

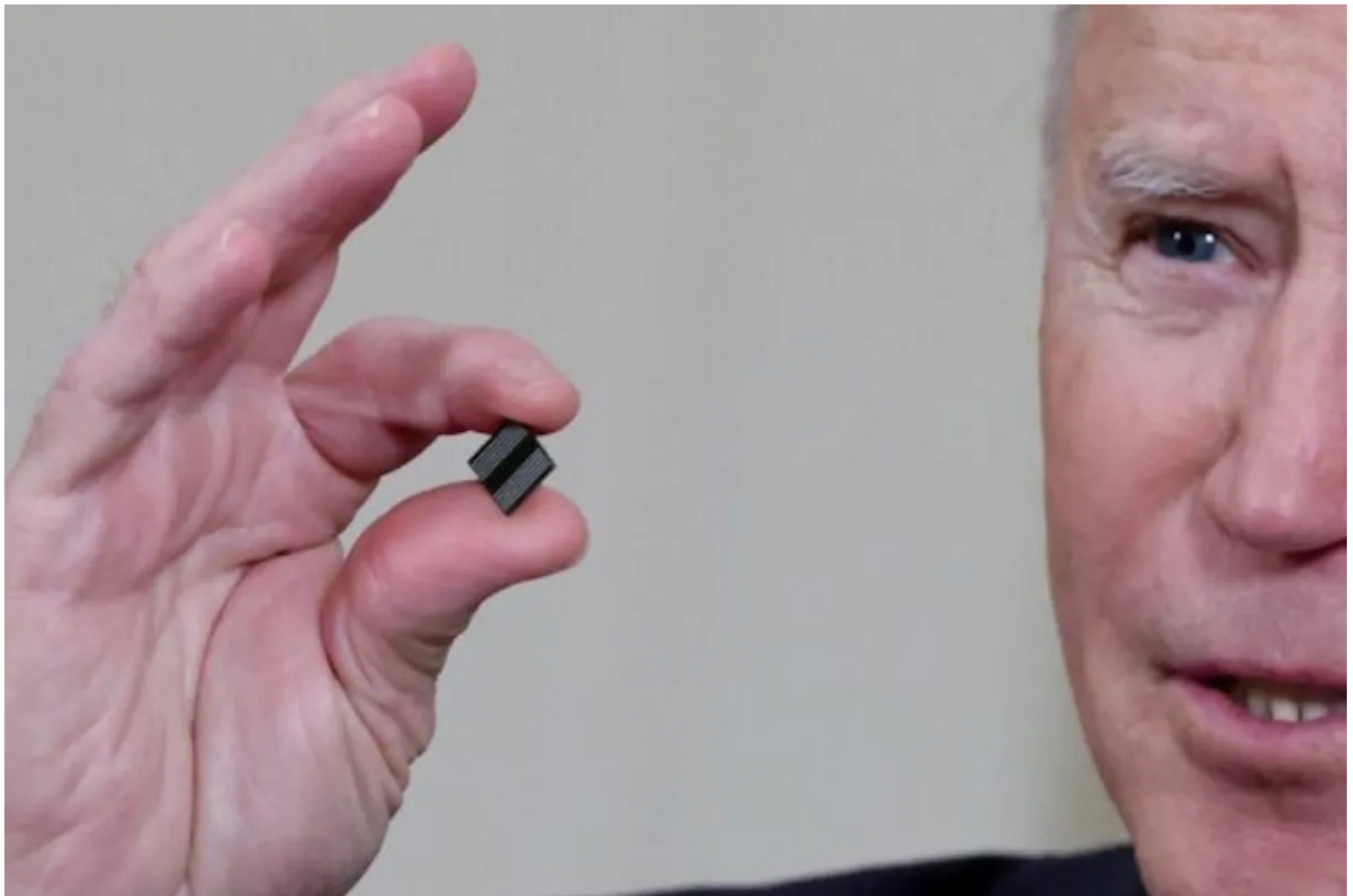
US-CHINA

# Harvard guru gives Biden a D+ for China policy

US semiconductor restrictions are a de facto declaration of economic war and a disproportionate response to the two sides' many problems

By **WILLIAM H OVERHOLT AND LAWRENCE SUMMERS**

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US President Joe Biden wants more advanced semiconductors produced in America. Is he going about it the right way? Image: Twitter

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*Former US Treasury secretary Lawrence Summers led a Q and A after Overholt's speech. Excerpts edited for length and clarity from that session follow.*

### **Lawrence Summers:**

I think it's fair to say that there's a growing consensus in favor of a policy that treats China as an adversary, that seeks across a multiple range of issues to confront and challenge China, that sees isolating China with respect to technology as important for our continued leadership and that is more focused on our imperatives of maintaining pre-eminence than of accommodating gracefully their desire for a peaceful rise.

