

Beijing's Bismarckian Ghosts: How Great Powers Compete Economically

Great power competition is back. As China and the United States ramp up their strategic rivalry, the search is on for a vision of what their evolving great power competition will look like in a globalized and interconnected world. The looming trade war and ongoing technology competition between Washington and Beijing suggest that economics may now be the central battlefield in the bilateral contest. Much of the abundant literature on great power competition and grand strategy focuses on military affairs, and little of it prepares us for what economic and technological competition among great powers looks like, let alone how it will be waged.¹

But great power economic competition is nothing new. Indeed, the rivalry between China and the United States in the twenty-first century holds an uncanny resemblance to the one between Germany and Great Britain in the nineteenth. Both rivalries take place amidst the emergence of economic globalization and explosive technological innovation. Both feature a rising autocracy with a state-protected economic system challenging an established democracy with a free-market economic system. And both rivalries feature countries enmeshed in profound interdependence wielding tariff threats, standard-setting, technology theft, financial power, and infrastructure investment for advantage. Indeed, for these very reasons, the Anglo-German duel can serve as a useful guide for policymakers seeking to understand the dynamics of the emerging Sino-American

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competition—as well as the strategies and tactics likely to be employed and the risks and dangers likely to be incurred.

The Roots of Rivalry

The Anglo-German rivalry, like the present Sino-American one, was as much a clash of two countries as it was of two systems: the liberal, free-market constitutionalism of an established Britain and the autocratic, state-protected development of a rising Germany. Indeed, differences in economic system amplified the salience of the narrowing economic gap, leading the established power to feel cheated and the rising power to feel unsatisfied and threatened.

Germany and China both believed their struggle for unification left them as latecomers to modernization. Germany industrialized in the 1850s nearly a century after Great Britain, while China confronted a Century of Humiliation dating from the Opium Wars to Japanese occupation that was followed soon after by the senseless stagnation of Maoism, and only began its economic climb in earnest after 1978. Both countries believed that catching up with established powers required state-directed economic and technology programs. Fair competition was beside the point and national strength was the goal under both Otto von Bismarck and Deng Xiaoping, to the eventual detriment of relations with the free-market Great Britain and the United States.

German and Chinese skepticism of Anglo-American *laissez faire* approaches set the foundation for enduring economic tensions. Bismarck in the late 1870s and 1880s cited the mercantilist theories of the German economist Friedrich List to criticize Great Britain's *laissez-faire* system and championed protection, economic coordination, and cartels.² German banks played a major role in the patriotic coordination of Germany's industrial efforts by guiding companies, promoting mergers, encouraging industrial concentration, and even financing strategic infrastructure; in contrast, Great Britain's banks provided no such industrial coordination. In addition, visionary German industrialists like Alfred Krupp along with state bureaucrats grasped the importance of exports and elevated them to a national priority in state development plans. German state agencies, through a variety of instruments including an extensive consular system, heavily promoted German exports. During World War I, French economic historian Henri Hauser published an influential exposé of how Germany by a "deliberate plan" had "turned all her forces to the systematic conquest of external markets" in a "phenomenon unprecedented in economic history" but surprisingly reminiscent of modern Chinese industrial policy.³ Germany's coordinated development, like China's, allowed the country to create its own comparative advantages; by the end of the nineteenth century, its centralized system had made German goods

competitive in foreign markets and Great Britain itself—creating both interdependence as well as political tension.

The Chinese story resembles the German one, and these parallels are not entirely coincidental. China has long admired the German export-led growth model and been skeptical of laissez faire capitalism. The nineteenth century general and official Li Hongzhang—who suppressed the Taiping rebellion, engineered a coup, and served as a high-level Qing official—kept a photograph of Otto von Bismarck in his study and admired Alfred Krupp as a model for how to industrialize China.⁴ Germany and its powerful centralized leadership became a defining inspiration for China's self-strengthening movement. Chiang Kai-shek, then Commandant of the Whampoa Military Academy and later President of the Republic of China, reportedly asked his cadets to write exams on how Bismarck unified Germany, and some of his own development plans borrowed from the German example.⁵ As China emerged from

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Maoism, it even structured its development banks on the German model, though it supplemented their loans with Western capital. Under state-directed development, China eventually emerged as the world's largest exporter with enormous market share in the United States, similarly creating economic interdependence while inadvertently laying the foundation for political competition.

