Ezra Vogel: I want to welcome everyone to our Critical Issues program. We're very happy to have back with us Bill Overholt, he's our reliable local researcher and scholar who has spent enough time in Hong Kong with a huge staff, had to do all kinds of research in business and government. With a PhD, after Harvard College, a PhD from Yale in political science, and then lots of years as a so-called economist working for the bank to have a lot of research assistants, and therefore a very deep knowledge of politics and business. And so we're calling on him today to talk on the question of decoupling. As you know, some of it has occurred and it's such a huge issue now for so many places that it's very timely that we're calling on Bill, who is knowledgeable about this and many other issues, especially looking at businesses, what they have to do to keep up their supply chain and keep up their relations and keep up in the context of what's possible with governments. Without further ado, Bill, it's yours.

William Overholt: Thank you, Ezra. Well, decoupling has become a major theme for the most Trumpian parts of the Republican administration, and the Democrats talk about repudiating engagement but it's basically the same issue, are we going to divide our world into two substantially separate blocs? I want to start by addressing some key myths and then dig deeper into the sectoral issues that are involved in decoupling. We need to start by acknowledging that it's not just the US that's made decoupling a major issue, China has pushed it earlier and harder. Chinese leaders talk about achieving self-reliance and dominance in every major industrial sector, they don't call that decoupling, many of them don't think of it as decoupling but it is decoupling. Also in agriculture, Xi Jinping has said, "The food bowl of the Chinese people must remain firmly in their own hands", that's somewhat justified given that fluctuations in Chinese agriculture could be larger than global food surpluses. Also, China has decoupled the global internet, and more generally, the global information system.

William Overholt: I'm going to focus pretty heavily on the US though, and let me start with some popular myths in Washington about decoupling. Start with the trade myth, in May, Donald Trump said, "You'd save $500 billion if you cut off the whole relationship". It's embarrassing even to have to mention this kind of nonsense from Donald Trump but since he's the president we have to deal with it. China's trade surplus in 2019 was 1% of GDP, almost perfect balance. The huge US trade deficit is caused by the fact that we spend a lot more than we save, and it's greatly expanded by the government deficits caused by Trump's tax cuts. If Trump cut ties to China, we'd simply have a larger trade deficit with everybody else. Trade war has not reduced the trade deficit even a little and it's caused a net loss of US manufacturing jobs.

William Overholt: Second, and this is particularly powerful on the Democratic side, the political myth which says, engagement was always a mistake based on the assumption that we engage China in the belief that economic ties would make China a democracy, now this argument is simply false. Nixon engaged China as a counterweight to the Soviet Union, that worked beautifully. I was head of the Asia Policy Task Force for Jimmy Carter's 1976 campaign for the presidency, and our China briefs never mentioned democratization, but the driver in the Carter administration for diplomatic normalization was Mike Oksenberg, and Mike was
consistent that we had no ability to transform Chinese politics, let me just read one of his many statements. "America has only limited influence on China's internal affairs. The United States cannot create to its liking small countries on its doorstep, Panama, Haiti, Cuba, El Salvador. And experiences in the Middle East and Southeast Asia demonstrate that Americans have no special talent for shaping the governance of countries further afield. Yet for reasons that have fascinated successive generations of historians, America has sought to produce a China more to its liking. These efforts have always ended in a massive failure."

**William Overholt:** The next phase was the fight over most favored nation status which came to be called permanent normal trading status. There was a close vote on this in 1993, it was really a pivot in our relationship with China. At the time, the American Chamber of Commerce in Hong Kong was the biggest and most influential American Chamber of Commerce outside Washington, it represented almost all the major corporations with Asian operations. Hong Kong AmCham's Door Knock in 1993, our annual visit to Washington, moved just enough congressional votes to change the balance and block the effort to take away China's most favored nation status. As the most research-oriented governor of AmCham, I did most of the research for that presentation and I ended up testifying. Our argument was that revoking MFN would destroy Hong Kong, devastate Taiwan, seriously damage the liberal coastal areas of China, and help the nasty nationalists in Beijing like Xi Ping. We did not mention democracy, the business and geopolitical considerations were decisive. The only discussion of any impact on Chinese domestic politics was Nancy Pelosi's disagreement with my argument that revoking MFN would enable the reactionary Chinese nationalists like Xi Ping, rather than facilitating human rights. Gage McAfee and I met with her in her office and she declared, "There's no nationalism in China", and she reached into her handbag and pulled out a Hershey's chocolate bar and said, "I'll bet you a chocolate bar with almonds that there's no nationalism in China, they just want our money", that was the level of discussion. She represented the unions, we represented the businesses and we prevailed. Yes, three presidents subsequently made comments about liberalizing or democratizing China as a benefit of engagement, Ronald Reagan made similar comments, but that was never a central thrust of American policy. As China was about to join the WTO, Madeleine Albright and Samuel Berger, who were the official spokespeople, argued strongly that political liberalization was not inevitable, and the WTO membership was not a human rights policy. Economic and security arguments, and more recently, moral repugnance over repression in Xinjiang have consistently been decisive.

