Critical Issues Confronting China: Myths in Sino-American Relations
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Washington-Beijing ties have frayed to “a dangerous point,” according to William Overholt, as epitomized by Vice President Mike Pence’s public speech on October 4, which denounced alleged Chinese economic and security aggressions. Overholt, Senior Research Fellow at the Harvard Kennedy School of Government, said that there are critical conflicts between the U.S. and China, from intellectual property theft to militarization of the South China Sea, but these are exacerbated by myths.

In 2016, Donald Trump and most of the other presidential candidates were bashing the RMB’s undervaluation, when in fact the Chinese government was keeping it above market value. Today similar myths are exacerbating conflicts.

Americans commonly view China as a unitary behemoth with a dictator for life steering an enormous economy that will inevitably grow fast. This stereotype neglects China’s myriad vulnerabilities and encourages paranoia. In President Xi Jinping’s first term (2012-2017), he eliminated rivals and subdued policy opposition by carrying out a forceful anti-corruption campaign, but in the process, antagonized virtually every powerful interest group. This has generated cut-throat competition. Fear of the anti-corruption campaign has immobilized officials, thereby inhibiting reform. Xi’s defeat of rivals, his long list of titles, third term potential and its incorporation into the constitution don’t necessarily confer an ability to implement policies against fierce resistance. Xi’s priority for political control over economic reform is damaging China’s economic prospects.

Another Washington myth is that China is uniquely protectionist. Overholt argued that, to the contrary, China is much more open than Japan, as measured in terms of either total trade as a share of GDP, openness to foreign direct investment, foreign market share of banking assets, or the market for corporate control. While China’s “Made in 2025” manufacturing plan is reviled and feared as a threat, it is not unique. Japan’s Ministry of International Trade and Industry (MITI) used to have a blueprint which essentially aimed at re-creating the Greater East Asia Co-Prosperity Sphere of World War II. Both Japan and South Korea had much more fine-tuned industrial policies during their catch-up phase than China does today. Overholt suggested
confronting specific sectoral threats rather than assuming that a group of mostly inefficient Chinese state enterprises can overwhelm the U.S. economy.

Another reason for many Americans’ disillusionment is that China has moved toward tighter authoritarian control rather than liberalization and democratization. Overholt pointed out, citing Michel Oksenberg (1938-2001), a senior member of the National Security Council during the Carter administration’s normalization with China, that America’s engagement policy was not intended to democratize China, but rather to manage the relationship with China. Given a democratic choice, the Chinese would overwhelmingly choose China’s meritocratic but authoritarian development over India’s electoral democracy with heartbreaking poverty. The two countries once had similar levels of development. Now the number of Chinese families owning homes with toilets is twice the number of Indian families.

Overholt highlighted the economic inclusiveness of the approach to economic development that China, Taiwan, and South Korea all shared. These countries conducted land reforms, provided universal education, established labor-intensive economies that gradually gave jobs in the modern economy to most of their populations, especially women, provided exceptional homeownership, and more generally gave the broad population a stake in society. While Overholt began his lecture with criticism of the Xinjiang re-education camps and other aspects of heightened authoritarianism, and believed that an increasingly middle-class-dominated China could now achieve both prosperity and democratization, he did not believe that the Sino-U.S. relationship had been or should be based primarily on demands for Chinese democratization.

Another myth is that China’s maritime policy is uniquely aggressive. Overholt countered that China’s behavior is not qualitatively different from its competing countries. In fact, China’s behavior is very similar to the smaller countries, just more sudden and on a Chinese scale. Japan claims control of twice as much of the ocean as China, and China just copied the Japanese precedent of enlarging a rock, calling it an island, and claiming control of a large area around this artificial island. China’s error, according to Overholt, is to think that a big power can behave like a small power. Rather, a big power must take responsibility for systemic stability and that requires some degree of fairness.

Overholt did not believe that China’s Belt and Road Initiative (BRI) and the Asia Infrastructure Investment Bank (AIIB) seek to undermine the existing global order, but rather constitute a manageable variant of, and supplement to, the Bretton Woods system. The U.S. refusal to expand and reform the World Bank and other Bretton Woods institutions created a vacuum that someone needed to fill.

He concluded that China is not as formidable or threatening as many Americans think. He
advocated an economics mentality for international relations, acknowledging that everyone can gain simultaneously, rather than a non-zero-sum military mentality that regards every gain for someone else as a loss for oneself. Both countries must accept coexistence of quite different systems; the alternative could be catastrophic, such as a nuclear war. He argued again that Sino-U.S. problems are very important and critical but manageable.