As a result of these strategies, Germany and China promptly caught up to their British and American competitors economically and technologically. Berlin and Beijing sometimes leapfrogged technologies to shrink the gap, while their established rivals were encumbered with legacy technologies sometimes backed by interest associations. For example, as a developing Germany invested in state-of-the-art industrial technology, Britain continued to rely on an old rail system with small tunnels and heavy industry with outdated furnaces. Similarly, China's advances in mobile payments and high-speed rail today provide a marked contrast to U.S. reliance on credit cards and creaking passenger rail traveling at half the speed on average.⁶

The speed of the catchup was as alarming to British elites then as it is to American elites now. German GDP was 67 percent of Great Britain's in 1871 and exceeded it by 1908 in the aftermath of a financial crisis. Adjusted for purchasing power, China's GDP was only 25 percent of U.S. GDP in 1990 after a decade of reforms, but exceeded American GDP in 2014, also in the aftermath of a financial crisis.⁷ Even when their economies eclipsed those of their rivals, Germany and China remained poorer in per capita terms—with German income 74 percent

of British income in 1913, and Chinese per capita income only 25 percent of American income in 2016.⁸

The fact that German and Chinese citizens remained poorer than their counterparts in Britain and the United States, respectively, did little to alleviate anxiety in established powers. From the established perspective, Imperial Germany and contemporary China had undergone a radical and alarming economic modernization that catapulted them into the ranks of first-rate powers in mere decades. British elites believed that the German developmental model was a form of cheating, and that, as the journalist E.W. Williams put it in 1896, “Germany had wormed its way into English manufacturing secrets, and has enriched her establishments with the knowledge thus purloined.”⁹ For their part, German elites were concerned that Great Britain would seek to halt their country’s rise and undermine their economy by restricting trade, technology, or capital flows—whether through economic or military means.¹⁰

Great power economic competition is often about tools far more subtle and sophisticated than tariffs.

Similar fears are at the core of Sino-American strategic competition, with Washington accusing Beijing of cheating, and Beijing accusing Washington of seeking to halt its rise through trade tariffs. Indeed, just as British politicians levied blunt and sometimes counterproductive tariffs on their German competitors, as will be examined in more detail later in this article, so too do U.S. political leaders risk making a similar mistake. Indeed, economic competition among great powers is often about tools far more subtle and sophisticated

than tariffs—a lesson the United States appears to have forgotten. Beyond blunt tariffs, at least four economic tools mentioned earlier—standard-setting, technology acquisition, financial power, and infrastructure investment—were and are the battlegrounds for great power economic advantage.

The Struggle Over Standards

Technological standard-setting, and its attendant network effects, is a longstanding and subtle arena of great power competition. States whose technology becomes the dominant standard can wield that leverage over others, a point not lost on rising powers who often work to reduce their vulnerability by creating parallel systems. Indeed, the present Sino-American contest over information communication technology (ICT) mirrors a century-old contest between Germany and Great Britain for dominance in that era’s ICT infrastructure (radio telegraphy), with uncanny parallels and key lessons for the present.

In the late nineteenth century, the Italian engineer Guglielmo Marconi, supported by the British Royal Navy, created a radio network that gave Britain a monopoly over radio transmissions. When combined with Britain's 60 percent share of the world's undersea cable network, Britain dominated international transmissions. Feeling vulnerable, Kaiser Wilhelm II authorized direct state support for German scientists and engineers as they successfully copied Marconi's designs, patented them within Germany, and built their own radio networks financed by contracts with the German military.¹¹ Even so, Marconi's superior longer-range radio and first-mover advantage established his British-backed company as the global standard, and Marconi leveraged these network effects to pursue a policy of "non-intercommunication" with non-Marconi radio operators. German businesses and ocean liners did not want to be cut off from global communication, so they preferred the British-backed system to German ones, marginalizing the initial German product.

The Sino-American ICT contest mirrors the Anglo-German quest for dominance in radio telegraphy.