**William Overholt:** Second, there's an economic myth, a myth that on the economic side China failed to join the system as it was expected to do. Actually, China made heroic efforts to join the system but it's also gamed the system, and has continued demand, developing country privileges long after those privileges were inappropriate. Start with the fact that China taught most of its people English, and its senior officials now speak better English than their counterparts in some of our allies, that was a huge task that was connected with joining the international system. China's efforts to meet WTO requirements were truly heroic. The WTO requirements imposed on China, at US demand, were far more stringent than those imposed on any other country. It would be unimaginable, for instance, to ask India to accept more than a small fraction of the requirements that were imposed on China. I was running research teams in Hong Kong during that period, and the consensus of analysts was that honoring the WTO agreements would cost China many tens of millions of jobs in industries like cars and steel and cement and aluminum
and many others, so many jobs that analysts had a hard time figuring out how China could maintain social stability if it went ahead, but it did go ahead. The scramble to avoid industrial collapse and social upheaval required China in the decade from '94 to 2003 to shed 45 million state enterprise jobs, mostly in manufacturing. They sustained this because they were able to move most of those people into service sector jobs.

**William Overholt:** The car industry provides a good example of the difficult tasks China faced in preparing for WTO membership. At the turn of the century, China had 128 small, inefficient, backward car companies. Most analysts expected that with opening for WTO, the industry would simply collapse, as they expected the steel and aluminum and cement industries to just collapse. To avert that fate, China engineered a rapid consolidation of ownership that would be unthinkable in any Western country or India, and they encouraged partnerships with advanced country car companies. Chinese officials at that time concluded that having a nationalistic car industry like Japan or South Korea was no longer possible in the more globalized world of 2001, so they opened China to foreign car companies in a way that Japan and South Korea would never consider. Today when you drive in Shanghai or Beijing or any other major city, you're never out of sight of Buicks and Audis and VWs and Hyundais, you can drive all day in Tokyo or Seoul and only see one or two European cars. These efforts were all managed by Premier Zhu Rongji. By the end of his term as Premier, Chinese society was simply exhausted by the stresses of change. As I traveled around China in those days, people spoke of Zhu Rongji with hatred. He's back to being a hero today, which is right, but not then. The administration of which he was Premier was then succeeded by an administration that promised a harmonious society, meaning, operationally, curtailment of the stressful market changes that Zhu Rongji and Jiang Zemin had promoted.

**William Overholt:** Then there's a currency myth. In 2016, almost all American politicians, of both parties, denounced China for manipulating its currency, undervaluing it in order to promote its exports and steal American jobs. At that time, the Chinese currency was actually overvalued and it's been either overvalued or fairly valued most of the time since, I wrote a book about the Chinese currency. Donald Trump was the most extreme, he claimed that the currency was 40% undervalued. Well that was a number, an extreme number, a very controversial number used by Fred Bergsten a decade earlier, and in 2016, Bernstein himself was testifying that the Chinese currency was no longer undervalued. Again, American politicians who had access to the best economists if they wanted it, almost uniformly promoted the currency myth, and Trump trumpeted that China's agreement to stop manipulating its currency was one of the great victories of his trade war. So these are the great myths.

**William Overholt:** One accusation that's accurate is that China gamed the WTO rules, certainly it did that, but unfortunately for the weight of that argument, everyone games the WTO rules, especially the United States. We create arbitrary standards to keep out Mexican tomatoes and Brazilian sugar, we game the anti-dumping rules and judge Chinese companies against the prices of companies from countries that clearly are inappropriate. And President Trump's argument that putting tariffs on iron and steel and aluminum were a vital national security need was so dishonest that it's difficult to even use the word gaming. So gaming is what people do with rules, and the US is the grand champion. The real problem in the US relationship is different. China insists on retaining developing country privileges while having some of the world's biggest
enterprises and while asserting itself as a world leader. It insists on full access to Western markets while limiting foreigners’ access to the Chinese market. It insists on full access where China has an advantage, mainly in manufacturing, and largely denying access in sectors, mostly services, where Western countries have an advantage. It uses infant industry arguments to protect its banks, even though it has 4 of the world's 10 largest banks. It seeks self-reliance in every modern industry but wants foreign countries to accept dependence on China.

