

# Yale JACKSON INSTITUTE FOR GLOBAL AFFAIRS

## *Inside the Next China*

GLBL 318, ECON338, EAST338, GLBL618

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Following China's miraculous economic transformation in the relatively short span of 40 years, developments over the past several years have become more problematic. Not only has Chinese economic growth slowed but China's escalating conflict with the United States has become a major source of tension in the world. The consequences of this development are profound. The "Next China," as an increasingly consumer-led and services-based economy, was widely thought to offer great opportunity for other nations to share in the expansion of a burgeoning Chinese middle-class. That windfall, potentially the largest source of global demand growth in the first half of the 21<sup>st</sup> century, may now be at risk.

That's largely because conflict with the United States is nearing a worrisome and potentially dangerous flash point. What started off as a trade war has quickly morphed into a tech war. And now the world's two great powers are embroiled in the early skirmishes of a new cold war. In an era of nuclear deterrence, there is widespread presumption that outright military conflict can be avoided. But, as history reminds us, accidents can happen. With tensions high and rising in the Taiwan Straits and the South China Sea, to say nothing about serious concerns over human rights and political tensions in Xinjiang and Hong Kong, the US-China conflict is not lacking in potential sparks.

This seminar will probe the hows and whys of the US-China conflict, with special focus on the unique characteristics of China's economic development model that now appear so threatening to the United States and other western nations. That will include deep dives into State-Owned Enterprise reform, AI-enabled indigenous innovation, aging-impaired consumerism, and a strict regime of Chinese censorship — all in the context of China's new ideology of governance and "common prosperity" espoused by Xi Jinping. An increasingly delicate balancing act between China and the rest of the world takes the construct of the Next China well beyond the structural imperatives of its economic transformation into the realm of a seemingly classic example of great-power conflict.

A key premise of this seminar is the distinct possibility that the United States and China may have misread each other, embracing a series of dueling false narratives that have put them on the collision course of an "accidental conflict." With tensions between the two nations now in the danger zone, a new framework of conflict resolution is an urgent imperative. We will conclude by examining what form that resolution framework needs to take.

## ▪ The Critical Thinking Seminar

This critical thinking seminar is designed to foster academic engagement through an exchange of ideas and debate between students and the professor. To be successful, the critical thinking seminar requires a high degree of interactivity to the give and take of classroom discussions. A number of features of this seminar are aimed at enhancing student engagement — class presentations, weekly critical questions, and op-ed homework assignments. In addition, in light of ongoing developments on the US-China front, I will make frequent use of Canvas-based announcements to spark “chat” amongst us between our regular weekly meetings. *Coming to class well-prepared* — having done the assigned readings *before class* and putting time into the critical questions exercise described below — is essential to enhance this shared participatory learning experience.

### Prerequisite

**The seminar will have primarily an economics focus — although we will also delve into the political economy and grand strategy challenges of the Next China. A basic undergraduate course in macroeconomics (Econ 111b, 116a, or 116b) is the only prerequisite for this class.**

## ▪ Course Readings

There is a demanding reading list for this course. At the end of each class, we will go over and prioritize the readings for the upcoming week. All assigned readings are available on the *Canvas* website (under the “Files” tab).

For the more technical papers, you will need to grasp the basic thrust of the analysis and empirical results rather than the theoretical framework underpinning the research. **For optional readings indicated by (\*), you only need to read the introduction and conclusion.**

### Linked websites referenced in syllabus:

- **BPEA:** Brookings Papers on Economic Activity [<https://www.brookings.edu/project/brookings-papers-on-economic-activity/> ]
- **CLM:** China Leadership Monitor published by the Hoover Institution of Stanford University [ <http://www.hoover.org/publications/china-leadership-monitor> ]
- **NBER:** National Bureau of Economic Research [<https://www.nber.org/papers.html> ]
- **PS:** Project Syndicate [ <https://www.project-syndicate.org/> ]
- **PIIE:** Peterson Institute for International Economics [ [www.piie.com](http://www.piie.com) ]

Special note on readings: Many of the issues we debate in this class are far from settled. Breaking developments can and will occur over the course of the semester that are pertinent to our seminar discussions and your research papers. Recently published articles and news accounts germane to the debate will be posted to the *Canvas* website as they become available. Unless otherwise indicated, such readings will be considered optional.