To contest the British standard, Kaiser Wilhelm II (1898-1918) intensified German industrial policy. He swiftly decreed that two large German electrical companies with competing radio efforts—Siemens & Halske and AEG—join together to establish the definitive German alternative, Telefunken in 1903. "The [domestic] rivalry in the field of wireless telegraphy weakens the competitiveness of Germany," the Emperor explained, "and gives the Marconi Company the opportunity to reach a worldwide monopoly" that was "not in Germany's interest."¹² Under Kaiser Wilhelm II, Germany pursued protectionism by banning the Marconi systems in some cases. It pursued emerging markets by selling its technology to South America and Africa to set the standard in those regions and secure revenue. And when those efforts failed, it found success in multilateralism. Germany organized the great powers together in a series of international conferences on radio standards, and with American assistance at the 1906 meeting, negotiated a treaty that successfully prohibited Marconi's "non-intercommunication" policy, breaking the British monopoly and establishing an effective Anglo-German duopoly.¹³ Germany's efforts were not born of paranoia—Britain successfully wielded its monopoly against Germany during the First World War by cutting German cables, monitoring German transmissions, and forcing German traffic onto British-controlled networks, uncovering the Zimmerman telegram proposing military collaboration with Mexico that helped bring the United States into the war.¹⁴

The Anglo-German competition reveals that standard-setting, especially in ICT, can become highly political against the background of strategic competition. China today uses many of the techniques that Germany used a century ago: state-

led industrial policy, generous state contracts, civil-military integration, bans on rival products, forced mergers, the pursuit of third-world markets, and even international treaties to set its standards. China's Belt and Road initiative (BRI), launched in 2013 to connect Eurasia together through continental and maritime infrastructure, raises the possibility that standards for "smart infrastructure," which is connected to the internet through sensors and software, may be set by China and may deny U.S. companies interoperability, thereby shutting the United States out of autonomous vehicles and other future industries.

China's decision to ban or constrain Western internet companies like Facebook, Twitter, and Google allowed its indigenous alternatives—Alibaba, Tencent, Weibo, Baidu—to become the domestic standards. Baidu, for example, has an effective monopoly in China's online search market; Sina Weibo offers an alternative to Twitter; and Renren and Tencent's WeChat have taken the role of Facebook. These protected local champions are now innovators. In China's once cash-based economy, Alibaba and Tencent leapfrogged Western economies more reliant on credits cards, thereby popularizing electronic payments and emerging as global leaders in financial technology. These companies have expanded overseas, often targeting not the U.S. market but—like Germany's Telefunken before them—emerging markets with lower profits and reduced competition. If Chinese payment apps become the worldwide standard, it will allow Beijing to become the first-mover and reap the network effects of a shift to mobile payments that could benefit Chinese banks, companies, and the intelligence apparatus. Indeed, Berkshire Hathaway argued in 2018 that China's WeChat mobile payments app with its 1 billion users worldwide could present a threat to the dominance of Visa, Mastercard, and American Express in global payments.¹⁵

China is also contesting standards in the hard infrastructure of internet connectivity. Its government is investing billions so Chinese chipmakers can beat American rivals in the race for 5G mobile internet standards. Similarly, Chinese firms like Huawei and ZTE receive government loans to build the hard infrastructure of internet connectivity throughout the developing world. As the British example demonstrates, these efforts not only make Chinese technology the standard—they also offer opportunities for surveillance.

The Anglo-German rivalry in telegraphy shows that Washington needs to take China's state-directed challenge in standards seriously. It also offers a way forward. In much the same way Germany used international conferences to break the British monopoly on telegraphy, the United States could set or preserve favorable ICT standards through the very kinds of multilateral agreements—like the Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP)—that President Trump criticizes. Doing so may keep China from unilateral

standard-setting and great power economic advantage through its free trade agreements, state champions, or infrastructure projects.