**William Overholt:** Well this is the big picture, let me turn to a sector by sector analysis of the issues involved in decoupling. Americans and Europeans certainly were complacent for a long time. Massive intellectual property theft has occurred, it has to be stopped, risky dependencies have developed. We need to protect ourselves against the risks of either economic warfare or kinetic warfare. So first of all, there are national security issues. The dependence on China for vital inputs like rare earths where China has almost the whole world supply. Chinese spying in political influence operations, they’ve gotten out of control. Second, business security issues. China's very fast to employ economic warfare using rare earths against Japan, bananas against the Philippines, attacking Lotte hotels in Korea, Australian mines, Australian beef, Australian barley, COVID PPE for the United States, tourists, all sorts of places, the list is endless, the West has to protect itself. Another problem, Chinese promises used to be about the most reliable in the world. After what's happened in Hong Kong and the South China Seas and all sorts of other things in recent years, you can't depend on Chinese promises anymore, so the West has to protect itself. In some ways, above all, the West needs to be able to resist Chinese threats to freedom. When China sanctioned the NBA because one manager spoke out against the Hong Kong national security law, when it forces a big bank, HSBC, to protect its business by endorsing the Hong Kong national security law, these things are an existential threat to the core Western value of freedom of speech.

**William Overholt:** One of the biggest tasks going forward is going to be how do we protect ourselves against that? Well, these issues create imperatives to adjust the US-China relationship, but these supply side arguments, and I'm going to distinguish the supply side, which is what the national security people always look at, from the demand side, which they tend to leave out. If you look at the structure of the global market, for half a century the Western baby boomer has been the center of gravity of the global market, now the center of gravity is Asia and particularly China. If you make Hermes bags, General Motors cars, Hollywood movies, any kind of cell phone, your market is there, US officials somehow neglect that. For instance, Attorney General Bill Barr denounced Disney because it took one character, one bad guy character in a movie and made him a Northern European citizen rather than Chinese. Well if that's your standard and you're going to call people traitors for changing one character to help the Chinese market, Hollywood's dead. If we decouple from the China market, Apple loses 20% of its market, Qualcomm loses 60% of its market, GM goes bankrupt, you lose the center of gravity of the world market and you become incapable of competing globally with Chinese companies, you become incapable of competing globally with European and Japanese companies that do cooperate with China. So you're talking here about a historical decline in the US leadership role in the world economy. People don't, the Washington voices have not been talking about that.

**William Overholt:** Second area, technology, and here the issues are quite nuanced. Huawei was on the verge of dominating all global markets for 5G, the single most important technology of
the near future. With full access to Western markets and to the Chinese market, Huawei could afford a research and development budget that was bigger than all of its competitors combined, so Nokia and Ericsson, leading competitors, would just die, Huawei would own everything. Now, Huawei's a great company, but that advantage comes purely from unfair market conditions, the others being excluded from the Chinese market. So the economic case for banning Huawei is overwhelming, the Trump administration's made a terrible mistake of focusing on the security exclusively, on the security case. TikTok, given China's quick resort to intimidation of anyone who expresses opinions different from what it likes, I have to say that the privacy case for limiting TikTok has considerable weight, but US policy has been erratic, corrupt, and very personalized to Donald Trump. WeChat, banning WeChat would serve no important national security interest and would cripple US business and innumerable valuable personal relationships with Chinese. It is the mode of communication that we all use with Chinese colleagues, banning it is just crazy. Semiconductors, this is the big one, and this could really go either way. Now, when we banned exports to the Chinese space industry, we enabled China, encouraged China, stimulated China to build a first-class space industry. Some Chinese very senior officials said to me over dinner one night in Seoul, "You helped our space industry by banning exports to it, but you didn't, we're totally dependent on your airplane industry, do you suppose you could put some export controls on the airplanes for us please?". That could be one outcome, another outcome could be that the cumbersome, centralized, clumsy government process of building a semiconductor industry will defeat them. They've already spent $103 billion in subsidies for their semiconductor industry, and they're falling further and further behind, so we don't know how that's going to work out but policy details will make the difference. And finally, in the technology area, standards, who's going to set the standards for 5G and other technologies? Here, as in almost every other area, the US has tried to freeze China out and they, you know, we and the Europeans make standards, if Chinese demand a big voice, it's aggression. Conversely, China has evolved recently to a very nationalistic position, a Chinese leads the UN Committee on Standards and he makes no pretense of operating in the best interest of the world objectively, he's just pushing Chinese standards, so this is like the old Japanese conflict between VHS and Betamax and it's totally debilitating to both sides, everybody loses. So technology is a big category of decoupling going on.

