

China, America and the World:
Realist Geoeconomics

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In the second half of the 20th century, the Pacific powers achieved an era of big power peace combined with the greatest improvement of living conditions in human history. Some two billion people rose out of animal-like subsistence. Unstable countries stabilized. Ideological conflicts quieted. Maoism and jihadism deflated. Big power differences were managed. Imperial Soviet power was defeated. The accomplishments were achieved by geoeconomic strategies, led by the U.S., protected but not dominated by the military. But in the early part of the 21st century the major Pacific powers have lost the thread of earlier success, limiting progress and endangering achievements.

Post-

The Asian Miracle

East Asian countries most successfully exploited the new postwar environment and the associated U.S. geoeconomic strategy. Japan became a big power by focusing on economic growth

constructed to be largely compatible with the Bretton Woods system. The leader of the AIIB was chosen in large part because he is an enthusiastic alumnus of the World Bank and the ADB. The AIIB and the New Development Bank pointedly do their business in U.S. dollars, not RMB. The reality is that Washington's successful post-World War II strategy seduced China into joining the system.

U.S.-China joint globalization transformed the global economic system for the better. In particular, it tipped the balance for six transformations that were long under way in the rich world but had no prior assurance of becoming global:

The *super-industrial economy* emerged. For the first time in human history, production of the goods most important to humanity, food, clothing, shoes, materials for shelter, and much else, moved from scarcity to surfeit. The distribution of everything remained imperfect, with local shortages even of food in parts of India and sub-Saharan Africa, but maldistribution does not negate the triumph of the production abundance.

Second, alongside the super-industrial economy came the *post-industrial economy*. This had been emerging in the advanced countries for a generation, but the global tipping point came in 2015 when services came to constitute 50.5 percent of China's economy. This signified not only a more prosperous and technologically advanced world but also one where the world's workers were being freed from the manual labor that for millennia has doomed most human beings to early decrepitude. While U.S. politicians, dependent on industrial labor unions, deprecate the shift to services, this has greatly improved human dignity.

advantage and almost the entire human population could benefit from lower costs and higher quality.

Fifth, the U.S.-China dynamo tipped the world into an *environmentally conscious economy*. Here again the more advanced parts of humanity had been moving in this direction ever since London found itself crippled by the London fog, rivers caught fire in America in the 1960s, and Japan suffered its four big environmental scandals in 1970. However, as late as 2010 the bulk of humanity was ignoring environmental degradation and climate change and until then China was the biggest problem. The tipping point came with the emergence of Chinese environmental consciousness in the current decade. Now China, digging out of a deep hole, is the leader in every form of green energy, the world's largest investor in environmental amelioration and cleaner cars, and a powerful advocate of policies to curtail climate change.

American system. Bangladesh's emergence as the world's second largest textile producer saved the country from becoming a failed state and precluded what could have become the greatest fount of radical jihadis.

Likewise, in Africa, Ethiopia, once seemingly hopeless, with mass starvation and six warring Leninist parties, recently enjoyed a period as the world's fastest growing economy. These developments in places like Bangladesh and Ethiopia seemed beyond imagination in the year 2000. The phase of parallel U.S.-Chinese development of the world economy, and the improving stability of many countries and many aspects of global politics, amplified the success of the great U.S. geoeconomic strategy. The stabilization of so many emerging countries saved the U.S. trillions of dollars of military expenditures. Continued spread of the benefits of Sino-American globalization could save trillions of dollars of future military expenditures in North Africa, the Middle East and Central Asia, but developments in the new century jeopardize those benefits.

[The new era of global integration](#)

The emergence of an era of global integration, noted above, has two phases. First came globalization of production, whereby supply chains became global, enabling Western countries to do the high value work and emerging countries to do less-skilled, less-lucrative work. In that phase, production flowed toward Asia and goods flowed back toward the U.S. and Europe. This globalization of production saw the advanced economies move out of lower-value-added manufacturing and into higher value-added manufacturing and services. The migration of low-value-added production of things like towels and cheap socks continued a process that had been evolving for generations; such products were initially made in the U.S. north, then in the U.S. south, then successively in Japan, the four tigers (South Korea, Taiwan, Hong Kong and Singapore), then other Southeast Asian countries, then China, and currently Bangladesh and Africa.

Because economic growth and structural change have been particularly rapid in the era of Sino-American globalization, adjustments have been stressful. Domestic political gamesmanship has exacerbated the stress. Manufacturing employment in the U.S. has declined steadily since 1947 as part of a global decline of manufacturing jobs that has recently been far more rapid in China than in the U.S. The shift out of manufacturing and into services is an inexorable trend analogous to the decline of farming jobs that occurred in earlier generations. In both cases, as

technological and organizational efficiencies that reduced the need for manual labor. Only about one out of seven “lost” jobs is due to globalization and China is part of that globalization influence. Nonetheless it has served the interest of both parties to blame the manufacturing jobs “loss” on China rather than to undertake the arduous and expensive task of helping displaced workers into service industry jobs. In the decade-long Zhu Rongji era, China lost 45 million manufacturing jobs, while the largest U.S. loss in a decade has been about 3 million, but China was much more proactive in helping its workers.

