A Daft Policy: The US Economic Strangulation of China

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The broad lament from commentators about global economic growth is that China is not pulling its weight. Not enough is being done to stir the sinews and warm the blood, at least when it comes to the GDP counters. And many such pundits hail from countries, most prominently the United States, which have done everything they can to clip the wings of the Middle Kingdom even as they demand greater strides in its growth. "China's 40-year boom is over," declared the Wall Street Journal last month in a tone of some satisfaction. "The economic model that took the country from poverty to great-power status seems broken, and everywhere are signs of distress."

Under the Trump administration, the war against the Chinese economy began in earnest. Somewhere in the order of $360 billion in tariffs were slapped on Chinese products, a central pillar in the Make America Great Again platform. This was despite a 2019 study by economists Xavier Jaravel and Erick Sager claiming that increased trade with China raised the purchasing power of the average US household by an impressive $1,500 between 2000 and 2007. "These gains from lower prices were broadly shared across all income groups in the economy, although they were proportionally larger for low-income groups (with gains about 15 percent larger than average."

The downside to such throbbing growth in purchasing power has been the "China Shock" phenomenon: the loss of jobs occasioned by increased trade with a country able to command an enormous low-wage workforce. This was grist to Trump's populist mill, a spur to protectionism that has gone gonzo under the Biden administration.

Going even further than Trump, Biden has threatened Chinese companies with delisting from the US stock exchange in 2024 in accordance with the Holding Foreign Companies Act of 2020. The value at stake there: $2.4 trillion.

On August 9, President Joe Biden signed an executive order restricting outbound investment to China, Hong Kong, and Macau. Broadly speaking, China is a country "of concern" either exploiting or having the ability to exploit "certain United States outbound investments, including certain intangible benefits that often accompany United States investments and that help companies succeed, such as enhanced standing and prominence, managerial assistance, investment and talent networks, market access, and enhanced access to additional financing."

The order proceeds to make nonsense of a core premise of US investing, forever cradled by the artificial assumption that open markets are an unhindered reality. Openness only ever makes sense if it favours the trader and investor. As the order continues to state, "certain United States investments may accelerate and increase the success of the development of sensitive technologies and products in countries that develop them to counter United States and allied capabilities."

To that end, the advancement of such countries "in sensitive technologies and products critical for the military, intelligence, surveillance, or cyber-enabled capabilities" to their betterment with the aid of US investments constituted "an unusual and extraordinary threat to the national security of the United States," a state of affairs that deserved the hyperbolic tag of "a national emergency".

A discomforting feature of such executive actions is that they constitute provocations that feed the incentive for further conflict. On the one hand, it encourages China to pursue a more autarkic form of development, focusing on self-reliance as it weans itself off the nutriment from US investments. But such policies can also encourage a state of desperation with few options.

On the latter point, history offers a bleak example. In the lead-up to the attack by Imperial Japan on Pearl Harbour in December 1941, the Roosevelt administration added a generous dose of acid to the diplomatic mix to encourage conflict. To stifle Japan's military efforts in Asia, individuals such as Secretary of War Henry Stimson, Treasury Secretary Henry Morgenthau and Interior Secretary Harold Ickes resoundingly endorsed a policy of economic strangulation. Secretary of State Cordell Hull, however, felt that such matters as oil sales to Japan could still continue on a case-by-case basis, a policy that came to be stomped upon by zealots in the State and Treasury departments.

A colourful streak of US historiography on this point, one dismissed by high priest orthodoxy as ambitiously deluded, even clownish, suggests that the opportunistic President Roosevelt wished to provoke Japan into an attack on the US that would also commit Washington to war with Germany. One need not endorse that view to see the dangers of the economic strangulation policy, one marked by such standouts as Washington's termination of the 1911 commercial treaty; the signing of the Export Control Act of July, 1940 which authorised the president to license or prohibit the export of essential defence materials; and the July 26, 1941 order freezing Japanese assets in the United States. On August 1, 1941, a ban on oil exports to "aggressor countries" including Japan led to a resource crisis that eventually emboldened the militarists to strike.

The State Department entry on the subject by the Office of the Historian, hardly a den of radical rabble rousers, had to concede that, facing "serious shortages as a result of the embargo, unable to retreat, and convinced that US officials opposed further negotiations, Japan's leaders came to the conclusion they had to act swiftly."

Next time China's current economic lethargy is discussed like that of a nutrition deficient patient, the relentless assault and cornering, notably in the sectors of investment now regarded as crucial for continuing US hegemony, should be considered. It also augurs poorly for global security: economic strangulation can sweeten the instinct for war. In the case of Xi's China, it will most likely result in a greater, if haughtier resilience.

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