conversation about globalization, which really began from the Trump administration.

So well before Xi Jinping came to power, China has sought to limit its economic exposure and dependence on America in important ways. And even when Deng Xiaoping began his reforms back in 1979, it has always been about China trying to seek relative gains from the global economy, particularly at America's expense.
So if we think about the Chinese approach from the Deng period onwards, hide brightness and biting its time, this was never about genuine strategic partnership with the United States and integration with the global economy, as we would understand it. In my mind, it was about building China's comprehensive national power in relative terms to the Western powers, and China getting what it wanted and needed from the global economy before hoping to surpass the Western powers, who were the underwriters of the global economy.

The Xi Jinping period, I don't think he's a sea change from Deng Xiaoping, Jiang Zemin, Hu Jintao periods. But certainly, the risk appetite Xi Jinping is significantly higher than his predecessors. In many ways, this is a good thing because Xi's brazenness in stating what China wants to achieve actually made my job a lot easier in trying to work out what China was actually doing. And this brings me to what I mean by China's decoupling strategy, which precedes the American decoupling conversation. And as I mentioned is far more ambitious than a partial American decoupling, or partially decoupling from the American perspective.

For Xi, the objective is to advance a sinocentric economic order in Eurasia and the Western Pacific that excludes America in important respects and limits American involvement in other respects. Now, the bad news is that Washington has had ... Sorry. Is that Beijing has had a head start on Washington. The good news is that I think America and its allies, but America in particular, retains powerful and even decisive options to ensure partial decoupling occurs on American terms rather than Chinese terms.

Now, if you take the Belt and Road Initiative, which is not generally framed as part of a Chinese decoupling strategy, now there are understandable benefits, economic benefits, to China of the Belt and Road strategy, for example, to create projects for its large state owned infrastructure firms. But consider what else the Belt and Road Initiative is designed to achieve. One is to build regional sinocentric infrastructure, platforms and institutions which will facilitate trade and other economic interactions between China and countries in the BRI.

Now this all sounds quite innocent. But we need to look at what that term a sinocentric model is intended to look like. The immediate goal might have been to create external capital investment opportunities for Chinese firms. But the grander strategic purpose is to ensure that all roads, rail, ports, cables, digital networks, infrastructure begin and end in Chinese provinces, and importantly, operate on terms favorable to Chinese interests.

Additionally, and with a greatly reduced commercial presence in Eurasia and the Western Pacific, the capacity for American firms and governments to either set or revise commercial and quality standards in all sectors is greatly diminished. And once you set standards in industries, it's very expensive or even prohibitive to operate in a different economic ecosystem. So when combined with Centro-sinic infrastructure, institutions, logistical networks and so on, regional economies become captive to China, while outside economies such as America are in a much weaker position to imposed themselves or even be relevant.
Now, my arguments throughout the report that Chinese economic policy is the earlier and primary trigger for the unraveling of globalization as we know it is further evidenced by complimentary plans to BRI, such as Made in China 2025 and a more recent dual circulation policy. Now these plans are Made in China 2025 and dual circulation, they seek not just technological self-sufficiency, but Chinese control over and dominance of entire manufacturing processes, entire supply chains and associated services in the most important and lucrative sectors over the next few decades.

The explicit objective is not simply to ensure that China becomes an advanced and innovative economy, nothing wrong with that. But the objective is to control global supply chains, innovation and knowhow required for Chinese firms to permanently dominate these sectors in global markets.

So this is decoupling with Chinese characteristics and on Chinese terms. For America, it would mean greater exclusion, economic isolation, loss of relevance in Eurasia and the Western Pacific, and eventually decline as the world's greatest economic and strategic power. For the other Indo-Pacific nations, including mine, Australia, it means economic and therefore strategic subjugation to China. In short, decoupling on Chinese terms is China's non-military strategy to ease America out the Pacific.