Technology Acquisition

To compete over standards, countries first must have access to new technology, and rising powers have pursued two acquisition strategies to gain advantage over established powers: theft and basic science investments. Technology theft has long been a feature of great power competition. Indeed, copying best practices was an established feature of German government policies. Frederick the Great of Prussia once sent the head of the Prussian industrial and mining agency, Count von Reden, to England in the 1780s to pick up the latest techniques. He even invited the brother of the great British ironmaster John Wilkinson to Germany to manage a royal iron works. Alfred Krupp in the 1830s disguised himself as a traveling aristocrat to snoop around British iron works.¹⁶ Having emulated and in some cases leapfrogged British capabilities, by the late nineteenth century, Germany had established a technical lead in many areas.

These German practices have corollaries in China's efforts to copy Western technology. China has used generous grants to lure talented expatriates back to China; opened research centers in Silicon Valley to learn cutting edge methods in artificial intelligence; and even used hacking and other illicit methods when these methods fail. By some measures, China accounts for half if not as much as 80 percent of U.S. intellectual property theft.¹⁷

Even so, there was no German corollary to China's Made in China 2025 initiative, a state program that combines industrial policy with legal and illegal methods of obtaining foreign technology on an unprecedented scale. The initiative harnesses state-owned enterprises to reverse China's lag in 10 critical future industries ranging from electrical vehicles to biopharmaceuticals.¹⁸ For example, China's banks under direction from the government have set aside tens of billions of dollars for an "Integrated Circuit Fund" that will use instruments ranging from venture capital to private equity proxies to corporate acquisitions in order to acquire Western semiconductor capabilities, which are central to the future of technology and the internet.¹⁹ As former Assistant Attorney General for National Security in the Obama administration John Carlin complained: "They're targeting our private companies. And it's not a fair fight. A private company can't compete against the resources of the second largest economy in the world."²⁰

To generate new technology, great powers have historically made investments in basic science research.

These efforts to acquire technology are of course not the same as innovation. To generate new technology, great powers have historically made investments in basic science research, especially in universities. Building on the example of French technical schools, a rising Germany launched an unprecedented higher education push with generous state financing, transforming itself from a technological laggard into a high-tech leader through state investments. By the middle of the nineteenth century, Germany had a clear scientific lead, especially in chemistry and physics. Of the 100 Nobel prizes in sciences awarded between 1901 and 1932, 33 went to German scientists, 18 to British, and six to Americans.

This is a lesson the United States once understood well, and that China has firmly grasped. Indeed, the German example inspired American higher education investments after the Second World War as part of strategic competition with the Soviet Union. Similarly, university support is also a prominent part of the Chinese effort to gain a lead in global technology, and Chinese universities are moving ahead rapidly in international league tables. In 2018, Peking University ranked 27 in the Times Higher Education ranking and Tsinghua ranked 30, up from 37 and 58 in 2010. These two universities are China's most prestigious, and along with a number of others, they continue to climb.²¹ China has laid the foundation for a university system on a scale matched previously only by Germany and the United States (the United Kingdom lacks that scale even though its Oxford and Cambridge are ranked first and second). Meanwhile, the United States is neglecting its public research universities even as the Chinese challenge mounts.²²

The Anglo-German rivalry suggests that unrestricted openness can facilitate a rising power's ascent, and that autocratic industrial policies can dramatically facilitate a rising power's achievement of technological parity, and perhaps even dominance and leadership. An American answer to China's policies will call for more than tariffs: it requires better managing the United States' technological openness, policing technology theft, scrutinizing Chinese investment, and reinvesting in the basic science to sustain U.S. technological leadership.

Fighting with Finance

International financial instruments are an important weapon in peacetime economic great power competition. Indeed, the British response to Germany's rise was to assemble detailed strategies for economic warfare, as British historian Nicholas Lambert shows in his book *Planning Armageddon*. Britain wielded its network advantages in financial services, such as trade finance and marine insurance, to pull together data that could be used to create a detailed schedule of the raw material dependence of Germany and its ally Austria-Hungary.²³ France too

used economic instruments: a coordinated French-led attack on the German stock exchange was used as an instrument to bring Germany to compromise in the 1911 Morocco crisis.

American dominance over the global financial system offers similar possibilities. The reach of the U.S. banking system, the primacy of the U.S. dollar, the authority of U.S. credit rating agencies, and the shadow of U.S. influence over interbank payments together gives Washington enormous economic power. That dominance, which has already been exploited in the form of financial sanctions against Iran and Russia, is deeply unsettling to China—just as Britain's economic centrality likewise frightened Germany.

