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## A World Dividing: The International Implications of the Sino-American Rift



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- The U.S.–China trade war is reshaping global politics, creating new patterns of economic integration and alignment
- Rather than enhancing manufacturing or investment in the United States, the Trump administration’s actions are expanding China’s economic influence and spurring commercial activity in other countries
- By announcing a new era of “great power competition,” the United States is committing a mistake. It should instead focus on solving planetwide problems like climate change and sustaining economic and technological progress. All such challenges require some measure of cooperation with China

The Trump administration has declared economic war on China. The United States has raised taxes on Chinese imports to levels not seen since the Smoot–Hawley tariffs of the Great Depression. [Over the course of this year, Chinese imports of American goods have decreased by 26.4 percent, while China’s exports to the United States are down 10.7 percent.](#) Washington has embargoed exports to China of a constantly expanding list of high-tech manufactures. It seeks to block Chinese telecommunications companies from third-country markets. The United States has mounted a vigorous campaign to persuade other countries to reject Chinese investments in their infrastructure, notably in the case of 5G telecommunications networks.

Washington has also gone out of its way to make it clear that Chinese investment in the United States is no longer welcome. [As a result, the flow of Chinese capital to the U.S. is now a fraction of new U.S. investment in China, having fallen 49 percent year-on-year in the first half of 2019 alone.](#) The U.S. government is exploring ways to prohibit American investment — including portfolio investment — in China. Despite the American origins of the World Trade Organization and other multilateral bodies, and their role in reinforcing U.S. economic primacy, the Trump administration now rejects these institutions as constraints on its “America First” policies toward China and a lengthening list of other countries. This is a major

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blow to the so-called “rules-bound international order” that the United States spent the last century promoting. It will have profound implications for the entire world.

### **The Dynamics of Confrontation**

How did Sino–American relations descend to this point? Beijing remains committed to multilateralism and strongly supportive of institutions like the WTO, IMF, World Bank, and regional development banks. Even before the Trump administration’s assault on them, these pillars of the rules-bound order had been weakened, and to some extent incapacitated, by Washington’s obstruction of reforms in their governance and increases in their capital and lending capacity.

Beijing responded to the inability of U.S.–dominated institutions to meet the demands for their services by working with other countries to create and fund parallel international financial institutions. These both supplement and complement legacy bodies. Examples include the Chinese-sponsored Asian Infrastructure Investment Bank, the New Development Bank, and a bewildering variety of funds that offer support to connectivity projects under Beijing’s Belt and Road Initiative. The new banks are staffed by multinational rather than exclusively Chinese executives and operate under essentially the same rules as the organizations they mimic. They complement rather than compete with the institutions the United States sponsored after World War II.

Trump’s redefinition of international trade as a zero-sum national security game has inaugurated an assertively avaricious American approach to economic relations with trading partners. This is accelerating the withdrawal of U.S. participation, and hence the erosion of U.S. primacy, in the governance of international trade and finance. Ironically, it is creating vacuums that draw in China, expanding its role and elevating its status. In response to U.S. policy changes, China has raised tariffs on U.S. goods while lowering them on imports from America’s competitors. It has authorized but not yet implemented a ban on business with U.S. companies hostile to Beijing on national security issues like separatist pressures in Hong Kong, Taiwan, Tibet, and Xinjiang. It has continued imports of U.S. components for high-tech industry to the extent it can, but it has redoubled its drive to eliminate its need for such imports, for which China has been by far the United States’ largest export market.

The current downturn in Sino–American is very unlikely to be reversed. The Trump administration’s coercive strategy, if it can be called that, explicitly assumes that, if subjected to enough pressure, China will capitulate. But so far, “maximum pressure” tactics have fostered recalcitrance and countermeasures rather than accommodation on the part of every country to which they have been applied. Iran and North Korea are other obvious examples.

Maximum pressure unaccompanied by a negotiating process aimed at anything less than humiliating surrender is not, of course, a new approach for the United States. In an earlier era, it goaded Japan into attacking Pearl Harbor. Fortunately, it has not yet elicited a similar response from China, Iran, or North Korea. In the case of China, this is perhaps because, unlike the Japanese Empire, it does not view U.S. pressure tactics as effectively threatening its

existence. China is a lot bigger, more self-confident, and realistic about the consequences of conflict with the United States than Japan ever was. Beijing wants acknowledged influence, not control, in its region. It is open to exploring accommodations with Washington that pre-war Tokyo was not.