Now, what do we do about it? I think we need to do three broad things. One, we need to counter China's objective of acquiring strategic support states through economic and technological capture. This is what Chinese decoupling is meant to achieve. Two, we need to counter elements of China's technological upgrade strategy that is designed to help China surpass the advanced democracies. And three, we need to counter Chinese plans to dominate high tech and high value global export markets in these high tech and high value sectors.

Now, there is good news because as Patrick pointed out, I do think that we do have leverage. It doesn't mean it happens automatically. But the point of writing this report, or one of the points, is to say that we have leverage and we have agency in determining how all this plays out. It's not going to be some mechanistic process based on trend lines.

We don't need to do what China does. In fact, we can't do what China does in terms of just throwing lots of money and larges at nations and various projects. Our economic system isn't designed to allow us to do that. But we do need to compete in the commercially profitable economic zones, which are basically the maritime economies in the Pacific, particularly Southeast Asia.

Now, in this context, there is actually a quick fix way of beginning to counter China. And that is for America to find the political courage to join the comprehensive and progressive agreement for Trans-Pacific Partnership, the new TPP, and use this as a platform to counter Chinese plans that I just spoke about.

Now using the TPP as a platform would achieve the following five things. It would help disentangle or diversify regional supply chains in critical and strategic sectors away from China, which is especially important for advanced economies on China's periphery. That is Taiwan, Japan, South Korea and Singapore. It would help us agree on common rules, standards and export controls for high value in high tech sectors. It would link common market access to adherence to legal, regulatory and human rights rules and standards.
Fourth, it would help us seek sources of, or help economy seek sources of non-Chinese finance in the region. And five, it would allow countries to work with the United States to reform or build institutions that can better resist some of the predatory Chinese economic practices.

Now, I know when you go around town, everyone says to you, "There's no way America will ever joined a TPP. It's just not possible." Well, that conversation in my view has never really been tested. I'm being told by people from both sides there's no appetite for it. But I don't think that conversation has been tested.

And if you look at all the things that the Biden administration and the previous Trump administration were trying to do, the quick fix way would've been to join the TPP. They found ways to sort of go around that and come up with other forms of agreements. Why not go the quickest way? And if you really serious about taking on China in this context, this is the one quick thing that you can actually do. Bear in mind the Chinese have applied to join the TPP. And if they ever do join a TPP, they're in a position to permanently block the United States from ever applying to join the TPP. So there is quite a bit at stake here.

Meanwhile, putting aside TPP, it's essential to prevent Chinese dominance in sectors such as artificial intelligence, advanced robotics, new synthetic materials and next generation integrated circuits. Now fortunately, China is actually a net importer of relevant technologies and knowhow and innovation for most of these sectors. It relies heavily on joint ventures with foreign firms. One estimate is that about 80% of private sector R&D money spent in China in the previous decade was by non-Chinese multinationals based in China, and multinationals, mainly headquartered in America.

Washington should scrutinize and restrict capital into China that feeds directly into the Made in China 2025 plans. The administration should also consider owners restrictions or outright bans on some categories of investment into China or Chinese investment into America, such as computer systems design, biotechnology and life sciences.

The objective is to prevent economies from becoming too dependent on the Chinese supply chains and Chinese technology. The overdependence that comes from focusing solely and pursuing ... One way China gets its way in the region is that it forces countries or it persuades countries to focus on pursuing absolute gains rather than relative gains. What you really want to do is give other countries the opportunity to focus on relative gains with respect to China. They can only do that if they have other sources of supplies, or if they're tapped into supply chains that are not sinocentric.

In this context, as Patrick mentioned or noted, Europe is critical. There is still a tendency for Europeans to separate the economic and security interests. The true situation, I think, is different to the way the Europeans view the world that is emerging. China is both a security and an economic threat to the EU. Not in the same way it is say to Japan or Australia. But it is still a security and economic threat to the EU in the longer term. In fact, Europe has a special role as either part of the solution or part of the problem when it comes to addressing the economic challenge post by China, as raised in my comments.