If established powers seek to exercise their financial leverage, rising powers seek to escape it. Indeed, Germany actively sought ways to reduce its vulnerability to British financial power in the run-up to World War I. In 1907, when Britain concluded its alliance with Russia in the Triple Entente, the German banker Max Warburg pushed a series of reforms that would develop German trade finance through acceptance bills, in which a merchant bill was given a guarantee by a finance house, as an alternative to what had been a British monopoly; his younger brother Paul helped launch a similar initiative in another rising power, the United States, working through the National Monetary Commission. Moreover, banks had always been seen by German policymakers as a key instrument of power and could provide alternatives to British financial services. Indeed, while British financial houses concentrated on the provision of limited and precisely specified services (trade finance; dealing in government bonds; dealing in private stock; managing deposits; industrial finance), German banks provided all these services on a common platform. In this way, German banks constituted a “universal” bank that—rather than the British capital markets or financial houses—offered a variety of services, which in turn reduced German financial vulnerability.²⁴

Like Germany, China has worked to mitigate U.S. financial influence, especially after the 2008 global financial crisis. Its efforts are multifaceted, and include advocacy for special drawing rights at the International Monetary Fund, an alternative basket currency that reduces the need for countries to hold dollar reserves; internationalization of China's currency through bilateral swap agreements; the pursuit of alternatives to the Western-dominated SWIFT inter-bank payments system; investment in new global credit rating agencies for sovereign debt; and aspirations for building cities like Shanghai into global financial centers akin to New York or London. Through these efforts, China hopes to reduce its reliance on the U.S. dollar, to reroute payments through indigenous

Established powers seek to exercise their financial leverage; rising powers seek to escape it.

or parallel financial systems that the U.S. does not control, to question the credibility of certain Western credit rating agencies, and to enmesh U.S. banks in China's own system, thereby making financial sanctions virtually impossible. A major distinction between the Anglo-German and Sino-American examples is China's enormous holding of U.S. treasuries, but for the moment that advantage offers little asymmetric leverage since its exercise would directly harm China as well.

As the Anglo-German example shows, the struggle for financial leverage and asymmetric interdependence between the United States and China is unlikely to abate, and American strategy—like British strategy before it—will need to adjust to China's efforts to reduce its vulnerability. Abusing U.S. financial power by wielding sanctions too often or against U.S. allies will only hasten China's independence from Western financial leverage.

Economic Power Projection through Infrastructure

Infrastructure investments are another understudied tool of economic rivalry. They not only facilitate trade and connectivity, they also offer the opportunity to practice “economic power projection”—that is, to reshape the strategic geography of great power competition. In both the German and Chinese cases, the pre-existing strategic geography was unfavorable. These continental rising powers were

Infrastucture investments offer the opportunity to practice ‘economic power projection’.

encircled by wary neighbors; moreover, they were vulnerable given their reliance on sea lanes controlled by established maritime competitors like Britain and the United States. Although Germany and China pursued blue-water fleets to remedy that vulnerability, infrastructure investments offered another way to project power—one that could expand the hinterland, break encirclement, and reduce maritime dependence.

Roughly a century ago, Germany's leadership sought to construct a 1,000 mile railway to circumvent British naval supremacy. The railway would have proceeded from Berlin all the way to Baghdad and onward to the Persian Gulf. The German government pressured national financial institutions to support the project, and top German officials described it as a “German national undertaking, executed, administered and operated as such.”²⁵ For Germany, the Berlin-Baghdad railway would not only bypass the preeminent British navy, it would also spread German influence deeper into the Middle East, open up the Ottoman Empire as an export market and source for raw materials, and offer Germany new ways to

protect its overseas possessions in Africa. The ill-fated project, which saw significant progress but fell short of completion due to World War I, could have revolutionized Eurasia's strategic geography had it been completed.

