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Anxiety about China's rise will only hinder America's response
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RYAN HASS

Senior Fellow in the Foreign Policy program, Center for East Asia Policy Studies, and the John L. Thornton China Center
Michael H. Armacost Chair
The Brookings Institution

DAVID R. DOLLAR

Senior Fellow in the Foreign Policy program, Global Economy and Development program, and the John L. Thornton China Center
The Brookings Institution

DAVID DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast, "[Dollar and Sense](#)." Today, my guest is Ryan Hass, a senior fellow in the China Center at Brookings. Ryan has a new book called "[Stronger: Adapting America's China Strategy in an Age of Competitive Interdependence](#)." He also has a companion piece in *Foreign Affairs*. So welcome to the show, Ryan.

RYAN HASS: Thank you for having me, David.

DOLLAR: So let's start with the basic argument. I should say, I love the title of your *Foreign Affairs* version. That title is "[China is not 10 feet tall](#)." So what's the basic argument?

HASS: Well, the 10-foot-tall reference is a reference to a comment that former Secretary of Defense Schlesinger made cautioning against viewing the Soviets as 10-foot-tall during the Cold War—thinking of them as towering figures of immense strength and far-sighted wisdom. Part of what I hope to do through this book is to help limit the spread of 10-foot-tall syndrome now to the China challenge. My basic argument is that China is the biggest test confronting the United States. We need to take the challenge seriously, but in the process of doing so, we should avoid exaggerating Chinese strengths and overlooking their vulnerabilities because doing that leads to a distorted picture which creates bad policy choices.

So part of what I'm trying to argue is that seeing the China challenge clearly is the first step to getting China strategy right. But the book also makes an argument that the United States is not necessarily going to be able to determine China's path. We will be able to control our own, and so it would be wise of us to focus on nurturing our own sources of strength—our domestic dynamism, our global prestige, and our alliance network. And I would like to see us take a calm and confident approach to dealing with the Chinese rather than a constantly anxious and reactive posture. I think we can afford to do so because in spite of our many imperfections we are the stronger party in the U.S.-China relationship and by a pretty good margin. So basically, what I am trying to argue, David, is if we live up to our values and our potential, we should be able to continue meeting any challenge and outpacing any challenger, including China.

DOLLAR: Yes, so I really like that basic assessment, Ryan. Take a good, clear look at China: They have strengths and weaknesses, and in the long run, I think the U.S. does have a lot more advantages. Let's focus on economics for a moment. What are some of these weaknesses that you see, for example, in China's economic system or economic policies?

HASS: I see three big handicaps that the Chinese have to overcome. The first is demographics, the second is debt, and the third is productivity. On the demographic side, the Chinese population is traveling a downward slope that's going to get steeper as time goes by. They are going to go from having around eight working age people per retiree now to about two working age people per retiree in 2050. At the same time, debt is piling up in China. Just over the past decade, we have seen China's debt-to-GDP ratio basically double. This is significant in part because it could limit China's ability to push through the middle-income trap by buying its way up the value chain as Taiwan and South Korea did at similar stages of development. And then

on the productivity side, Chinese workers are significantly less productive than their competitors or counterparts in other countries, and China is having a tough time squeezing out further productivity gains.

Then I guess the last thought that I would put out is on China's need to build a social safety net. Until and unless they do so, it's going to be very difficult to persuade the Chinese population to stop saving for a rainy day and instead increase consumption. And until that happens, it's going to be difficult to fully rebalance their economy. But, David, you are a world-leading expert on this issue. I'd love to hear your perspective as well.

DOLLAR: Well, I like your three issues, three challenges, Ryan. I would just add that I think they are all very closely interrelated. It's hard to have productivity growth once your labor force starts to decline and with the aging of the labor force. Then when you have that slow productivity growth, it's hard to have a large amount of investment that gives you a good return. So I see that rising debt-to-GDP as evidence that they are financing a lot of bad investment. I like to think in very simple terms: if you are issuing credit and you are financing good investments, then GDP is going up and the ratio of debt-to-GDP is pretty stable. If you finance white elephants, then what happens is you have the debt but you don't have any increase to GDP. It's not quite that bad in China, but it's worrisome this big rise in debt that you pointed out. So I think you definitely got the right issues there.

