



Development and security in the twenty-first century: China and America

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Abstract

Most of the literature on Sino-American relations focuses on conflicting policies (for instance, over the South China Sea or intellectual property) or on characteristics of the international system (such as multipolarity, hegemony, or the Thucydides Trap). But conflicts also arise because domestic problems become internationalized. In particular, while economic development typically leads eventually to domestic stability, geopolitical influence, and mutual benefits with other countries, it also creates difficult challenges. The U.S. economy is shifting from a manufacturing workforce to a services workforce, mainly because of technological advance. But U.S. politicians of both parties have found it more convenient to blame China for the decline of manufacturing jobs than to make difficult decisions at home. Likewise, as China develops, its originally simpler economy and society become complex and it faces predictable economic problems and political challenges. Beijing has sought to suppress the ramifications of social differentiation rather than accommodate them. This results in ever tighter political controls at the cost of future economic growth. Political leaders can find it convenient to blame the resultant stresses on foreigners. Misidentification of the problems leads to exaggerated fear of potential nearby color revolutions and to a mistaken sense that Russia shares the same problems as China. When China was poor and weak, as with other poor, weak countries, the developed world tolerated intellectual property theft, predatory industrial subsidies, and denial of market access. Now, China's economy is very large and these same behaviors create massive global distortions. Meanwhile, the U.S. overreacts to the emergence of new and challenging powers, exaggerating their prospects and the dangers they pose. This exaggerated status anxiety and fear typified the U.S. response to the Soviet Union and Japan and now typifies its response to China.

Keywords Development · Security · Foreign policy · Sino-American relations

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1 Development and security

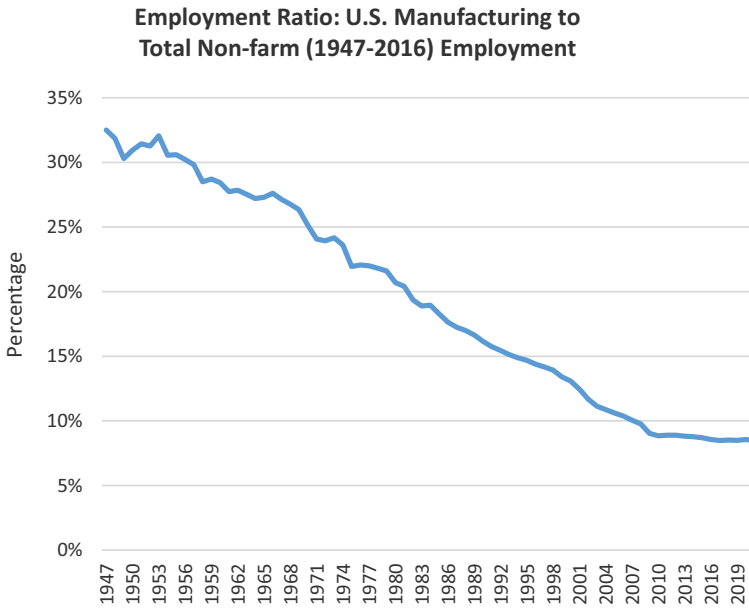
The relationship between development and security is very complex. (Development means GDP growth, widespread improvement in living conditions, and technological advance.) Long-term, those who develop successfully tend to become more secure at home and more influential abroad. Economic success is the prerequisite of both domestic consolidation and geopolitical influence. If one compares the United States in relation to the Soviet Union, Japan and Germany to their respective regions, South Korea to North Korea, the rise of Indonesia and Vietnam to the rest of Southeast Asia, and China to the rest of the world, the comparisons show that economic success has consistently been crucial to the attainment of international respect and power. Economic success has also improved domestic stability in all those countries.