## **COURSE SYLLABUS**

### **I. The Next China in Context**

*Born out of necessity following two tumultuous decades of the Great Leap Forward and the Cultural Revolution, the “reforms and opening up” of Deng Xiaoping unlocked the powerful growth potential of an export-led Chinese economy. By 2007, former Premier Wen Jiabao cautioned that, while strong on the surface, the economy had become increasingly “unstable, unbalanced, uncoordinated, and unsustainable.” Wen’s “Four Uns” argued for a major shift in the Chinese growth model driven by multiple transition imperatives of The Next China — from exports and investment to consumer-led growth, from manufacturing to services, from surplus saving to saving absorption, and from imported to indigenous innovation. In more recent years, economic rebalancing has been augmented by a new ideology of governance and reform implementation known as “Xi Jinping Thought.” This has transformed the economic agenda into a nationalistic push for rejuvenation aligned with Xi’s depiction of the Chinese Dream — a source of deepening conflict with the US.*

January 25

#### ***The Deng Xiaoping Solution***

##### Readings:

Deng X., “Emancipate the mind, seek truth from facts...” speech (Dec 1978)

Dikötter, F., *The Cultural Revolution* (2016), Preface, Ch 20, 24

\_\_\_\_\_, “Looking Back on the Great Leap Forward,” *History Today* (Aug 2016)

Hu, A., *China in 2020: A New Type of Superpower*, Brookings (2011) Ch 2

Kissinger, H., *On China* (2001), Ch 1

Levin, R., “Reform, Innovation, & Econ. Growth in Japan: The Critical Thinking Seminar” (2005)

Spence, J., *The Chan’s Great Continent: China in Western Minds* (1998), Introduction

February 1

***Transition Imperatives of the Next China***

Readings:

Eichengreen, B. et. al., "When Fast Growing Economies Slow Down" NBER (Mar 2011)  
Phelps, E., "The Dynamism of Nations: Toward a Theory of Indigenous Innovation" C&S (2017)  
Pritchett, L. and Summers, L. "Asiaphoria Meets Regression to the Mean" NBER (2014)  
Roach, S. "No Middle-Income Trap for China," PS (Mar 2019)  
Roach, S. *The Next Asia* (2009), pp 229-33.  
\_\_\_\_\_, *Unbalanced: The Codependency of America and China* (2014), Preface  
Yu, M. and Zhong, T., "China's Opening-Up Policies," in *China 2049*, Brookings (2020), Ch 12

February 8: *Student presentations and critical questions commence*

***Xi Jinping Thought and the Chinese Dream***

Readings:

Bader, J., "How Xi Jinping Sees the World ... and Why" Brookings (Feb 2016)  
Economy, E., "Xi Jinping's New World Order," *Foreign Affairs*, Jan 2022  
Garrick, J., and Bennett, YC, "Xi Jinping Thought" CP (Jun 2018)  
Miller, A., "Only Socialism Can Save China; Only Xi Jinping Can Save Socialism," CLM (2018)  
Pei, M., "Ideological Indoctrination Under Xi Jinping," CLM (Dec 2019)  
Winberg, C. "The Meaning of Xi Jinping's Chinese Dream," AACCS (Oct 2013)  
Xi Jinping, "Report at 19<sup>th</sup> CPC National Congress," *Xinhua News* (Oct 2017)  
\_\_\_\_\_, "Understanding the New Development Stage...," *Qiushi Journal* (Jul 2021)

Student Presentation: The Common Prosperity Campaign

February 15

***US-China Codependency: Dueling Narratives, and Accidental Conflict***

Readings:

\*Bonatti, L. and Fracasso, A., "The Costs of Rebalancing the China-US Codependency" (2012)  
Gewirtz, J., "The Chinese Reassessment of Interdependence," CLM (Jun 2020)  
Haas, R., "The 'new normal' in US-China relations..." Brookings (Aug 2021)  
\*McAdams, D. and McLean, K., "Narrative Identity" APS (June 2013)  
Nye, J., "Power and Interdependence with China," WQ (2020)  
Roach, S., *Unbalanced: The Codependency of America and China* (2014) Part I  
Thorbecke, W., "Transpacific Imbalances and Macroeconomic Codependency," ABDI (Jul 2011)  
\*Vosoughi, S., et. al., "The spread of true and false news online," *Science* (2018)

