



# ADVERSARIES O

## A CONVERSATION ON U.S.-CHINA RELATIONS WITH DR. DAVID DOLLAR

Interviewed by Dylan Land, November 2020

*This interview has been edited for length and clarity.*

**Fletcher Security Review (FSR):** How would you characterize the relationship between the U.S. and China today? Are the two countries adversaries or competitors? How might this change under the Biden administration?

**Dr. David Dollar (DD):** The relationship is very complicated. In some ways, the U.S. and China are collaborators on a global order and global public goods, and they are obviously competitors in a healthy economic sense—the same way the U.S. competes with Japan or Western Europe—but then I would say the U.S. has legitimate security concerns about China. I don't think China is an adversary, but there's the risk that it becomes an adversary. China is really the only country in the world powerful enough to be a threat to the United States, so that potential threat colors the relationship.

As far as the transition from the Trump administration to the Biden administration, some of the measures President Trump has taken are perceived as harsh toward China, but he has given them a pass on other things. He has not personally raised issues of human rights or democracy. Trump is perceived as someone who has respect for strongmen around the world, so I think in some ways the U.S. under President Trump has given China a pass, while being tough in other areas. I would expect the Biden administration to be more consistent; it will certainly raise human rights and democracy issues, and it will continue some of the sanctions that deal with national security. I'm

hoping the Biden administration rationalizes the economic policy because clearly the trade war with China has not worked, so we need to try something different.

**FSR:** You mentioned in a recent Brookings Institution publication that the U.S. and China will have to work together on global issues. Beyond rejoining international agreements, how do you see the possibilities of cooperation taking shape? Climate change is a global issue, but concerns are rising about the environmental consequences of China's development projects.

**DD:** I think the main cooperation will be in the context of international institutions. I don't think the U.S. and China are going to be that friendly, and bilateral cooperation may not be that important. For example, if the U.S. rejoins the Paris accords, it will contribute to a multilateral framework working to decrease carbon emissions.

President-elect Biden has talked about going carbon neutral by 2050, as have Japan and Europe. President Xi Jinping pledged that China would get to carbon neutral by 2060, which is less ambitious. But all of these are fairly vague promises. I think we are going to need a lot of peer pressure among major economies in the world in order to bring about carbon reduction. Then a lot of the targets will be really focused on what is happening domestically. However, China is exporting coal power technology to a lot of other developing countries. Frankly, Japan does the same, as does South Korea, and there may be some U.S. companies involved as well. So again, I see this as a global



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issue. We collectively need to stop promoting carbon-based power throughout the world economy, which is probably best negotiated in a multilateral framework, rather than bilaterally between China and the U.S.

**FSR:** It seems as though you're saying that unilaterally or bilaterally, the United States might not have enough leverage to really change the actions or behaviors of China, and almost as a prerequisite, the U.S. has to start entering new multilateral agreements and partnerships to build pressure on China with its political and economic allies.

**DD:** I think that is a good way of putting it. I mean, there's also just the classic free-rider problem. Suppose the U.S. and China sat down and made a very nice agreement. I believe the U.S. and China together account for about 40 percent of global emissions, so that's a great start. But there are a lot of other big economies. India, as an example, is an up-and-coming big economy that also contributes to global emissions. So even if the U.S. and China had a very firm agreement on what we want to achieve and targets for each of our two countries, we would need to bring in other major economies in the world to prevent free riding.

**FSR:** In November, China signed the new Regional Comprehensive Economic Partnership (RCEP), which brings 15 Asian countries, including Australia, into a trade deal. The RCEP seems to be an alternative to the former Trans-Pacific Partnership (TPP). How might the RCEP affect

the United States' economic influence in the Asian-Pacific region or in the world more broadly?

**DD:** I think it will have a significant effect on the United States. The RCEP is an important agreement; it's not as deep as the TPP, but it's broad because it includes China and, as you said, a total of 15 countries in the Asia-Pacific. The deal does have some significant tariff cutting, particularly for parts and components. I see the RCEP really solidifying the position of Asia—and China in particular—at the heart of a lot of global value chains. The U.S. has talked about getting value chains to move out of China, which I think is extremely naïve, and this kind of RCEP agreement just makes it less likely that value chains are going to move out of China, so it's definitely important. The smart move for the United States, in my view, would be to rejoin the TPP. If the U.S. did rejoin, that would essentially be as big of a deal as RCEP in terms of breadth, and the TPP is a deeper agreement that deals with intellectual property rights protection, market access, subsidies, state enterprises, cross-border data, and a whole range of modern issues. So, it really makes sense for the U.S. to get back in the TPP and make that the standard for Asian-Pacific trade.