Likewise, in the long term, successful economic development in one country should benefit other countries and create a sense of mutual benefit as has happened among Japan, the U.S., Europe, China, and most of the rest of the world. But it also brings changes in relative power, dependencies, conflicts over resources, and other problems. This paper will focus on two ways in which development has exacerbated Sino-American tensions. In both the U.S. and China, development has created domestic social stresses that leaders have found convenient to blame on the other country. In addition, it has created changes in international roles that neither country has handled well. The consequence has been rising hostility rather than a focus on mutual benefit. These are far from the only reasons for rising Sino-American tensions, and they are not the only security problems caused by development, but they are important and neglected.

2 U.S. blame of China for workforce evolution

Successful development means the U.S. is experiencing a transition from a manufacturing workforce to a services workforce. The principal driver of that transition is productivity improvement, which enables more work to be done by fewer workers. The rate of decline of manufacturing jobs has been very steady since 1947. Manufacturing jobs are disappearing the way agricultural jobs once disappeared and for the same reason. Just as large combines replaced armies of farmers in harvesting crops, now automation means that far more cars can be manufactured by far fewer employees. Just as the agricultural workforce once transformed into a manufacturing workforce, now the manufacturing workforce is transforming inexorably into a services workforce. This transition causes social stress that, if not managed through retraining and relocation and reassurance, can be politically disruptive. The U.S. has recently experienced social dislocation and

political stress, most notably a surge of populism, as this process has recently displaced several million workers who have not been adequately helped by their government.



Data Source: FRED, St. Louis Federal Reserve; Author's Chart

China managed a decline of nearly 45 million in the single decade between 1994 and 2003¹ by helping manufacturing workers move into the services sector and giving double pensions to the minority incapable of transferring. But the much more gradual U.S. transition has proved disruptive, bringing social dislocation and even a decline in support for democracy. The reason is that in the U.S., neither political party has smoothed the transition. The Democrats depend on the manufacturing unions, so they cannot advocate policies that would help the workers out of manufacturing; instead, they speak fatuously of bringing manufacturing jobs back. Similarly, the Republicans' primary constituency is wealthy groups who want smaller government and lower taxes, so they will not give the government the authority and budget to smooth the transition. Both parties find it convenient instead to blame China, globalization, and neo-liberalism for what is actually an inexorable domestic trend (Globalization affects only one out of six or seven manufacturing job losses and Chinese competition is a big part of that one out of seven (Overholt 2017)).

¹ *China Statistical Yearbook 2004* shows a decline of 45 million state enterprise jobs over the preceding decade. Most of those jobs were in the manufacturing sector and most workers had to move to non-manufacturing jobs.

The academic literature includes an analysis of the “China shock,” a well-documented study by leading economists of how the departure of manufacturing facilities to China impacts communities. Often such a departure leaves communities crippled, with former employees and their families unable to cope (Autor et al. 2016, 2021). However, the macro-idea of a China shock that cost millions of jobs above what was happening from normal development conflicts with the evidence that the decline of manufacturing jobs has been steady from 1947 to 2009. The graph implies that either the jobs would have been “lost” in some other way or that there were offsetting developments. Indeed, there were. The early literature on the China shock shares a common social science problem of looking only at negative effects.

More recent research, also published by the prestigious National Bureau of Economic Research (Wang et al. 2018), shows that although the direct impact of trade with China costs U.S. jobs, that trade also reduces the costs of intermediate goods used by U.S. firms and as a result indirectly increases U.S. jobs. Contrary to what most Washington politicians say, the net effect is an increase of U.S. jobs. Moreover, the opening of the Chinese market to U.S. automobile manufacturers at the beginning of the new century saved General Motors from insolvency. Profits from China offset chronic GM losses in the U.S. and EU and made it possible for GM to be rescued a few years later. The U.S. automobile market employs 17.9 million people and GM is by far the largest among the small number of employers. It is unlikely that, absent profits from the China market, any other firm would have been able to buy GM and then save all or most of the jobs. It is even possible that the jobs saved by the opening of the China market mostly or completely offset the number of jobs lost elsewhere in trade with China.

