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## AMERICA vs CHINA

**E**SCALATING TENSIONS between Washington and Beijing do not yet constitute a new cold war. But they signal an important shift in US policy. From the 1990s—orchestrating China’s entry into the WTO, guaranteeing its dollar assets at the peak of the financial crisis—the emphasis had been on cooperation, if backed by military might. Today, Washington is threatening to ramp up a tariff war and instructing NATO members to boycott the PRC’s market-leading 5G technology. The Department of Justice has staged a spectacular international arraignment of a Chinese tech company’s chief executive for dealing with Iran. The latest US National Security Strategy statement classifies China, alongside Russia, as a ‘revisionist power’. America had hoped that integration into the international order would liberalize China, the NSS document explained. Instead, the PRC was trying to expand the reach of its ‘state-driven economic model’. It aimed to displace the US from the Western Pacific and reorder the region to suit itself. There was self-criticism, too. As solo superpower after the Cold War, Washington had been too complacent. ‘We assumed that our military superiority was guaranteed and that a democratic peace was inevitable. We believed that liberal-democratic enlargement and inclusion would fundamentally alter the nature of international relations and that competition would give way to peaceful cooperation.’ Instead, a new era of ‘great power competition’ has dawned, involving a systemic clash ‘between free and repressive visions of world order’.<sup>1</sup>

Though the tougher American stance has broad support across party lines, Wall Street is nervous. Robert Rubin told *New York Times* readers that China can’t simply be instructed to change its economic model,

although it should recognize that some consequences of its system were unacceptable to the US. Martin Wolf explained in the *Financial Times* that the right path was to manage relations with a China that would be both ‘foe and friend’. But the liberal media has largely backed the new line. ‘International suspicion has as much to do with the nature of China’s system as with the company [Huawei] itself’, stated the *Financial Times*. ‘Trump has been right to press all the issues’, declared the NYT. The *Economist* agreed: ‘America needs to be strong’—‘Trump’s willingness to disrupt and offend can be effective.’<sup>2</sup> A lead text in the latest number of *Foreign Affairs* dials up the charges. China is seeking ‘complete dominance’ in the Indo-Pacific region, where it aims to be the ‘unchallenged political, economic and military hegemon’. Beijing has been able to pick and choose in its relations with the US-designed institutions of the global order—the UN, WTO, World Bank—and has built support for itself in regions where the US has been (relatively speaking) absent: Africa, Central Asia, Iran, Sudan, North Korea. It has been undermining the US alliance system in Asia—encouraging the Philippines to distance itself from Washington, supporting Seoul’s opening to Pyongyang, backing Japan against US tariffs. Though America should hope to maintain its Asian pre-eminence through ‘competitive but peaceful’ means, it should brace itself for the use of military force.<sup>3</sup>

## I

How serious are these new great-power antagonisms, and what is their logic? Unpacking the structural relations between the two is complicated not only by their mutual interdependence but by the disparities between them, both as ‘friends’—financial and economic partners—and ‘foes’. These asymmetries characterize not only their size, wealth, power and political models, but their aims and objectives. In the last age of great-power competition, the protagonists were of the same *genus*: advanced industrial-capitalist nation-states, though expanding at uneven speeds and with unequal overseas possessions. In the present

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<sup>1</sup> *National Security Strategy of the United States of America*, Washington, DC 2017, pp. 25, 27, 45–6.

<sup>2</sup> Editorial Board, ‘Huawei will struggle to assuage Western concerns’, FT, 28 January 2019; Editorial Board, ‘You don’t understand tariffs, man’, NYT, 4 December 2018; ‘China vs America’, *Economist*, 18 October 2018.

<sup>3</sup> Oriana Skylar Mastro, ‘The Stealth Superpower: How China Hid Its Global Ambitions’, *Foreign Affairs*, Jan–Feb 2019.

case, both bodies are singular entities, like nothing else that has existed on Earth. One is a globe-straddling free-market superpower, the other a peasant-based Communist state that has undertaken thirty years of high-speed capitalist growth.

The Soviet Union was a singular entity, too. But the USSR was founded as a negation of the capitalist system—its opposite, Lenin said. The PRC likewise. Yet China has become the most dynamic sector of that system, yielding high returns for Atlantic capital, investing trillions in dollar assets and securing America's 'great moderation' of wages and prices, with its armadas of container ships ploughing the Pacific to stock America's shelves. The financial and economic interdependencies between them are not only asymmetrical—poor creditor, rich debtor—but operate at multiple levels, which have themselves been adjusting to different degrees and at different tempos, and remain at the mercy of variable currencies. Before 2007, commentators saw the trade imbalances between the two as the greatest risk to global economic stability. Since then, the value of American imports from China has risen by 57 per cent, while the PRC provides an irreplaceable market for US agricultural, aerospace and machinery products. Yet areas of symbiosis contrast with sharpening sectoral competition, not just with US companies but across rich-world markets.

