



INADI

Instituto para el Desarrollo Industrial
y la Transformación Digital A.C.

La voz
del INADI Núm. 15



The Reality of China*

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Having emerged triumphant at the end of the Cold War in 1991, America and the free world countries experienced a wave of euphoria. Books like Francis Fukuyama's *The End of History* and New York Times columnist Tom Friedman's *The World is Flat* preached that the conquest of the world by democracy and free market capitalism was irresistible and thus inevitable.

To be sure, China continued to be ruled by the Chinese Communist Party and thus continued to call itself a communist country. But the leader of the party was the pragmatic Deng Xiao Ping who famously commented that "it mattered not whether a cat was black or white so long as it caught mice." True, he had ordered the massacre of some 10,000 students¹ demonstrating for democracy in Beijing's Tiananmen Square and throughout the country on June 4-5, 1989. But he was quick to assure global leaders that that was just domestic politics and should in no way deter them from taking advantage of its ultra-low wages by using China as a production location from which to export to world markets as well as to sell into a growing China market.

One of the first to do so was Robert Galvin, son of the founder and CEO and Chairman of Motorola. He once told me that in the wake of the Tiananmen Square incident he saw a great opportunity for his company. He explained that the Chinese desperately needed investment and technology and that because of the bad press they had been getting they would be willing to make significant concessions to attract Motorola. He hurried to Beijing where he offered to put Motorola factories in China on the condition that Motorola retain one hundred percent ownership of the business. Standard Chinese policy had been to require joint ventures with Chinese partners, but, as he had anticipated, Deng and company made an exception for Galvin and Motorola hastened to begin off-shoring its production from the United States to China. Other U.S. and global CEOs soon followed this lead.

Nor was there any pushback from the U.S. or other free world governments. Indeed, quite the opposite was the case. President William Clinton opined that "globalization is Americanization."² Regarding the then rapidly developing Internet and China's possible censorship of it, Clinton scoffed that "that would be like trying to nail Jell-O to the wall." (In the *Jaws of the Dragon*, pp 190, Eamonn Fingleton, St.Martin's Press 2008). In this he was supported by the U.S. Trade Representative Charlene Barshefsky who said it was a "no brainer" that the Internet would lead to China's liberalization. (*Jaws of Dragon* pp 190). She continued that "the government is not going

* Este ensayo formó parte del libro "El T-MEC en el marco de la confrontación China-Estados Unidos", que fue publicado en 2023.

¹ U.S. Embassy (Beijing) cable 176535, June 4, 1989, Wikileaks.

² Statement by President Clinton to members of The Presidential Commission on Trade and Investment in the Asia- Pacific Region. September 6, 1997.

to be able to control content. It is not going to be able to control access. The Net is going to have the single most profound change on China, engendering tremendous pressure on the Chinese leadership.” (Dragon 190).

In 2001, the U.S. government backed the entrance of China as a new member of the World Trade Organization (WTO). A key argument made in favor of this move was that “the greatest potential danger to the world would not be a rapidly developing China but rather an economically failing China.” This comment was often followed by another coined by former Deputy Secretary of State Robert Zoellick who asserted that we (the United States and its allies and friends around the world) want China to be “a responsible stakeholder in the global system.”

I. Self Censor

I was reminded of this when my chief research assistant, Joel Fischl, was tardy in responding to my request for information during his tour of southern China in the spring of 2019. Said he when he finally replied by e mail from Manila: “I wanted to write a version of this email to you while I was in China, but I was afraid to! I self- censored myself for fear of being detained. While the likelihood of that happening was probably low, it was high enough in my considered opinion to prevent me from doing it.”

A Mandarin speaker with seventeen years of experience living in China and twenty as an officer of the United States Foreign Commercial Service, Fischl added that the Chinese Communist Party (CCP) has succeeded in teaching a fifth of humanity (1.4 billion Chinese people) an alternate version of real world history, in creating an alternate internet, and, indeed, in establishing a complete alternate to the reality seen by the rest of the world. “They (the Chinese) can only get the ‘facts’ that are approved by the CCP. Few, if any young people have any knowledge of the Tiananmen Square incident. No one is aware of the concentration camps established for the Muslim Uigher people in Xinjiang province or of the fact that the CCP has virtually succeeded in wiping out the entire Tibetan culture. The most frightening thing is their ability to spread and sell their authoritarian model of government not just to other dictators and nasty regimes, but to countries such as Thailand and Ecuador who like the idea of security cameras, facial recognition software etc.to maintain political power. China –slowly but surely– is seriously reordering the world in its own image.”