While the constant repetition by leading unions and by politicians of both parties that China is responsible for massive job losses is persuasive to workers, those workers are quite conscious that neither established party is providing effective assistance. The result of this U.S. political dysfunction is a decline in support for democracy, an explosion of angry populism that carried Donald Trump to the presidency, a partial shift of traditional high school graduate worker support of the Democratic

Party to the Republican Party, and a gratuitous increase in the already difficult tensions with China. The Trump–Biden pretense that their sanctions on China will bring manufacturing jobs back will likely lead eventually to disastrous disillusionment. Policies presented to workers as intended to help them often actually harm them. For instance, Trump–Biden tariffs on steel, aluminum, and solar panels alone are costing hundreds of thousands of jobs.²

U.S. politicians' cynical blame of China for America's most difficult domestic problem has an exact counterpart in Beijing's tendency to do the same with its most difficult domestic developmental problem, namely the economic and political management issues that emerge from social complexity.

3 China's war against social complexity

For China, successful economic development brings two predicaments, one domestic and one foreign. Domestically, rapid development quickly makes the economy and society more complex. An economy that consisted predominantly of peasants, rural managers, roadbuilders, and simple manufacturers suddenly has thousands of large, interconnected manufacturing industries, a complicated and transformative tech sector, and a highly differentiated services sector.³ A complex economy entails a complex society. In 2015, China had over seventy-seven million companies and the number was growing 11.8 percent per year (Slater 2015, citing China's State Administration of Industry and Commerce). People who once were satisfied by having enough to eat now want different things. Because of China's successful development, each sectoral group in that complex society now has money, education, and organization to push its demands, making political management of interest groups more difficult. Large enterprises can make strong attempts to influence or capture government policies, as happened when Jack Ma criticized the state banking sector and its regulators. This complex economy is much more difficult to manage centrally, and the complicated society is also much more difficult to manage centrally.

² A study for the U.S. Federal Reserve ascertained that the tariffs cost more jobs than they created (Flaen and Pierce 2019). A study for the National Bureau of Economic Research (Fajgelbaum et al. 2019) shows that all costs of the tariffs were paid by U.S. consumers, not by China. An Oxford Economics study (2021) for the U.S.–China Business Council estimates that the Trump tariffs cost 245,000 jobs between 2017 and 2019. Russ and Cox (2020) estimate that the first two years of the steel and aluminum tariffs cost net 74,000 jobs. The Solar Energy Industry Association (2022) estimates that solar tariffs would cost 100,000 jobs. There are many studies with many estimates regarding different industry tariffs, and there are variations in the estimates, some of which may be caused by interest group biases, but there is broad agreement on the general scale of the job losses.

³ While no society, especially a large one like China's, is ever simple in any absolute sense, economic development creates a high degree of social differentiation, moving society from relative simplicity to immense complexity. Adam Smith (1776) emphasized the refinement of the division of labor. Emile Durkheim (1893) emphasized the emergence of more complex social bonds. Technological advance entails the development of groups with increasingly esoteric skills. International trade fosters the emergence of new skill groups and interest groups. Modern communications and transportation enable complex networks that were impossible at a lower level of development; the Dutch firm ASML has 400,000 suppliers.

In all the Asian miracle economies, this rapid emergence of social complexity leads to a crisis of success.⁴ Big, government-supported companies get into financial difficulties. Often a property bubble bursts.⁵ The government experiences a financial squeeze—in China, this is manifested by local government difficulties. Demonstrations rise: South Korea experienced the Kwangju upheaval in 1980 and Taiwan⁶ experienced the Kaohsiung riots in 1979 while in China demonstrations rose by an order of magnitude in the early years of this century; eventually the government stopped publishing statistics on the phenomenon. Companies and sectoral associations challenge government policies and may capture parts of the state. Such crises happened in South Korea, Taiwan, and Japan in the 1980s. All of them responded by accommodating the complexity through more market-oriented economics and more market-oriented politics. By accommodating complexity, they achieved stability, high incomes, and high technology.