Now, it shouldn't be lost on Europe that the Belt and Road Initiative excludes the United States, but extends to Europe. Indeed Europe, I would argue, is the key to the success of the Belt and Road Initiative and to Chinese efforts to decouple favorably from the United States. And this is apparent in two ways.
First, the EU represents about 16% of global GDP. Importantly, it's also the second largest consumer market in the world, and it's about double China's consumer market by that measurement. Now, although consumer markets in Southeast Asian and India and Africa are predicted to grow rapidly, Europe over the next 10 years will still remain the most important destination for finished goods throughout the Belt and Road Initiative in the foreseeable future.

Second, China needs technology transfers that come from joint ventures with advanced economies, especially from Europe and United States. And in this context, some commentators have referred to the EU as a technology piggy bank for China.

Now, if you look at what China is investing in, and if you look at Chinese's investments in Europe, up to about 2016, they put a lot of money into infrastructure like ports and rail infrastructure and so on. But since about 2017, Chinese firms have de-emphasized infrastructure in Europe, and they're increasing their stakes in European companies engaged in sectors such as healthcare, pharmaceuticals, biotech, robotics, artificial intelligence, advanced materials, cutting edge engineering and semiconductors. Basically, Europe is becoming the technological piggy bank for China. It's revealing that Europe's two most advanced economies, Germany and the United Kingdom, have attracted the lion share of China's investments since 2017.

Just by way of introduction to his report, let me conclude and summarize the key arguments and conclusions that I hope you get out of it. One, on the back of a preexisting mercantile political economic structure, China has been explicitly pursuing economic decoupling from the US and allied economies on Chinese terms for several decades. That should be how the history is reflected because in my mind, that is what has occurred.

Two, while the United States seeks to decouple some aspects of economic activity from China, China is seeking to dominate vast segments of the Asian economy and to decouple these entirely from United States. Three, the most important segments at the high tech and high value sectors. These sectors are where competition is the most consequential and where decoupling on American terms needs to occur.

And four, China is facing increasingly serious problems and obstacles relating to its decoupling strategy. Many of these arise out of structural weaknesses inherent in its political economy, something Tom has written extensively about. This means, and this is the note of optimism, not complacency, but optimism, we do have the leverage, we do have good options and decoupling to some extent will occur. My final message would be we do have the agency to ensure that they occur on terms more favorable to us than it does to China.

**Patrick Cronin:**

Well John, you've done a great job distilling your report. Let's turn to Tom Duesterberg, who's has been waiting patiently to comment on these issues and this report as well. Tom.

**Tom Duesterberg:**

Thank you, Patrick. And thank you John for an excellent report. And I would start by commending this report, which I think is very readable and a very comprehensive summary of both China's ambitions and their strategy and the inherent weaknesses of that strategy. Let me
try to be brief here and point out a few of the things that I think are quite original and useful in this report.

I think the description of the economic weaknesses in China, and indeed the self contradictory nature of current Chinese economic policy, is useful in the sense that part of the attraction, as John points out in detail in his report, the attraction that China expects to have to accomplish its goals of setting up a sort of sinocentric economic and political zone is the inevitability of the Chinese economic progress. And I think John pretty effectively undermines that narrative.

And so that has political implications, I think, especially in battleground. And I commend him too, especially for pointing out that Southeast Asia, the ASEAN nations, will be one of the principle battlegrounds for the competition, if you will, between the sinocentric zone and a Western allied, more liberal economic zone and political zone for that matter as well.

So he also points out in good detail, this is some excellent research, I think, on trade and investment, that Southeast Asia is really more dependent for economic success via its interactions with the United States and Western allies, which include of course East Asian allies, both in terms of foreign direct investment and in value added as part of the exports of ASEAN nations. The United States and its allies are much more important than China.

So one perhaps underestimated, I think, aspect of John’s report is that in his analysis in great detail, as Patrick noted of the dual circulation policy, there are a lot of contradictions within that policy. But also it is a sign that contrary to Western perceptions, and I think also Chinese policy for the last 30 or 40 years, economic growth is no longer in and of itself the most important aspect of the goal of Chinese policy.

