



# Introduction

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By 2021, China will be set to become a high-income country, the next US administration will take office, and the oldest millennials will turn 40. Disparate as these events may seem, they could shape US–China relations for decades to come.

Even as Beijing graduates into this exclusive club of high-income countries—the World Bank currently puts it at about \$12,000 per capita GDP but is adjusted for inflation—the average Chinese will still be less than 20% as rich as Americans. To simply reach parity with the United States’ per capita GDP in 2018 (~\$60,000), China would need to become an \$80 trillion-plus economy, or about the same size as the *entire* global economy today.

Reaching true parity with the United States will have to wait, but that won’t prevent perceptions from sprinting impatiently ahead of reality. China’s transition into a relatively wealthy country—its first centenary goal of becoming a “moderately prosperous country” 100 years from the founding of the Chinese Communist Party (CCP) in 1921—will likely calcify the Beltway view that this achievement is yet another signpost of the unstoppable march of authoritarian supremacy.

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At the same time, however, such a view will be punctuated by pundits swarming cable TV and op-ed pages, predicting the imminent collapse of the Chinese economy. If Chinese power rests on a Potemkin economy, and will fade away like a much larger Japan, then what's the worry?

Policymakers and pundits may never converge on their views of the Chinese economy, but both nonetheless agree on one thing: China poses the greatest challenge to the United States in the twenty-first century. That is indisputable—China's rise is a challenge that is qualitatively different and thornier than any the United States confronted last century.

For one, China's size means that it does not have to reach parity with the United States across all dimensions of power to reshuffle the global order and to contest America's predominance in various theaters. Second, unlike the Soviet Union or Japan, the People's Republic is the only country that has the potential to assume "peer competitor" status with the United States because of its economic might—no other emerging market comes even close. Third, the foci of the competition will cluster largely around economic and technological rivalries rather than military conflicts, at least in the medium term. Fourth, outright ideological warfare isn't likely—Beijing knows that it cannot, nor does it desire to, undo American democracy—but misaligned political values can and will undermine potential cooperation on ostensibly shared interests.

None of this suggests that China is an "existential threat" to the American "way of life"—a hyperbolic claim that isn't grounded in empirical reality. Yet, irrespective of who occupies the White House in 2021, the US assessment of China as a peer competitor is unlikely to change. Viewing China as America's decisive rival may be a foregone conclusion, but reflexively opposing anything China does on the international stage would be an ineffective and even counterproductive strategy to advance US diplomatic, economic, and security interests. In the face of formidable Chinese competition, clearly defining core interests and objectively delineating costs and benefits are vital.

If one such interest is to preserve a global system that maintains peace and generates prosperity, then adjustments are necessary. That's because the scale and speed of China's ascent has already strained an existing system that was not designed to accommodate peer powers.

How that system adapts may be shaped by forces that have been overlooked, in part because we're living amidst the shift in real time. Indeed, beyond the Beltway and policy circles, the fabric of American society is also changing. A generation of millennials, many of whom turn 40 in

2021, will begin to enter positions of power and influence in all fields. This generation's formative experiences could well determine America's approach toward the world, and China specifically, more than is currently recognized.

It is a generation shaped far less by the democratic-capitalist euphoria that followed the collapse of the Soviet Union and much more by the Global Financial Crisis and the Wars on Terror. For instance, a provocative study from Harvard University has shown evidence that just 1 in 3 millennials believe it is "essential" to live in a democracy, compared to more than 60% for baby boomers. And this isn't so much an "age" effect as a "cohort" effect, according to the same study. That is, in 2011, about one-quarter of those born in the 1980s believed that democracy is an inferior form of government, whereas in 1995, only 16% of those born in the 1970s felt the same way.

So it is not necessarily clear that today's millennials are staunchly attached to the US-led system that stitched the world together for 70 years. To be sure, they came of age in a world in which America lost some of its sheen and where China has always been a major player. Millennials, like most Americans, certainly see China as different—more repressive, keen on censorship, and unyielding on free speech—but it is far less foreign and far more a fixture of the global order than the Soviet Union was for previous generations.

