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The Chinese Tiger Never Changes Its Stripes

TRUST THE COMMUNISTS TO BE COMMUNISTS

by Dr. John Lee, Senior Fellow, Hudson Institute, with permission www.hudson.org

In July 2020, Chinese chairman Xi Jinping articulated a new “dual circulation” strategy to “unleash the full potential of [China’s] domestic demand,” build technological and other forms of “self-reliance” as quickly as possible, and position China to engage better and more resiliently with international markets on

economic exposure and dependency on the United States and craft strategies to advance a Sinocentric economic order that excludes the U.S. in important regards and limits U.S. involvement in others.

China’s decoupling is NOT due to U.S.-initiated policies. In many areas, China is well ahead of the U.S. in conceiving and implementing measures to move away from the U.S. and surpass it in economic terms.

Indeed, U.S.-China economic competition over the next decade will be characterized by growing efforts by each country to decouple or economically distance itself from the other. But that competition, far from being

a one-sided affair initiated by Washington, will be defined by which side can better economically distance on terms favorable to itself at the expense of the other. In other words, a central feature of competition will be ever-greater economic distancing between the two countries.

The question in the post COVID-19 world is, on whose terms will that largely occur?

The CCP long rejected the U.S. expectation that it would gradually

commit to political and economic reforms as China grew richer and became more integrated with the U.S. and global economies. There is little evidence that authoritarian China was genuinely willing to emerge as a responsible stakeholder under U.S. leadership, and the shock and disappointment amongst many U.S. policy elites was more a result of misplaced expectation than a sudden Chinese shift in direction. This is the contemporary context within which China’s economic policies toward the U.S. should be understood.

By the end of the first decade of this century, despite three decades of double-digit economic growth, China’s economy remained far less resilient than was widely assumed, and Beijing still needed Western markets and consumers to fuel its export-driven growth. To sustain constant improvements and the rise of its export-oriented and domestic manufacturing capabilities, the country was predominantly dependent on foreign (especially U.S.) technology, innovation, expertise, and commercial know-how.

Refusing to subject its currency to the whims and fluctuations of international markets, Beijing persisted with a “managed renminbi currency” that

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superior terms. This includes creating self-sufficient cycles of production, distribution, and consumption for domestic economic development.

Many China watchers and commentators immediately assumed this to be China’s belated response to the “decoupling” policies of the Trump administration. In reality, the Chinese Communist Party has long aimed for economic distance and self-reliance. Before the Trump administration, Beijing had sought to delimit its eco-

was largely pegged to the U.S. dollar at a level determined by the People's Bank of China. [Renminbi is the official Chinese currency of which yuan is a unit.] Even in recent times, China has had few options but to park the bulk of its foreign exchange reserves — largely acquired by accumulating enormous trade surpluses with the U.S. — in U.S. dollar-denominated assets, given the size of its reserves and the need to hold U.S. dollar assets in maintaining the peg. This means that in return for RMB stability and partial immunity from the whims of international currency markets, Beijing is more vulnerable to movements in U.S. monetary policy.

For China, greater economic cooperation and integration was a means rather than an end, a tactical measure rather than a desired strategic outcome. Beijing had not previously used the term “economic decoupling,” common in the U.S., and has seized upon Washington's use of the term as an indication of the U.S.'s bad faith and disruptiveness. But it was always likely that as China became more powerful, it would seek to renegotiate or reframe the terms of its economic engagement with the U.S.. In the name of national resilience, and increasingly as a “competitive strategy” vis-à-vis the U.S., Beijing was effectively cobbling together its own version of economic decoupling or distancing long before Donald Trump entered the White House.

China's Belt and Road Initiative is an ambitious program to connect Asia with Africa and Europe via land and maritime networks along six corridors with the aim of improving regional integration, increasing trade and stimulating economic growth. There are understandable economic benefits for China in advancing the BRI, not least in creating projects and external markets for its large and lum-

bering capital-intensive infrastructure and construction firms. But consider what else it is designed to achieve.