**FSR:** RCEP seems to lack regulations regarding environmental protection, labor laws, and human rights more broadly. Do you think RCEP sets a precedent that the United States will have to work around, or would rejoining the TPP undercut the efficacy of RCEP and reinforce the global norms that everyone should be upholding?



**DD:** Since we went to all the trouble of negotiating the Trans-Pacific Partnership, I think it makes sense for the U.S. to get back into it, rather than to try to negotiate something new. The idea all along was to make the TPP the standard and then start attracting other countries to join. South Korea, for example, was not a part of the initial negotiation. The U.S. could start bringing countries like Indonesia and Thailand into the TPP. There's evidence that this kind of deeper agreement that you have with TPP, which deals with various institutional issues, actually binds developing countries to the advanced economies that are involved—in this case, Japan and the U.S.—much more tightly than just a modest amount of tariff cutting, which is what you have in the RCEP agreement. So, rejoining the TPP would be a smart counter move that would be helpful for a range of economies in the Asia-Pacific, and it would be good for the U.S. economy as well.

**FSR:** Interestingly, India opted out of the RCEP and is strengthening its ties to the United States, signing a defense deal last October. While the deal was oriented toward security and intelligence-sharing, you now have two of the world's largest economies coming together in a mutual partnership. Do you think that this defense agreement could build the foundation for a stronger economic partnership to counter the rising power of China?

**DD:** I think it is useful to keep the security issues separate from the economic issues. I think it makes a lot of sense for the U.S. to rebuild its security alliances in Asia and also Europe. India has always been kind of on the fence; reluctant to have a real security relationship with the U.S. for fear of angering China. However, given the recent bloody battle between India and China along the border, I think India is ready to have a more secure relationship with the U.S., and I think that is positive. Now, I wish India would open up more to integrate with the global economy, and that could be through a trade pact with the United States. When we talked about the TPP, I noticed we didn't even mention the idea of India joining because that is really kind of a stretch. Unfortunately, it is a more protectionist economy than most of the other emerging markets and I think that's a shame. Because India's economy is so big, the cost of that protectionism is not quite as great as it would be for a small economy, but I think they're still missing out on good opportunities and it still makes sense for the U.S. to develop the security relationship, even if India is not ready to open up economically.

Like I said, I prefer to keep the security and the economic somewhat separate for the following reason: for the moment, we live in a world where the economic institutions like the World Trade Organization (WTO), the IMF, the World Bank, have our security partners—countries like Japan, and Western European countries—but they

also have Russia, China, and other authoritarian countries. I think we've found that a global economy where everybody participates in these economic institutions is actually stable and prosperous, and probably contributes to security. So, it doesn't appeal to me to make these security arrangements the same as the economic arrangements, because then the world will start splitting into economic blocks and we don't have that kind of world situation right now—we actually have a pretty integrated global economy.

**FSR:** I agree that we should not combine economic partnerships with security partnerships, but there are certain economic policies and economic actions that do influence security relations, specifically with regard to China's Belt and Road Initiative. For example, Iran now has a 25-year Comprehensive Cooperation Program with China, part of which includes China funding a \$400 billion project for transportation and oil pipelines. While this program is an economic plan, it certainly affects U.S. security interests. As such, how do you reconcile the need to separate economics and security with the understanding that some of these economic programs influence U.S. security calculations?

**DD:** You're right that there is inevitably some overlap between the security issues and the economic issues. I think the best way to deal with the really challenging global security issues is to bring them to the United Nations Security Council—that is where we had an Iran deal to limit its development of nuclear weapons. I think it was a mistake for the United States to pull out of that. But as that developed, it was interesting because China was pretty cooperative in bringing about the deal. The U.S. put a lot of pressure on China to impose sanctions against Iran, and the Chinese faced a tough choice. They decided in the end to go with the U.S. sanctions, and cut way back on purchases of oil—just talking about the period leading up to the UN agreement. I think we showed that we can use sanctions to get cooperation from China and Russia. Eventually, we got a deal in the Security Council, and since



those are veto powers, obviously China and Russia had to agree to that deal. So, it is definitely complicated, but I think we are more effective when we operate in that kind of multilateral framework.