I've got a couple of quotes from your Foreign Affairs article, Ryan, which I think are quite interesting and good grounds for further enumeration. One of them is about the political system in China. You write, "Space for local policy experimentation appears to be shrinking, as more decisions become concentrated in Beijing. The top-down nature of the system has also made it more difficult for officials to revisit past decisions or report bad news to the top." How does that political assessment affect economic policies, economic reform, dynamism more generally?

HASS: Well, I guess I would argue that the centralization of policy decision-making is having a couple of big effects. The first is it's causing local cadre to become more cautious. You know, when cadre are punished for not following the party line, it has a pretty chilling effect on their tolerance for risk and willingness to experiment with new ideas. And when you risk your career by trying out new ideas, you are going to air on the side of caution, and the more that this mindset takes root I think the less policy experimentation we will expect to see at the local levels. This is a problem because as China was reforming and opening up, one of its strengths was its ability to test out ideas at the local level and then take the ones that worked and scale them nationally. If they lose the capacity to do this or it becomes diminished, it will just sort of shrink space for dynamism.

The second idea that I would offer is that it's going to be harder for bad decisions to be revised or reversed if every decision comes from the top on down because it's hard for lower-level officials to tell their bosses and the senior leaders of their country that the decisions that they made previously were bad ones. This can lead to inertia, and it can also create bureaucratic

constipation. If there are fewer rewards for proposing big, bold new ideas, I think we are going to see more people sitting back and waiting for direction to come from the top.

Now, I don't necessarily want to exaggerate the point; China's economy does remain dynamic. But I am trying to suggest that the political trend line that we are watching in China could put a drag on China's policy innovation going forward.

DOLLAR: I think that's often not well appreciated—your point that there traditionally has been a lot of policy experimentation. Obviously, it is an authoritarian country ruled by the Communist Party. That's been true since 1949. But Deng Xiaoping definitely launched a period in which there was a lot of local experimentation. There's a quote from him in Ezra Vogel's biography of Deng Xiaoping that is more or less telling local governments, “you are on your own and you are really going to have to figure out how to generate investment and growth.” And you got a lot of local experimentation, then other places around China would copy that or it would get codified in national policy. So I think that's an underappreciated part of the whole Chinese experience—that kind of bottom-up reform—and you need a certain political acceptance of risk-taking and experimentation in order to get that.

You also write, Ryan, that “Concentrating on China’s strengths without accounting for its vulnerabilities creates anxiety. Anxiety breeds insecurity. Insecurity leads to overreaction, and overreaction produces bad decisions that undermine the United States’ own competitiveness.” Have we already made some bad decisions, or are there particular bad decisions that you are worried about in the near future?

HASS: Well, David, when I was writing that, I was thinking back to the past several years and I would argue that we have already traveled a path of anxious overreaction during that period. Whenever you have a secretary of state traveling around the world warning every audience that he speaks to that the Chinese are coming, the Chinese are coming, you are basically advertising that the Chinese are in your head. Whenever you organize a speech series to warn that unless China is stopped they will dominate the world at America's expense, you are really advertising your own insecurities, and this has consequences.

First, it sends a demand signal to the rest of the government that U.S. policy should be organized to blunt or impede Chinese initiatives, and it fuzzes whether or not every Chinese action implicates our vital interest or not. So we find ourselves chasing after and reacting to the Chinese constantly, and this takes up resources; it takes up focus that could be better spent on advancing our own interests and initiatives. But secondly, it also causes our allies and partners to worry that the United States has lost its way, that we are fixated on exaggerating China's strengths and forgetting our own. My argument is that insecurity and anxiety aren't very attractive looks in human-to-human interactions or in international relations. So what I hope we will be able to do going forward is to take a more confident, coolheaded approach to the relationship because we do remain the stronger power and we can afford to be.

DOLLAR: As I was reading that part of your article, Ryan, I was thinking about a risk that the United States takes some bad lessons from China. There's a lot of complicated things that have gone into China's success. Recently, they are making a big push to develop specific technologies. They are putting in a lot of resources; they are focusing on particular technologies and enterprises. There is no evidence so far that this has been successful, and I'm skeptical that this is really the best approach. It relates very much to your point about local experimentation.

For example, they want to get more synergy between universities and companies, which we have in many locations around the U.S. They've got great universities in about 20 different locations—just let some experimentation flourish. Let different locations take different approaches, see what works. They'll copy each other, they'll scale it up. But instead, you have this recent push to subsidize particular technologies. When I translate that to the U.S., I think we could put more resources into our universities and more incentives for R&D with the notion that we are going to start picking particular technologies or copy Chinese industrial policy. I think that would be quite ironic if that ends up being the lesson that we draw from China's success.

