

3 Takeaways Podcast Transcript
Lynn Thoman
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Ep. 166: Former Chairman of Morgan Stanley Asia On Why Both the US and China Are Guilty Of False Narratives About The Other

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INTRO male voice: Welcome to the 3Takeaways Podcast, which features short memorable conversations with the world's best thinkers, business leaders, writers, politicians, scientists, and other newsmakers. Each episode ends with the three key takeaways that person has learned over their lives and their careers. And now your host and board member of schools at Harvard, Princeton and Columbia, Lynn Thoman.

Lynn Thoman: Hi everyone, it's Lynn Thoman, welcome to another 3Takeaways episode. Today, I'm excited to be joined by former Chairman of Morgan Stanley Asia, Stephen Roach. Stephen is currently at Yale and is the author of Accidental Conflict. I'm excited to learn his perspective on what Henry Kissinger has called, "The foothills of a new Cold War between China and the US." Welcome, Stephen, and thanks so much for joining 3Takeaways today.

Stephen Roach: Great to be with you Lynn.

LT: It is my pleasure. Stephen, you talk about political expediency and twisting facts to tell a convincing story, and you believe that both China and the US have embraced false narratives about each other. Can you elaborate on the false narrative you believe America has embraced about China?

SR: Well, any nation in the world today, it faces challenges, and leaders of course don't like to admit that these are challenges of their own making, they would prefer to blame them on others. The leading false narrative that America embraces with respect to China is that our trade deficit is made in China, and it's an outgrowth of China's unfair trading practices that need aggressive response as the tariffs of the Trump administration continued under Biden certainly demonstrate.

SR: We had trade deficits last year with 106 countries, not just China. China was the biggest, but there are 105 others. And our multilateral trade deficit reflects our shortfall of domestic saving, when nations don't save and they want to grow, they run current account deficits with the rest of the world and trade deficits with lots of countries, and that's how China fits into our trade puzzle. More of a problem of our own making with budget deficits continuing to squeeze domestic savings, and then the practices that many allege come from China that have created this problem for American workers.

LT: So the false narrative that you believe America has embraced about China is what exactly?

SR: That China is squeezing American workers, their companies and their communities by things that they do to us rather than by the lack of savings that we ourselves are responsible for. We have a big trade deficit with China, but that's just as much of our own making as it is of theirs.

LT: And you believe it's our own making because it's American consumers buying Chinese goods?

SR: I wouldn't say that's the main problem, that's a symptom of a bigger problem, and the bigger problem is the fact that we need foreign capital, foreign saving in order to keep investing and growing. And Americans certainly do buy a large volume of goods made in China, although the Chinese share of our overall trade deficit has come down markedly since the Trump administration imposed tariffs on China. China is still the biggest piece of our trade deficit, but American consumers buy goods from lots of other countries as well, not just China.

LT: How do American politicians, if you can generalize, view China?

SR: The deep consensus is that China is the villain, the enemy, and it's not just in economic terms, but it's also in terms of technology, and China's threats are perceived to be of great significance to global peace and global stability. So China is more vilified today than it ever has been since the reforms and opening up began in the late 1970s. And I would say that China is perceived to be more of a threat than any nation has been since the Soviet Union of the early 1950s.

LT: And you also believe that many Chinese have embraced a false narrative about the United States. Can you talk about that?

SR: I think this notion of political expediency that lies behind America's false narratives of China applies equally to China's false narratives of the US. Xi Jinping has made a strong political compact with the Chinese people to continue to grow and develop the economy, boosting it to the upper income status of a great power by 2049, the 100th anniversary of the founding of the People's Republic of China. And recently, he has been very explicit in singling out America and its policies to contain and suppress China as creating major impediments to achieving its growth and development objectives. The false narrative in this case is that not that America is treating China in a way that discourages growth, but for China itself to blame America for problems that are also of its own making by failing to reform its system and to provide a more sustainable economic growth. This is on China, not because of America's pressures.

LT: And the Chinese government, does it portray the US as being more nationalistic and in decline as well as? Do they talk about a narrative of the triumph of socialism over capitalism?

SR: I think those are both fair points, Xi Jinping and many of his closest advisors do take great umbrage to US efforts to contain and suppress China to borrow their words and Xi Jinping has stated in no uncertain terms that this is the century when the east is rising, and the west is in decline. And there is a view, not by coincidence, that it resonates with the original Marxian view that capitalism would ultimately implode based on unsustainable social and political issues as well. And there's a fair amount of sympathy in China to that perspective as well. So if America and capitalism are in decline, this is China's opportunity to seize that moment - that's a view that resonates increasingly in Chinese power circles, not one that I share, but that nevertheless is their view.