Elsewhere, established economic and political institutions frequently become so entrenched at this level of development that they are able to resist further reform of the economy. This is known to economists as the middle-income trap, which often curtails rapid economic development. The Asian miracle economies have avoided the middle-income trap by insisting that their state-supported firms—the dozen chaebol in South Korea, the 40 Guomindang infrastructure conglomerates in Taiwan, the government-linked companies (GLCs) in Singapore—accept the disciplines of the market, which often means government-affiliated firms being surpassed by those without government affiliations. The overall theme of accommodation is freer economic competition and more open political competition. The smaller economies' strategies of accommodation work—in the sense that they lead smoothly to high levels of income, technology, and stability. Future historians may look back on China's current strategy as an alternative form of successful adaptation or, alternatively, as an institutional reaction against adaptation that pushed China into the middle-income trap.

China's alternative to the smaller societies' accommodation of complexity is to fight the tide of complexity. This requires further centralization of the economy and more hierarchical politics. Since further economic success brings further complexity, this strategy requires ever tighter controls on the government, the Party, the economy, individual companies, social groups, speech, media, and connections to foreigners. Contrary to what one would expect after decades of economic improvement for all groups, and contrary to what happened in the other Asian miracle societies, development success in China has led to heightened security fears and now to

⁴ For a detailed elucidation of the earlier Asian miracle economies' crises of success and the implications for China, see Overholt (2018).

⁵ For instance, Taiwan's tripling of property prices between 1987 and 1989 created a bubble, which burst in 1989. South Korea's property market experienced a huge boom from 1986 to 1990 and then a bust. Japan's property and stock market bubbles burst in 1992. China is now experiencing a milder property bubble burst than that of Japan in the early 1990s or the U.S. in 2008–2009. China's banks are less exposed than their Japanese and U.S. counterparts, but local government finance is more exposed.

⁶ Discussing the internal dynamics of Taiwan does not entail any assumptions about Taiwan's status, which the People's Republic of China insists is a part of China.

adoption of policies for security that have a high cost for future economic development. While official policy still states that economic development has top priority, the reality is a host of policies for security and political control that will reduce economic growth—policies that, intentionally or not, weaken private sector credit and investment, impose political controls on the private sector, suppress innovation, reduce foreign direct investment, increase discontent among various elites, frighten government and Party officials into unwillingness to act, and limit connections with the rest of the world. As a result, total factor productivity growth has declined by about two-thirds (Brandt et al. 2020). Absent major policy changes, these effects may well mean that mainland China will never achieve the income and technology levels of the U.S., the EU, Japan, South Korea, Taiwan, Singapore, Australia, and New Zealand.

Although China is objectively stronger than ever, leaders express fears that, like the Soviet Union, China's system might collapse for lack of political will. But the Soviet Union did not collapse for lack of political will. The Soviet collapse was a bankruptcy. Decades of worsening labor, capital, and goods shortages, falling longevity, the extraordinary opportunity cost of Soviet priority for the military over everything else, and rising drain from the economic cost of the Soviet empire finally led to collapse. The Soviet collapse resulted from extraordinary economic failure. In contrast, China's problem—the complexity revolution—results from extraordinary economic success. China has a sustainable, competitive, and diverse economy. China faces no risk of Soviet-style collapse.⁷ It does face risk of failure to adapt as successfully as some neighbors to the new era of social complexity that comes with economic success.

Likewise, China today expresses fears of foreign manipulation and of color revolutions. But the U.S. was incapable of manipulating China's politics even when China was poor and weak. It tried and failed. In addition, a change of political structure in Turkmenistan or Uzbekistan would be no more consequential for China than an election in Thailand, the Philippines, or Indonesia. The explosions in Eastern Europe in 1989 reflected the fact that, because of the U.S.S.R.'s domestic economic failure, Moscow could no longer afford to repress its client states as it had in 1956 and 1968; Soviet problems were not caused by East European revolts but rather the East European revolts succeeded because of Soviet domestic economic failure. China has no such economic failure and therefore no such vulnerability to