William Overholt: The next category is people. One key category of people is Chinese and Chinese-American executives. Yes, the US was complacent, we've had huge intellectual property losses, but the US response has had huge excesses. Chinese executives have become very fearful of legal and social attacks. We are dependent upon Chinese executive leadership, 20% or more of major Silicon Valley successes are founded or run by Chinese or Chinese-Americans, companies like Nvidia and Yahoo. A much higher proportion have Chinese or Chinese-Americans in key executive positions where success requires them. Second category of people, scientists and scholars. Again, we've had very serious lapses in protecting intellectual property, we have to fix that. But we've created an atmosphere of fear for Chinese and Chinese-American scholars, and even those who may have physical characteristics of Northeast Asians. Hate crimes in New York have been a serious problem. Recently, a distinguished Japanese musician got off the subway in Harlem and a crowd called him a Chinese expletive deleted and beat him up to the point where he may never play music again. Great American scientists like David Ho, who led the conquest of HIV and AIDS, and Steven Chu, the Stanford Nobel Prize winner, who served as US Secretary of Energy, loyal Chinese-Americans express very serious concern about the
vilification of Chinese and Chinese-American scholars. The recent departure of artificial intelligence expert Zhu Song-Chun from UCLA to Baida could be the beginning of an exodus, it was this kind of vilification that led, in the McCarthy era, to the exodus of the nuclear expert who founded Chinese nuclear weapon industry. We've taken decisions that have no business or security rationale like ending the Fulbright Exchange Program. As background, in China everybody has an undeclared sideline, I don't think I've ever met anyone who doesn't, and that practice transferred here, enabled by weak US enforcement of its rules. The right policy response is to announce very tough enforcement going forward and to prosecute deliberate theft and some very vivid examples, but not to treat every oversight as a major crime. The reality is as US-China scientific collaboration has increased the last five years and it's continuing to increase and the mutual benefits are huge. Collaborations on subjects like air pollution and green energy are invaluable to the United States. China is the biggest publisher of scholarly research, the US is the most influential publisher of research, there are thoughtful Americans who think that the net benefit is now in the US, of exchange is now in the US favor. In short, we have some real problems that need to be addressed but we're keeping out scholars that we need to invite in and we're chasing out scholars that we desperately need to keep, US policy and behavior have become indiscriminate.

William Overholt: And the same thing with students, Chinese students are mostly innocent kids looking for a better education, often they're here because their parents are fearful of erratic policy in China and want their money and their kids out of China. Trump, the Trump administration proposed in 2018 to ban all Chinese students, recently proposed to keep out all foreign students who were just getting E-instruction, there's been an effort to bar many Chinese students from STEM majors. The Committee of 100 estimates that historically the majority of the top 20% of Chinese students remained here in the United States and contributed to the American economy, mostly in some STEM subjects where the US economy is constrained by a serious shortage of skills, so the US has the capacity to deal with the limited number of bad eggs. Chinese students, contrary to some security briefings, are not all assigned to bring back a few bytes of information that are then assembled by geniuses back in Beijing. Similarly, in tourism, Chinese tourists are the most numerous in the world. They're the highest spending of any country's tourists, they spend an average of $6,700 per person per visit in the United States. They spent, in 2017 they spent $19 billion in this country. They are not a threat to our national security but that number has been collapsing because of the Trump administration's hostile atmosphere.