China's Belt and Road (BRI) projects similarly leverage Chinese economic instruments for strategic ends. Originally announced by Xi in 2013, the program has been promoted by the Chinese leaders as the "project of the century" and as a new "silk road."²⁶ In a historical quirk, the very term "silk road" was originally devised in Imperial Germany and shaped Berlin's own continental ambitions.²⁷

China's ambitions, however, are grander. Beijing seeks to connect nearly 70 countries and three continents together through rail lines, pipelines, highways, ports, and other infrastructure. Together, these projects are meant to crisscross Eurasia and link China to Europe and Africa through an overland "belt" and an overseas "road." The project has received outsized focus from top leadership: it is a signature initiative of President Xi, the focus of one of the Party's powerful "leading small groups" that sit above ministries and coordinate policy, and has been declared a key foreign policy focus for the next decade.

One of China's main motivations in pursuing the Belt and Road is similar to Germany's—to circumvent its inferiority along the maritime dimension. As Peking University Professor Wang Jisi noted in an influential 2012 article—believed to have shaped the initiative's evolution—China's east posed security challenges: maritime disputes, island chains, the U.S. Navy, and wary neighbors. "Marching Westward" over the land, as Wang noted, provided an alternative. "Unlike East Asia, there is no U.S.-led regional military alliance among the countries to the west, and there is no possibility that one will arise."²⁸ Indeed, China had abundant resources and a continental vacuum all to its west, as well as the surplus capacity and dollar reserves to fill it with pipelines, railways, highways, and even overland internet infrastructure that reduce China's dependence on the sea. China's western ambitions in this way bear a stark resemblance to Germany's eastern equivalents.

Both countries' continental investments had another important purpose—reaching the sea, and in particular the strategically important Indian Ocean. In Germany's case, Indian Ocean access would help Germany protect its African colonies. For China, it helps ensure that its energy and commodity imports—most of which flow through these waters—are safe from interdiction. Less than two decades after President Hu first raised these concerns in a 2003 speech, Chinese railroads and highways will now link the country directly to Chinese-built ports in Pakistan and Myanmar, permitting resources to be transported by sea and overland back to China.²⁹ And as some military officials admit, these ports may well one day host a Chinese military presence. Indeed, China's new military facility in Djibouti broadcasts such power projection ambitions.

German and Chinese grand investments in infrastructure constitute the classic gambles of a continental power encircled by maritime rivals. Like the Berlin-Baghdad railway before it, China's Belt and Road too may collapse—not from great power war, but from recalcitrant partners, financial overstretch, and local security challenges. Even so, Washington cannot assume its failure and must recognize that, if these projects are successful, they could reshape Asia's strategic geography. A wiser course is to understand the power of China's geo-economic tools and, where possible, work with allies and partners to offer superior alternatives.

Blunt Force Tariffs

The heart of great power economic competition is subtle and sophisticated, occasionally patient and long-term, and rarely emotional and reactive. Competition over standards, technology leadership, financial leverage, and infrastructure investment are far more complex and far less intuitive than the blunt levying of tariffs. And yet, tariffs have a simple and emotional appeal, especially in established powers with angry publics reckoning with the loss of preeminence and economic security. The quick fix of tariffs, while psychologically soothing, too often proves strategically counterproductive in a competition that requires more nuance.

Tariffs are a crude tool for successful great power competition. Although intended to help producers, the complexity of transnational supply chains and the fact that intermediate goods—such as auto parts—are often inputs into final products means that tariffs can actually reduce one's own manufacturing capacity by inducing producers to move overseas where those inputs are cheaper. Strategically, tariffs can lead diplomatic partners to turn toward a competitor, and Great Britain's protectionism indeed led some European states to grow reliant on the German market. Moreover, tariffs can undermine multilateral cooperation needed to pressure a perceived cheater. In this way, tariffs are blunt tools that are easy to use, but whose economic and political follow-on effects are difficult to anticipate and even harder to control.