II. The Experience

When China joined the WTO in December 2001, it was an authoritarian state with an \$80 billion surplus (technically current account) in trade with the United States and a \$1.3 trillion economy that was a bit more than a tenth of the U.S. GDP of \$10.5 trillion. The United States was the world leader in a wide variety of high technology industries like telecommunications, avionics, and semiconductors while China was concentrating on producing shoes, textiles, steel, and concrete. Top U.S. officials such as U.S. Trade Representative Barshefsky and Commerce Secretary Mickey Kantor told the U.S. Congress that admitting China to the WTO would cut the U.S. trade deficit in half because China's high tariffs would be greatly reduced while the already low U.S. tariffs wouldn't change. In other words, it seemed China was making all the concessions. This, they said, would create millions of new, high paying U.S. jobs.

Over the next twenty years that forecast proved embarrassingly false. The U.S. trade deficit with China hit nearly \$400 billion in 2018 and was accompanied by the loss of five million jobs³. Indicative of what was happening was the example of General Electric's avionics division. In November 2009, GE announced it was merging this division into a joint venture with the Chinese state- owned Aviation Industry Corp. (AVIC) and moving operations to a headquarters in Shanghai. At first blush, this seemed to be a strange decision on two counts. First, avionics are not a labor- intensive product and China had no previous avionics production experience. This was the kind of product economists said should be made in capital and technology rich countries like the United States rather than in countries with lots of low wage workers like China because very few worker hours were necessary to make avionics products. Second, GE CEO and Chairman Jeff Immelt was also at that time Chairman of President Obama's Commission on Jobs and Competitiveness, and it seemed odd that a person in that capacity would want overtly to be sending high tech, high paying jobs out of the United States.

But my own investigation at the time revealed the method to the madness. It was quite simple. In the eight years since 2001, China's GDP had quadrupled. Demand for air travel was soaring and China had decided to develop its own aircraft industry. The Chinese government and the CCP had made it clear to Immelt that he'd have a better chance of selling avionics in China if GE made them in China. This was, of course, contrary to the dominant neo-classical free trade theory to the rules of the WTO, and to the expectations of Anglo-American economists, journalists, and trade officials,

³ In the Jaws of the Dragon: Eamonn Fingleton, St. Martin's Press 2008. p. 190.

but it was easily understood by those who had watched Japan, Korea, Taiwan, and Singapore get rich by dint of the application of industrial policies that protected and subsidized investment aimed at developing indigenous capacity in industries characterized by economies of scale and rapid technological advances in the context of potentially large export markets.

In June 2012, China seized Scarborough Shoal which lies in the South China Sea about 137 miles from the Philippines which claims that the reefs making up the Shoal are long time Philippine fishing grounds and rightfully lie within Philippine territorial waters⁴. In lieu of any international response, the giant dredger Tianjing (owned by China State Shipbuilding Industry Corporation) was sent to Cuarteron Reef in September 2013. From there it visited Fiery Cross reef. When none of these visits elicited any U.S. reaction, it began China's first artificial island-building project at Johnson South Reef later in the fall of 2013. By the time China President Xi Jinping visited President Barack Obama in September 2015, China had built seven artificial islands in the South China Sea complete with several airstrips suggesting possible military use. However, in response to Obama's direct request, Xi promised that China would not militarize the Spratly islands. Rather, he said, they would only be used for civilian and disaster relief purposes. By mid-December 2016, however, military units were in fact deployed in the islands and China's Ministry of Defense was saying that such deployment was perfectly legitimate. (The Diplomat, Dec. 16, 2016 It's Official: Xi breaks non-militarization promise in Spratlys).

In the 1980s, the United States partnered with Israel to develop a new fighter plane based on the F-16. As costs rose, however, Washington abandoned the project, leaving Israel's "Lavi" fighter unfinished. Some years later Israel sold the plans for the plane to China which introduced what it calls its J-10. The J-10 looks amazingly like the F-16. In YEAR, China's J-20 appeared. It was a dead ringer for the U.S. F-22 because its design had been stolen by a Chinese national named Su Bin who subsequently served 46 months in federal prison for the theft. Then in YEAR, China's J-31 appeared bearing a strong likeness to the U.S. F-35 because Su Bin had also been at work on stealing F-35 data. (Popular Mechanics, Counterfeit Airforce, Sept. 19, 2018) Of course, beyond Su Bin, cyber hacking has also been a major source of Chinese theft not only of plans for military equipment but also of data on federal personnel and much else.

