Critical Issues Confronting China:
Is China Ready for “Strategic Competition” with the U.S.?
Arthur Kroeber, Dragonomics

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Against the backdrop of a changing tide in Sino-U.S. relations, Arthur Kroeber, Co-Founder of Dragonomics, a China-focused research service since 2002, explained how this relationship has evolved from supportive engagement to disengagement with China, now defined as “a strategic rival.” Kroeber analyzed how well-prepared China is for this prospect and provided a framework on how to think about this relationship and its policy implications.

For about four decades, from the mid-1970s to just a few years ago, the underlying tenor in U.S. policy toward China was primarily engagement. This general policy posture was based on a premise which is to enable China’s economic development from a planned system to a market system; and, integrating China into the world economy were fundamentally in the U.S.’s interest. Kroeber’s assessment of this engagement approach, which culminated with China’s entry into the WTO in 2001, was “quite successful.” But this approach is misconstrued by critics that engagement would eventually lead to a full liberalization of not only China’s economy but also its political system. The disillusion with this unfulfilled expectation contributed to Washington’s rethinking, even remorse, about the basic engagement approach.

Kroeber attributed the breakdown of the prior consensus about engaging China to President Xi’s heavy-handed administration with increasing concentration of power to build a party-centric state rather than President Trump as an economic nationalist. Xi’s several major initiatives indicate that China is moving in the opposite direction of America’s hope. One of the initiatives, titled “Made in China 2025,” epitomizes China’s state effort to carry out industrial policies to newer heights in essentially all high-tech areas. This initiative also encourages fusion between civilian-use and military-use technologies, which is likely to take the shape of the American industrial complex. China’s Belt and Road Initiative (BRI) is another gigantic project, intended to project China’s power and influence on a global scale by linking dozens of countries across Euro-Asia through infrastructure construction. All of these have been taking place while Xi elevates the role of the Communist Party as a driving force in every aspect of the Chinese economy. Accentuating state ambitions rather than economic imperatives, Xi governs the country in a much more centralized form than his predecessors.

China is moving on a path less compatible with the international liberal order, but with increasing technological capabilities, and this creates a challenge and a dilemma to the U.S. as to what to do. The national security establishment in Washington began to view China as a
geo-political rival in a zero-sum game. People in this circle believe that helping China technologically does not serve U.S. interests. They advocate disengagement with China and adoption of a confrontational approach on various issues.

How much technology should be allowed to move to China has become a central concern in the current trade war, which, according to Kroeber, is only a symptom of these deeper changes in the American perception of China. Recent legislation in the last couple of years have made it much harder for Chinese companies to invest in the U.S., broadened and tightened export controls to China, while restricting U.S. visas and other work permits for Chinese nationals working in technology-related fields, especially in industries, such as, semi-conductors, artificial intelligence, and robotics. Kroeber differentiated Trump from those Americans in the security circles of Washington in that Trump is not ideologically committed to viewing China as a strategic rival. In Kroeber's view, Trump is more of an opportunist than an ideologue; his behavior depends more on his most urgent need of the moment than on any ideological commitment.

Where does the American business community stand in this fraught bilateral relationship? Is it realistic to expect this close economic relationship built over the past four decades to dismantle? Kroeber did not anticipate dramatic disentanglement built over the past four decades to dismantle by American firms from the China market any time soon, despite their perennial complaints about the Chinese government subsidies to state-owned enterprises (SOEs), limited market access for foreign firms, and repeated intellectual property violations. American companies still have $400 billion in fixed investment in China, which generates about half a trillion dollars in sales a year. Qualcomm, Micron, Las Vegas Sand, Marvell Technology, Intel, and many other American multinational firms derive a major portion of their global revenue from China. Kroeber found it hard to imagine them justifying, before their shareholders, their abandonment of the China market.

Although Mexico and Vietnam can substitute China's role in the American economy to some extent, these countries do not have China's scale of manufacturing capacity and capability. Kroeber did not anticipate the huge amount of sales of U.S. firms and affiliates in China and U.S. exports of goods and services to drastically decline soon. He stated that while China benefitted from the U.S. engagement policy for the last four decades, it also depends on U.S. technological support; it is very vulnerable to U.S. disengagement. The collapse of Fujian Jinhua Integrated Circuit Company (JHICC), immediately after the U.S. prohibited export of chip-making equipment to Chinese companies on the Entity List, is a case in point. Kroeber acknowledged a backlash of this tightened export control; it will entrench China's perception of the U.S. as an unreliable supplier of technology components and motivate China to double down its effort on manufacturing high-tech equipment domestically and pursue its strategic objectives on its own.

In conclusion, Kroeber underlined that a solution of adjustment must be found for two ideologically opposed political systems to co-exist since the China challenge will not go away. He warned not to mistake China's policy pronouncements of aspiration as reality. China is actually constrained by many factors, including its numerous domestic challenges. American policymakers need not be so anxious and overreact to China's aspirations, because China will be in a catch-up
mode in the technology arena for quite some time. Kroeber thought that how American business interests in China balancing out against the national security concerns would shape American China policy for years to come. Kroeber felt that American multinational companies’ tolerance for the trade war is limited, although they balk at being perceived as unpatriotic.