Rethinking Our View of China

BY JEFFREY E. GARTEN

The backlash against China has been surprisingly slow in coming, given how fast the Middle Kingdom has emerged as an economic power. Now, as the period of benign acceptance gives way to growing trade frictions with China, there is no consensus on what philosophy ought to govern economic relations with China. Opinion in the big industrial nations is divided into two camps, both representing outdated extremes.

One camp wants to contain China. It has supporters on the left and right, united by fear that this new power threatens jobs worldwide, and stands as a major obstacle to progress on human rights. Its capital is the Pentagon, led by Secretary of Defense Donald Rumsfeld, which worries that China's economic might will translate into a military and political challenge to U.S. supremacy. Its chief complaint is that China doesn't play by the rules; for example, by building a trade surplus in ways that constitute aggressive mercantilism.

The opposing group, which includes many CEOs, top U.S. officials like Alan Greenspan, and much of the U.S. foreign-policy establishment, argues for unfettered engagement. It argues that the more of a stake China has in global commerce, the more Beijing must play by the rules.

Those arguing for containment are clearly gaining ground. That may be most true in Europe, where states like France, Germany and Italy are far less adaptable than the United States, and more vulnerable to the rise of China. The problem is that containing a one-dimensional military superpower like the former Soviet Union meant encircling it with alliances such as NATO, fighting wars on its periphery and pouring aid into countries like Peru or Egypt to buy allies. But encircling an economic superpower like China would backfire. Trying to limit its influence by acts of trade protection would stall one of the world's two growth engines, and trigger a global slump. Given that China is a critical creditor to Uncle Sam, trying to control China's rise could cause a financial crash.

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An economic rivalry can't be managed with military tactics. This is not a zero-sum game. When the United States and China grow, all their trade partners win, too. Plus, leaders may command their armies, but can't issue orders to global markets, which are ruled by millions of private investors.

On the other hand, the enthusiastic "engagers" put too much faith in free markets. They fail to acknowledge that China's full-speed-ahead policies do threaten the Western work force, and dismiss too easily concerns about China's violation of intellectual property rights, its currency manipulations and its potentially destabilizing pursuit of energy supplies at any cost.

There is a more realistic way to approach China. It would entail engaging China within a system that constrains all members under intelligent rules. China is being changed by its entrance into the global economy, even as it reshapes the global economy. It's time for Washington, Beijing, Brussels, Tokyo and others to start working together on managing this explosive process, rather than just putting out fires. A number of world trade and finance rules ought to be reassessed in light of China's rise, from environmental protection, to currency stability, labor standards, energy policy, data protection and even the codes of social responsibility at global companies, including those now emerging from China.

China and the United States need to anticipate some of the dislocations to come. For example, because China's banks still respond as much to Beijing's orders as to market signals, they often encourage surplus industrial capacity in sectors such as steel or autos. If China's growth slows, its spare capacity will be exported, causing serious trade problems in the West. China and the West should work to mitigate such episodes. Case in point, China could choke off reckless lending in mutually agreed sectors, while the West prepares to cope with the fallout by strengthening worker-adjustment programs.

To encourage coordination, China should be welcomed as a member of major international groups such as the G8 and the International Energy Agency. In these settings, Beijing would feel directly the weight of global concerns, rather than dealing one-on-one with the United States or the EU, playing one off against the other. China would also have more influence on these international bodies, as it should. The only question about the Middle Kingdom's rise as an economic superpower is how it will unfold, with how much pain. A policy of containment is only likely to stoke its worst impulses, while a naive faith in the market is unlikely to minimize the disruptions. Finding the right balance will be difficult. But the options now on the table are sure to fail.

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