**FSR:** Considering the other side of the coin, do you view economic entanglements, such as the U.S. trade deficit

with China, as something that would prevent more open conflict between the two countries? The U.S. seems to have at least some vested interest in the future of its economic relationship with China, but in Taiwan, for example, military tensions are continually increasing. I imagine that both the U.S. and China are reluctant to engage in “hot” conflict because of these broader economic concerns.

**DD:** Basically, I agree with that. I would argue that the main impetus against conflict is just understanding that any conflict between China and the U.S. would be a complete disaster. It is hard to talk about winners or losers with major nuclear powers once war starts. It would be really hard to constrain it to conventional weapons. I think in the case of Taiwan, the primary incentive for mainland China not to go to war over Taiwan is because that would be a bloody mess. Taiwan has a pretty capable military and there is a risk the U.S. would get involved. At the very least, you would have Chinese people fighting Chinese people, so I don't see the mainland having a lot of appetite for war. Furthermore, people forget that Taiwan and the mainland have an enormous trading and investment relationship. There are a million Taiwanese citizens living and working on the mainland, they own billions of dollars of capital invested [in China], and the mainland is Taiwan's biggest trade partner. Then, of course, Taiwan and the U.S., and mainland China and the U.S., all have deep economic relations. If there were a war—suppose the mainland could quickly win a war over Taiwan and suppose the U.S. didn't get involved—I'm pretty sure there would be worldwide economic sanctions. Not just the U.S., but also Europe, Japan, everybody would have to go along with the sanctions, unless it was somehow obviously provoked by Taiwan, but Taiwan is very careful not to provoke the mainland. Taiwan has never declared independence, and if you look at opinion surveys, the vast majority of people there are not in favor of declaring independence anytime soon. I think the mainland can live with the status quo. The U.S. position is trying to create more diplomatic space for Taiwan. They're a member of the World Trade Organization for example, and the U.S. would like to see them be more active in the World Health Organization and other international bodies. But the U.S. doesn't take a position on sovereignty. We don't have an embassy there, and we don't recognize them as the government of all China—obviously we recognize Beijing as the government of the People's Republic of China. It's a really complicated issue. My biggest worry is that there would be a mistake or an accident that accelerates the conflict. I can't see any of the parties involved deliberately choosing war, but I could see an accident escalating, and that would be a real tragedy.

**FSR:** While the U.S. does not have an official policy on Taiwan's sovereignty, Taiwanese officials come regularly to the U.S. for economic talks. Do you think that this may be a way of creeping toward a stronger stance on Taiwan, or is it as you explained, just deepening diplomatic avenues?

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**DD:** Taiwan is a member of the World Trade Organization; it is a separate customs union from the mainland—Hong Kong is also a separate custom union. We have a system where a part of China can be a member of the WTO as an independent customs unit, so there's nothing that would stop the United States and Taiwan from having some kind of trade agreement. That fits in with the larger U.S. objective of creating more space for Taiwan and

the diplomatic community, but our official position is perfectly clear, and it seems unlikely that it would change, since the people of Taiwan have not declared independence. It would be kind of strange if the U.S. recognized it as a country without a request, and of course we wouldn't be doing Taiwan any favors because that is the kind of action that might very well precipitate war. I was arguing that the mainland is likely to be patient unless there's some provocative action from Taiwan or from the United States.

**FSR:** Returning to the Belt and Road Initiative (BRI), what do you see as the main challenge it poses to the United States? As you know, China has development projects all around the world and there are significant concerns about how much debt recipient countries are going to have to China. It is my understanding that China is marketing the BRI as an alternative to Western, American-style development, but do you see that as a challenge, or a security threat for the United States? How would you classify the BRI in terms of U.S. interests?

**DD:** I don't really see it as a threat to U.S. interests. Don't forget, the countries that are borrowing from China have agency, meaning they're making decisions. There have been some interesting recent examples. Malaysia had an agreement with China, and then there was a democratic election and a new Prime Minister who renegotiated everything: he changed the projects and reduced the amount of borrowing. Pakistan was going to get a bunch of coal-fired power plants from China and then there was an election and it switched and wanted renewable energy. The Chinese had a very pragmatic response to these requests, basically keeping the clients happy. So, I think the developing countries have more agency than is attributed to them in this idea of debt-trap diplomacy. Now, having said that, I'm not too worried about relatively big countries like Pakistan, Malaysia, Indonesia, Brazil, Nigeria, and South Africa. These are major countries with diversified borrowing from abroad. I worry more about some small countries, especially ones close to China—like Laos, Cambodia, or Sri Lanka—but also the ones further away, in Africa for example. With some of the small and vulnerable countries there is a risk that they will take on too much debt too quickly and that will give China some leverage on other issues. Laos and Cambodia, for example, tend to support the Chinese within ASEAN [Association of Southeast Asian Nations] discussions about the South China Sea. So I think there are things to worry about, but we've been a little bit hysterical about this as

far as I'm concerned. The fact is that developing countries need infrastructure and many of these projects are going to work out.