William Overholt: Well, another crucial area is decoupling in financial markets. Nick Lardy, one of the great analysts of the Chinese economy thinks there will be few effects from efforts at financial decoupling. I disagree, if we drive out financial and others back to Hong Kong and Shanghai, we virtually guarantee that the Hong Kong fundraising market will be larger than the New York market for the indefinite future. There's a strong, valid argument for banning Chinese companies because China will not allow review of the books at the source in China, and that invites frauds like Luckin Coffee. On the other hand, if you drive all these listed Chinese companies back, that just guarantees that the Hong Kong market is going to be a much bigger market than New York. American banks will still participate, that's where the action is in the global market, but they'll have proportionally smaller roles and smaller fees, and the US role in leadership of world financial markets will decline, so this is a tough one that requires very careful, empirical, balanced decisions that we're not getting so far. So, there's a sectoral picture,
stepping back from individual sectors. I don't really have time to elaborate on the fact that we live in a better world because of the past four decades of Sino-American coupling. Africa is developing, Bangladesh and Ethiopia are viable societies, Latin America no longer leads the world into every great financial crisis, none of that would have happened without Sino-American economic entente. China's success has brought it over a threshold where it's become a leader in fighting climate change and environmental deterioration. Doesn't happen when economies are not that successful like, for instance, India. The whole world, especially the poorest parts of the world, is more prosperous and secure, and will live in a better environment because of the coupling, however difficult, of these two great nations. Abandoning that due to overreactions and silliness would be a historic global tragedy.

**William Overholt:** So what are the root problems on both sides driving this decoupling? On the Chinese side, China is driving decoupling by pursuing a policy of self-reliance and dominance in every key technology. China is demanding the special privileges of a developing nation while simultaneously asserting that as a global leader it has a right to reshape the global economy. These policies contain fatal contradictions and ensure trouble with the whole rest of the world. On the US side, politicians of both parties in Washington focus on the supply side, where our vulnerabilities lie, and largely ignore the demand side. Trump, Barr, Pelosi and Schumer don't seem to be able to get out of this mentality, which is like viewing a company like Apple and looking only at its debts and not at its revenues and potential. Second, there tends to be a false view of national security that looks only at the military side. If you look at the success of the US in the Cold War, at the rise of Japan, Germany, South Korea, Singapore, Indonesia, and now China, success comes from focusing on your economy and from tying yourself to the prosperity of friends and allies, pure focus on the military side is a guarantee of failure.

**William Overholt:** And there's ambiguity in the Trump administration about the criteria for sanctions, who's going to get nailed and who isn't? If you're nailed today, are you going to be nailed tomorrow? That uncertainty leads everybody to prepare for the worst in case a vicious circle of unnecessary decoupling. And I have to say, under the Trump administration much of the substance of policy is driven by momentary desires to mobilize a domestic political base that has nothing to do with real national security or economic considerations. In short, Americans, Westerners, democracies have some really serious problems with China, some of which need to be addressed by closing some doors. The current administration in the US has made all those problems much worse than they need to be. Having said that, anyone who doubts the need for change hasn't been reading the news about Huawei, Xinjiang, the South China Sea, Hong Kong, and Beijing's endless efforts to dominate key global markets through unfair competition. Washington's response to these very real problems has been thoughtless, incoherent, and driven by short-term domestic political considerations. Recent US policy toward international organizations and alliances has had the same shortcomings. On that happy note, I will stop and see if I've elicited any reactions or questions. Thank you.

**Ezra Vogel:** Bill, that is a wonderful tour d'horizon, giving us a broad picture of what is real and what isn't. One little comment about the Chinese who are in the United States. Zoom was developed by a guy named Eric Yuan, who is one of those Chinese who came and he now runs the company, Yuan Zheng is his name, and they've given Zoom use free to elementary schools around the world, 150,000 schools, they don't charge for Zoom, and how thankful and how
lucky, just to sort of supplement your points about how important it has been to have this Chinese-American cooperation. Let me ask a general question now. Supposing Biden wins and that the advisors call you in and say, "How would you structure a government, and how would you organize it to deal with these issues?" Where, I mean, their combined economic, political, military issues, and the issue of cutting off WeChat was awfully tough on American businessmen in China, it was a disastrous policy. Now, if you're dealing with a certain kind of problems on China, you've got to have some inputs from, it's such, let me put it this way. To me, China's not such a big issue, it's such a dominant part of the world that you need to have inputs from all kinds of different sources, political, you need business of different kinds, you need scientists, how would you organize a group or how would you structure a group? Who would you put on in Washington who would be able to deal with these issues in a fairly constructive way? What, how do you go about setting up that group?