Instead, it’s achieving, as John points out, a greater degree of autonomy and some undermining of Western influence. And I think you can see most vividly that this policy is really different than perhaps what it was under Deng Xiaoping and Hu Jintao and others. With the COVID policy and the continued lockdowns, I mean, there’s no real economic value to that. Indeed, it's undermining Chinese growth. So I would just want to make sure that our audience understands that that’s an important part of an important change, I think, in the direction of Chinese policy.

Now, John also points out that the economic weaknesses within China and also the siding of China with the aggression of Vladimir Putin in Ukraine gives the United States and its allies an opening to bring, especially perhaps Europe, more convincingly into the understanding that we need to push back against this Chinese mercantilist attempt to form their own sinocentric economic order.

Now, some of the measures that John proposes as part of the effort to undermine or push back against the Chinese effort to unite at least a major part of the Asian economic areas into their own economic zones, I think are much more aggressive than even someone like Rush Doshi or Kurt Campbell have contemplated yet.

To take just one example, John, I think correctly, puts emphasis on the need for more scrutiny of United States and allied investments into China and their R&D efforts within China. And he notes that we should, to be really effective in pushing back, include all Chinese companies that are involved in the Made in China 2025 program and the dual circulation, perfecting the dual circulation policy, they should all come under increase scrutiny. This is a much broader scope, I think, than most policy makers in Washington, or indeed Europe, are now contemplating.
I would note too finally that John's notion that China, which I think is a correct one, is pursuing self sufficiency and its own economic order has vast implications for the liberal economic order which was erected after the second World War, including the World Trade Organization. And we have to think through, I think, more fully how to perfect that order and make it effective if China is going to continue to pursue mercantilist type of autonomy.

Let me just finish my remarks with a couple areas where I would like to see where John would draw the implications of his work. One is I think he's quite good on the economic weaknesses of China and the self contradictory aspects of especially the dual circulation policy. But what is that? What is the ultimate impact of that? What is going to happen?

I think the Chinese economy is perhaps even weaker than John does. But given your arguments that there are these deep contradictions and weaknesses, what is the implication of that? Is China going to experience a crash? How are they going to finance, for instance, the continuing need to propel growth by investment, which in China, as you rightly point out, is very inefficient, including investment in the BRI, which is mostly in infrastructure and projects that have little chance of being economically viable?

Second, is the wake up call of the Ukraine war with China's support for Putin enough to finally convince the Europeans to join in a concerted allied effort to push back against China? And finally, I would be very interested in your opinion of where India comes down on this looming battle between a China zone and a Western zone. India is an important actor, just as Southeast Asia is. And I just wonder what your view currently is of India, because you don't spend a lot of time in the report on India. So let me stop there.

Patrick Cronin:

Tom, thank you very much. Great observations. I'm going to turn back to John for some sort of responses. But John, if I can just complicate further the questions, just building on a little bit on Tom's point about battleground areas in these maritime zones, take Southeast Asia you know, an area very well, the reaction to the American leadership is very mixed, and confidence in America is not all together strong, and skepticism of China varies widely China. Thailand doesn't see China as a threat. Polling in Malaysia and Singapore is very different from other parts of maritime Southeast Asia when it comes to China. And same thing with Europe.

Tom has questioned about what would it take for Europe to go even further? Well, obviously you've got the NATO strategic concept. But on the other hand, isn't Europe also skeptical about American technological dominance in this sort of area and concerned about that issue? So I'm just wondering about how does America stack up in this net assessment in building relations with these zones?

John Lee:

Sure. Let me address the three or four questions Tom raised, and also Patrick's inquiries. First of all, the impact of contradictions. And one contradiction, for example, offered dual circulation policy. China says that it wants to upgrade its whole economy, it wants to increase wages, increase household income, therefore increase domestic consumption, and that will drive the next phase of growth. And it will do that by upgrading its economy. If its businesses are engaged in higher value activities and manufacturing and value add, that increases their wages and hence everything works out for the Chinese.
The reason why I say there’s a contradiction is that the way China wants to get there is to throw cheap money at companies. And when you throw cheap money at companies to produce things, the supply side approach of China is essentially there to drive down wages. So on one hand, it wants increased wages to increase consumption, but it wants to focus on cheap production policies, which actually drives down wages in order to allow its companies to dominate global production. So those are the sorts of contradictions I’m talking about.

