

We'll Always Have Paris, but not Beijing

by Michael Curtis



Two centuries ago the renowned economist Adam Smith wrote of China as “one of the richest, most fertile, best cultivated, most industrious countries in the world.” Today, China is anxious to be the dominant economic and military power in the world, an ideological rival of the U.S., attempting to spread its tools of authoritarian controls and communications around the world.

The true face of the Chinese political regime emerged in responding in June 2019 to the protestors in Hong Kong opposing the extradition bill that would allow suspects to be extradited to trials and the legal system in mainland China which is notable for arbitrary detentions, torture, and human rights violations. Beijing and local authorities not only responded with force and arrests against the protestors. Chinese spokespersons also accused the UK of a “colonial mindset” haunting the minds of some of its officials or politicians, and Western agitators for “meddling” in the

internal affairs of China. Britain was simply defending the 1997 legally binding agreement which gave Hong Kong, in which there are 300,000 UK nationals, the right to rule itself, and retain its independent legal system.

However, British foreigners are not the only troublemakers. A recent survey indicates that Chinese police are installing software on the smart phones of ordinary Chinese citizens even when they are not suspected of any crime, a sign of a surveillance state. In a different setting, American actors have been banned from film performances in China's film industry which has expanded rapidly in recent years. We'll always have Paris, but we won't always have Beijing.

The Chinese posture is important for the United States to understand at a time when the Trump Administration is engaged in a trade war with China. At the G 20 meeting, of 19 countries and the EU in Osaka, June 28-29, 2019, President Donald Trump spoke of a truce in the trade war. This repeated a similar statement made at the previous G 20 meetings in Buenos Aires in December 2018. The objective then was that China would not intervene in its economy to distort trade relations, while the U.S. would suspend imposing more tariffs on China.

Trump insists on keeping tariffs until China is more agreeable, and wants to impose tariffs if appropriate. He halted additional tariffs on Chinese goods, though the 25% tariffs on half of China imports, \$ 300 billion, remains, and Huawei technologies, guilty of trade protectionism, can still buy some U.S. components. Similarly, the ban the U.S. imposed for a short time in 2018 on exports to the Chinese large multinational telecommunications equipment firm ZTE because of national security reasons since it had ties to the Chinese government through handsets and infrastructure equipment, was not reintroduced. Nevertheless, it appears that Trump's believes that the threat of more tariffs will weaken Chinese resistance, and end the continuing Chinese intellectual

property theft.

Is China a military threat to the U.S.? The existing tariff war is part of the unfair trade practices known to and criticized by both President George W. Bush and Barack Obama, and now by Donald Trump. China dodging tariffs by entering the U.S. from other countries in Asia, especially Vietnam, a process known as transshipment.

The U.S. in August 2018 imposed tariffs and quotas on a variety of goods, including solar panels and washing machines, while China imposed tariffs on U.S. autos and agriculture. Noticeably, China targeted agricultural goods from U.S. states that Trump needs to win for reelection in 2020. The Trump Administration imposed a 25 percent tariff on \$16 billion worth of Chinese goods to which China responded with a 25 percent tariff on \$16 billion of US goods. This tariff war will not lead to a military conflict since neither party can benefit from military hostilities, but the U.S. must be conscious of military, economic, and political differences and rivalries between the two countries.

China emphasizes its increasing military strength. It plans a navy twice as large as that of the U.S. China now has 330 warships and 66 subs, while the U.S. has 211 and 72. It plans to have 549 warships, 450 surface and 99 subs, by 2030. China has the world's first fully nuclear -powered aircraft carrier battle group, a strength of 100,000 troops. Its first domestically manufactured aircraft carrier Type 001A was launched in May 2018. It has ground based laser weapons and missiles and is developing space-based systems.

Through its Belt and Road program, a global development strategy it has outlets to and control in 152 countries including overland routes for road and rail transport, and sea routes, over foreign sea ports and other facilities. China controls about 20 percent of the Cambodian coastline, shares a port with Sri Lanka, and is interested in one in Myanmar. As a

result of its investment in Pakistan and Bangladesh, China can get to the Indian Ocean without going through the Straits of Malacca. China regards Taiwan, to which the U.S. gives weapons, as a breakaway province, and announces its intention to make it part of China by 2049, the centennial of the founding of China as an independent state.

China claims the South China Sea, through which about half of the world's shipping, much of it Persian Gulf oil, passes, as its territory. It is building airstrips and refueling facilities on existing reefs and small manmade islands, and establishing artillery positions.

China in June 2001 created what is regarded as a rival to NATO, the Shanghai Cooperation Organization, an alliance of the East, the largest regional organization in the world in terms of area of its members, half of Eurasia, and population, nearly half that of the world. Originally created to settle frontier questions between China and its neighbors, it expanded to six nations, including Russia, and then to eight, including India and Pakistan, to become a political, economic, and security alliance. The U.S. applied for observer status but was rejected in 2005.

Is China an economic threat to the U.S? Will it overtake the U.S. as the largest economy in 10-15 years? A few comparisons throw light on a complex issue. China, according to IMF figures, in 2018 produced \$25.3 trillion, based on purchasing power parity, the largest amount in the world. The EU was second, with \$ 22.1 trillion, and the U.S. third with \$20.5 trillion. However, China, with 1.3 billion population, is relatively poor, with per capita production of \$18.1, while the U.S. has per capita production of \$62. 5. Chinese workers are paid considerably less than U.S. counterparts, and therefore their products are cheaper.

China is the largest exporter, \$2.2 trillion of its production, of which 18 per cent goes to the U.S., compared

with the U.S. export of \$1.6 trillion. The U.S. therefore has a trade deficit with China of \$419 billion. China concentrates on low cost exports of machinery and electrical equipment, and there is heavy spending on state owned companies that are less profitable than private firms. This is true, to varying degree, of the three large energy corporations, PetroChina, Sinopec, and China National Offshore Corporation. The government has funded rail and other infrastructures to support economic growth, which accounts for the large amount of imports of aluminum, 54 percent and copper, 48 per cent of world supply.

However, China is not monolithic or a totalitarian state. President Xi Jinping has to deal with party leaders and heads of state owned enterprises who have different views of policy, if not to the same extent as political divisions in the U.S. China has local protectionism, and an inefficient financial system. Private investment companies have grown from 9,000 in 2015 to more than 77,000. China has opened its investment market to the world. Yet, China enforces market discipline in its socialist market economy. In its complex structure, Present Xi is building state run companies, the foundation of Communist Party rule, while protected markets often restrict output and growth, and increase prices .

What should be U.S. policy? Washington has already been aware of the problem, not only because of the technological thefts by China, but also by the case of Huawei. The White House sees Huawei's role in building the 5G internet infrastructure around the world as a security theft, and an example of the extent to which Chinese technological companies work with government to create technological companies to be used against the U.S. Yet, above all, Washington must see China as an ideological rival heralding a different civilization. It must meet the challenge.