Student Presentation: America's Dependence on China

## II. America's False Narratives of China

*Turbo-charged by WTO accession in 2001, China's export-driven growth was initially well aligned with the needs of an income-constrained, consumer-led US economy. However, this codependent economic relationship between the United States and China ultimately gave rise to false narratives over America's bilateral trade and saving imbalances. In response, Donald Trump unleashed a trade war that quickly morphed into a tech war. Like America's dispute with Japan thirty years earlier, the current conflict with China is a misdirected effort to find a bilateral trade fix for a multi-lateral saving problem. The tech conflict is less about the Huawei threat and more an unfortunate outgrowth of saving-short America's under-investment in R&D and human capital. Under these circumstances, a new cold war with China may be far more problematic for the United States than the first one was against the former Soviet Union.*

February 22

### **Trade War: Bilateral Bluster and the Lessons of Japan**

#### Readings:

- Autor, D. et. al., "On the Persistence of the China Shock," *BPEA* (2021)  
Feldstein, M. "Inconvenient Truths About the U.S. Trade Deficit," *PS* (Apr 2017)  
Lawrence, R. "Five Reasons Why the Focus on Trade Deficits Is Misleading," *PIIE* (Mar 2018)  
Roach, S., "A Bilateral Foil for America's Multilateral Dilemma," *PS* (May 2018)  
\_\_\_\_\_, "Japan Then, China Now," *PS*, 2019  
\_\_\_\_\_, *Unbalanced: The Codependency of America and China* (2014), Ch 7  
Rosen, D. and Gloudeman, L., "Understanding US-China Decoupling," (Feb 2021), pp 1-18, 69-71  
Schultz, G. and Feldstein, M., "Everything you need to know about trade economics, in 70 words," *The Washington Post* (May 2017)

Student Presentation: Trade Diversion as an Outgrowth of Bilateral Bluster

March 1: **Op-Ed #1 posted**

### **Tech War: Huawei as a Trojan Horse**

#### Readings:

- Brynjolfsson, E. et. al., "AI and the Modern Productivity Paradox," *NBER* (2017)  
\*Chang, H-J, *Bad Samaritans: Rich Nations, Poor Policies, and the Threat to the Developing World* (2007) Ch 6  
Ding, J. "Deciphering China's AI Dream," *Oxford Future of Humanity* (Mar 2018)  
Kaska, K., et. al., "Huawei, 5G and China as a Security Threat," *NATO CCDCOE* (2019)  
Lardy, N. "China: Forced Technology Transfer and Theft?" *PIIE* (2020)  
Lee, K-F, *AI Super-powers* (2018) Ch 1 and 3  
\*Lin, J.Y., "The Needham Puzzle: Why the Indust. Revolution Did Not Originate in China" (1995)  
Morris, C., "We Were Pirates, Too," *Foreign Policy* (Dec 2012)  
Petri, P., "Technological Rivalry," in *China 2049*, *Brookings* (2020), Ch 14  
\*Segal, A., "China's Alternative Cyber Governance Regime," *USCESRC testimony* (Mar 2020)

\_\_\_\_\_, "When China Rules the Web," *Foreign Affairs* (Sep 2018)

\*Zhang, L. and Chen, S., "China's Digital Economy," IMF Working Papers (Jan 2019)

Student Presentation: Forced Technology Transfer — Myth or Reality?

March 8

***Cold War: Then and Now***

Readings:

Allison, G., "The Thucydides Trap" *The Atlantic* (Sep 2015)

Boustany, C, and Friedberg, A., "Answering China's Economic Challenge," NBR (Feb 2019)

Brands, H. and Gaddis, J., "The New Cold War: America, China, and the Echoes of History," *Foreign Affairs* (Nov 2021)

Dupont, A., "Mitigating the New Cold War: Managing US-China Trade, tech and geopolitical conflict," CSIS (May 2020)

Gaddis, J., *The Cold War: A New History* (2005), Ch III, Epilogue

Kennan, G., "The Long Telegram," (1946)

\*Kissinger, H., *On China*, Epilogue: "Does History Repeat Itself?" (2011)

Martin, P., *China's Civilian Army: The Making of Wolf Warrior Diplomacy* (2021), Intro, Ch 11

U.S. Department of State, "Secretary Antony J. Blinken, National Security Advisor Jake Sullivan, Director Yang and State Councilor Wang at the Top of Their Meeting," Anchorage, Alaska, March 18, 2001

Westad, OA, "The Sources of Chinese Conduct: Are Washington and Beijing Fighting a New Cold War?" *Foreign Affairs* (Sep 2019)

Student Presentation: Potential Sparks: Taiwan or the South China Sea?