LT: Can China's leader, Xi Jinping, afford to let go of this narrative?

SR: Sure, he can. I think if he were really willing to step up and address many of China's internal problems, he would feel less compelled to point to an enemy that is preventing China from

achieving the lofty goals that he has set out for his nation and for his own people. But he is deeply wedded to Marxian ideology, much more so than his immediate predecessors. The pendulum has swung from the market friendly opening up of Deng Xiaoping back to a more tightly controlled system that existed under Mao, it hasn't gone back all the way, but Xi clings to that earlier centralized power structure, and I think that prevents him from really addressing many of China's toughest problems.

LT: Can you summarize the false narrative on both sides?

SR: We blame China for many of our problems in the United States, China blames the United States for an equally large number of problems that are facing the Chinese system. These narratives reflect, I think, a lack of appreciation and the need to take tough actions on both sides of the relationship to address problems of their own making.

LT: And those problems of their own making are primarily economic growth for each country?

SR: Economic growth is central to the way I view their relationship problem. I'm an economist and I can see that there are other dimensions of the intersection of these two societies, social and political, but I think the economic anxiety experienced in both the United States and in China is central to the conflict that has arisen between these two nations.

LT: And to summarize again, how does the American government see China?

SR: The US government, whether it's the Administration, the Executive Branch or the Congress are united in viewing China as an adversary, as a threat to America's future, to American values and to American economic prosperity.

LT: And how does the Chinese government, if one can generalize again, see the United States?

SR: Xi Jinping said this earlier this year, he believes that the US advocates a policy of suppression, encirclement and containment of China that will impinge on the growth and development aspirations that he has promised for the Chinese people, so America is China's biggest threat right now.

LT: So you believe both countries have developed false narratives to blame the other one or to focus attention on the other country and essentially divert attention from internal issues?

SR: I do. I think that if I was asked to assess blame, I would say that both nations are equally culpable in relying on false narratives to accuse the other of threatening itself. And so we need to take a long, hard look in the mirror, as do the Chinese, as to where these false narratives come from and how we should come together in trying to jointly resolve them.

LT: But you also believe that it is in the interest of both countries' politicians to blame the other country?

SR: Well, that's an unfortunate conclusion, to say it's in the interest of it makes it sound like that's a good thing. I prefer to use the word, it's politically expedient for politicians in both nations to blame the other rather than to face up to their own problems and their responsibility that they have for

creating those problems.

LT: Fascinating. So interesting about the false narratives on both sides. Many people attribute what they believe is China's aggressiveness to its leader, Xi Jinping. What do you think?

SR: There's no question that Xi Jinping has a very strong nationalistic view of China's approach to the world, and it stands in sharp contrast with the pre-existing mindset that was set out by Deng Xiaoping in the early 1980s and 1990s, where he urged China to basically keep a low profile, never really assert leadership, to hide your strength and bide your time. Under Xi Jinping the days of hide and bide are gone. China is more assertive, it's behaving in a more muscular way, and this very much aligns with the political promise that Xi Jinping has made to the Chinese people that he calls the Chinese dream. It's an aspirational rejuvenation of China to re-establish its former place as a leader among all nations in the world. And so, yeah, he played an important role in reshaping China's approach toward the world.

LT: Before I ask for the 3 takeaways you'd like to leave the audience with today, is there anything else you'd like to mention that you haven't already touched on?

SR: The idea of the false narrative is that, be careful of what you read about other countries, other companies and other parts of the world, not just with respect to China, but with respect to other nations. A lot of the impressions that are formed by the American body politic are based on fear, innuendo, they're not fact-based, and I worry that a lot of our misimpressions with respect to China fall into those unfortunate distorted categories.

LT: What are the 3 takeaways you'd like to leave the audience with today?

SR: One, the US, China problem is a relationship problem. America doesn't have a China problem, China doesn't have an American problem. We both have problems in managing what started out as an interdependent or even a co-dependent relationship, we need to focus better on the relationship aspect of our engagement with China. Second point is China, it's in a challenging period in terms of economic prospects and the days of rapid Chinese economic growth are over. China faces a number of challenges to deliver on the type of growth that it's leaders have promised to the Chinese people, especially with an aging society and weak productivity prospects. And three, there is a way out. A relationship problem has a relationship solution. And I think we're going about this in the wrong way on both sides, through slapping each other with tariffs, sanctions and other forms of belligerent restrictions on behavior. I am in favor of re-engagement, it worked very successfully in the early days of this relationship. There are many political leaders, prominent ones, who are opposed to any form of re-engagement with China, I think that would be a huge mistake of or potentially tragic historic consequences.

LT: Excellent, thank you.

SR: Thank you.

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