One thing is to build a regional Sinocentric infrastructure, platforms, and institutions to facilitate trade, investment, and other beneficial economic exchanges between China and countries along the BRI. All six main economic corridors are designed to connect these pathways to China so that the latter emerges as the central hub.

If this sounds innocent, we need to see what the Sinocentric model looks like in practice. The immediate goal might have been to create external capital investment opportunities for Chinese firms, but the greater and grander purpose is to ensure that roads, rail, ports, cables, digital networks, and infrastructure begin and end in Chinese provinces — and operate on terms favorable to Chinese interests.

Bear in mind that using state resources to build the vast Sinocentric economic system within which Chinese firms and entities dominate means that they are in a position of insurmountable strength to negotiate the conditions for any deal—with an American firm or other entity. Disputes and disagreements will not be resolved by pre-existing laws and rules, but through negotiations where Chinese political and economic leverage is brought to bear, or according to BRI rules and processes drafted by Beijing.

Additionally, with a greatly reduced U.S. commercial presence in

East Asia and Eurasia, the capacity for American firms and authorities to set and/or revise commercial and quality standards in all sectors is greatly diminished. These can be simple standards, such as the size of rail gauges, or complex standards, such as the interoperability of technologies like 5G networks. Once such standards are set, it is expensive — usually prohibitively so — for firms and economies to operate in a different economic ecosystem.

When BRI economies are combined with Sinocentric infrastructure,



institutions, logistical networks, and the like, they become captive to China. At the same time, outsiders such as the United States are in a much weaker position to enter what Beijing hopes will be the most important economic zone in the world, stretching from East Asia to South Asia, from Central Asia to Western Europe, and from the Middle East to Africa.

Further complementary plans, such as Made in China 2025 introduced in 2015, show how China sees economic competition on its own terms. This plan envisages Chinese control over, and dominance of entire manufacturing processes, supply chains, and associated services supporting the dozen advanced sectors identified. MIC 2025 violates World

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Trade Organization rules by specifying targets for core components and materials of 40 percent domestic content this year and 70 percent by 2025.

The explicit objective is not simply to ensure China becomes an advanced and innovative economy, but to enable it to control the global supply chains, innovation, and know-how required to ensure Chinese firms dominate these sectors in global markets. In looking to decouple, lock out, or else bind the hands of America and other major economies from being able to compete successfully, Beijing is hoping the economic contest will be over barely before Americans realize it has barely begun.

This is the context within which we should understand Xi's dual circulation strategy, which is largely a reiteration or extension of the MIC 2025 approach of decreasing reliance on technology imports through self-sufficiency. Similarly, the Shanghai Stock Exchange Science and Technology Innovation Board (the "Shanghai STAR Market"), initiated in 2019, is meant to be the Chinese equivalent of the tech-heavy NASDAQ. It is intended to offer capital-raising opportunities for firms that are essential to advancing objectives like MIC 2025 and the Digital Silk Road. The latter refers to the technological and data-related sectors within the BRI.

In short, the Trump White House deserves credit for being the first U.S. administration to decisively seek to reframe the economic relationship on fair and more favorable terms. But the point remains that China has a head start in both strategic planning and execution.

The Trump administration has framed many of China's economic policies as unfair, predatory, non-reciprocal, and damaging to the proper functioning of economic globalization. Those accusations are credible because China's plans for economic distancing from the U.S. preceded the Trump administration.

Contemporary approaches must be as much about denial of illegitimate Chinese objectives as it is about seizing the initiative and setting the terms of future economic engagement.

China's future economic and strategic plans are laid out in the MIC 2025 blueprint. We are currently seeing the competition played out in 5G technology and platforms.

Beijing has already indicated that it seeks to build a vast Sino-centric order filled with submissive "strategic support states" to underpin the hierarchical Chinese order. This means that the United States is necessarily engaged in a broader multilateral contest and not only a bilateral one. The U.S. is well placed

to work with economic partners to prevent the emergence of a Sino-centric economic order in maritime Southeast and South Asia, the South Pacific, and Europe.