Domestically, the two economies provide a different set of contrasts. America's is a mature, continental capitalism whose manufacturing sector reached peak growth seventy years ago. For the last forty it has been struggling with falling profit rates, met by downward pressure on wages, offshoring and flight to the higher returns of asset speculation and overseas investment. But if its share of world GDP has shrunk since 1945 from a half to a quarter, America has strengthened its global lead in finance, cultural production and technological innovation; the digital revolution is itself 'Made in USA'. By comparison, China's GDP per capita is less than a seventh of the US level and its share of world output is 18 per cent. But Chinese growth has roared along at a sustained annual average of 10 per cent for three decades, only slowing in the last few years. Since the seventies, wealth production in the US has slowly shifted from rustbelt to sunbelt, with hoards of wealth accumulating in a few dozen counties. Over the same period, China has transformed itself from a rural Asian country into an ultra-modern, urbanized society with the world's largest intelligentsia.

In this spectacular case of late-comer combined development, it's not easy to distinguish the country-of-origin of the factors involved. China launched its manufacturing take-off in the nineties on tides of trade that were fast globalizing under American direction—tariffs falling, investment capital swirling, the logistics of containerization locking into place. These were preconditions for its growth. But the PRC borrowed the initial formula for its export-led model from East Asia's 'flying geese', and much early capital came from the regional Chinese diaspora, as well as Hong Kong, Taiwan and Japan. Offering cheap, biddable labour for assembly work in purpose-built Special Economic Zones, it acquired the technical know-how of modern manufacturing while sucking in export earnings. But the magnet that attracted American, Japanese and European firms to set up shop there was endogenous—'Made in China': a vast domestic consumer market, whose economic and cultural capacities had developed under Communist rule. Peasant literacy, an emancipated female labour force and a bureaucratic nerve system extending to every village, able to command bank lending, organize infrastructure and control capital flows—these home-grown factors, as much as its size, set China's development apart from the other 'newly industrializing countries'.

## 2

As political-economic entities, the two have not only been growing at different speeds but each has been changing, internally and externally, in different ways. During the Cold War, the US as world hegemon tolerated a high degree of economic protectionism in its camp. As the Communist threat receded and inter-capitalist competition intensified, Washington abandoned its self-denying ordinance and began to use its global weight to assert American national interests.<sup>4</sup> Nixon revoked Bretton Woods in favour of the fiat-dollar system. Reagan officials strong-armed Germany and Japan to revalue their currencies, to give US exporters an extra edge. The World Bank and IMF were used to prise open crisis-stricken economies and put their assets up for sale.

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<sup>4</sup> Perry Anderson, 'Imperium', NLR 83, Sept–Oct 2013, p. 16; and *American Foreign Policy and Its Thinkers*, London and New York 2015, p. 17. Here the fit and friction between the universal-capitalist and the national-supremacist aspects of US hegemony, varying over time, are examined in detail.

These were the first inklings of a new imperial order that took full form once the US emerged as the single superpower. It instituted a regime of ‘structural reforms’ that penetrated deep into the economic and political life of other states, opening them up to international flows of finance and trade. The reforms centred on the property rights of Atlantic firms and investors operating overseas, enabling them to gain ownership of domestic assets in other countries and integrate them into global profit streams. At the same time, the US instituted a sea change in inter-state relations, abandoning the Westphalian principle of sovereign-state jurisdiction. Sovereignty was now reconceived as a partial and conditional licence, which could be withdrawn if a state failed to comply with the liberal economic and political norms set by the Washington-led ‘international community’ and monitored by its global institutions.<sup>5</sup> Meanwhile, the erosion of other states’ sovereignty was matched by its accumulation at the imperial centre, where the US arrogated to itself the right of regime change, with or without the consent of its allies. It embarked on a distinctively national, oil- and Israel-centric programme of warfare across the greater Middle East.

Under this new order, Washington’s policy towards China was crystal-clear. The guidelines set out in its 1993 National Security Strategy have been followed unbendingly ever since. The strategic priority for the US after the Cold War was to prevent the emergence of a new superpower. It would maintain the unchallenged aerial and naval supremacy over the Pacific region that it had enjoyed since 1945. Washington would watch China closely and ‘support, contain or balance’ as need be. The aim was to press Beijing to implement the structural reforms spelled out by the World Bank—to open its markets fully to North Atlantic firms and investors, and guarantee their property rights. Washington hoped that socializing Chinese elites within its university system would help to produce a new layer of Yeltsins and Gorbachevs, open to the idea of replacing the CCP with a more acceptable form of rule.