⁷ In May of 1977, I briefed the National Security Council staff in the White House on my forecast that the Soviet Union would eventually collapse—along with other issues. A greatly diluted version of this argument (Overholt 1977) was published in that spring's issue of *Global Political Assessment*, which Zbigniew Brzezinski and I founded. (Major U.S. university libraries have copies.) Western writing on the Soviet collapse contains many of the same flaws as leading Chinese commentary. Remnick (1994), a prize-winning and widely accepted history, treats the collapse as a pure political development and ludicrously never mentions the economy. The same fallacy is apparent in a broad array of leading books reviewed by Timothy Garton Ash (2009). One gets a hint of the economic stakes only in one sentence, where Ash mentions that Soviet leaders thought the economic relationship with West Germany more important than the imperative of repression in East Germany. Although Ash does not emphasize it, that is a cosmically consequential and revealing choice. Ash's own emphasis on Soviet corruption as a source of weakness is a valuable insight but again misses inexorable long-term economic trends.

developments in small neighboring countries. China's problems, again, result from extraordinary economic success. But, like the U.S., China projects its domestic problems onto foreigners and this induces an erroneous fear of foreign influences. As in the U.S., projection of domestic problems and fears onto foreigners raises Sino-American tensions unnecessarily.

It also leads China into an alignment with Putin's Russia, because of a mistaken sense that Russia and China face the same risks. Russia's economy is narrowly based, largely a raw materials quarry for China and Germany. It is structured to benefit a small group of oligarchs, not to provide broad social benefits the way China's does. Because of a structurally unsound economy, a priority for the military that overwhelms all other priorities, and disinterest in broad-based social improvement, Russia does have the same weaknesses as the old Soviet Union. This is a sharp contrast with China's diverse, competitive economy that is a sustainable success because it benefits every segment of Chinese society. Russia is a weak partner for China because it is economically and socially unsound. It is a risky partner because it associates China with a dangerous, potentially nuclear militarism that infringes China's principle of respect for sovereignty. This is another consequence of projecting domestic problems into the foreign realm.

4 Developing country victim or superpower global leader?

Successful development like China's leads to a crucial international transition. When countries are poor and weak, they receive special forbearance to encourage their development. All successful developing countries, including the U.S., stole intellectual property, denied foreigners access to their markets, and heavily subsidized their companies. Rich countries reluctantly tolerate this and celebrate successful growth in poorer countries. For instance, the U.S. and Europe complained but took minimal action against Japan, South Korea, Taiwan, and Singapore during the early and middle levels of their development. There is still substantial tolerance for extensive trademark theft by Malaysia, Thailand, and India. In my youth, I bought most of my books as knockoffs at Caves bookstore in Taipei and most of my CDs and video disks as knockoffs in Singapore, and later I bought clothes for my family at the Silk Market in Beijing. But success brings huge scale that begins to distort global markets and create intolerable damage. That threshold occurred in the 1980s for Japan and later for South Korea, Taiwan, and Singapore. Japan's subsidized and protected cars and consumer electronics threatened to destroy all competitors through unfair competition. The U.S. and EU reacted strongly with tariffs, quotas, and other measures. After a difficult decade, Japan (mostly) accepted rules of fair competition. Since then, Toyota has often been the world's biggest car company, but Americans and Europeans welcome Toyotas because Toyota's victories are achieved by building better cars, not by theft and subsidies.

China's success has reached that transition point. Take just one of many examples: when Chinese fishermen were small and poor, subsidies were acceptable. Now the coasts of North Korea, Africa, and India have very extensive communities that

have been impoverished⁸ by China's huge, government-supported fishing fleet.⁹ China's formerly impoverished fishermen are now depleting fishing stocks and creating hunger along the coasts of South Asia, Africa, and Latin America.

Likewise, when China was poor, copying American CDs entailed a noisy but in practice minimal response. But now the costs to the U.S. of intellectual property theft are estimated at hundreds of billions of dollars annually, and even small venture firms report over 100,000 computer intrusions per day from China.¹⁰ When CATL and Huawei threaten to destroy all European competitors because they have access to all world markets while the Europeans are constrained in China, the damaged parties react. Chinese spokesmen often characterize these reactions as attempts to keep China down. No, they are demands that China accept the responsibilities of success.

