

Sino-American relations: a strategic overview¹

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We have gathered here to celebrate diplomatic normalization between our countries. For all the very serious issues between the U.S. and China, there is much to celebrate.

Being here reminds us that the Carter administration changed the world for the better. The decisions to normalize with China, to align with China against Soviet expansion, and to foster the Egypt-Israel peace agreement gave us a more peaceful, prosperous world.

Deng Xiaoping changed the world even more for the better. Never in world history have so many peoples' lives improved so fast, not just in China but throughout the world. While we continue, rightly, to criticize about human rights, we Americans need to remember and honor that contribution to human dignity.

The Pacific's peace and prosperity since 1979 have been a result of countries' realization that, in the modern world, successful countries focus on economic strategies. Although all countries need strong militaries, we Americans and Chinese defeated the Soviet Union economically. Japan became a big power through spectacular economic growth without much of a military. South Korea evolved from being entirely inferior to North Korea to towering over North Korea, with a purchasing power GDP 48 times that of North Korea, through a priority for economics. Indonesia abandoned claims to most of Southeast Asia and focused on economic growth, thereby becoming the undisputed leader of ASEAN. Tiny Singapore became a regional force the same way. Deng Xiaoping cut China's military budget from 16 percent of GDP to 3 percent and rapidly became a big power—before the current military buildup.

Sino-American economic collaboration has hugely benefited both economies. It has also benefited most of the world, especially Africa.

The economic improvement generated by Sino-American cooperation has enormous security benefits. Bangladesh at birth was a looming failed-state catastrophe, destined to become a giant jungle Somalia, spewing jihadi terrorism all over the world. But the textile and garment industry spilled over from China, especially Hong Kong, with the U.S. as the biggest investor, giving jobs to countless women and stabilizing the country. Similarly, a hopeless Ethiopia, which long had six warring Marxist-Leninist parties and a terrible famine, became the world's fastest growing country. Over time the spread of such successes can contain the spread of failed-state terrorism and save the U.S. and the world trillions of dollars of military expenditures—and many lives.

Turning to security issues, the Chinese militarization of the South China Sea is a destructive throwback to the old era, from Thucydides to World War II, when the way to become a great power was to use your military to grab territory from your neighbors.

¹ This is a slightly edited transcript of a summary overview by the author concluding a Carter Center celebration of the 40th anniversary of Sino-American diplomatic normalization. The views given are personal, sometimes controversial, not endorsed by the Carter Center or any participant in the meeting.

Even more fundamentally, from 2001 on the U.S. hobbled the economic institutions that had won the Cold War. The Bretton Woods institutions, the World Bank, the IMF and their cousins, were allowed to atrophy because the U.S. Congress did not want to add to their capital or to reform them to reflect the rise of new powers like China. Aid programs, information programs and the State Department were gradually gutted. For eight years foreign policy leaders were nearly all military people. U.S. grand strategy degenerated into military strategy.

Despite extraordinary military capability, that strategy, lacking complementary economic and diplomatic sinews, has been losing ground everywhere, winning the battles, losing the wars.

China's Belt and Road Initiative has revived the atrophied Bretton Woods vision, potentially filling the vacuum created by the U.S. The BRI institutions are emulations of their Bretton Woods predecessors, with Chinese characteristics, not a destructive alternative. But it is not at all clear whether performance will validate the vision or discredit it.

Both China and the U.S. have evolved toward a military mentality, which is the opposite of the win-win economic mentality. In the military mentality, a gain for one country is a loss for the other. That is not inevitable; it is a leadership choice. In a world where economic focus is the ultimate key to success, the Thucydides Trap is a reactionary choice, not a structural imperative. But our countries are presently sliding toward that dangerous choice.

While China has made that choice in the South China Sea, hypocrisy has undermined U.S. complaints about China's maritime expansion. If the Hague Tribunal standards, and standards of big power behavior, apply to China, then they also apply to Japan, from what Japan calls the Senkakus to Takeshima to Okinotori-shima. Military alliance is no excuse for the hypocritical U.S. failure to hold Japan to the same standards.

The island issues are probably manageable so long as we manage the big island issue that was the heart of the 1979 negotiations. My first professional paper was a memo for Kissinger to answer his question: if we make a deal over Taiwan, can we trust China to keep the deal? To my surprise, after reviewing the evidence, my answer was, yes, China had a superb record in keeping its word, perhaps better than the U.S. But China's recent record, repeatedly breaking its promises to Hong Kong, is a sharp break with its historical record. Deng Xiaoping expected that China's honoring of its word to Hong Kong would prove China's sincerity to Taiwan. Instead, broken promises have signaled Taiwan that Beijing's promises cannot be trusted.

Both China and America have so far kept their deal on Taiwan. But both sides have temptations to nibble at the edges of the deal. This is very dangerous. The U.S. has recently passed two laws nibbling at the deal. Meanwhile China's more authoritarian system has deferred any peaceful unification far into the future. Taiwanese will fight desperately rather than have any closer association with that system.

The Taiwan independence movement has been defeated. That strengthens the possibility of a stable status quo.

Because of developments on the mainland the options for mainland-Taiwan relations have narrowed: the status quo or war, a really big war.

Economically we have a crisis. There are core issues, negotiable issues, and crazy issues. The core issues are intellectual property, access to the services sector, and equal treatment of foreign investors with state enterprises. These issues unite all Americans and indeed most of the world. China needs to fix these issues, really fix them, not just make cosmetic or incremental changes.

The negotiable issues are subsidies, national champions, industrial policy, and the like. These are the same issues we negotiated with Korea and Japan. They are easier issues than the WTO issues were. The U.S. should negotiate these toughly but stop escalating them into a systemic crisis.

The crazy issues are the Trump demands that China fix the U.S. trade deficit and turn the Chinese economy into one that works more like the American economy. Every freshman who has taken a semester of economics knows that the trade balance is domestically determined. China's overall trade surplus is roughly zero; the deficit is a U.S. problem. China should push back on these and the Trump administration should realize that these demands just make the whole world see Washington as irrational.

Craziest is the demand for decoupling. The center of gravity of world consumption is shifting from the West to Asia, primarily China. World styles in, and consumption of, music, clothes, and almost everything have previously been driven by the baby boom generation of Americans. In the future they will be driven by young Chinese. This has already happened for cars and most luxury goods. If the U.S. cuts itself off from that, it will become a backwater.

Whole sections of our conference have emphasized the importance of personal contacts, of scholarly understanding, of state and local pressures. These are our hope for the future. Of these the most important is the business community.

The Chinese leadership seems to have miscalculated how much China's growth depends on foreign investment, how much the foreign business community can shift its investments at the margin, and the importance of business fairness to Sino-American amity.

Conversely, the Trump administration seems to have misunderstood that the business community wants decisive action to solve problems, not an exaggerated confrontation that makes problems unsolvable.

Ultimately the big issues come down to two.

The U.S. must learn to accept China as an equal partner, with a right to coexist and compete while maintaining a different social system.

China must escape its adolescence as a power. Today China uses infant industry arguments to protect its banks even though it has four of the world's ten largest banks. It claims special privileges as a developing nation while its leaders are proclaiming that it is a great power ready to change the international system. It behaves like the Philippines and Vietnam in the South China Sea, grabbing everything it can, even though it is a big power with a responsibility for maintaining a stable system. China must accept the burdens of maturity.

These tasks are difficult for both powers. Our grandchildren will honor us if we achieve them. They will condemn us if we fail.