Beijing has manifested no corresponding ambition to reform America’s domestic system, nor to challenge head-on the new inter-state order.

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<sup>5</sup> Peter Gowan, ‘Neoliberal Cosmopolitanism’, *NLR* 11, Sept–Oct 2001. The 1648 Treaty of Westphalia put an end to Europe’s devastating seventeenth-century wars of religion through a mutual agreement to respect the sovereign’s domestic jurisdiction.

The dual objective of the CCP has been to protect the political-economic model it had built and to upgrade China's status within the American-run international system. In contrast to the hard-boiled prose of US policy documents, public iterations of China's 'grand strategy' have been nebulous, where not negative. 'Maintain a low profile, hide brightness, do not seek leadership, but do some things', in the wisdom attributed to Deng Xiaoping. In practice, China's foreign policy has been wavering. With an eye to pleasing the Americans, it has lurched into aggressive moves against 'fraternal' regimes: the disastrous invasion of Vietnam in 1979; dispatch of Uighurs to support the American-backed Mujahideen in Afghanistan; joining the US in sanctions against North Korea. Belying its occasional fulminations against hegemonism, it cast its UNSC vote in favour of the occupation of Iraq and the bombardment of Libya.

Operating within the new globalized order, Beijing hoped to shield itself from the fate that had befallen the region's 'open markets' during the 1997 Asian crisis, when the IMF descended upon Jakarta, Bangkok and Seoul. Capital controls and a vast hoard of dollar earnings were its first lines of defence—opening up a \$2 trillion trade surplus with the US, on whose consumers the Chinese export model came to depend. At the same time, the CCP leadership aimed to graduate as swiftly as possible from the export model to domestically driven growth, through a gigantic programme of internal investment. From the early 2000s, the physical reconstruction of the country—hundreds of new cities, thousands of miles of super-highways, power plants, viaducts, high-speed trains—sucked in raw materials and inputs from states across the southern hemisphere, for whom China became a major trading partner: Brazil, Argentina, Venezuela, Zambia, Sudan, Australia, Indonesia. In the process, it emerged as a world-beating builder of infrastructure, throwing up highways across Andean mountainsides and bridges between Indian Ocean islands, the contracts eased by cheap loans. The new China shone a bright light on the limits of US power, the zones that structural adjustment left undeveloped, the countries punished at Washington's whim.

## 3

The financial crisis brought about a watershed in US–China relations. A good part of Beijing's dollar reserves had been confidently parked in Fanny Mae and Freddie Mac. The discovery that they were

now disappearing in the credit meltdown came as a shock. ‘When we were elated about the rapid growth in foreign reserves, China had unconsciously fallen into a “dollar trap”,’ one expert put it.<sup>6</sup> Washington took the mortgage-makers into its conservatorship. But this was only one fire to put out. Far more dangerous was the risk to the Atlantic banking system as a whole. The Federal Reserve set in place semi-covert currency swap-lines with the central banks involved. Russia and China were excluded.

For Washington, the biggest geo-political shock of 2009 came from Japan, where the opposition Democratic Party won a landslide victory. Its leader, Hatoyama Yukio, announced that the failure of the Iraq War and the Wall Street crash showed that the era of US-led globalization was coming to an end, and welcomed the coming age of multipolarity. Japan now recognized that the East Asian region was its basic sphere of being. It should aspire to regional currency integration—with China—as a natural extension of economic growth, with a new security framework to match. It demanded that the US shift from its enormous military and naval base at Okinawa, the southern island closer to Fujian than to Tokyo, commanding the Western Pacific and East and South China Seas. The Obama Administration mobilized its forces against the plan. By April 2010, Hatoyama had crumbled. Obama’s ‘pivot to Asia’—60 per cent of American firepower would be based there—was set in train.

Beijing’s reaction to the financial crisis was two-fold. At diplomatic level, the Hu Jintao government resolved to ‘diversify’ its foreign policy. While Washington was still ‘the key of the keys’, ‘surrounding areas are the first priority, developing countries are the foundation, multilateral forums are the important stage’. Meanwhile, Beijing combined an epic stimulus package with an instruction to banks to double their lending targets, the overall effect estimated at nearly 20 per cent of GDP. The central authorities specified sectors where this should be spent by regional and lower-level governments—health, education, low-income housing, digital R&D, environmental protection and so on—though much found its way into misallocation, speculative bubbles and murky loans.

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<sup>6</sup> Yu Yongding, director of CASS Institute of World Economics and Politics, speaking in 2011. Cited in Jonathan Kirshner, *American Power after the Financial Crisis*, Ithaca 2014, p. 115.

