

## A tragedy in the making as the US confronts China

by David P. Goldman via anton - Asia Times *Tuesday, Jun 26 2018, 10:17am*

international / prose / post

Chinese officials are warning that they are prepared not only for trade war, but for financial, diplomatic and limited military confrontation with the United States, in response to American demands for fundamental changes in Chinese economic policy.



The dispute between the world's two largest economies has moved beyond narrow issues of trade or specific areas of prospective conflict: Washington now views China's technologically-focused economic strategy as a challenge to America's world position, and China views Washington's demands on China as the equivalent of a "new Opium War," as a senior Chinese official told Asia Times last week.

This is not a drill. Nor is the result of "Art of the Deal" negotiating on the part of the Trump Administration. Since 2015, China has sought to shift its economy from the smokestack-and-export model introduced in 1978 by Deng Xiaoping to a high-tech, consumer-focused model dubbed "Made in China 2025," supported by \$1 trillion in infrastructure investments to ensure Chinese preeminence in the Eurasian continent. The United States ignored China's high-tech shift for years; now it has discovered that China threatens to leapfrog the United States in critical areas of high technology, military as well as civilian.

What for China is the new normal of economic life is viewed in Washington now as an existential threat. That was the nub of White House adviser Peter Navarro's June 19 report, entitled "How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World." China interprets American action to shut down the operations of its second-largest telecom equipment company, ZTE, as proof that Washington does not propose to negotiate a *modus vivendi* but rather inflict damage on the Chinese economy.

A radical disparity of strategic estimates is at work. The United States still believes it is powerful enough to bully China into submission, while the Chinese believe they are strong enough to come out on top in a confrontation with the United States.

Ominously, a senior Chinese official, Trade Ministry economist Mei Xinyu, warned last week that China will pursue war on many fronts in response to American protectionism. In an interview with Germany's leading news organization *Der Spiegel*, Dr. Mei was asked which measure China will take against the United States. He said, "China has responded to the first installment of US punitive tariffs by imposing countervailing duties in comparable product categories. Should the US now impose tariffs on imports of another 200 billion, China will extend the conflict to other fields," quoting Mao Zedong's dictum, "You fight your war your way, and I will fight mine my way."

Chinese countermeasures might include an attack on US financial markets, Mei added: "The US and China are the largest economies and largest financial markets in the world. But in the US, the financial sector plays a much bigger role than in China. In that sense, the US is vulnerable here, so of course, that's an option." Der Spiegel asked, "Wouldn't China hurt itself if it sold its dollar reserves?"

The value of the dollar would fall, but China's assets would fall as well." The Chinese official responded, "In good times, our way of competing is to try to grow faster than the US. But when times get bad, it's about who loses the most. That would be a financial war - and what such a financial war between the two largest economies looks like is probably beyond our imagination."

Dr. Mei added, "When we had our first trade conflicts with the US in the 1990s, the US economy was 15 times bigger than the Chinese. Today it is 1.5 times bigger. Not that we wanted a trade war back then - we could not afford it. Today we can afford it. The export share of our gross domestic product has dropped to below 20 percent since the peak of the early 1990s. At the same time, the share of domestic consumption has grown strongly. This strengthens our position."

Foreigners presently own about a third of America's total public debt of more than \$20 trillion. China owns about \$1.1 trillion of this. The trouble is that the United States Treasury will need to borrow \$1 trillion a year for the indefinite future. The US Federal Reserve has ended its program of public bond buying, and the US savings rate is extremely low; domestic buyers cannot absorb the \$1 trillion annual requirement, and the US will have to borrow from foreigners. That is a long-term strategic vulnerability of which China is keenly aware, and which the United States appears not to have considered.

That is war talk for public consumption, with a degree of vehemence that no Chinese government spokesman has employed in the past. Speaking on background, a senior Chinese official told Asia Times that Beijing now believes that Trump has "betrayed" China. Beijing had sought an accommodation with the United States, offering to increase its imports of US goods and reduce the \$375 billion bilateral trade deficit. US officials had discussed a plan in which China would invest in US liquefied natural gas facilities and accept long-term contracts to buy US gas, for an estimated \$50 billion increase in US export to China.

But Beijing has concluded that Washington does not want specific trade concessions, the official continued, but rather wants China to abandon its economic policy of subsidizing nascent industries and acquiring advanced technology - in effect giving up its plans for economic development, in the Chinese perception.

A critical turning point was the Commerce Department's ban on sales of American chips to power ZTE's mobile handsets, sourced mainly from the American semiconductor giant Qualcomm. ZTE had violated sanctions on sales of high technology to Iran and North Korea. China's President Xi Jinping intervened personally with President Trump to rescind the decision. Trump's Commerce Department negotiated an unprecedented \$1.9 billion fine as well as direct American controls over ZTE management, only to have the US Senate vote to reinstate the crippling ban on chip purchases. Trump's Republican opponents united with Senate Democrats to embarrass the US President. The Chinese official commented, "That is Trump's problem, not our problem."