Part of the U.S. approach will be to encourage these economies to:

- Disentangle or else diversify their supply chains in critical and strategic sectors away from China — especially important for advanced economies like Taiwan and South Korea;
- Agree on common industry rules, standards, and export controls for high-value and high-tech sectors;
- Link common market access to adherence to legal, regulatory, and human rights rules and standards;
- Seek sources of external (non-Chinese) financing that does not impose oppressive debt burdens and does not involve unreasonable restraints on a country's sovereignty or domestic decision-making;
- Work with the U.S. to reform or build institutions that can better resist illegitimate and/or predatory Chinese economic practices, and even punish China for them.

Finally, liberal democratic nations are gradually coming to the important realization that when confronted with a formidable authoritarian challenge, they need America to lead the way. 



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CONFUCIUS SAYS: PUT PROPAGANDA IN CLASSROOMS

by Zachery Schmidt, with permission, TennesseeStar.com

Seven U.S. Senators sent a letter in late October to the College Board questioning the organization's relationship with the Chinese-backed Confucius Institutes.

In the letter, the senators expressed "concern" about CB's relationship with the Confucius Institutes.

The College Board is a non-profit organization that administers college placement examinations including the SAT and Advanced Placement Program. According to its website, CB works with over 6,000 universities around the world and more than 7 million students yearly.

On August 13, the U.S. Department of State designated these Chinese-backed institutes as "a foreign mission of the People's Republic of China." The State Department described these institutes as "organizations primarily located on U.S. college and university campuses that push out skewed Chinese language and cultural training for U.S. students as part of Beijing's multifaceted propaganda efforts."

The State Department also said Confucius Institutes are funded by Hanban, which is an organization connected with the People's Republic of China's ministry office.

As of September, 67 Confucius Institutes are located in America, The National Association of Scholars reported. Five of these locations will close by the end of 2021. Middle Tennessee University is the only college in Tennessee to have a Confucius Institute.

Furthermore, there are 500 Confucius Classrooms existing on K-12 schools across the country, the U.S. Department of State said.

The NAS released another report

in August that showed CB helped launch 20 Confucius Institutes and Confucius Classrooms in America. Also, the Chinese government paid the CB almost \$700,000 to develop an AP Chinese language test.

The senators asked CB to provide answers to these seven questions pertaining to its relationship with these Chinese-backed institutes.

- What is Hanban's role in the Chinese Guest Teacher Program?
- What is the Chinese government's involvement in the AP Chinese Language and Culture test? Does the Chinese government have to approve of the test?
- How much money did the College Board receive from the Hanban or from the Chinese government more broadly?
- What oversight practices does College Board implement to mitigate the risks of undue foreign influence associated with Hanban?
- How does College Board screen funding from foreign sources?
- What contracts, memoranda of understanding, or other agreements did the College Board sign with the Hanban or other Chinese government-backed entities?
- Did the College Board receive or use any federal funding in the creation or promotion of Hanban-affiliated programs?

Two weeks ago, the Trump administration encouraged U.S. schools and colleges to rethink their ties to the Confucius Institute.

In letters to universities and state education officials, the State Department and Education Department said the program gives China a foothold on U.S. soil and poses a threat to free speech. Schools are being advised to examine the program's activities and "take action to safeguard your educational environments."

"The presence of this authoritarian influence on our campuses has never been more concerning, nor more consequential," officials wrote in the letters, which were signed by Secretary of State Mike Pompeo and



Education Secretary Betsy DeVos.

In March, seven U.S. senators proposed legislation called the Transparency for Confucius Institutes Act. This bill would establish "program participation agreements" between American institutions and the Confucius Institutes. The agreements would seek to understand how China "exerts undue influence."

Congress has not taken action on this piece of legislation.

One of the U.S. Senators, Marsha Blackburn, (R-TN), stated, "Confucius Institutes as they currently operate are an affront to academic freedom, and we should not bow to repressive Chinese propaganda systems. It is time to put some serious distance between Confucius Institutes and American universities." 