But, as in America's confrontation with Japan 80 years ago, China and the United States each see the other as determined not just to deny it primacy in the Indo-Pacific, but to strip it of its influence, expel or constrain its presence, and depress its growth. Beijing believes it is being targeted by an implacably hostile U.S. strategy aimed at undermining Communist Party rule and the legitimacy of the political-economic system that has restored China's wealth and power. This is the mirror image of apprehensions in Washington, where the national security establishment has convinced itself that China is trying to undermine democracy and impose its model of market Leninism on the rest of the world while eroding American power.

Beijing thus sees the United States as an internal threat — a challenge to its domestic order. Washington views China as an external threat — a strategic competitor, an ideological foe, and a revisionist power. Both countries are in the process of reconciling themselves to protracted confrontation based on real and imagined differences. Future generations will have to deal with the consequences of the current Sino-American contention, which is dividing the world into several distinct but overlapping economic, technological, political, and military ecosystems.

What are the implications of such divisions for other countries and the global order? The new antagonism between the United States and China will not reshape the political economy of either country; neither is about to alter an economic model deeply embedded in its history and culture. But this heightened animosity in Sino-U.S. relations will also remodel their economic relations with third countries and institutions of global governance. As the IMF, Organization for Economic Co-operation and Development, and Bank of International Settlements have pointed out, the confrontation will do grave damage to global growth.

### **Consequences for the Economic and Commercial Ecosystems**

In 2018, average U.S. tariffs on Chinese goods were 3 percent. They are now 21 percent and, as things now stand, set to rise even more. Trump's trade wars have already set in motion major changes in the global political economy. They have put on notice the world's multinational corporations, many of which are American in origin and remain U.S.-based, that they must now protect themselves against unheralded, government-imposed interruptions in trade or the sudden imposition of tariffs. This means they must produce or source each component for their products in more than one country — and preferably more than two.

Such diversification poses severe management challenges. It inflicts unbudgeted costs and adds to the complexity of corporate supply chains while reducing their efficiency. But most companies now have no choice. Their profitability depends on leveraging international comparative advantage through supply chains.

As companies relocate operations, they favor countries that enhance their economic potential by lowering tariffs and reducing nontariff barriers, diversifying exports, improving economic structures and dynamism, and strengthening physical and digital infrastructures. Unlike China and many countries in Southeast Asia, the United States is not now doing any of these things. For the most part, it is doing the opposite.

As a result, companies are not relocating production to the United States as the Trump administration intended. Companies that seek to sell in China and other major markets are shifting production to other countries in Asia, Europe, and Latin America with more predictable economic policies than the United States. At the same time, manufacturers and their Chinese partners are moving some operations intended to supply the American market out of China. Almost all such operations are relocating to other emerging markets like Mexico, Southeast Asia, India, and parts of Africa. This trend is accelerating China's outsourcing of its labor-intensive industries and pushing it up the value chain into more capital- and knowledge-intensive production.

Ironically, the Trump administration's economic war on China seems to be stimulating investment and job creation in third countries' industry and agriculture by Chinese companies, Sino-foreign joint ventures, and U.S., Japanese, and European multinational corporations. Perversely, U.S. policies are expanding rather than contracting China's economic sphere of influence.

The new tariffs are not boosting the U.S. manufacturing sector. Erratic policymaking in Washington has created a climate of unpredictability that currently deters all but the most intrepid foreign companies from investing in America. In the first half of this year, foreign direct investment in the United States dropped by more than one-fourth. In China, it was up by 5 percent.

America's newly negative attitude toward multilateral trade agreements has had the perverse effect of setting off a scramble by others to negotiate more of them. The European Union recently reached such agreements with Japan, Vietnam, and Latin America's Mercosur. New regional trade pacts are emerging in Africa and Asia. The Regional Comprehensive Economic Partnership is about to bring East Asian nations together in a huge free-trade area centering on China. Beijing is negotiating tariff reductions with the E.U., Japan, and South Korea. Its Belt and Road Initiative envisages more than 50 additional trade liberalization agreements. These developments promise a steady rise in trade and economic efficiency in a widening arena — one from which the United States has excluded itself.