⁴ Rock Solid: How Philippines Won its Case Against China for sovereignty over Scarborough Shoal. Marites Danguilan Vitug: University of Manila Press, 2018.

III. The Chinese Dream

As articulated by Xi, the Chinese dream is not to become a “responsible stakeholder” in the so called “global, rules based system” created and sustained by the United States in the wake of World War II and the Cold War. Rather, it is to return to the grandeur of past Chinese dynasties. In this dream, China is the heir of a great 5,000 year civilization that was the supreme world leader militarily, culturally, technologically, administratively, and artistically until the mid-19th century when the Opium wars initiated “a hundred years of humiliation.” In Mandarin, the written characters for “China” literally mean Middle Kingdom. And the dream evokes the notion of again becoming the globally dominant country surrounded by inferior vassal states and barbarians from whom tribute may be exacted. This must, of course, eventually mean displacing the United States as the world’s leading power, an aim first enunciated by Mao Zedong and strongly implied by Deng Xiao Ping’s injunction to “hide your light and bide your time.”

But the United States is too powerful to be easily or directly displaced. It must be approached indirectly.

IV. Divide and Control

At 4 p.m. on a warm January 2019 afternoon, I met with an old friend who had long been a top official of the Singapore government. Over drinks, we discussed China’s growing power and influence in Asia and what the response should be from the countries of the region as well as from the United States.

A long -committed ally and friend of America, my friend explained that he and most of Singapore’s leaders want the United States to maintain a strong military presence in the East China Sea, South Pacific, and Indian Oceans as well as in the South China Sea. In addition, he wished that the United States would find a way to become more economically invested and integrated into the region. He noted that Singapore makes its harbors and shipyards available for visits and re-provisioning and repairs to the U.S. Navy and supports U.S. efforts to maintain freedom of navigation for all shipping in the South China Sea in opposition to Chinese claims of soul sovereignty.

“You know we love you,” he said. “But you must also understand that doing so is becoming more and more difficult. Look at our economy. We live by exporting. Our single biggest export is tourism, and the tourists are mostly Chinese from mainland China. Our second biggest export is education for students who come from all over the world here to Singapore to earn their university and advanced degrees. Most of these students are Chinese. Our third largest export is advanced electronics and technology gear, and the

biggest market for these products is China. Thus, you can see that we, as a country, are heavily dependent on China.

In the case of most countries, that would not pose a serious consideration, but China is not like most countries. We know the Chinese government under the direction of the Chinese Communist Party (CCP) can weaponize its imports. Do you remember that Lotte's (a Korean conglomerate) sales to China evaporated overnight when land owned by Lotte in Korea was used upon which to build the U.S. Thaad anti-missile battery? We know that if Beijing were to become too upset with us, the flows of Chinese tourists and students to Singapore could similarly dry up overnight. And we'd be in a first-class pickle. So that is why we don't want to be forced to choose between the U.S. and China. Of course, in our hearts we favor the United States. But for the sake of our pocketbooks and our stomachs, we must be careful about how we handle China."

From Singapore, I flew to Sydney, Australia where I met with the head of one of Australia's major banking firms. "Look", said he. "We (Australians) were with the Brits in World War I (especially at Gallipoli where Australia suffered more than 26,000 casualties), and with your lot in World War II as well as in Korea, Viet Nam, Afghanistan, and Iraq. But, if there is any dust-up in over Taiwan, don't look for us on the beach."

He preempted the obvious "why not" question by explaining that: "our (Australia's) biggest exports are iron ore and coal, and the best part of that goes to China. Our third largest export is education, and the students mostly come from China. Our fourth biggest export is tourism, and the tourists are mostly Chinese. So, you can, perhaps, see why we are anxious not to upset China."