If you were advising the US government on the contours of China policy – looking out five years; it's probably as far out as one can look – what would your advice be? And maybe you should precede your answer by giving a grade to US policy as you understand it to be during the Biden administration.

### **William Overholt:**

D plus. Trump gets a D, no plus. If I were advising the US government, I'd lose my job within the first week.

You've asked a big question. So let me step back. How did we win the Cold War? We focused on growing our economy and creating a system where friends and allies around the world participated. The Soviet Union put all its money into the military under the opposite strategy and went bankrupt.

What's happened in the Trump-Biden era – and Biden has just expanded on Trump's policies – is that we've turned inward.

We want everybody to join economic alliances with us, but we're not going to give anything. We're not going to give access to our market. And we've done things that are very harmful to our own economy in doing that. I'll come back to that.

China got the message of the Cold War. What's Belt and Road? It's a collection of institutions that work like the World Bank, building infrastructure around the world. It's a set of institutions that sets common standards – like the IMF and WTO. They promote freer trade and investment around the world.

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Harvard University's William Overholt would barely give Biden a passing grade on China policy. Image: CSIS / Twitter

And Biden's protectionism gives up the possibility of having the kind of global success and admiration and cooperation that we had during the Cold War.

Now, on China policy in particular, when a company like Huawei comes along, or the battery company CATL, they get access originally to the whole world market: China, Europe, Japan, the US. And Western companies only get access to a tiny slice of the Chinese market.

So Huawei grew so big that there's no way the Europeans can compete. They would just get wiped off the map. That's what's going to happen in batteries.

The right thing to do is, every time that happens, you get together with the Europeans and the Japanese and you shut them down. The way we partially shut down Toyota when the Japanese were behaving that way. Until China changes its policies and allows fair competition.

This approach is targeted. It's not phony national security restrictions on steel and aluminum – that's lying that was started under Trump and Biden has just expanded it. What he's done is

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costs about 40,000 American jobs. And it slows down the transition to new energy, shooting ourselves in the foot.

Now, how about China policy more narrowly? This restriction on semiconductors is a declaration of economic war. It's completely disproportionate to any of the problems we have with China. This is going 30, 40% of the way toward what we did with Japan, cutting off their oil before Pearl Harbor. Semiconductors are the key to the modern world.

New US ban on chip-making equipment to China will ultimately do more harm than good. Image: Twitter

This validates every crazy nationalistic Chinese professor who's been arguing that our goal all along has been to keep China down, to prevent them from growing. In terms of the relationship, it's just awful. It's an escalation. People don't realize this is a declaration of war.

It's going to damage the American semiconductor industry. You notice what happened recently. Even though Washington offered \$52 billion worth of subsidies to our semiconductor industry, the stocks all tanked. They're looking at 15,000 to 40,000 layoffs.

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crazy-looking flow chart that guarantees wasted money. So far, perhaps US\$150 billion went to the Chinese semiconductor industry and they didn't catch up an inch.

The other setting of the switch: Emergency! Important! The nation depends on this! The space program success is a leading example. You clear out local interests, you clear out seniority, you clear out party politics, you hire the best people, you pay them whatever it takes.

You bring in whatever expertise you need from anywhere in the world and you build one hell of a program very fast. I think Biden's sanctions will lead China to flick the switch to the emergency setting and then China will succeed.

Now, back to the bigger picture. In China policy, Biden has done two important things.

One is, he has completely reneged on the 1979 agreement that's been the basis for peace in Taiwan. What did we say in that agreement? That we will not have official relations, we will not have an alliance.

Now Biden has said four times he will defend Taiwan. That's called an alliance.

When Nancy Pelosi went to Taiwan, she was very careful to label it an *official* visit. And then immediately after a meeting with Taiwan's President, Tsai Ing-wen's spokeswoman went on their national TV and said Taiwan is a sovereign and independent country.

That was the culmination of Pelosi's visit—a complete breach of the US promises that have kept Taiwan safe for over four decades.

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US House Speaker Nancy Pelosi (L) waving beside Taiwan's President Tsai Ing-wen. Photo: Handout

China has honored the agreement. We have broken the agreement.

People in Washington like [Elbridge Colby](#) don't remember that all the peace and prosperity and democracy in Taiwan are built on that 1979 agreement.

Every time we send another congressional delegation and the Chinese protest by sending some airplanes and ships, we say, "Oh, those terrible, aggressive Chinese!"

On Taiwan, unlike for instance the South China Sea, we Americans are the problem. And Biden has, more explicitly than anybody else, repudiated the deal on which Taiwan's success is built.

The Washington dynamic around Taiwan is that the admirals testify in Congress, saying that in five years China could win a hypothetical war. And the interpretation has been: In five years China

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We are creating the problem that we think we're trying to deter. The risk is nuclear war. The common Washington assumption that a Taiwan war would likely be confined to the area around Taiwan is utterly wrong. This is not Ukraine. It would almost certainly be more like a world war.