The Trump administration is meanwhile crippling the WTO by depriving its appeals process of a quorum. In time, this is likely to drive countries that remain devoted to free trade to organize their own collectively sponsored parallel version of the WTO — a body in which the United States cannot block the majority. We are seeing the potential division of the global economy into a number of distinct ecosystems. Each of these can and will evolve separately.

A series of coalitions of nominally equal sovereign states with low-tariff economies that seek the continued liberalization of the terms of international trade is emerging. Many of these coalitions will include China and could even be led by it. The United States will be isolated from these coalitions. In the absence of the WTO or any variant of it, trade and investment disputes involving Americans and the inhabitants of other protectionist societies will be dealt with as they were in the 1930s. That is, they will be decided by bilateral trials of raw power, in which the big will bully the small and the rich will exact concessions from the poor. Uncompromising U.S. unilateralism in the form of tariffs, quotas, and sanctions is “weaponizing” the terms of trade and investment to strong-arm other economies.

Over time, the United States could be severely damaged by causing others to seek alternatives to the U.S. dollar. The now-crumbling “Pax Americana” made the dollar the most widely accepted international means of exchange. Most unilateral American sanctions at present rely on U.S. sovereignty over the dollar to prohibit transactions with countries the United States wants to pressure. Many such sanctions also punish countries friendly to the United States if they deal with those Washington has targeted.

As these sorts of sanctions have proliferated, international resentment of them has grown. China and other countries are exploring the creation of parallel banking systems that are intended to bypass the financial chokepoints that enforce dollar-based sanctions, like the Society for Worldwide Interbank Financial Telecommunications, or SWIFT. China, the world leader in digital transactions, is exploring issuing an international block-chain currency, which would facilitate the digital settlement of international transactions without reference to the dollar. As countries work together to evade U.S. control of their international transactions, the dollar could lose its status as the universal medium of trade settlement. The consequences for the United States would be severe.

Faced with a choice between a system that approximates the orderly predictability of WTO-like procedures and one based on the principle that might makes right, it’s a safe bet that most countries will opt for order with due process. This was what made the decades-long Pax Americana a success. It is also why any country practicing lawless unilateralism or bilateralism will find itself in a shrinking minority.

In the new era inaugurated by Trump’s trade wars, rising countries with export-based growth strategies will turn less to the American market than to the more open economies of China, the E.U., Japan, and — if they further liberalize their approaches to trade — India and Brazil. Even Canada and Mexico remain committed to liberalizing their terms of trade with countries outside NAFTA or its successor. “America First” looks more and more like “America sidelined” or “America alone.”

### **Consequences for the Technological Ecosystem**

The supply chains characteristic of post-Cold War globalization were made possible by the worldwide diffusion of technology, much of it originally American. But the United States has begun to treat trade and investment as national security issues rather than as factors in

national prosperity and wellbeing. It is subjecting ever more technology and knowhow to export controls. The purpose, as in the Cold War, is to prevent technology from falling into the hands of a military adversary. China has been designated as such.

The Soviet Union had an economic ecosystem separate from that of the capitalist world. But China, by contrast, is fully integrated into global capitalism. At present, one-fourth of the world's scientists, technicians, engineers, and mathematicians are Chinese. Most of them are young and just beginning their careers. Having been a net importer of technology for many years, China is rapidly becoming a formidable technology innovator and exporter.

No country wants to forego the benefits it can obtain from association with both the United States and China and the technologies each develops and offers. To pose such a choice is off-putting to the point of futility. Given China's huge size and the extent of its integration into the global economy, the application of export controls to Chinese industry is widely disruptive. The U.S. case for rejecting Chinese digital technology is that it could facilitate Chinese surveillance abroad and sabotage of those who use it. But few countries are following the United States in banning Chinese technology. Washington's efforts to subject trade to unilaterally determined national security standards are having the perverse effect of isolating the United States more than China.

The United States has also begun to apply ever more severe official filters to scientific and other exchanges with China. It is denying visas to Chinese scientists, researchers, and attendees at conferences in the United States. This violation of international comity and the U.N. headquarters agreement will cause future conferences to be held elsewhere, where the U.S. Immigration and Customs Service can't interfere with them. The clear trend in America today is away from openness and toward scientific autarky — xenophobic self-reliance — justified on national security grounds. The infringements on academic freedom and collaborative research this trend entails promise to have far-reaching consequences.