William Overholt: Well, first of all, you get back to dealing with people who deal with real numbers, real science, and systematic policy. The Trump administration has abolished the scientists, and on something like WeChat, you can sit down and have a column of, a negative column and a positive column and arrive at a balance. You arrive at that balance, you have to talk with your national security people, you have to talk with your commerce people, this is what a National Security Council is supposed to do, get all the considerations in the room and arrive at a balance. That's not being done now, and you have to restore a systematic process, it's not Trump's tweets, it's a systematic process. And second, this country is full of officials who can deal objectively and technocratically with the issues, but they've been shut out of today's Washington on both sides. The Republican foreign policy establishment, 9 out of 10 of the most respected of the most foreign policy Republican, most respected foreign policy experts have been out of the Trump administration, people like Paul Henley from the National Security Council. They're there, on both sides, but, and you have to bring them back from both the Democrats and the Republicans.

William Overholt: What's happened is that the debate has been dominated by congressional polarized factions. When I was going to Washington in 1993 to argue about most favored nation status, we could deal with people like Bill Bradley and Richard Lugar and you think of people like John Glenn and Sam Nunn, there was a center that almost scientifically weighed the national interest, and then you had an extreme right of fanatical anti-communists, and then you had a left of people like Pelosi who we just spoke for the more extreme views of the unions, and they didn't have much weight. And what's happened is that center has just disappeared, and the debate is totally dominated by these extremes, there is no substantial center in the US Congress anymore and you have to make a tremendous public relations effort to educate the public, a lot of the public is educable. You know, what's the real cause of our loss of manufacturing jobs? Well, 6 out of 7 are lost because of technological change, but both the Republicans and the Democrats have constituency reasons for blaming it all on China, and so the entire public has this completely warped view, you have to mount a massive educational effort. If you do these things, you create a systematic process, again, bring back the experts, educate the public about the realities of the situation instead of these grand ideological slogans and myths, then we can get back to sensible policy and a difficult but managed, balanced relationship that has competitive and cooperative elements with China. We did it with the Soviet Union which was a much bigger problem, but we had the kind of system and people that were designed to do that.
**William Overholt:** What I don't know how to solve is the problem of foreign policy in a peacetime democracy. When we have a war or a cold war we elect Roosevelt, Truman, Eisenhower, Kennedy, Nixon, people who know a lot about foreign policy, and it's key to their success. When we're at peace, well, we elect Calvin Coolidge, Harding, and George W. Bush and Barack Obama and Donald Trump who have no experience in foreign policy, and that's a problem, that's a huge problem. You know, Obama, enormously intelligent, wonderful values, cosmopolitan instincts, but he consistently made bad decisions because he just didn't have any experience. Now Biden does have some experience, Harris does not, we'll see how it works out but I think we have to acknowledge that this, this is a problem for our system, foreign policy doesn't count in this election, it didn't count, hasn't counted in any election since 2000.

**Ezra Vogel:** It seems, well, if you were in the new administration you couldn't decide who would be elected to Congress, you wouldn't have that capacity, and I take it to have the kind of advice like the Paul Henley and the people who've had experience, you could set up a group through the White House, so would I assume then that your answer is, to a new administration if you're advising them, it would be bring in people to a White House group who had the broad knowledge and experience in foreign policy and particularly in dealing with China, and make that the core and try to work with Congress but you, I mean, the sad thing is you have to work with Congress as it is, would that be a fair summary of where you've-

**William Overholt:** Yeah, you have a National Security Council of solid people and make the National Security Council work as a system that actually makes the Defense Department and the Commerce Department talk to each other, and you appoint similar experienced officials in places like State and Defense and CIA and so on, we haven't had that for four years. And you, in dealing with the Congress, the President's advantage is that the President has a pulpit, the President can explain things like the problem of manufacturing unemployment to the people and overwhelm the nonsense you get from both the Democrats and the Republicans, and it's a tough battle but you have to have a President who's willing to have that battle. You need the communication skills of a Ronald Reagan to get over some of these humps created by these ideological nuts on both sides who dominate the debate otherwise.

