

REMARKS

PLAYING TO OUR STRENGTH IN THE U.S. CHINA POLICY

by Robert Zoellick

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Singapore's Sovereign Wealth Fund; senior counselor at Brunswick Group Geopolitical; and an adjunct professor and senior fellow at Harvard University's Kennedy School of Government. In addition, he serves on the board of Robinhood Markets, chairs the International Advisory Council of Standard Chartered Bank and is a member of the Strategic Council of Swiss Re. He is a member of the boards of the Peterson Institute for International Economics, the Wildlife Conservation Society, and the Carnegie Endowment; chairs the Global Tiger Initiative; and is a member of the Global Leadership Council of Mercy Corps, a global humanitarian agency. From 1985 to 1993, Zoellick served as counselor to the Secretary of the Treasury and Under Secretary of State, as well as White House Deputy Chief of Staff. He published, "America in the World: A History of US Diplomacy and Foreign Policy" in 2020. His book has been translated into Korean, Chinese, Japanese and Georgian.

Today's politics welcomes a confrontation with China. It suits both parties. Ever since Truman and Acheson were accused of losing China, Democrats have not wanted to look soft on China. Kennedy, Johnson, Clinton and now Biden have all wanted to avoid the accusation of being soft. The Republicans find this to be one of the few issues on which they can pull the party together, look strong and criticize Biden.

Let's consider whether this confrontation is a sensible strategy or based on mistaken assumptions. Will this spirit

of confrontation ultimately serve U.S. interests? I will highlight two faulty assumptions, then turn to the policy implications and close with a final word on politics and policy.

First, I think the Cold War is a mistaken, even sloppy analogy for China today. In the Cold War, the U.S. and the Soviet Union were two opposing international systems: capitalism and communism. The two superpowers didn't have much economic connection except in energy, some commodities and, toward the end, with the debt of Eastern European countries. That's a very different situation from the U.S. and China today. We share a security and economic system.

A further difference is that the Soviet Union wanted to promote world communism. China, at most, believes in Han chauvinism, a national ideology with little potential for global exportation. Policymakers in Beijing don't believe anybody could be like China. China wants power and respect. It would prefer a model of tributary states, regardless of their internal politics. Authoritarian systems may be easier for China to deal with, but that's not Beijing's priority.

Our diplomacy requires a more complex mix than a preoccupation with confronting China on every issue. Our allies will certainly not agree with the idea of trying to contain China. If we try containment and total confrontation, in conflict with allies, we'll lose a great source of America's power.

Other friends will also differ. Bilahari Kausikan of Singapore, a friend of the United States, makes a perceptive point that other countries will seek agency within the Sino-American competition and cooperation.

Even India, the big prize of geopolitics, wants strategic autonomy. New Delhi is pleased to use the U.S. against China when it needs to, but it is also a member of the

BRICS. India will take care of its own interests in the world. So should we.

It's also a mistake to focus on dividing the world between democracy and autocracy. Vietnam doesn't rank highly on the democracy scale, and it's similar with the Gulf States. But we will want to work with them.

If I had to draw a comparison, I'd say international relations today look more like 1900 than 1950. Analogies to the Cold War thus risk leading us dangerously astray.

Second, sound strategy requires a realistic assessment of our capabilities and needs. I think Jake Sullivan's Brookings speech missed an opportunity to explain the real challenge that we're facing.

Let me give you some statistics from Fareed Zakaria, who is hardly a conservative ideologue. In 2008, the U.S. and the Eurozone economies were about the same size. The U.S. economy is now twice as large. In 1990, U.S. per capita income was about 17% above Japan. Today it's about 54%. In 1989, four of the 10 most valuable companies in the world were in the U.S. Today, nine out of 10.

Consider a much-discussed topic: global manufacturing. The U.S. has a larger share of global manufacturing output than Japan, Germany and South Korea combined. Of course, we have fewer manufacturing jobs with greater output because we're more productive. The same thing happened in the agricultural sector between 1900, when farming employed about 40% of the labor force, and today, when only 1 or 2% of workers are farmers. The top 10 most valuable tech companies have a total market cap above the stock markets of Canada, France, Germany and the UK. The U.S. leads in industries of the future, such as AI and bioengineering.