March 11: ***Op-ed #1 due***

### **III. China's False Narratives of America**

*The United States hardly has a monopoly on false narratives. China suffers from the same affliction. Its rigid regime of censorship is ripe for disinformation and conflict – even more so against the United States, where information distortion has now been taken to excess by a powerful wave of political polarization. Through this fog, both nations fear that the other poses an existential threat. China is convinced that the US is aimed at containment of its development aspirations, while the United States is convinced that China aspires to dominate the same advanced industries that it claims will define future American prosperity. These fears are compounded by China's misreading of American-style consumerism and the "animal spirits" needed by the entrepreneurial and consumer dynamism of its New Economy. The role of China's mixed-ownership State-Owned Enterprises is all the more problematic in this climate.*

March 15

**Censorship and Chinese Discourse Power**

Readings:

Atlantic Council Digital Forensic Research, "Chinese Discourse Power" (Dec 2020)

\*Barme, G., "The Great Firewall of China," *Wired* (June 1997)

Barrett, P., "Fueling the Fire: How Social Media Intensifies US Political Polarization" (Sep 2021)

\*Freedom House, "China's information isolation, new censorship rules ..." (Feb 2021)

Gregory, E.J. "Control Issues are Feeding China's 'Discourse Power' Project," (Aug 2018)

Kania, E., "The Right to Speak: Discourse and Chinese Power," (Nov 2018)

\*Marie-Brady, A., "Guiding Hand: The Role of the CCP Central Propaganda Department (2006)

Mason, L., et. al., "Activating Animus: The Uniquely Social Roots of Trump Support" (May 2021)

\*Pearson Institute and AP-NORC, "The American Public Views the Spread of Misinformation as a Major Problem," (Oct 2021)

Shambaugh, D. "China's Propaganda System: Institutions, Processes and Efficacy," (Jan 2007)

\*Skelley, G., "Most Republicans Still Won't Accept that Biden Won," *FiveThirtyEight* (May 2021)

Starr, P., "The Flooded Zone: How We Became More Vulnerable to Disinformation..." (2021)

Zuboff, S., *The Age of Surveillance Capitalism* (2019), Introduction, Ch 1 and Ch 3

Student Presentation: Chinese Censorship or the Big Lie: False Equivalency?

March 18: ***Paper proposal due***

March 22: ***Spring recess***

March 29:

**Chinese Consumerism and the Animal Spirits Deficit**

Readings:

Akerlof, G. and Shiller, R., *Animal Spirits*, (2009), Intro, Ch 1 and Ch 5

Hofman, B. "China's Economic Policy of Dual Circulation," (Jun 2021)

Lardy, N. "China's weak social safety net will dampen its economic recovery," PIIE, May 2020.

Lyons, N.S., "The Triumph and Terror of Wang Huning," *Palladium*, Oct. 2021

Roach, S., "China's Animal Spirits Deficit," *PS*, Jul 2021.

\_\_\_\_\_, "Connecting the Dots in China," *PS*, Sep 2021.

Wei, L., "Xi Aims to Rein In Chinese Capitalism, Hew to Mao's Socialist Vision," *WSJ* (Sep.2021)

\*Zhang, L. et. al., "China's High Saving: Drivers, Prospects, and Policies," IMF, Dec 2018.

Student Presentation: China's Social Safety Deficiencies: Source of Fear and Uncertainty?