In general, the wider the collaboration in scientific and technological research, the greater the opportunities for breakthroughs. The best proof of this is the emergence of the United States as the global leader in these fields. America has long been a prodigious importer of foreign-trained talent. Openness to foreigners and their ideas is what has made American universities and the communities around them the world's greatest centers of innovation. They have been able to draw on talent and investment from every part of the world. Curtailing the foreign presence in U.S. labs will weaken the United States and undercut, rather than bolster, its economic, political, and military power.

China has the world's largest and fastest growing population of workers in science, technology, engineering, and math (STEM). Sixty percent of the researchers into artificial intelligence in the United States are foreign citizens, most of them Asian and many of them Chinese. The current effort to sustain American scientific primacy by severing relations with China's intellectuals, rather than by boosting investment in domestic STEM education and R&D, is more likely to retard progress in the United States than to halt it in China. As an example, despite all the sound and fury in Washington about Huawei and other Chinese

telecommunications giants, Chinese companies will have equipped their country with 130,000 5G base stations by the end of this year. By the end of next year, 300 Chinese cities will be wired for 5G. Americans will still be waiting for it.

Washington's attempt to shut Chinese and other foreign nationals out of collaborative research in American institutions is already beginning to encourage them to avoid American involvement as they do scientific research and develop new technology. Others are eager to take Americans' place in cooperating with Chinese counterparts. This means, at a minimum, that innovations in key technologies like 5G telecommunications, artificial intelligence, semiconductors, quantum computing, biotechnology, and the Internet of Things will develop on different tracks in the United States and abroad.

In effect, the American war on Chinese technology is dividing the world into at least two — maybe more — RIFT technological ecosystems. Whatever else this means, it foretells the erosion and ultimate expiration of U.S. scientific centrality in world affairs as other centers of innovation emerge. And, if China adopts restrictions on technology transfer comparable with those of the United States in the future, Americans risk being denied access to numerous emerging technologies developed in China or through Sino-foreign collaborations.

### **Consequences for the Global and Regional Political Orders**

The political hostility between China and the United States is now deeply entrenched. On the American side, hostility to China reflects a combination of ideological objections to China's increasingly defiant illiberalism, distress at China's apparent challenge to more than a century of American global and regional preeminence, and real and imagined Chinese misdeeds that facilitate the politically convenient attribution of socioeconomic decline in the United States to China rather than to ill-considered U.S. policy choices.

Beijing is trying to govern a universally literate, increasingly bourgeois society with a political system originally intended to impose order on Russian feudalism and then grafted onto a native dynastic tradition. The Han majority's attempts to erase Uyghur religious and ethnic identity are horrifying to anyone who cherishes the integrity of the individual and the rights of people to cultural self-determination.

Those who think America's purpose is to combat and end tyranny in the world see China's regime as warranting an overthrow. They imagine that China's governance by a Leninist party means that it conducts its foreign relations in the same manner as the Soviet Union. But these critics of China are engaging in a priori reasoning with no grounding in evidence. China's governmental system may be a menace to its people, but it is neither available for export nor in demand outside China. Chinese efforts to impose their brand of political correctness on foreign critics offend rather than persuade. China's image beyond its borders is bad and getting worse.

Regrettably, that is also true of the contemporary United States. Narcissistic nationalism is not an effective antidote to foreign distaste and disapproval. Other nations judge great

powers by such powers' behavior abroad and its consequences for their security and interests. On that comparison, America, with its now established disregard for the U.N. Charter and the sovereignty of other nations, its domineering approach to relations with other states, and its aggressive uses of force, no longer comes off well.

The United States has often insisted on countries embracing its transformational goals as a condition for good relations. By contrast, China's national security strategy states that "it is the right of every sovereign state to choose its own development path. No country can impose its own model on others, let alone forcibly subvert the governments and political systems of other countries. China respects the different paths chosen by other countries. [It does not 'import' foreign models, nor 'export' the Chinese model, and will never require other countries to replicate its practices.](#)" For the most part, Beijing seems to practice what it preaches.

In the Cold War, the Soviet Union and the United States each protected lesser states and prevented them from acting in ways that might ignite a hot war culminating in a nuclear exchange. The symmetrical effects of bipolar rivalry kept things largely stable and predictable. The collapse of the Soviet empire ended the constraints on middle-ranking powers, as Iraq's invasion and attempt to annex Kuwait in August 1990 immediately showed. The Soviet demise was followed by a cold peace and a U.S. attempt to impose its sphere of influence on the RIFTentire world beyond the Russian Federation, China, Iran, North Korea, and Cuba. But today American dominance is ebbing, and Washington no longer clearly aspires to guarantee the peace or inhibit regional arms races and wars.