Another contradiction is that by not actually having market signals and price signals, it drives down innovation in the country. And when you drive down innovation in the country, it’s obviously hard to sort of move up the value chain.

Now Tom’s question, what does that mean? Nothing happens mechanistically. And this is where I keep going back to that term we have options in agency. China has been able to, in a sense, overcome its contradictions because we have helped China overcome its contradictions.

So for example, China’s system of domestic innovation, for a large economy, is actually quite retarded, in a technical sense, that it’s got quite a poor record of domestic innovation. But it overcomes that through forced transfers and theft, IP theft. And we have allowed that to happen. So once again, we have allowed China to square the circle when we would not have allowed any other country to do it.

Another example where we’ve allowed China to not bear the consequences of these contradictions is that we’ve taken a very lax view of allowing what kind of Chinese capital, until recently, what kind of Chinese capital can come into the United States or other advanced economies, and what our companies are allowed to invest in or enter into joint ventures with when it comes to the Chinese market.

And once again, this has basically allowed, to put it bluntly, China to cheat. It has allowed China to overcome what ought to be limitations to its capabilities of moving up the value chain through illegitimate means. So they’re the sorts of things that I’m talking about. So the key point is that we actually have options to stop China from continuing to cheat and overcome its system, its contradictions, and to fulfill its Made in China 2025 and dual circulation policy plans.

There was another question about Europe and Ukraine. I’m not as optimistic that Ukraine will shift the European view of what they are prepared to do about China. The reason why I say that is that for Europeans, Russia is an existential threat to the Europeans or has shown itself to be one. China is not an existential threat to the Europeans. It is a strategic, and I argue, economic threat. That’s not the same as an existential threat.

The second thing is that for the Europeans, and this is objectively true, there is far more of an immediate cost to taking tough policies on China than is in Russia. Yes, I know with Russia, there’s the energy issue. But beyond that, Russia doesn’t really play a huge role in the sort of global and technological system, whereas China does. So for the Europeans, it would seem to be a lot more uncertainties, if not direct costs, to pursuing these sorts of policies.

And ultimately, geography matters. I mean, China is not really seen as Europe’s problem. Even though in the technological sense China is essentially undercutting the technological competitiveness for the Europeans into the future, the threat just does not seem as real. So I wouldn’t necessarily say that Ukraine has changed European perceptions. I think it’s certainly changed Japanese perceptions and Australian perceptions of China, but it hasn’t changed European perceptions.
Tom also raised the issue of my report, which he's correct in saying that the recommendations that I have are far more forward leaning than what even the most hawkish people in either the Trump or the Biden administrations would suggest. That's undoubtedly true. But I think it's because the scale of what China is trying to achieve, in terms of the systemic changes that it wants to affect in a global economic system and a global strategic system, I don't think that has yet been fully accepted or that has not become yet the consensus either within Trump administrations or the Biden administration.

So my view is that the stakes are a lot higher than what either administration would consider them to be in. Unless you think the stakes are as high as I think they are or argue they are, you wouldn't be prepared to implement those sorts of policies that I suggest.

The other thing I would say though is that one thing the Chinese have been very good at is to normalize forms of cheating and exceptionalism for themselves in terms of American policies. So if you look, for example, just take one example, the listing rules for Chinese companies on American stock exchanges. Special dispensations have been given to Chinese companies to list on American stock exchanges that are not given to any other companies from any other country. What China is allowed to do, which is far more than what other countries allowed to do, or firms from other countries are allowed to do, that's been normalized and internalized by a lot of Americans and American administrations.