We have more favorable demographics than Europe, Japan or China. We have low unemployment. The dollar is used in 90% of international transactions.

According to the CBO, between 1990 and 2019, household income from market gains alone grew 26% after inflation. If you add in social insurance and tax transfers, that income increases to 55%. The bottom 20% of income earners had

market growth of 50% and after-tax transfer growth of 74%.

Or consider the question of mobility. Based on studies from the Treasury, the IRS, the Federal Reserve and Pew, over 90% of the people born in the bottom quintile of families earn more than their parents in real dollars. That's not what you normally see in the press. 63% rose to higher income quintiles.

In sum, America has not suffered through some dystopian past to be transformed by protectionism, higher spending, an industrial policy that moves far beyond research and development, and a reversal of 50 years of antitrust policy.

Third, let's consider the policy implications of these mistaken assumptions. First, I'd advise avoiding the Cold War error of viewing all issues through the lens of competition with China. The Cold War's zero-sum mindset led to the debacle in Vietnam.

The Cold War logic led to mistakes in Latin America and Africa, too. Much of today's policy debate about China assumes a similar zero-sum competition. We must be careful.

I also don't think that the U.S. is a victim of the international economic system that America led the way in creating. The Trump and Biden administrations have made the false assumption that the U.S. cannot compete economically.

We don't need higher tariffs. Biden now uses rules of origin or Buy America provisions, which foreclose foreign competition. These are worse than higher tariffs, which just tax consumers or companies that use foreign inputs.

The Biden Administration's policies also cost a great deal. The budget deficit for 2023 is 6-7%, a very high number even when growth is good. The CBO projects future budget deficits of 5-6% as far as the eye can see. The U.S. debt as a percentage of GDP is at 97%, close to the peacetime high of 104% in 1946. We will likely blow through that ceiling soon.

Given the importance of U.S. allies and partners to our strategy, Washington should be deepening its economic

ties with them. Instead, we have dropped out of the Trans-Pacific Partnership. We're strangling the World Trade Organization. We've recently choked off the IPEF too. The IPEF had very little in it, but the administration just pulled out of the digital negotiations. Even our friends in the European Union are now fed up.

Moreover, once you adopt a policy of economic defeatism, the political process demands protecting and subsidizing more so-called victims of international competition. Now Nippon Steel's purchase of U.S. Steel is seen as a national security threat, even though the deal would strengthen the steel industry and would certainly strengthen our ties with Japan.

One of my successors as USTR, Katherine Tai, describes U.S. trade policy as post-colonial. I would like someone from the administration to explain to me what that means. The closest I can come up with is some Marxist notion of imperialism that's infected the trade community. Is the administration suggesting the U.S. economy was colonial – even though historically American wages were higher than elsewhere in the world? It turns out that developing countries, some of which were former colonies, want trade and an opportunity to compete in U.S. markets. The subsidies that the U.S. and EU are creating will be particularly hard on developing countries that cannot compete with subsidies and big spending.

If I were USTR today, I'd focus on the digital agenda – which the administration just abandoned in both the WTO and IPEF. Virtual goods, services, software and data drive the digital economy. We need to enable movement of data across borders with protection of personal data and privacy.

The U.S. used to be at the forefront of new standards and trade negotiations because our economy has been at the cutting edge of innovation. But now we're pulling back and failing to shape rules for the future. I'm not sure how the rules will be made, but we won't be making them because we aren't at the table.

Now I'll turn to the administration's China policy.

During the 2020 campaign, some of Biden's advisers declared that engagement with China had failed. This was

factually false but politically convenient. But the question today for the administration is, how do you engage if engagement failed?

President Biden recognized the downward spiral of his disengagement. He's trying to place a floor under bilateral relations. The U.S. is trying to engage on maritime security in the Middle East, artificial intelligence, Russia's threat of nuclear weapons and narcotics.