For its part, China's rejection of entangling alliances resembles that of the United States before World War II. Beijing views alliances as liabilities rather than assets. Commitments to protect foreign nations could drag it into quarrels of no intrinsic concern to it and embroil it in wars to advance or defend interests other than its own. Aside from carefully ambiguous and entirely self-interested relationships with North Korea and Pakistan, China has no implicit — still less explicit — obligations to defend anyone other than itself.

Washington's view of alliances may now be on an uncanny path to convergence with Beijing's jaundiced opinion of them. The United States seems to be reconsidering its commitments to protect protégés and allies. It is acquiring a reputation for abandoning such commitments when it discovers, under pressure, that what's at stake for the United States falls well short of the obligations it blithely took on when it was able to assume its bluff would never be called. Be that as it may, because America is gradually ceasing to underwrite global prosperity and security, the world's political geometry is increasingly in flux.

Blocs of nations are disintegrating. Confrontation between states is replacing wary coexistence, and arms races are breaking out or intensifying. The ability of the world's countries to cooperate on common challenges like global warming, nuclear non-proliferation, arms control, trade liberalization, development assistance, and other issues of global and regional governance is atrophying. Failed states are bringing forth diabolically vicious non-

state actors with global reach. Unrest, including mob violence, and ethnic cleansing are spreading.

No country is now preeminent in world affairs. America is withdrawing from its previous self-appointed responsibility as the global manager. China has no apparent desire to take on this role. There is no other contender for the job. The “American century” is past. This is now “nobody’s century.”

### **Consequences for Global and Regional Military Arrangements**

The slow-motion collapse of the Pax Americana has liberated American client states from the felt need to defer to the United States and released long-repressed national rivalries. After all, if others deem the United States to be unreliable, they cannot count on it to deter or balance their adversaries. Increasingly, former protégés of the United States see themselves as mainly on their own. They act accordingly. Examples include the Sunni Arab states of the Arabian Peninsula in relation to Iran or Yemen; Turkey with respect to Syria, Russia, and Iran; Israel with the Palestinians, Lebanon’s Hezbollah, Syria, Iran, and Iraq; Britain with the EU; Japan with Russia; and South Korea with North Korea and Japan.

States that once counted on the Pax Americana or diplomacy rooted in international law to deter or inhibit attacks on them are arming themselves for self-defense. The result is a proliferation of regional arms races, which America is fueling. [The United States accounts for about one-third of global arms sales. Since 2002, it has announced more than \\$560 billion in such sales. In 2018 alone, the Trump administration notified Congress of \\$78 billion in arms transfers to other countries.](#) America’s foreign competitors are experiencing comparable growth in their sales.

But the largest arms race in history is now in its early stages. It pits the United States against China.

### **Conclusion**

As this century began, Henry Kissinger predicted that “a policy that is perceived as having designated China as the enemy primarily because its economy is growing, and its ideology is distasteful, would end up isolating the United States.” He was right. The U.S. effort to contain China is spurring China to become technologically more self-sufficient.

China has not capitulated to American pressure and will not do so. The United States will not easily yield its global and regional primacy. So the two nations face an impasse marked by mounting confrontation. In this confrontation, each side has advantages. China’s industrial economy is now at least half-again larger than America’s. Its scientific and technological workforce is much younger and larger. Militarily, China enjoys the benefit of being on the defensive against the United States, which must project American power across a wide ocean to compete with China on its home ground and near abroad. China has no defense obligations to any country other than itself. Its leadership is economically literate and has a remarkable

record of competence in delivering prosperity and domestic tranquility to its people. By 2025, some projections indicate, nine Chinese provinces will enjoy higher average incomes than the United States, as Singapore does today. By 2040, average incomes in all of China should exceed the U.S. average.

For its part, the United States' geographic position, as well as its natural and human resources, remain unmatched. Despite many social problems and a constitutional crisis, the United States is formidably equipped to compete when it adopts policies that leverage its underlying strengths. It is not China's fault that the United States has not done so. The U.S. political system, governmental competence, and international situational awareness are all manifestly in decline.

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