PACNET

THE CHINA PARADOX

BY RORRY DANIELS

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In the debate over whether China is a threat or an opportunity for the US, everyone is right. Those calling for containment say China's growing national power can and will be harnessed to challenge US strategic interests and global hegemony. Those calling for engagement say China is the engine of the global economy and its behavior is shaped by incentives and roadblocks in the international environment. To the hawks, cooperation with China approaches betrayal; to the doves, decoupling from China is like scoring an "own goal." Reconciling these competing interpretations of the implications of China's rise is not only possible, it gives the best opportunity to define the middle path.

Both camps agree on a shift of perspective in US foreign policy discourse – with the rise of successful, state-driven economies, it is time to rethink the fungibility of power. The idea that, by nature, economic relations are a positive-sum game is challenged by China's ability to turn its economic export machine into a political and security export machine as it expands its military and diplomatic footprint around the world. At the same time, US companies are investing in and trading with China because there are clear financial benefits to participating in the largest and fastest growing market in the world. Are these companies betraying the national interests of the US if they enter mutually beneficial deals with Chinese entities that produce profits or products the Chinese Communist Party can convert to military advantage?

China experts and analysts in the US should consider a more dialectical approach in thinking about China's rise, recognizing that the fungibility of power makes relationships with China both a serious threat and a massive opportunity at the same time. Put simply: in China trade, the more you gain, the more you lose. Conversely, the more you try to stop the losses, the more you stop the gains. Participating in China's economic rise is both a challenge and an opportunity; two sides of the same coin, intrinsically linked to the same delta.

Take the issue of intellectual property theft. Though many companies complained to the US government about the issue of either hacking or having to turn over intellectual property as a market access condition, few, if any, were willing to be involved in addressing this directly with China. These companies were gaining from their relationships with Chinese entities, while losing at the same time, but they did not want to stop the gains to address the losses.

Why would companies that have a clear interest in defending their intellectual property rights be anxious about doing so? Because China has shown that it is willing to punish companies or entities that challenge its unfair practices. In other words, because state power is fungible, the state can use its consolidated resources to override the economic incentives for an individual business or entity to profit from a commercial relationship if that relationship challenges the systemic approach. It can force its companies to incur pain on a scale that the US laissez-faire approach simply cannot match.

In the US, state power is quite diffuse and getting weaker in an era of deregulation and tax incentives. If companies profiting from relationships with China are not paying proportional taxes back into the system, the budgets for defense and diplomacy will suffer. If the tools available (investment oversight, tariffs, sanctions, etc.) to defend US national interests from China's actions are all less powerful, both in practice and in discourse, than the fiduciary responsibility US public companies have to their stakeholders, then profits will be prioritized over national security interests. US companies are not in the China market because it's either easy or painless; they are there because of the market size and opportunity for profits.

China's economy also has more directive and redistributive power than does the US because it maintains a large state-owned sector and has reasserted the Party in the private sector. While China's private sector may be responsible for most of its economic growth, the profits from the state-owned sector can be reinvested in dual-use technology, military modernization, diplomatic and economic outreach, and other conversions of power. This is an advantage over the ability and incentives for US-based companies to reduce their tax burden. And recent reforms that mandate Party cells in private enterprises give the Party the potential to control not only the parameters of competition but also to direct the goals and achievements of independent companies to support broader national interests.

When US hawks on China browbeat experts about the nature of the threat, perhaps they are really complaining about the fungibility of state power – the difference between the ability of the respective central governments to use state power for national goals. When US policy analysts argue that 'convergence' was a misguided organizing principle of China policy, perhaps they are really wondering why the fungibility of state power wasn't flagged early as the challenge it has become. And when serious China hands band together to push back against a narrative that the only way to deal with China is complete decoupling, perhaps they are reminding us that stopping losses means stopping gains.

A better framework for analysis is that dealing with China involves a very complex set of competing priorities and the best the US can do is find a balance that works while recognizing that the balance will constantly shift due to both anticipated and unanticipated developments. If we shift our mindset to the essential fungibility of power problem – how to deal with a state that has direct rather than diffuse ability to marshal power – we can more productively assess how to balance competing priorities instead of litigating who is right and who is wrong. Instead of agreeing to disagree, let's agree that we're all correct and put this unproductive debate to rest. There is real work to do.