**Ezra Vogel:** One of the, as you were talking I could think of, you know, ways of dealing with those issues, but out of the issues you mentioned, one of the toughest for me to try to think of the right solution is for big companies that want into the Chinese market. If you're a Hollywood firm and Beijing tells you if you use a certain character who does X, Y, Z, your movie's not going to be shown in China, and a lot of your market, you know, is in China, or if you're, you know, GM or some other company or Google or something, that if you say certain things about China they're going to be closed to the market, I mean, that seems to me one of the most difficult things. A lot of people in the United States worry that China's going to propagandize Americans and they're going to use various kind of CCTV or something, or the people's data to influence, I don't worry about that, I think that there are enough sensible Americans, they're not going to persuade us, but this leverage over companies is real and tough, and do you have any general comments on that or, as a nation, how we can respond to that one?
William Overholt: Well, you've got two constraints. One constraint is that for most global companies, China is the center of gravity of the market, and, you know, our politicians have to deal with that. You had four Trump administration leaders, the Attorney General, the Secretary of State, the National Security Advisor and so on, give speeches and never mention of that kind of consideration, so on one side, that's a constraint. On the other side, you can't allow your company to become a propaganda tool, and there's a lot of space between those two constraints for most companies. You know, if you're making blue jeans or General Motors cars or Gucci bags, at some point you may pay a price at the market, they try to force you to make a propaganda point for them, and you have to say no, that's really important. When Disney made a major movie in Xinjiang, that was a big mistake, they've learned, they won't make that mistake again, there's a cost to having to do it somewhere else so that's what you have to do. So my point is, you operate in this space, and when they try to force you, you react strongly, you get support from other companies and from the government and you pay some price for being honest.

Ezra Vogel: Hsiao, you have a comment, or question?

William Hsiao: Yes. Thank you Bill, that was an excellent tour de force about the history, as well as how the economic relationship between United States and China has become politicized. And so you gave the great deal of the logic and the cost benefit of if we decouple, but your talk is also about the logic of decouple and the illogic, so you present the illogical part. Do you want to tell us which part do you think maybe there is a logical decoupling? For example, if United States want to at least slow down the loss of manufacturing jobs or some agricultural product, not stop it, but slow it down so United States can adjust, is that area's where a logical decoupling should be considered? You might, and then going back to Ezra's question, China went very far repressing freedom, including freedom of press, expression and movements, including showing movies, now, do you think decoupling should be used sometimes to relax that boundary? You seemed willing to accept that boundary place in China, instead we should work within that boundary, should United States use decoupling as a tool to push back that boundary? Thank you.

William Overholt: Well yes, I may not have emphasized it enough but there is a logic to some decoupling. We need to ban Huawei, and we need to ban any other company that begins to take over the whole world market, and there are a lot of areas in which this happens. I gave an example in a recent publication of what happened in pork. I was a consultant to a pork company and it would have become a huge part of the Chinese market but at the last minute, the Party Secretary blocked a deal that, when American companies were the big, efficient, successful, clean companies in China, it would have taken over, they blocked that, and then sure enough, the Chinese company has gotten bigger and bigger because of the size of the Chinese market, and then that Chinese company bought Smithfield and became the biggest force in the global pork market, we must not allow that to happen, and that means banning companies that take over our markets by this kind of unfair process. If the Confucius Institutes become propaganda instruments then we have to decouple from them. There may be a way of managing them according to certain standards, so that we have them, but we may need to decouple completely.

William Overholt: There are all sorts of areas, Chinese military officers getting the militarily sensitive contracts as, pretending to be innocent students. I want to pick up particularly on your point about the loss of manufacturing jobs, you know, we should make sure that our tax
arrangements and other regulations don't subsidize people to go offshore, but we need, most of this adjustment is necessary and inexorable. I've got a paper, I show the trend of US manufacturing employment, since 1947 it's steadily down, because of technological change. You can't, in a big graph like that, you can't even see the emergence of China in the graph, and likewise, US manufacturing output steadily up, up, up, except for the recession, the COVID recession, it hasn't declined, because we're making more stuff with fewer people, we're making Boeing airplanes instead of cheap socks. And given the inexorability of that trend, you have to help people, and that doesn't mean offering marginal retraining, the Altar studies show that if you've got a company town and the company goes down, people just sit around helpless. You have to study where the jobs are going to be, both the kind of jobs and physically where they'll be, and help people move. This is what China did under Zhu Rongji, with 45 million jobs. We're wrecked socially by three million, why? The Democrats are dependent politically on the manufacturing unions, so you're not allowed to talk about transferring people into the service sector, which is the only place that jobs are, that's what Zhu Rongji did, he transferred 45 million people into the service sector, the Democrats can't talk about that, they just talk about getting jobs back, they aren't coming back, period.