What's more, China is much more accessible for this generation—whether it is having the option to take Chinese language classes (some as early as grade school) or spending time in China studying and working. The tangibility of today's China can also be felt in the influx of young Chinese in American schools and colleges.

In fact, numerous polls suggest that concern about China isn't anywhere close to outright hostility. The 2019 public opinion survey from the Chicago Council on Global Affairs shows that the rise of China was only the 11th most pressing issue among the American public. Meanwhile, a recent Pew Research survey reveals that although concerns over China are growing, more than 60% still believe in having strong trade and economic ties with China. Finally, a 2018 Reagan Institute poll showed that 55% of those under 30 believe China to be more of an ally than an enemy, while more than 60% of those over 65 view the country as an enemy.

Of course nothing is preordained, but these results and shifts so far suggest that if great power competition is a generational effort, then it

might be difficult to carry the millennial cohort along. Put another way, whatever the new *Washington* consensus is on China, an enduring *American* consensus is unlikely to be forged. Therefore, debates on how to properly handle China's economic and political arrival cannot merely exist in a Beltway silo but will require a national reckoning of what could and should be done.

But such a challenge will be insurmountable without a realistic appraisal of today's China, its political economy, its aspirations, and its capabilities, sound analysis upon which any rational strategy toward China ought to be predicated. Yet empirical and nuanced assessments of what China is—rather than what we wish it to be—are in short supply.

This is especially so in an information environment of accelerated and unrelenting news cycles, political screeds that masquerade as dispassionate analysis, and social media outrage that stirs passions more than revealing truths. Indeed, the democratization of China expertise has made discussions of “the greatest 21st century challenge” both richer and shallower.

So it is my hope that this collection of work from MacroPolo can raise the signal-to-noise ratio and bring value to ongoing discussions about how to manage a more capable Beijing while protecting US interests. This volume is meant to be as accessible as it is substantive, with each chapter focused on unpacking important aspects of China's economy, policymaking, and technological ambition. Each piece in this collection grounds its high-level perspectives in bottom-up analysis, yielding deep insights about contemporary China.

This volume contains eight chapters in addition to the introduction and conclusion, organized under the broad categories of economics, technology, politics, and US–China. Featured authors have not only done extensive work in their respective fields but are also distinguished analysts, practitioners, or former policymaker.

Ultimately, this volume aims to bring more “China” into US–China debates.

Houze Song leads off after the introduction with a chapter that examines China's northeast “rustbelt” to find out why it has fallen behind other regional economies. In examining Liaoning, Song zeroes in on the largest of the three northeastern provinces (the other two being Jilin and Heilongjiang). He uses the case of a failed automotive venture to illustrate broader dynamics that have stifled the local economy, a microcosm of the

tangled relationship between state and market. Song argues that restructuring the Chinese economy will require not only surface adjustments but also fundamental institutional changes.

One of those institutional changes is taking place in the financial system. To execute a deleveraging campaign that began around 2016, Beijing created a new “super regulator” for the financial system while relying on an ongoing anti-corruption campaign to overcome resistance to reform. Weighed down by debt after the global financial crisis, China’s financial system was in bad shape. But predictions of an imminent catastrophe were always off the mark, in large part because virtually all Chinese debt is internal, walled off by capital controls. In Chapter 3, Dinny McMahon details the methodical and gradualist strategy that Beijing has adopted to “clean up” its financial sector, resulting in progress that has exceeded expectations.

One of the most dynamic elements of the Chinese economy is its technological progress. In Chapter 4, Matt Sheehan examines the disruption of an important aspect of the US–China tech ecosystem: talent. Visas for Chinese high-skilled workers and graduate students may be under threat as the Trump administration has come to believe that Chinese researchers are stealing intellectual property and compromising national security. Yet many of the top Chinese tech talent, particularly in artificial intelligence, appears to want to stay and work in America as part of the global talent pool that underpins innovation in Silicon Valley. How this competition for talent plays out could have significant implications for innovation.