You put that together with this declaration of economic war, and the reason for the D plus is I think this potentially towers over George W Bush's decision to invade Iraq. It could tower over Lyndon Johnson's decision to escalate in Vietnam as a mistake.

We won't see the consequences of that mistake for years. It's not irreversible but this is potentially catastrophic.

[Summers questioned whether such a low grade, D+, was appropriate. Overholt stuck with it because of the potential catastrophic consequences globally.]

### **Question from the audience:**

How do you see US-Chinese relations playing out in Africa?

### **Overholt:**

China has caused a lot of problems in Africa. It's done a lot more good. African growth since China started growing has gone from a 0-2 percent range to the 2-6 range. And an awful lot of that has to do with Chinese demand, with Chinese investment, with Chinese railroads, with Chinese roads, with Chinese telecommunications.

China is where Japan's companies were in the sixties. We had a big problem with Japan, exactly the same problems we're having with China now in Africa. And the Chinese learning curve tracks the Japanese learning curve. They bribe. They use their own people rather than training local people. They don't understand political risk.

They take on unacceptable financial risk, causing problems for both the Africans and the Chinese banks. They're initially un-transparent and uncooperative toward peers in dealing with debt problems. But they're learning, as the Japanese learned and, earlier, as the US learned.

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A screen grab of a TV show on China's many projects in Africa. Photo: CGTN Africa

Yes, there are debt problems, [but] African countries' problems with Western debt are a lot bigger than African problems with Chinese debt. And China has been handling the debt in an utterly responsible way.

Deborah Brautigam at SAIS did a study of 1,100 Chinese financial deals, many of which have come under pressure. They have never once called in collateral. They've never once said, "Since you owe me money that you can't pay, I'm going to seize your road, your port."

And I have to say it's one of the most troubling things to me that the Republicans but also, under Biden, [Secretary of State Antony] Blinken in particular pushed this utterly false Chinese debt trap argument. On balance, China's done a lot of good for Africa. It's leaving America behind.

### **Question from the audience:**

What in your opinion is the United States maddest at the Chinese about?

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superpower. That's a summary.

For instance, we tolerate a lot of intellectual property theft by poor countries. India's still doing it. But when you're the same size as the US economy, when it's hundreds of billions of dollars a year, it's unacceptable. It's predatory.

At a recent venture capital conference, young entrepreneurs reported that, as soon as their inventions became public, their computer systems experienced more than 100,000 intrusions per day from China. So this is not just a few thefts from a few big companies. It goes deep into society and causes widespread resentment. President Xi promised President Obama that this would stop but, after declining for a while, it became even worse.

When you're Huawei, you're not a little tiny company in an impoverished country that deserves some special privilege. You're just going to wipe out all the global competition because you have access to all the global markets whereas the Europeans have only minimal access to the Chinese market.

China says, "We're a country that was invaded over a century by the Europeans and the Japanese. We're a victim. So we're going to build a navy and protect ourselves." Fair enough. But later that becomes taking over everybody else's stuff. Even pieces of Bhutan are being bitten off by China.

China claims traditional rights in the South China Sea, but according to Beijing's behavior nobody else has any traditional fishing rights or territorial rights or anything.

Early on, China subsidized its fishermen, who were very poor and needed help. But now people are hungry or starving everywhere because of Chinese fishing predation. These guys are trained as militia. Catches off North Korea went down 70%. The Japanese find these – what they call – ghost boats, North Korean boats full of dead sailors from North Korea who have starved because China illegally took all the fish.

Chinese have depleted the fish off the coast of Africa, along the coast of India. Local fishermen are malnourished, often on the verge of starvation, because of this incredible subsidized Chinese fishing fleet.

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Chinese fishing vessels set sail for the Spratly Islands. Photo: AFP

China says, “We’re a superpower but we’re also a victim or a developing country.” The claim to be a developing country is part of every Chinese major foreign policy speech. “But we’re a superpower. We’re going to create a community of common destiny for the world.”

I call this a problem of an adolescent power. On the economic side, we went through this with the Japanese. It got pretty rough with Japan. We put 10% tariffs on everything, we put quotas on their cars, we put quotas on lots of things and, finally, the Japanese realized, “If we’re going to play in the big league, we’ve got to play by fair rules.”

Now probably more Harvard professors drive a Toyota than any other car and nobody complains about that because Toyota wins its US market share by playing fair, not through government support that would enable it to kill all competitors.

We don’t, most of the time, invite China to participate in making the rules, and that’s wrong, we have an obligation to do that. But China has become a predatory power that says, “We’re a victim.

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*Lawrence H Summers is a former US Treasury secretary and director of the Harvard center, which hosted the November 7 seminar where these remarks were made. They have been reproduced with kind permission.*

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