

Opinion | CONTRIBUTING OP-ED WRITER

Is China's Version of Capitalism Winning?

Steven Rattner MARCH 27, 2018

President Trump's attacks on Chinese trade practices may be garnering the headlines, but underpinning that dispute lies a more consequential struggle, between liberal democracy and state-directed capitalism.

Of late, it's a competition in which the Chinese approach has been delivering the more robust economic result. Indeed, implicit in the ferocity of the Trump administration's attacks on China's protectionism is the success of that nation's economy.

Skeptics notwithstanding, China's model, which has brought more people out of poverty faster than any other system in history, continues to flourish, as I've seen firsthand in a decade of regular visits. Meanwhile, liberal democracy — the foundation of the post-World War II order — is under pressure, most significantly for having failed in recent years to deliver broadly higher standards of living.

Here's one stark example: Last week, Congress finally managed to pass appropriations legislation for the current fiscal year — six months after the budget year began. The 2,232-page bill was cobbled together in a frenzy, without any discussion of national priorities or careful examination of the expenditures.

In contrast, China is driving hard toward its “Made in China 2025” plan, an ambitious set of objectives to upgrade Chinese industry so that, among other things, it can manufacture its own high-value components, like semiconductors. And while we retreat internationally, China’s One Belt One Road Initiative will physically connect China to more than 65 percent of the world’s population.

If you think we have trade problems with China now, just wait.

To be sure, China is a long way from overtaking the United States. Its gross domestic product per person is just \$9,380, compared with \$61,690 in the United States. Less visible than the sleek modern skyscrapers that now dominate China’s cityscapes are the 700 million people — about half of China’s population — who still live on \$5.50 per day or less.

And China’s mercantilist trade practices are indefensible, particularly its use of non-tariff barriers to discourage foreign companies from coming to China, its insistence that non-Chinese companies share their technology, its outright theft of intellectual property and on and on.

That said, I’m confident that China’s mixed system would have produced formidable growth even without these predatory practices. As China marches forward, Washington feels like it’s standing still.

Perhaps the only policy area on which President Trump and the Democrats agree is the need to fix the nation’s crumbling infrastructure. And yet, 14 months after the president was inaugurated, nothing has happened (except for the release of a plan that was quickly derided).

For its part, China continues to build airports, subway systems, renewable-energy facilities and the like at a torrid pace. Even its longstanding pollution problem is being addressed. In the past four years, China has succeeded in cutting concentrations of one pollutant — fine particulates — by 32 percent, roughly what it took the United States 12 years to achieve after passage of the Clean Air Act in 1970.

Next up, artificial intelligence. In mid-2017, China announced a plan to become a global leader in artificial intelligence by 2030, sending shudders through American

policy circles. One research report estimated that A.I. could add 1.6 percentage points to China's growth by 2035.

At the moment, the United States remains the world leader in A.I., and our scientists are working hard to achieve further advances. But from the Trump administration: silence, notwithstanding a parting warning and a call to arms from President Barack Obama's team.

As a capitalist, I've never believed in excessive government intervention in the economy. One of America's greatest strengths has always been its flourishing private sector. But in a complex, global economy, the public sector should play an important role, and ours just isn't.

China, despite its Communist heritage, understands the benefits of incorporating a robust free-enterprise element. Beijing bustles with internet entrepreneurs. Venture capitalists are pouring vast sums into a dizzying array of start-ups, including in prosaic industries like retailing. And an increasing number of "national champions" are expanding beyond China's borders.

Don't get me wrong. I'm not suggesting that we rewrite our Constitution to emulate China. And I certainly understand the loss of freedom and civil liberties under the Chinese system. But that doesn't mitigate the need for us to get our government to perform the way it did in passing the New Deal and Lyndon Johnson's Great Society.

When Russia launched its first Sputnik satellite in 1957, our response was to redouble our efforts and win the race to the moon. While the merits of punishing China for its unfair trade practices are strong, that's hardly the most important reaction to its extraordinary economic success.

Steven Rattner, a counselor in the Treasury Department under President Barack Obama, is a Wall Street executive and a contributing opinion writer.

Follow The New York Times Opinion section on Facebook and Twitter (@NYTopinion), and sign up for the Opinion Today newsletter.