In Congressional testimony last week, the Pentagon identified China's ten-year-old "Thousand Talents" program for acquiring high-tech skills as a strategic threat to the United States. A prepared statement by the Defense Department warned:

“The Department of Defense is facing an unprecedented threat to its technological and industrial base. Continued globalization and our open society, both in academia and business, has offered China and others access to the same technology and information that is critical to the success of our future warfighting capabilities. China is making significant and targeted investments in the same technologies of interest to the Department. These include artificial intelligence, autonomous vehicles, cybersecurity, and unmanned aerial vehicle (UAV) technology. China has made it a national goal to acquire foreign technologies to not only advance its economy, but also to use these technologies to advance its military capabilities, and it is doing so through both licit and illicit means.”

Michael Griffin, Undersecretary of Defense for Research and Engineering, warned that America’s “open society” has “offered China and others access to the same technology and information that is crucial to the success of our future war-fighting capabilities.”

America is about to become a great deal less open. Foreign and especially Chinese applications to American university graduate programs in physics and other quantitative fields have fallen by a quarter to a half for next year’s fall semester, as foreign students feel a chill wind from Washington. Some universities fear that they will not be able to maintain their existing programs in the absence of foreign applicants, who comprise in the case of computer science four-fifths of all doctoral students.

At the fringes of the US administration, there is talk of expelling Chinese nationals from the United States. The prominent conservative pundit Victor Davis Hanson asked in an interview last week, “why do we have a million Chinese nationals in the United States? Why are Chinese nationals buying property all over? If you’re a member of the Chinese Communist Party, maybe you can’t come to the United States. Maybe you can’t buy property.” Dr. Hanson is a personal friend of mine, but this is crazy talk.

About 350,000 Chinese students now study at American universities, and they dominate tech disciplines. Only 7% of American students major in engineering vs. a third in China. The United States cannot win a technology race with China without Chinese students. That is not a new predicament; it recalls the Second World War and the Cold War, both of which were won by Germans, that is, the German scientists working for the Allies rather than the ones working for Hitler. Germany had the preponderance of scientific talent in the 1930s, and the US won by recruiting it.

We won because “our German scientists were better than their German scientists,” as Churchill aide Sir Ian Jacob quipped – starting with Albert Einstein, but also the entire team that built the atomic bomb including Robert Oppenheimer, Edward Teller, Hans Bethe, and Eugene Wigner). Working for the US, Werner von Braun and his German team overcame the Russians’ early lead in space exploration. Historian Andrew Roberts argued in his magisterial *The Storm of War* that Allied recruitment of dissident Germans was indispensable to Allied victory.

I told the late Tom Wolfe that his bestseller *The Right Stuff* was the most pernicious book published in America during my lifetime, because it misled Americans into believing that a bunch of tobacco-chewing astronauts won the space race, rather than the rocket scientists that the US inherited from Hitler. Today the preponderance of scientific talent has shifted to Asia; even the most aggressive efforts to persuade Americans to apply themselves to technology would be too little and too late.

Some years ago I proposed to the US government a massive covert program to identify and recruit the cream of Chinese talent both at American and Chinese universities, the creative few whose

initiative and inventiveness would tip the balance of power for future innovations. There are numberless Chinese scientists who would like to live in a country where the government doesn't dictate how many children they can have, where they can express opinions without worrying about the Ministry of State Security, and where the food isn't saturated with heavy metals.

The most pressing threat to American security does not come from Chinese students or researchers but from the thousands of Google engineers who signed a petition rejecting cooperation with the US Defense Department, followed by a similar movement among Amazon employees. If you want American patriots who will devote their talents to building American strategic superiority, you may have to look for them among foreigners who are weary of the oppressiveness of their own governments.

Instead, the tone of American policy towards individual Chinese has become rancorous, even xenophobic. That is ugly, and it also is self-defeating. Economic supremacy and, in the final reckoning, military supremacy depend on the preponderance of talent. The United States appears to suffer from an inflated opinion of its own standing in that regard, and is initiating a confrontation with China that both sides will lose - but the United States is likely to lose more.

For what it is worth, I will offer some unsolicited advice to the Trump Administration. As an American, I want China to be prosperous, secure, and well behind the United States.

First, do what the Eisenhower administration did in 1957 - shift federal resources toward science and technology and starve the universities of all other forms of aid, including student loans.

Second, restore federal R&D spending to the levels of the Reagan years (when we spent 1.3% of GDP on basic R&D vs. about 0.7% now).

Third, begin Manhattan Project-style programs under the aegis of the Defense Department to force breakthroughs in critical technologies: quantum computing, semiconductor manufacturing, drone technology, artificial intelligence, missile defense (including space-based systems), and anti-submarine warfare to start.

Fourth, as I noted above. organize a brain drain out of China: Identify and recruit their most inventive and creative tech people.

Fifth, get together with the Japanese and organize an alternative to China's One Belt, One Road program. The fulcrum of this program is the 600 million people of Southeast Asia, most of whom would welcome an alternative to Chinese dominance.

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