William Overholt: This is like what happened to agricultural employment, it was 98% at one time in this country and now it's about 2%, but instead of saying that Peru is stealing all our jobs, we built roads and railroads and zoning systems for modern cities and attractions for modern industry and we absorbed those people. The Democrats won't do that for constituency reason, the Republicans won't do it because that would mean empowering the government, giving it the funds to do something, and their constituency, it's all rich millionaires, won't allow that, so we've got a problem, and the only way it's going to be overcome is by a kind of leadership that creates a real break, generational leadership. And it's not, we're not going to solve this problem by creating barriers against companies operating in the most efficient global way possible, it's a domestic social problem.

Ezra Vogel: Bill, we have a lot of questions coming in from the outside and we have very little time. I wonder if you could try to give very brief answers to these questions so that we hear at least several of the people with questions, and one is from Du Yiu Fai, it says, "Fareed Zakaria ranks human rights abuses against Muslims in the world". He said, "Xinjiang is not as bad as Yemen or India, why do you think the US and its allies, why do you think we're so focused on Xinjiang, and what's the current strategy of such widespread concern for the Uighurs?"

William Overholt: Well, the difference between Yemen and China is that China's really big and Yemen's really small. The difference between China, you know, I think the abuses in Xinjiang are, in fact, worse than the abuses in India, but the abuses in India are very severe. And unfortunately, our policy is totally inconsistent. We give India a pass on almost anything because it likes its leader, and right now it's, what India's doing in Kashmir and has been doing for many years doesn't get the kind of treatment in our press that Xinjiang gets and that India deserves. And go back to the beginning of the Obama administration, there was this huge outrage about China operating in Sudan, in the oil business, and the oil company was a Chinese-Indian joint venture, India got no opprobrium and China got this extraordinary outrage. And dealings with Iran, India's dealings with Iran were virtually identical to China's dealings with Iran. So we have to decide whether, in fact, that a top leader is elected should overcome all our major foreign
policy considerations, and our leaders, of both parties, and our media just won't step up and try to rectify the terrible hypocrisy of many of our policies.

Ezra Vogel: A question from Suni Fei, "Is democracy, human rights so important in comparison to some other rights like life and basic needs?". I think the point is that China has been providing a lot of economic basic needs, and is human rights so much more important than meeting those basic economic means in evaluating another country?

William Overholt: Americans have a hard time understanding the problem, the priorities of a mother in a very poor country like China 40 years ago, or like South Korea or Taiwan or Singapore in 1960. You don't know whether your kid is going to have enough food to survive, the chances of the kid getting diarrhea and dying are astronomically high, the chances of the kid getting an education are almost zero. When I wrote my last book about China, the number of families in China that owned a home was twice the number of Indian families that had access to a toilet. If you don't have access to a toilet, if you don't have enough food, if you don't have any medical care, your priority is survival, and we need to understand that. And on governments of [indistinct] and Deng Xiaoping, addressed that to get the support of their people, and this is because China has basically solved that problem. It's why its leaders have the highest level of support in Kennedy School polls of any country in the world. We have to understand that, but, but there are levels of human rights abuse that are just morally unacceptable, at any level, and what's going on in Xinjiang is unacceptable.

William Overholt: And the pressures, once a population has its survival and its food, its shelter, its education assured, the priorities change, and South Korea, Taiwan, even Singapore today adapt to that, and Xi Ping's China is not adapting to that, it's afraid of those pressures, and because it's afraid of those pressures it's going backwards and becoming more oppressive. And I do not believe that the Chinese people are going to accept that indefinitely. I don't believe that we Americans have any ability to change China's political system, and I don't think we should try, but I think the other side of Americans needing to recognize the priorities of a starving family is that Chinese leaders today need to recognize that all these pressures from their educators, from their lawyers, from the Me Too movement, these are just going to get bigger and bigger. If you respond purely by repression, you pay a price, and that price probably isn't revolution and democracy but it's probably dissension and stagnation and not becoming as great a country as China could be, so we need dialogue about this.

Ezra Vogel: Bill, such an extraordinary presentation, it makes me so proud of our series and so happy, you know, one of the good things about our country is it still supports scholars and gives us the opportunity to talk truth to power, to analyze problems, and we're very appreciative that you, drawing on all your experience in government and business and universities, have been able to do so, we thank you very much. Next week we are very happy to have with us Jeff Bader, who was Obama's China specialist and helped get the Obama administration started on the question of how to deal with China in a new administration. He's going to talk to us next Wednesday and the results of the election may not be in entirely but we hope they'll be clear enough that he can provide the direction. So thank you Bill, and we hope you'll join us next week for Jeff Bader. Thanks a lot.