In the short term growth was restored through a sharp tilt towards the SOEs and state-protected financial sector that the World Bank deplored, behind the protection of reinforced capital controls. Growing internal debts, rolled over between one state body and another, were all the more reason for China not to open its markets any further to Atlantic capital. A slowing economy and simmering popular discontent strengthened the rationale for a political clampdown. As overcapacity built up in the domestic construction sector, the Xi Jinping government gave strategic form to the project of winning contracts abroad. Announced in 2013, the Belt and Road Initiative would spread westward across Eurasia and down to Singapore, linking ports from Hambantota to Gwadar and Djibouti along the continent's southern oceans. Loans and invoices could be arranged outside the dollar system. At the same time, American observers began to sound the alarm about Chinese advances in digital technology, facial recognition and artificial intelligence, fed by the data streams from its vast online population.

## 4

On one view, the PRC has been a classic example of uneven capitalist growth, driving the emergence of a new great power that was bound to cause frictions for the existing partition of the earth. But in 1914, the European great powers were so evenly matched in military and economic strength that they could fight each other into the ground for four years before one side prevailed. Today, the American imperium is so vast, so overweening in its demands, that any fast-rising power must immediately grate against it. Yet its military strength makes its overthrow impossible. Either submission or the impasse of a long, jolting stand-off must result.

The Trump Administration has coarsened the tone of US relations with China. But Washington's policy shift from 'support' to 'balance and contain' was already under way under Obama. The rising tensions between the two are, once again, asymmetrically determined, though it remains to be seen whether Xi will prove more belligerent than his predecessors. But such is the interdependency between them that many of Washington's weapons may prove double-edged. Trade has increased even as tensions have risen. Trump's tariff war already threatens to hurt

domestic constituencies in the US with electoral and political weight—farmers, bankers, aerospace and machine-tools companies—whereas the political system in the PRC can more easily batten down domestic dissatisfaction at belt-tightening generated by foreign blockades. The Federal Reserve could whisk investment capital out of China by raising interest rates, but that would plunge the US and the rest of the world back into recession. Financial sanctions, of the sort honed against Iran and Russia—and now being tested out on Huawei chief executives—have no blowback effects at home but put a strain on allies. Even Germany is resisting the latest tactics against Tehran. Sabre-rattling in the Taiwan Straits or South China Sea would rally the Chinese population behind Xi, while alarming Wall Street. American foreign policy on its present course is driving Russia, China and Iran into a *de facto* alliance.

But China's options are even more constrained. It cannot afford to dump its dollars and lacks any equivalent of America's rich-state alliance system. What it can do is to avail itself of the traditional weapon of the weak—to agree, but then do nothing. That makes the greatest likelihood a concertina pattern of drawn-out attrition—heightened periods of pressure alternating with détente, summit-level agreements interspersed with alarms and shadow boxing, sudden crises over spy planes, interventions to fan or quell revolts. The flashpoints are many.

## 5

Yet the medium-term direction of the Chinese state, the largest in the world, remains hard to read. This is principally because the character of the state itself, and the economy over which it presides, are both so opaque. In this number of *NLR* we publish three contrasting perspectives on the relations between economy and state in China. In 'The CPC and the Ancien Régime', Peter Nolan sets out the conception of the role of market and of officialdom that informs the Xi Jinping regime's approach, drawing on the ideological resources of Confucianism. In this view, state regulation, with the CCP at its core, is essential for shaping the market to serve the population's needs. Christopher Connery's 'Ronald Coase in Beijing' tracks the reform era in the footsteps of the Chicago economist's *How China Became Capitalist* to discover instead a peculiarly Chinese version of state-enabled neo-liberal culture taking root. Finally

Victor Shih, in discussion with Robert Brenner, offers a unified analysis of the role of the regime as steward of China's export-led rise, through to its present attempts to steer the debt-laden economy between the Scylla of recession and the Charybdis of capital flight.

Questions could be asked of each of them. Nolan: how close is the fit between Confucian political economy and actually existing state practice? Connery: does the sinified brand of neoliberalism that Coase applauded exhaust Chinese realities? Shih: what are the politics of the economic dilemmas with which the CCP is wrestling—what contending forces are in play, inside and outside the Party? As far as US–China tensions are concerned, each perspective has a different implication. Although, as he points out, the outcome is still an open question, the logical import of Nolan's reading would be that the fundamental alterity of the PRC's economic system will make these clashes inescapable. In Connery's case, the US will have nothing to worry about as far as capitalism is concerned, though it's right to be apprehensive on the score of economic primacy. Shih's account would imply that the very—debt-dependent—alterity of the Chinese system is the reason why the US has, in truth, little to worry about in terms of either systemic challenge or economic competition. Three different logics, then, to inform thinking on the axes of their future relations.