April 5

**SOEs and Deleveraging: Misreading American Characteristics**

Readings:

Hsieh C-T, "Grasp the Large, Let Go of the Small: The Transformation of the State Sector in China," *BPEA* (2015)

\*IMF, "2020 Article IV Consultation: People's Republic of China," (Dec 2020)

Lam, W., "Resolving China Zombies: Tackling Debt and Raising Productivity," IMF (Nov 2017)

Lam, W. and Schipke, A., "State-Owned Enterprise Reform," IMF (Jan 2017)

Lardy, N., *The State Strikes Back* (2019) Ch 3-4

Maliszewski, W. et. al., "Resolving China's Corporate Debt Problem," IMF (Oct 2016)

Roach, S. "Gains from the Pain," *China Daily* (Nov 2021)

Wright, L., "The Evergrande Dilemma and Beijing's Credibility," CSIS (Oct 2021)

Student Presentation: Mixed-Ownership SOEs: Reform or Problematic?

**IV. Conflict Resolution**

*Notwithstanding China's daunting array of domestic challenges and serious relationship problems with the United States, there is great opportunity for conflict resolution. Yet this is easier said than done. Resolution poses a fundamental challenge for China and the United States to move from a relationship now steeped in distrust back to one framed by greater trust, enabling both nations to share the mutual benefits of collaborative growth opportunities. This is as much a political gambit as an economic strategy — securing strong and enforceable agreements on intellectual property protection, innovation policy, cybersecurity, environmental protection, and global health protocols. The existing framework — the so-called Phase I approach of Donald Trump — mistakenly attempts to find a bilateral solution for a multilateral problem. The relationship framework needs to shift from a conflict-ridden codependency to a more collaborative interdependency. What is the best way to achieve that?*

April 12: **Op-ed #2 posted**

**From Trump to Biden: The Dysfunctional Phase I Framework**

Readings:

Amiti, M. et. al., "The Impact of the 2018 Trade War on US Prices and Welfare" (Mar 2019)

Bown, C., "Anatomy of a flop: Why Trump's US-China Phase I trade deal fell short" (Feb 2021)

\_\_\_\_\_, "The Phase One Agreement," PIIE (Feb 2021)

\_\_\_\_\_, "US-China phase one tracker: China's purchases of US goods," PIIE (Nov 2021)

Roach, S. "Boxed In On China," *PS* (Mar 2021)

Tai, K. "New Approach to the U.S.-China Trade Relationship," CSIS (Oct 2021)

\*Vermann, K., "Wait, Is Saving Good or Bad? The Paradox of Thrift" (May 2012)

Student Presentation: America's Saving Problem



April 19

***From Distrust to Trust: Low-hanging Fruit of Re-engagement***

Readings:

Campbell, K. and Ratner, E., "The China Reckoning: How Beijing Defied US Expectations" (2018)

Campbell, K. and Sullivan, J., "Competition Without Catastrophe: How America Can Both Challenge and Coexist With China," *Foreign Affairs* (Sep 2019)

Clinton, H., "America's Pacific Century," *Foreign Policy* (Oct 2011)

*The Economist*, "AUKUS reshapes the strategic landscape of the Indo-Pacific," (Sep 2021)

Hass, R., "The Future of US Policy Towards China: Recommendations for the Biden Administration," (2020); Especially pp 1-7, 26-34, and 46-53

Shirk, S., "China in Xi's 'New Era': The Return to Personalistic Rule" JD, (2018)

Xi Jinping, "Speech at a Ceremony Marking the Centenary of the Communist Party of China" (July 1, 2021)

Student Presentation: Re-engagement: Climate Change, Global Health, or Cybersecurity?

April 22: **Op-ed #2 due**

April 26

***A Structural Resolution Framework***

Readings:

Jiang, K., et. al., "International Joint Ventures and Internal vs. External Technology Transfer: Evidence from China," *NBER* (May 2018)

Price, D. and Smart, M., "BIT by BIT," *Paulson Policy Memorandum* (Jul 2013)

Roach, S., "An Agenda for Resolving the US-China Conflict," *PS* (Nov 2018)

\_\_\_\_\_, "Rethinking the Sino-American Relationship," *PS* (Jun 2014)

\_\_\_\_\_, "The Trade Wars of Codependency," *PS* (Sep 2018)

\_\_\_\_\_, *Unbalanced: The Codependency of America and China* (2014), Ch 13

Thornton, S., "Is American Diplomacy with China Dead?" *Foreign Service Journal*, (Jul 2019)

Student Presentation: Bilateral Investment Treaty as a Remedy for Structural Conflict

May 9: **Research Papers Due**