Nor does that concern affect only businessmen and government officials. Clive Hamilton is a professor at Charles Sturt University in Canberra. In April, 2008, as the Olympic torch for the games to be held later that year in Beijing was passing the lawns outside Parliament House, Hamilton saw large numbers of Chinese students mob and abuse a small group of pro-Tibet protestors standing along the way. Eight years later when a political corruption case demonstrated that a handful of rich Chinese had become the largest donors to Australia's major political parties, Hamilton felt that China and Australian democracy were colliding and decided to write a book on the topic. Initially, his normal publisher, Allen & Unwin, was enthusiastic and contracted with Hamilton to be his publisher for the work. But, a year later as the revised manuscript was about to be sent for typesetting, Allen & Unwin told Hamilton it were canceling the contract because of fear of retaliation by Beijing or by people in Australia acting on behalf of the Chinese Communist Party. Fortunately for Hamilton, publisher Hardie Grant had more stomach and took over the publication task. (Clive Hamilton, *Silent Invasion*, preface x, Hardie Grant, Melbourne, 2018).

The book, *Silent Invasion*, dramatically reveals a Chinese Communist Party strategy (and of the extent to which it has so far succeeded) to penetrate Australia and to de-couple it from its ally, the United States. This plan was revealed to the staff of the Chinese embassy in Canberra as early as February, 2005. The idea was to include Australia in China's overall periphery and initially secure it as a reliable and safe supply base for China. Longer term, the idea was to "drive a wedge into the America-Australia alliance" and to achieve "comprehensive influence over Australia economically, politically, culturally, in all ways." Eventually, China would use economic tools to force Australia into making concessions on a wide range of economic, military, and human rights matters. This is all known to be true because Chen Yonglin was at the staff meeting and read the documents. At the time, Chen was First Secretary for political affairs at the Chinese consulate in Sydney. Four months later, he defected from the Chinese consulate and sought political asylum in Australia. It was at this time that he revealed what China had in mind for his adopted country.

As Chen says: "Essentially, in accordance with their fixed strategic plans, the Communist Party of China had begun a structured effort to infiltrate Australia and New Zealand in a systematic way because they were seen as the weak link of the western camp." (*Silent Invasion* – p. 2-3). Chen explained further that the idea was to test methods of infiltration and subversion in a country characterized by openness, a relatively small population containing a large number of immigrants from China, and a commitment to multi-culturalism would weaken and blind its capacity to recognize and defend against Communist Chinese penetration. (*Silent Invasion* p. 3).

China's One Belt One Road (OBOR) project is an inspired strategic tool in this regard. It aims to use the \$3 trillion dollars of reserves accumulated by China's trade surpluses (mainly with the United States) to fund a gigantic global infra-structure project that will link all the major parts of Asia, Europe, Africa, and even of Latin and South America to China. Chinese state owned companies already own and/or operate a wide array of ports, electricity generating operations, pipelines, and telecommunications infrastructure around the globe. The Greek port of Piraeus, the Israeli port of Haifa, the Australian port of Darwin, the major electricity generator in the Philippines, a host of properties in Panama bordering the Panama Canal, and many others are included.

Consider how this is already affecting the European Union (EU). Regarding its formal position on key global issues, the EU requires unanimity among its members. Recently, key member states such as Germany and France wanted the EU to make a statement in the UN criticizing China's human rights abuses. But to issue such statements the EU requires unanimous agreement of its member states. Greece, whose port of Piraeus is owned

by a Chinese state- owned company, demurred, and the EU failed to make the statement. (Radio Free Europe, Sept. 12, 2018, Juncker wants EU to drop Unanimity) Or, consider Mercedes Benz. It issued an apology to the Chinese people for including a quote from the Dalai Lama in a post on Instagram for its cars. (Reuters Mercedes apologizes to Chinese for quoting Dalai Lama, Feb. 6, 2018).

V. Wrong Bet

On March 1, 2018, the widening gap between the assumption that globalization would liberalize China and the reality that it was, in fact, not doing so led to a cover story The Economist magazine (long a staunch supporter of liberalization via globalization) entitled: How The West Got China Wrong. This was followed in April 2018 by a similar article in Foreign Affairs by former Assistant Secretary of State Kurt Campbell, also formerly a pillar of liberalization through trade establishment. (Foreign Affairs; The China Reckoning, March/April 2018).

In the wake of these articles, the foundations of the free world foreign policy establishment have been shaken. What was holy writ a year or two ago is no longer being worshiped, or at least not as devoutly.

But, as of this moment, no complete and coherent new strategy has evolved.



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NOVIEMBRE 2024