So it seems like a more extreme step. But actually, if you applied the same rules to China that you'll apply to every other country, it actually wouldn't be that extreme a move. It's just that we've internalized and normalized exceptions for China.

My sense is that, and this is not something I wish for, this is more what I think the reality will be, the sorts of tough economic policies against China that I think are needed to counter what China's trying to achieve, I don't think they will be implemented by any administration until or unless China uses force in a situation in Northeast Asia, for example, against Taiwan.

What Ukraine has shown us is that once you start killing people, the psychology in Western democracies change. And I'm not at all wishing for anyone to die. But what I'm saying is that the sorts of policies that are seen as extreme currently, they won't be implemented into any significant degree until or unless there is a real strategic disruption. And a strategic disruption basically means China using some element of force. I mean, I have no wish that China uses force. I'm just stating more what I've considered to be the actual judgment that Western democracies don't take so-called extreme measures until force is actually used.

Finally, let me just address the Taiwan question that Patrick raised earlier. My view is that China and China's leaders and people like Xi Jinping, they make cost benefit calculations. I mean, their cost benefit frameworks may not be the same as ours. But anyone else, they make cost benefit calculations. And if the cost or risk of moving on Taiwan by force is too great, they won't do it. So yes, there's the military element, which we know that ... And this is what Australia and United States and Japan are now trying to correct, that is prepared a readiness for an actual conflict in Taiwan in the hope of deterring any Chinese military action.

But in terms of a non military elements of it, the more isolated Taiwan becomes economically and institutionally, the lower cost of moving on Taiwan. So my logic is that if you wanted to deter any Chinese action against Taiwan, increase the cost and the risk for the CCP and for Xi Jinping personally. And if Xi Jinping believes that there is a high chance of a foreign policy
disaster when using force against Taiwan, he's less likely to actually do it. So that would be how I would think about it.

Patrick Cronin:

John you've answered a lot of questions already. I would just want to get quickly one comment from Tom about the potential consequences of a polarized economy globally, and what are the consequences of some of these actions that China's taking to decouple or that we may take as well to decouple selectively. Even think about something like the CHIPS Act on semiconductors. The concern there being, as you know Tom, that made this investment in our own semiconductor, integrated circuit, advanced fab production, prompt China to invest even more, build their own integrated circuits that are advanced, that are separate from US technology.

And so you've got these two separate chains. I'm just thinking that is an example. But is there a problem, or what are the potential implications, the big picture economically, of this kind of global economy we could be heading into? And then I just want to take two questions very quickly from the audience, if there's some questions, and then we'll wrap it up here, John, with any final thoughts. So Tom.

Tom Duesterberg:

Well, I'll be quick on this because I think John actually covers his territory pretty well. Number one, I agree with John that China is not very good at innovation. They're not very good at allocating the vast amounts of money that they use to subsidize industry and to subsidize research. I always use the example of not just semiconductors, where they're five to 10 years behind us, but commercial aviation, where they've spent billions over the course of 25 years and still can't keep up with us.

But I do think that there are serious implications to the United States, and Europe as well, and Japan as well, turning more and more towards strengthening their own industries via subsidization through industrial policy. I think we should be very careful about that. And I have argued for more cooperation to the extent that it's possible with our allies in East Asia and in Europe to have a sort of an economic zone which includes developing the types of high technology industry that John has rightly pointed out, which are the source of competition, and most important, source of competition in the next 30 or 40 years.

Patrick Cronin:

Well, this has been a terrific hour packed discussion about your important report. And I want to thank Tom Duesterberg and especially John Lee. I mean, this report is about understanding and countering China's approach to economic decoupling from the United States. There's not one understanding. It's a complicated evolution. There are many arguments. I think John does a good job of trying to appreciate a lot of those nuances, while making some forceful, muscular arguments about how to counter. Whether it's too robust or not, or whether it's going to take more action kinetically in the world for the United States to get more serious about this, we'll see. But I think this report is an enormous contribution, John. So thank you very much for your work on this. Thank you, Tom. Thank you all for joining us today.