In the view of an exceptional range of neighbors, as well as their friends and allies in the U.S. and EU, China has evolved from a victim to a predator because policies that were acceptable or tolerable when China was weak now cause serious damage to neighbors and global markets because China has become a great power. China, a country nearing the World Bank's "high income" status, now demands all the special privileges of a weak, impoverished country while simultaneously asserting itself as a powerful global leader that will reshape the world into a community of common interest as interpreted by China. This contradiction is unsustainable.

⁸ There are so many articles on the scale of China's fishing fleet and the impact on poor countries that a listing could fill a book chapter (for instance Myers et al. 2022; Pala 2020; Urbana 2020). Figures about depletion are also available (Borton 2022a, b).

⁹ Chinese fishing companies receive subsidies from the central government: subsidies for fuel, subsidies from city governments for basing their activities in those cities, and subsidies for obeying certain rules. Subsidies to local fishermen were cut because they were causing overfishing in Chinese waters, but subsidies for the distant water fleets that cause problems for Africans, South Asians and Latin Americans have been sustained. Some foreign observers believe that the distant water fishing fleet would be financially unsustainable without subsidies. Apparently in reaction to criticism, China no longer publishes as much information about subsidies as it once did. Commentary on subsidies is available online (Godfrey 2021, 2022a, b).

¹⁰ Estimates of the total cost of various kinds of IP theft vary widely. The most commonly cited figure comes from a National Bureau of Asian Research study in 2013, updated in 2017, which estimated the cost of all IP theft from the U.S., not just China's, was running between \$225 billion and \$600 billion annually (Office of the United States Trade Representative 2018). The IP Commission estimated in 2013 that 50 percent to 80 percent of this theft was by China. Subsequent studies have generally estimated Chinese theft at about 70 percent of the total. In 2015, William Evanina, national counterintelligence executive of the Office of the Director of National Intelligence, estimated the costs of economic espionage (mostly through hacking) to the U.S. at \$400 billion annually. In 2019, ninety-two percent of IP-infringing merchandise seized by the U.S. was from China; in 2020, the figure was 79 percent. The comparable figure for the EU was 80 percent from China. (The EU does not calculate the overall cost of IP theft the way the U.S. does, but EU officials confirm that the problem is of similar magnitude.) The figure of over 100,000 intrusions per day for venture firms is based on information provided by presenters at venture capital conferences, most recently one in California where participants were trying to build companies around innovations in automobile, drone, and light aircraft mobility. For clarity: that is over 100,000 intrusions per day for each targeted firm. These entrepreneurs do not publish their complaints for fear of eventual retaliation. They are emphatic that trying to protect their information from Chinese intrusions is quite difficult and expensive.

China's international contradiction reflects a domestic contradiction. In space exploration, in military technology, and in many aspects of manufacturing industry, China is a modern superpower. Shanghai, especially Pudong, is a world-leading twenty-first century city. China's trains, ports, airports, telecommunications, and universal wi-fi access make the United States look backward by comparison. Simultaneously, however, China's rural healthcare systems, its systems to care for the aged, its pension systems, its insurance systems, and its rural financial systems are those of a developing country rather than a modern superpower. China's poverty reduction has been one of the greatest triumphs of human history, but the standard of living for several hundred million people remains very low. Its fiscal system, which places most social burdens on local governments while retaining most revenues for the central government, has worked because local governments were allowed to be extremely creative, rule-breaking, financially risky, and corrupt. Now, the effort to impose strict rules and financial accountability and to eliminate corruption is making the skewed distribution of responsibilities and revenues an untenable contradiction. These contradictions arise because China has chosen in the twenty-first century to emphasize urban modernity and geopolitical glory over universal well-being for its citizens.

If China refocuses on its domestic social challenges, it will have a solid foundation for global economic and geopolitical competition. If China accepts responsibility for international stability, its fishing boats would be as acceptable globally as France's. CATL and Huawei could enjoy accepted global preeminence as Toyota does.

