The truce declared by Donald Trump and Xi Jinping in their trade war, while welcome, will probably need repeated extension, for the issues dividing the US and China go well beyond trade. Mike Pence, US vice-president, gave the strongest indication of this in a speech in October, where he all but declared a new cold war.

Mr Pence’s speech reflects a deep-seated bipartisan worry in Washington that China is catching up with the US, both economically and militarily. Central to both issues is the waning US lead in new technologies. If Americans lose their edge here, they fear eventually being overwhelmed by China’s four to one advantage in population. Washington worries that the more the Chinese are allowed to continue to steal intellectual property, to coerce companies investing in China to part with it or to acquire western companies that possess it, the faster China will catch up.

It is reasonable to demand that China brings its IP practices in line with western norms. However, the Chinese fear that this is not the ultimate US aim. They believe that even if they comply, the US will not allow a significant Chinese presence in frontier industries including robotics, artificial...
intelligence and semi-conductors. That, to the Chinese, smacks of a ceiling on development. It is simply non-negotiable.

Indeed, it might already be difficult to arrest Chinese development in these chosen areas. China spent 2.1 per cent of gross domestic product on research and development in 2016, up from 0.9 per cent in 2000. In dollar terms, only the US spends more. The quality of Chinese research is increasing significantly, with the number of patents exploding and the quality of these patents, as measured by the fraction that are highly cited, also growing fast. Hundreds of thousands of Chinese students are at top western universities and those who preceded them lead academic research across the world. Chinese universities, often staffed by academics schooled in the west, climb rapidly up the global rankings. China has undoubtedly benefited from the west’s openness.

Development rarely proceeds in a straight line, though. If China’s current unfair practices are limited, innovation may slow. Its ageing population will become a headwind to growth. And although China’s political system has been effective at lifting much of the country out of poverty, the increasing concentration of political power and the state’s role in business may become a barrier to innovation. Furthermore, the US political system is more amenable to sustaining alliances with strong democratic countries. Taken together, US fears of being overwhelmed quickly by China may be overblown. China respects strength.

But making it feel like a country under siege will push the people to close ranks around the current system, precipitating a cold, even hot, war. The surest way to get there is to indicate to China that legitimate paths to development will be blocked, reaffirming its worst fears about the west. Tariffs piled on tariffs will set the Chinese economy back. But it will still grow with rancour against the US and its allies. More resources will be diverted to the military, prompting a similar diversion in the west. This is in no one’s interest.

Rather than attempting to stand in the way of China’s legitimate economic growth, western efforts might be better focused on negotiating a new global order, while creating an external environment which does not prevent internal Chinese political change.

The US could bring major powers together to negotiate changes in China’s IP practices, its industrial espionage and excessive state aid. But the quid pro quo has to be to recognise that the world is multi-polar, that China should have more power and more responsibility in global institutions. Such a deal — if it also limits arbitrary future US behaviour on trade and investment — will enlist growing Chinese capabilities for the global good.

The US administration’s tough actions have brought the Chinese to the table. A sustainable deal will require serious compromise on both sides. If the US accepts cosmetic changes to please markets, and does not involve major powers in its negotiations, frictions will continue. If the US
tries to push the Chinese too hard — for example, placing limits on industries it can enter — talks will break down. If, however, the administration accepts China as a full partner and negotiates responsible Chinese global engagement, the agreement could shape the 21st century.

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Letter in response to this article:

China will choose tariffs over damage to its dignity / From Frederik Vitting Hermann, New York, NY, US

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