An even fiercer battle is brewing over high-tech industries like semiconductors and 5G. In Chapter 5, Joy Dantong Ma’s extensive analysis of Qualcomm’s evolution and prospects in the Chinese market elucidates why this competition is so complex. China’s success in developing 5G technologies and chips could eat into the market share of a company like Qualcomm, which has dominated the Chinese market in 3G and 4G chips for decades and now depends on it for the majority of the company’s revenue. And herein lies the main conundrum: China is both the largest market for semiconductors on the demand side and the biggest potential competitor in producing chips on the supply side. Whether China’s success in 5G will come at the expense of US companies makes this one of the thorniest issues to handle.

Technology is also a force for change in Chinese politics, not least in propaganda work. Indeed, “Propaganda in the New Era” under Xi Jinping has gone digital, has a different look and feel, and has been

more effective than expected. It is clear that Xi has placed an importance on propaganda not seen since perhaps the Mao Zedong era, elevating much ideological work from state organs to those of the CCP. Propaganda is undercovered in mainstream discussions of Chinese politics, but in Chapter 6, Damien Ma and Neil Thomas analyze the content, the funding, and the effectiveness of propaganda. In the digital age, winning the hearts and minds of domestic audiences has never been more challenging, but the CCP has also learned how to adapt with the times.

Amid significant changes in Chinese elite politics over the past few years, Chapter 7 sheds light on demographic representation in China's highest ruling body, the CCP Central Committee, and the Chinese legislature, the National People's Congress. Relying on an original database of the top 375 Chinese politicians, Damien Ma and Neil Thomas discover interesting patterns in the geographic origins, gender balance, and ethnic diversity of Chinese leaders. China is hardly a paragon of equal representation, but it is surprisingly close to the global average on many metrics.

The last two chapters focus on US–China relations, the key dyad in ongoing reassessments of China. The first is Evan Feigenbaum's "Reluctant Stakeholder," which tackles a key question: is China a revisionist power? How that question is answered matters for shaping an appropriate response to the China challenge. If China is a rule-breaker bent on resetting the global order, its rise would require a very different response than if Beijing simply wants to augment or amend existing rules to better serve its interests. Even if Beijing will never become a full-fledged champion of the US-led order, its leaders seem to recognize how the current system has served its interests, and more so than they like to publicly admit.

Finally, Chapter 9 traces the history in post-Mao China of the American multinational that perhaps best exemplifies the complex and nuanced layers of the US–China relationship: Boeing. The aviation giant is no nation-state, but its evolution in the Chinese market provides a unique window into the forces that have both fortified the bilateral relationship and might now pull it apart. Neil Thomas digs into the historical archives and presents a case study of how Boeing played a starring role both in prying open markets in China and in American debates on China's eventual accession to the World Trade Organization. Both the consequences and rewards of Boeing's operations in China are at the heart of rethinking the US approach to China.

These pieces magnify important dynamics of how the world's second-largest economy has prospered and the challenges it now faces after four

decades of relative success. The diversity of subjects should not obscure the unifying theme: China does not exist in a vacuum—it is as shaped by secular forces and affected by macro trends as any other country. The teleology of “Chinese dominance” and that of “Chinese collapse” are both inadequate in capturing extant realities.

In this sense, China is hardly an outlier. What makes the country a true outlier is its scale—no matter what China does today, the ripples are felt far beyond its borders. So far, the world has neither grown accustomed to those ripples nor come to grips with how to make room for a great power that was not party to the current system’s creation.

Therefore, grappling with China’s arrival must be a collective enterprise comprised of not just American thinkers and doers, but of those from across the world. That belief is reflected in this volume, both in spirit and in substance. I hope these pages can offer readers balanced appraisals of both the constraints and potential of today’s China. We do not have all the right answers, but this is our contribution to getting a little closer to them.