5 U.S. overreaction

The U.S. overreacts to the damage from these transitions, and it reacts fearfully to a challenge to its global primacy. Its unwillingness to accept massive intellectual property theft and destructive unfair competition is rational and reasonable. But, faced with a rival, America's status insecurity becomes a triumph of passion over calculation. U.S. political elites often think and talk as if U.S. global leadership, U.S. global dominance, is some kind of moral right. The prospect that some other system might outperform U.S.-style democracy is perceived as a mortal threat. Faced with a rival, the U.S. consistently exaggerates the capability and potential—and hence the “threat—of the rival, which led to the extreme overestimates during the Cold War of the size and capabilities and prospects of the Soviet economy and also to the late 1970s' and 1980s' extreme fear in important quarters of what was seen as Japan's imminent superiority. With Japan 4 decades ago and with China now, much of the Congressional reaction is populist, emotional, ideological, and disproportionately fearful.

Faced with a serious competitor, the U.S. is abandoning its strengths. During the Cold War, the U.S. triumphed by creating a coalition of mutual prosperity, based on the Bretton Woods institutions, that triumphed over a Soviet Union which was autarkic and squeezed its citizens and its allies in the service of an overwhelming priority for the military. In the competition with China, the U.S. has crippled the expansion and modernization of the Bretton Woods institutions because expansion and reform

would greatly enhance China's role. Ironically, this has created a vacuum into which China's Belt and Road Initiative, its development banks, its industrial standards, and its currency swap system have moved. Every attempt by the U.S. to pretend that China is not a big and equal player has backfired.

The U.S. has undermined its own institutional system, refusing to join UNCLOS and the International Criminal Court, preventing the appointment of judges to the World Trade Organization's (WTO) dispute system, and abusing WTO rules by falsely arguing that tariffs on things like steel and aluminum are vital matters of national defense. By abusing the rules-enforcing systems and ignoring the rules, the U.S. undercuts its own core argument for a rules-based system. By turning inward when the rest of the world is developing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP), a more consolidated EU, a Comprehensive Agreement on Investment (CAI) (for now delayed), and the most comprehensive ever open trade agreement in Africa, the U.S. risks being left behind by the rest of the world. The imposition of tariffs on steel, aluminum solar panels, and much else, which damage the U.S. more than China, exemplifies the contradictions at the core of Washington's China policy.

Even more fundamentally, the U.S. responds to a challenge as if it were primarily a military challenge, whereas the whole experience of twentieth century geopolitics is that the key to long-run geopolitical success is the economic superiority of oneself and one's coalition. Military power of course remains important, but Beijing has seemed to understand better than Washington that the path to global leadership lies primarily through economic preeminence, both domestically and in international relationships. The Belt and Road Initiative embodies that understanding, just as U.S. emphasis on the Bretton Woods system once did. The two countries' contrasting strategies in Africa (building infrastructure vs. providing anti-terrorist military teams) symbolize that difference. America's inward turn weakens its own economic performance and increases tensions with allies and partners. Its gutting of its diplomatic arm, its aid programs, and its information service (the United States Information Service), and its meager support for the Bretton Woods institutions weaken its global leadership role and raise the risk of military conflict. Ironically, the current administration in Washington justifies all this as "a foreign policy for the middle class," based on the manufacturing jobs fallacy analyzed at the beginning of this essay.

In another layer of irony, however, China appears to be duplicating this American error as it raises the priority for security relative to economic development.

For 3 decades, the leaders of China and America wisely created perhaps the greatest generation of peace and development in human history. There were differences, conflicts, tensions, and risks, and there always will be. But currently both sides are magnifying the problems rather than managing them. Both sides are avoiding difficult domestic dilemmas by blaming problems on the other. Both are pursuing geopolitical aspirations in ways that harm their domestic economies and popular welfare. In both cases, doing this actually weakens their long-term geopolitical prospects. A reset will require not just diplomatic adjustments, but also fundamental shifts in the management of domestic politics.

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