If the U.S. is seeking to engage again – what we used to call diplomacy – we need to make a critical decision: are we always going to lump China with Russia and Iran, or might we view China differently? China isn't a spoiler state like Russia, and we shouldn't be pushing China closer to Iran and North Korea. China grew rich within this international system. Of course it wants power, but Beijing is uneasy about overthrowing the system in which it prospered. Is it really in our interest to push China toward a separate system? If you're in China listening to the U.S. debate, you might reasonably conclude that Washington wants regime change or to isolate China.

Of course, the U.S. and allies need a strong defense to secure deterrence. In fact, I'd favor greater investment in defense than either the administration or Congress. But then what might a policy of peace through strength look like? Could we explore cooperation on mutual interests?

Here's the hard reality: if you don't figure out how to cooperate, then don't expect progress on climate, biological security and pandemics, developing country debt, fisheries, nuclear proliferation, Iran and North Korea, genocide in Sudan, or the emerging issues such as of mining and electrification in a more climate sensitive economy. Forget cooperation on the next international financial crisis.

It's important to look beyond the policy slogans; the devil is in the details. Consider technology controls. What do we mean when we say "small yard, high fences"? In the COCOM-Soviet era, NATO and others limited what could be used for the Soviet military. But COCOM didn't try to crack the Soviet economy.

We can block this technology for a few years, perhaps five years. Perhaps that delay is worth it for us to stay ahead.

But the history of economics and technology suggest that China will develop semiconductor technology anyway.

And how should we treat Intel? We're subsidizing them, but Intel gets 20- 25% of its revenue from selling to China. Do we want to stop these sales, with Intel losing profits that it will invest, including in R&D? Should we then subsidize Intel for lost profits in China?

China is dominating new sectors in the energy transition. If we're serious about climate, why are we putting taxes on Chinese solar panels? I have yet to meet someone who can tell me why solar panels are critical to the national defense of America in the event of conflict. Wouldn't it be better if we had lower cost solar panels or wind turbines? Electric vehicles are going to be the next protected industry.

CFIUS has now become a bureaucratic screening of foreign investment, which reaches way beyond security. The Justice Department wants to know what jobs investors are creating. That agenda moves screening to industrial policy, not protecting security.

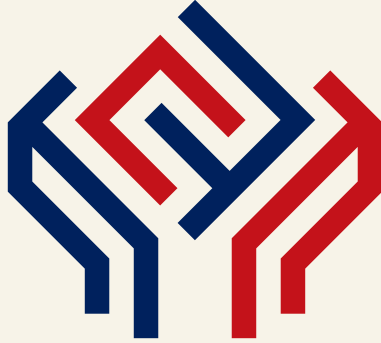
We're losing investment because of the new review and demands. Now the administration wants to review outbound investments. The U.S. hasn't done that before. The bottom line is that we will make a huge mistake if we try to imitate China. Our strength is openness to goods, capital, ideas, trade and people. A strategy to imitate China at the exact time that the Chinese system is stumbling doesn't strike me as very wise.

Fourth and finally, back to politics: I'm very skeptical that President Biden or Jake Sullivan can out-compete Trump on a message of American carnage and the argument that we're ripped off abroad. The Biden Administration's narrative plays into the hands of Trump's treatment of America as a victim.

Populist moods don't like elitist Washington-centered systems. They will find many targets in Biden's industrial policy, exploding debt and calls for more taxes. The U.S. government has lost confidence in its ability to conduct international economic policy. We're playing a loser's hand.

Now I don't expect this to change in 2024. But this session is timely. We can all understand the frustrations with China's behavior, but at some point, we're going to have to consider course corrections in U.S. trade policy, international economic policy, and our future policy with China. Should we play to our strengths as opposed to our weaknesses?

Here is the issue on the horizon: if some Chinese leaders after Xi or late in Xi's tenure decide that they want to truly reform and open the economy, should we work with them or try to push China over the edge? Today's attitude would push them over the edge. I'm not sure that would be constructive for us or for the world economy.



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