Great Britain offers a cautionary tale in this regard. In the late nineteenth century, British protectionists threatened by what they perceived as German imitations of British goods passed the Merchandise Marks Acts, which required products to be labelled with their country of origin. A few years later, a charismatic Birmingham politician named Joseph Chamberlain advocated for tariffs to protect British manufacturing from German exports. In 1903, Chamberlain lamented that, "Agriculture ... has practically been destroyed. Sugar has gone; silk has gone; iron is threatened; wool is threatened; cotton will go!" A year or so later, he said: "In the past this country was ... the workshop of the world ... That is no longer the case ... Our competitors are gaining upon us in that

which makes national greatness ... Those are the wise nations that look a little ahead and see a difficulty before it overwhelms them.”³⁰ German export success was seen as a byproduct of cheating. As Henri Hauser put it, “The dice which Germany throws on the international table are loaded. It is madness under these circumstances to practise [sic] fair play with a player who cheats.”³¹ In his speeches, Chamberlain linked tariffs to security, and declared that without protection and the development of Britain’s imperial markets, the country would sink to be a fifth-rate power.³² Tariffs, in his view, were needed to “consolidate the British race.”³³

Chamberlain’s approach was faithfully implemented by his son, Neville Chamberlain, who was elected a Member of Parliament some years later. When Neville Chamberlain introduced protection and Imperial Preference, which gave favored access to British markets to the British empire while imposing higher tariffs on outsiders, in 1932, and France similarly chose to trade more within its empire and less with other countries, the effect not only made life harder for German exporters, but also for many exporters across Central and Southeast Europe as well as Scandinavia, who in consequence turned more to Germany. Tariffs ultimately proved an imprecise instrument, one that damaged Britain’s allies, partners, and the global swing states hanging between Germany and Britain—and weakened Britain’s own strategic position.

In his famous Glasgow speech, Joseph Chamberlain had emphasized that Britain must never be isolated when exposed to dangers. But isolation is effectively what his policies brought about. Chamberlain’s policies ultimately strengthened rather than weakened Germany by breaking up a multilateralism that could have contained or encircled it. Within a year of the British tariffs, Germany had a new and highly aggressive leader, one who could fully use the strategic opportunities that had been created for German power. Indeed, as the political economist Albert Hirschman has meticulously documented, European states became asymmetrically dependent on Germany in the run-up to the Second World War.³⁴ That, in turn, made it difficult to challenge it.

Donald Trump’s message today has an eerie resemblance to that of Joseph Chamberlain: “We’re taken advantage of by every nation in the world virtually,” Trump complained, and “it’s not gonna happen any more.”³⁵ His campaign manifesto, *Great Again: How To Fix Our Crippled America* explained that: “There are people who wish I wouldn’t refer to China as our enemy. But that’s exactly what they are.”³⁶ In Trump’s view, China’s economic success has been a form of

Tariffs ultimately weakened Britain’s own strategic position by driving other states toward Germany.

cheating—and indeed China has not always played fair. His Sino-American trade war is one that Joseph Chamberlain would likely have supported.

Trump's instinct to *do something* is not entirely unwelcome, and some of his administration's policies may prove promising. Bipartisan legislation like the Foreign Investment Risk Review Modernization Act presents an instrument to deal with China's state-backed purchases of Western intellectual property that is somewhat more surgical than blunt U.S. tariffs. Other challenges, including China's forced technology transfers, non-tariff barriers, and subsidies to state champions remain, and although they violate WTO rules, they are hard to detect and prove given the relative opacity of the Chinese system.

For these reasons, Washington needs to renegotiate elements of its economic relationship with Beijing, but a strategy of unbridled, unnuanced confrontation is unlikely to be successful. Indeed, like Chamberlain's, Trump's trade approach is emotionally satisfying but diplomatically disastrous. By raising tariffs not only on China but also on American allies, partners, and neighbors—not to mention Asia's smaller states—Trump risks actually driving them toward China. In contrast, some commentators fear Trump's confrontational strategy and support a more cooperative economic relationship with China. The problem with that alternative, however, is that like a rising Imperial Germany, China does have a state-directed system competing in technology standards, innovation, financial politics, and geo-economics—the United States needs a coordinated response.

That American response should neither be blindly confrontational nor naively cooperative; instead it should be competitive. The right approach, in contrast to tariffs, would be to work with allies to strengthen rules, set standards, punish Chinese industrial policy and technology theft, invest in research, welcome the world's best and brightest, and create alternatives to its geo-economic statecraft. China is playing a good hand well, but the United States and its allies have an even better one—but only if they work together.

Notes

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