HASS: Oh, I agree. I think back to the Amazon, to Google, to Microsoft. The common thread of three of America's biggest corporations is they started in garages. They were not directed by the central authorities. They benefited from access to capital, from transparent, predictable laws, and the best ideas prevailed in the marketplace of ideas.

The United States has had anxiety when we've bumped up against state-directed scientific innovation in the past. We did with the Soviets, particularly around the time of Sputnik. We did in the early-80s with Japan. And in those moments, it felt like our system needed to change in order to adopt some of their practices. In reality, we have been pretty competitive for a long period of time, and I hope that we continue to build on those strengths.

DOLLAR: What you are describing, Ryan, actually fits nicely with some of the technology successes that China has had. The most obvious success is in the fintech area where you've got Alibaba and Tencent that have really generated a whole new payment system and financial innovation. Those are private companies outside the direction of government. And more recently, the Chinese government is trying to rein them in, which is likely to repress their innovation. So, interesting that some of the Chinese technology success follows exactly that—what you might call an American model of bottom-up innovation.

You already mentioned a little bit about our working with allies. Let's go into that a little bit more deeply. President Biden has made a big issue, I think correctly, about restoring relations with allies, including Europe, but also important Asian partners like Japan and South Korea. Secretary of State Blinken is going to be traveling to South Korea and Japan. I think this is his first overseas trip—certainly the first one across the ocean. He will be talking to them about a whole range of issues, but how do you think they see some of this American attitude toward China? Or let me turn it around: If we are going to try to work more closely with allies, what are

we likely to be hearing from some of these different allies, both the Asia-Pacific ones but also the European ones?

HASS: Well, it's a big question, David, and I'm not sure that we can generalize views across all of our allies and partners to fit into one category. But I would just say, at the risk of generalizing, that I'm not aware of any ally or partner that advocates for a posture of pure accommodation of China. I'm also not aware of any ally or partner that is interested in joining a purely adversarial anti-China bloc. All of our partners fall somewhere in between those two poles, and they all have their own unique interests and concerns relating to China. Some want China to do more in certain areas. Some want China to become less repressive at home. Some are more focused on trade and market access issues.

I guess the point I'm trying to get to is that if we want to work together with our allies and partners on China, we are going to have to find ways to meet them where they are and look for opportunities where our interests and our priorities overlap with theirs rather than trying to pull them to where we are, which is outside of most countries' comfort zones. But as we do so, I do expect that we will begin to see the formation of some issue-based coalitions to deal with China. We saw that this past week with the Quad leaders meeting, and I think that those are positive steps that we should build on. That's a pragmatic model that we should draw lessons from for other engagements. But we shouldn't hold out for any type of anti-China bloc like we saw during the Cold War against the Soviet Union.

DOLLAR: I agree with you; our main partners are not really going to go along with that. And in the economic realm, which is really the common theme of this podcast series, I think our partners in general share a lot of our concerns about Chinese trade practices, investment practices. So there's the potential to have common cause on these issues, but they largely see benefits.

Germany now has China as its largest trading partner; most Asia-Pacific countries do as well. Japan and South Korea, where Secretary Blinken will be traveling, they have recently signed this trade agreement together with ASEAN and China. So our strategic partners would like to have more balanced, in some sense, economic relations with China. And they share a lot of our concerns, but they are not interested in the hardcore decoupling which seemed to be on the Washington agenda, at least for a while.

HASS: Right. And I actually think, somewhat counterintuitively, David, that the more the United States is seen as working earnestly to build a constructive relationship with China, the more space it opens up for our allies and partners to feel comfortable working with us because they can have confidence that doing so is not perceived as joining some oppositional group that seeks to confront and contain China.

DOLLAR: In speaking about China, Secretary Blinken has used a three-part formulation which actually has some similarity in my mind to how the Europeans talk about China. So what Secretary Blinken said is that our relationship with China will be competitive when it should be,

collaborative when it can be, and adversarial when it must be. Now, he will be meeting Chinese counterparts in Alaska on his way back from his Asia-Pacific trip. So tell us a little bit about what you think might go on at that meeting and how that three-part formulation plays into the meeting, and more importantly, the development of relationships that come out of that.

