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Democracy Dies in Darkness

China aims for independence as the rift with America and Europe widens. Will it work?

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Amid shifting noises and conflicting signals from the United States, confusion in Beijing over President Trump's policies is giving way to a realization that China is now operating in a different, less welcoming world.

Accustomed to decades of American friendship, an unequal trading relationship and other policies that have combined to speed modernization, Chinese officials are beginning to come to grips with the notion, as one former senior Chinese banker wrote recently, that "Sino-American relations won't continue to follow the same path they have for the past 40 years. Even those Americans who know China and are friendly to China have changed their views."

The realization in China has come slowly. Trump's election in November 2016 was treated as something of a godsend by many in Beijing who believed that relations with the United States would be eased by the accession to the White House of an amoral dealmaker. Trump might have railed against the United States' trade deficit with China on the campaign trail, Chinese analysts noted, but once he was in office the American businessman's transactional instincts would take over.

The Chinese had seen this movie before. Every U.S. president since Richard Nixon (with the exception of Barack Obama) had run on a platform that criticized the China policy of his predecessor. But all of them had returned to traditional China policy founded on a bet that if the United States at least tacitly supported China's rise, China's economic and political systems would end up like ours. When a U.S. administration complained loudly about Chinese deficits, as they often did, China would announce some big-ticket purchases of American products. Voila! Problem averted.

Now, however, as Li Ruogu, one of China's most prominent bankers, who from 2005 to 2015 led China's Export-Import Bank and played a key role in fashioning Beijing's mercantilist economic policies, observed in a recent essay that America's views on China "have undergone a fundamental transformation." Across Democrats, Republicans and social strata, Li wrote, Americans "are all taking a hard line on China."

Li, who recently chaired a meeting on Sino-U.S. relations, wrote that the reason Americans are changing their views is China's failure to develop "along American expectations." China is evolving into a nation that appears intent on challenging America's military, America's leading position in Asia and across the world, and even America's ideology of free markets and a liberal political order. These developments are prompting Americans to consider for the first time, he concluded, "decoupling" America's economy from China.

And America is not the only one.

Chinese policymakers have watched with increasing alarm as the rich world has become unusually united on China, less welcoming to Chinese investment and approaching zero tolerance for what's seen as non-reciprocal trade relationships. We see this most clearly at the World Trade Organization, where China's push last year to be upgraded to "market economy status" was blocked by a united front of the United States and the European Union.

It's also reflected in work done in Germany to restrict China's attempts to buy advanced German technology, mirroring stricter controls by the Treasury Department's Committee on Foreign Investment in the United States. Chinese firms used to buy, on average, one German firm a week, according to German officials. Not any longer.

The concern expressed by Li and other leading Chinese is significant because it belies the theory, popular among some in Washington, that the United States lacks leverage over China. Indeed, in his essay Li pondered the significance of a potential "decoupling" of China's economy with that of the United States.

"We still don't have an economy that can separately compete with America's," he acknowledged. Many of China's successes as the world's top trading and manufacturing country would "take a drastic hit" in the event of a full-scale trade war with the United States, he predicted. Oil and semiconductor markets, he noted, are "still basically controlled by the United States."

The economic risks for China were made apparent when the Trump administration prohibited Chinese telecom firm ZTE from purchasing any U.S. exports for seven years for breaking U.N. sanctions and doing business with North Korea and Iran. Just three weeks after the Commerce Department issued the ban in April, ZTE, which relies on American suppliers such as Qualcomm and Lumentum for about one-third of its components, announced that it would be suspending operations. In a few weeks, one the world's largest telecoms and mobile phone companies, and a pillar of China's state-owned high-technology sector, was brought to its knees.

ZTE may in the end get a reprieve, but to many Chinese, the ZTE case brought into stark relief China's high-tech dependence on the United States. Reports now indicate that the Justice Department is investigating whether another, much larger and far more important Chinese telecom company, Huawei, also violated U.S. sanctions against Iran.

As the ZTE case unfolded, Chinese President Xi Jinping ordered Chinese companies to grasp the "historic opportunity" to develop China's own high-tech manufacturing, to develop products and intellectual property as dominant as those now sourced from the United States. Tens of billions of dollars in new government investment and subsidies are on their way. In April, Xi observed that the "unprecedented challenges" faced by Chinese chip-makers actually amounted to "unprecedented opportunities" for them to seize the global lead in chip technology.

While patriotic chest-thumping might rally the troops, so far China has slammed into roadblocks trying to achieve semiconductor parity with the United States. This may be a problem that doesn't yield to Chinese cash, to technocratic guidance or to the applied intelligence of so many smart Chinese engineers. There are other fundamental aspects that make it hard for China to achieve greater high-tech self-sufficiency, starting with lax protection of intellectual property and a reliance on technologically backward and monopolistic state-owned enterprises, both in chips and the specialized equipment used to make them.

With Internet search, e-commerce and social media, China's go-it-alone approach has worked out well, nurturing domestic private sector giants such as Tencent, Alibaba and Baidu. But these firms, truth be told, are also trapped by the very environment that made them successful. All three have stumbled badly in efforts to expand outside the country. And semiconductors are a very different story than online chat or shopping. Chips are upgraded at a furious pace, in tune with global demand, and if anything, the gap between the best of China and the best of firms such as Intel, Qualcomm, Apple and ARM is as large as it ever was.

In his essay, Li said he was optimistic that the Chinese Communist Party would be able to weather its stormy relations with the United States. But he cautioned those in China urging a hard line against the West. “The most important thing,” he concluded, “is to choose the kind of path that is more in line with the needs and the future of China’s development.”

By choice as much as duress, China will move toward greater economic and technological self-reliance. Can China become equal in those spheres? Few questions loom larger in China’s future, or ours.