**FSR:** There are indications that Chinese banks and front companies were helping North Korea evade sanctions related to nuclear proliferation. Do you think there is any room for the United States to use its financial leverage—either to increase export controls or build economic pressure—to ensure these front companies are not undermining U.S. and international sanctions aimed at preventing the spread of nuclear weapons?

**DD:** The United States has unilateral sanctions that it can use to penalize any banks that are helping North Korea, and the U.S. sanctioned a small Chinese bank a number of years back. However, I'm pretty sure the big Chinese banks are not involved in North Korea because their connection to the dollar system is so critical that it would just be a foolish business decision. Now, China is a big heterogeneous country, so there may be some small banks and there certainly are some front companies, but in general, the U.S. has pretty good intelligence and has shown it is not afraid to use its sanctions.

**FSR:** The COVID-19 pandemic has exposed a lot of fractures in the global economy but has also demonstrated the importance of cooperation and partnerships. As we move forward, past this global pandemic, how do you foresee the global economy reestablishing itself? Do you think more countries will seek a protectionist, self-sufficient economy, or will they turn the other way and fortify international partnerships to protect against future crises?

**DD:** I think the pandemic will inevitably have some lasting effects. It certainly made companies cognizant about the resilience of supply chains, and the importance of having stockpiles of critical things, but I fundamentally believe globalization is going to continue. I think we've had a challenge to globalization around the world that began before the pandemic with the rise of more protectionist attitudes within parties that are allegedly both right-wing and left-wing in different countries. I think we had a worrisome period, but I'm now somewhat more optimistic that globalization is clearly winning out. Global trade is bouncing back surprisingly quickly after the pandemic and the global recession, and there are a lot of trends in the world that make different aspects of globalization appealing—trade, investment, labor migration. There is going to be tremendous pressure, especially regarding labor migration from the developing world to the advanced economies. Labor migration will continue, and continue to be controversial, but when you actually look at the data, I think we're going to see a steady flow of people and we're going to see rising financial integration. Trade is going to continue to be important but one trend, merchandise trade, seems to be less important as our economies are mostly services. So, services trade,

investment, and migration will all continue to rise. In America, we're going to be aging—Europe too—so we're going to be importing a lot of labor to help take care of us as we retire, and if done correctly, that can be win-win, absolutely.

**FSR:** To conclude, are you worried at all about China's climb to economic ascendancy? As a whole, how would you characterize the rise of China in the world? Do you view it as something positive, or might the long-term consequences be negative?

**DD:** I see it as mostly positive because I see it as part of a larger phenomenon of the developing world rising. If you think about it, 80 percent of the world's population lives in developing countries, so we can't have a stable world where 20 percent of us have a rich modern lifestyle and 80 percent of the world is poor—that's just not sustainable. I'm happy to see the developing world come along. I'm a big believer in democracy, so I'm pleased when I see a lot of that happening in democratic countries in the developing world. Obviously, China is not one of those, but I think it is hard to delink the general rise of the developing world from China's specific rise. As I mentioned early on in our discussion, China is clearly a potential threat to the United States, but one thing that mitigates the threat is that no authoritarian country has really been able to fully develop economically. There have been a few petrostates, but they're not really economically developed, they just happen to be sitting on vast amounts of oil. Leaving aside the petrostates, pretty much everybody with high per-capita income in the world is in a democracy. Nobody has been able to make it to high income without open political institutions. I think that's because to get to really high income, you have to rely on innovation and human capital. You can't just build factories; you need a lot more ongoing productivity growth and that seems to come out of societies that are economically and politically open—it doesn't so much come out of authoritarian countries. But the world is complicated. Maybe China will be the first to do it, but I have this sense that to be really successful over a long period of time, they are going to have to open up politically. I'm not naïve, they may not open up politically, but if they don't, I'm skeptical about how far they are actually going to go.

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