HASS: Well, David, I completely agree with you that I think that Secretary Blinken's formulation rhymes with the way that the Europeans have been talking about China, and I think that it's helpful for us to narrow a little bit of that gap in at least rhetorically how we and our European partners are thinking and talking about China. I also would note that it matches pretty closely with suggestions that you and I put forward in [a Brookings blueprint paper](#) in January on this topic. But I think the underlying point that Secretary Blinken is making is that we don't have the luxury of thinking of China in simplistic terms, monochromatic terms, either as a friend or an enemy. Even if it's emotionally satisfying for us to think of China in black and white ways, the world is just too complicated to allow for it. So this three-part approach of competing, contesting, and cooperating I expect will lead over time to a greater ability of the two countries to compartmentalize issues in the relationship. And if we are able to make progress in that direction, it will allow us to deal with each other in a more dispassionate way as two major powers with global interests, some of which align and some of which are in opposition, and in some cases zero-sum opposition to each other.

But if we are able to get to this point of greater compartmentalization, it means that we will be able to coordinate with China on issues of common concern with them when it serves our interest to do so, even as we push back strongly when China does things that violate our values or harm our interests. This isn't going to be a light switch transition; it'll take time to evolve. So I wouldn't expect any dramatic breakthroughs to take place in Alaska later this week. My expectation is that both sides will use the meeting to explore each other's top priorities and concerns, both in relation to regional and global events but also in the context of the bilateral relationship. And the meeting will be sort of a steppingstone in the direction of a more functional relationship where both sides deal directly with each other, and, when it's possible, they solve problems. I think that will be healthy. It will be a departure from using tweets and speeches to communicate with each other which hasn't proven to be terribly effective.

DOLLAR: Last question, Ryan. I just want to dig a little bit deeper into the difference between where we can be collaborative and where we are likely to be adversarial. I want to end on a positive note, so why don't you start with what are the areas where we are clearly adversarial—and I'm thinking well beyond economics—and then let's end on where are the areas where we can actually collaborate together?

HASS: Well, I think on the adversarial side, there are going to be issues in which we are just fierce competitors with each other. Economically, in terms of green technology, we have different views on, for example, the use of coal-fired power plants for energy production. From a security standpoint, I think that both sides are developing capabilities to address our own security needs and place stress on the points of vulnerability of the other side, and I expect that will continue for some time.

We have interests that are in tension with each other around America's allies and security partners. So, for example, on Taiwan, issues relating to our security commitments to Japan and the Philippines. There is not a lot of space for compromise between the United States and China, and these are just interests that are in tension with each other and are going to need to be managed.

To end on a more positive note, I do think that there is ample space for the two countries to work together in ways that serve each side's interests. I think, for example, it would benefit both sides to lean into efforts to build a better global public health surveillance network that can rapidly detect outbreaks of viruses and begin the process of responding to them. I think that both countries would benefit from setting down their swords on vaccine diplomacy and finding ways to get as many vaccines in the arms of as many people as possible as rapidly as possible. That's the fastest route to the other side of this pandemic, because the reality is that as long as covid exists anywhere it will be a threat to people in both countries. Then on climate issues, I think climate will be sort of a mixed picture. There will be areas of contestation and areas of potential cooperation, but it will be tense because the United States is going to be pushing China to accelerate its realization of its climate commitments and ambitions.

But if you survey the world, there are areas where both sides have roughly aligned interests. Neither the United States nor China wants to see the Iran issue spiral out of control. Both sides would benefit from a mellowing of the situation and a return to more normal order in Myanmar. And in Afghanistan, I don't think the Chinese are particularly interested in seeing the Americans succeed, but they also don't want to see the Americans fail. So there is some space for coordination of effort.

DOLLAR: I'm David Dollar and I've been talking to my colleague Ryan Hass. His new book is called "Stronger: Adapting America's China Strategy in an Age of Competitive Interdependence," and there's a companion piece in *Foreign Affairs* called "China Is Not 10 Feet Tall." Ryan is advocating that we have a clear-eyed view of China. There are definitely areas where we are going to be adversaries, we have concerns, but there are also opportunities for cooperation. Our U.S. partners around the world—many of them would like to see this kind of balanced approach, somewhat dispassionate, from the United States. So thank you very much for joining the show, Ryan.

HASS: Thank you for having me, David.

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollar & Sense every other week, so if you haven't already, please subscribe wherever you get your podcasts and stay tuned.

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