The other form of gamesmanship has been a focus on trade deficits. A shift of manufacturing facilities to poorer countries entails a trade deficit, but that deficit does not measure the respective economic costs and benefits. The proper measure is “value added.” For instance, on the trade balance a sport coat exported from China to the U.S. shows up as a deficit for the U.S. of \$450. But a study by Patrick Low, a Swiss former chief economist of the WTO, of that same sport coat revealed that only 5% of the benefits went to China, basically for sewing the sport coat together, while 84% of the benefits went to the U.S., mostly for designing the coat, financing it, marketing it, and pocketing all of the profits.

Importantly, the phase of globalization of production is largely in the past, although most current Western policies respond to that nearly obsolescent trend. The emergent second phase is globalization of consumption, in which Asia is becoming the center of gravity of global consumption. The natural outcome of this phase is disappearance of structural trade Western deficits and emergence of a highly complex division of labor for production rather than a one-way migration of production to Asia. China is already the world’s largest purchaser of luxury goods. Movies, art, clothing styles, music and much else are already adapting to this emerging era. Protectionist Western politicians will sacrifice their economies’ future in the era when goods flow both ways across the Pacific; no global company will be able to survive without full access to Asian markets.

[Losing the thread](#)

The Japanese-American and Sino-American phases of what is now a global economic miracle have been followed by important backsliding to traditional zero-sum geopolitical conflict. The basic postwar conditions remain—the possibility for

that makes most traditional political-military contests lose-lose. But domestic politics has caused backsliding to traditional geopolitics.

Throughout the region, the fear of social collapse, and the fear of Soviet power, that had fueled the obsession with economic growth gave way to hubris, then complacency and grasping for other paths to national dignity and influence.

In Japan, five traditional interest groups associated with the governing LDP essentially captured control of the government, squandering and mis-allocating the country's resources in their interest. For instance, driven by the construction lobby, Japan, the size of California, routinely spent more on infrastructure construction than the entire U.S. The power of the construction lobby enabled the nuclear industry to build the Fukushima power plants in an inappropriate location, to inappropriate standards, and in violation of national laws. The miracle economy built by globalized search for best practice turned inward. Protectionf70 G(eri2 reW0 inb)-3honn

far, of the equally valid claims of its neighbors, combined with the Foreign Minister's assertion that small countries should know their place in dealing with a big country, seems to demonstrate an arrogant big-power mentality. Its use of economic warfare (weaponizing constraints on rare earths exports to Japan, imports of bananas from the Philippines, constraints on South Korean businesses in China, and allocations of tourists to several countries) indicate a belief, probably misguided, that neighboring countries can be forced by economic sanctions to compromise their sovereignty.

In all three cases, the reason for deviation has not been primarily a national strategy calculation but rather a byproduct of domestic politics. In Japan the capture of national politics by reactionary economic interests rendered an economics-based national strategy impossible. In the U.S., military industry had an army of lobbyists that State and AID lacked. In China

Dennis, but I wrote the Anti-Secession Law, so let me tell you what's really happening. Your country is not the only country that has domestic politics. Our leaders are under pressure for being too soft. We have to pass this law to address that problem. You know what our policies toward Taiwan have always been; this new law doesn't change anything. After we have passed that symbolic law, we will do the positive things you are asking. And that is exactly wha

stability. The U.S. Cold War victory required pragmatism, and success in stabilizing the residual regions of the globe requires pragmatism. (When, at a higher level of development, the center of gravity of society is an educated middle class society there is a better case that democracy is optimal for growth, stability and social welfare, although several Western societies are now stressing that proposition.)

A second objection is that China is designing BRI to serve its own interests, such as providing work to its state enterprises and outlets for some of its overproduction. That is unobjectionable if BRI also accomplishes the broader goals. U.S. Cold War and post-Cold War policies were loaded with U.S. interests too, but they served the world well.

Surely, however, success of such policies will enhance Chinese power and prestige. Yes, they will, and that is not a bad thing if they hel4n i

is expressing interest in BRI. An imminent EU-China trade agreement and acceptance of Chinese purchase of key ports and other facilities demonstrate European willingness to collaborate up to a point

politics are antagonizing the host countries, especially Australia and New Zealand. Hubris could sever the belts and roads. To make its grand BRI vision succeed, China must make difficult choices that it has so far refused to face.

It is not in the U.S. interest for BRI to fail. But the U.S. would be much better off if BRI became a joint effort with China or a parallel competitive effort engaging the U.S., EU, and Japan as well as China. There are some positive developments.

Japan has indicated interest in collaborating with BRI and at the same time it is regularly defeating China in the competition to build regional power systems. Both the collaboration and the competition facilitate successful development.

Washington has indicated that it will compete by reintroducing some economic

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