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China-US Focus Digest is a bi-monthly magazine of exclusive commentaries on China-US relations. The articles express views of influential opinion leaders and scholars in China and the US on the issues faced by the two nations.

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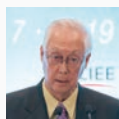
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US-CHINA TRADE AND ECONOMIC RELATIONS: WHAT NOW, WHAT NEXT





9-10 July 2019
Auberge Discovery Bay Hotel
Discovery Bay
Hong Kong

Fostering Dialogue and Constructive Engagement

Zhang Ping

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The U.S.-China Trade and Economic Relations: What Now, What Next forum that took place in Hong Kong on July 9-10 this year was unique in convening diverse and influential voices from both the United States and China, as well as third-party stakeholders from countries such as Japan, Canada, and Singapore. It was also special because the forces in support of a healthy US-China relationship were able to come together in the midst of rising tensions and mistrust between the two countries. Despite the real danger of a severe disruption to the bilateral relationship, global leaders convened for candid and constructive conversations to help find a path forward.

In this special edition of the China-US Focus Digest, we aim to share the insights of the distinguished speakers and panelists with a broader audience. This issue includes transcripts of speeches by luminous international leaders such as Former Prime Minister of Canada Jean Chretien, Former Prime Minister of Singapore and Emeritus Senior Minister Goh Chok Tong, and Former Prime Minister of Japan Yasuo Fukuda, as well as former Chinese and American diplomats, cabinet ministers, business leaders, and renowned scholars.

We hope the wide spectrum of perspectives represented in this special edition will help bridge the widening gap between China and the US, especially during this contentious period, and make a strong case that the US-China relationship continues to be the most consequential in the world that cannot afford to go astray.

The following transcripts have been edited for style and brevity. For the full conference report, please visit:
www.cusef.org.hk/2019forum

US-China Relations: Now and Beyond

If the idea of “decoupling” from China that is on the rise in the United States were to come to fruition, it would yield devastating results for the US, China, and the world. Only if China and the US take advantage of their complementary trade relationship will the global community realize its most prosperous state.

■ Tung Chee-hwa

*Vice Chairman of CPPCC
Chairman of CUSEF*



The recent meeting in Osaka between Mr. Trump and Mr. Xi gives us hope that the US-China trade relationship can move forward again. Immediately before the Osaka meeting, many of us sensed that the people of the United States and China, particularly in the business world of the two countries, want to see progress being made in the discussions. Trade negotiation is always difficult, and maybe there will be set-backs, but in the end, I believe that common sense will prevail.

My assignment today is to talk about US-China relations – where we are now, and where we want to be in the future.

The modern-day US-China relationship began 47 years ago in February 1972, when President Nixon visited Chairman Mao in Beijing. But it was not until 1979 that US-China diplomatic relations were formally established by President Carter and Chairman Deng Xiaoping. Since that time, eight presidents of the United States and five leaders of China have pursued policies to ensure that the relationship moves forward positively.

Today, however, there are people in the US who, for one reason or another, advocate a so-called “decoupling” of US-China relations. They argue that China has taken too much advantage

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of the United States. This is an important topic, and, as someone who has spent half of his life promoting US-China relations, I think you know where I stand, but please allow me to make my case. To start, I think that it is important for everyone to understand China's priorities, from where she came, and where she plans to go from here.

Over the past 40 years, China has made great strides in improving its economy and the welfare of its people, with hundreds of millions of Chinese being pulled out of poverty. Never in the history of mankind have so many people been pulled out of poverty in such a short time.

Nevertheless, at the end of 2018, per capita income in China was still less than \$10,000, as compared to the US's \$60,000. Indeed, the country still has some ways to go to satisfy the Chinese people's aspirations for a better life. In order to achieve that, internationally, China will continue to collaborate with other nations in the areas of trade, commerce, investment, etc. Domestically, she will pursue the development of science, technology, and innovation, all while continuing down her path of reform and opening up her economy to the outside world. The ultimate aim is

I believe that, when it comes to scientists, engineers, and innovators, one-plus-one is always more than two.

for her to eventually reach developed nation status. This may take some time.

There have been concerns in the United States about China's rapid rise. It is asked, "Would China seek to become a hegemonic power and pose a threat to the United States?" From this point of view, what is noteworthy is that, historically, at the pinnacle of its power during the Tang Dynasty 1,300 years ago and during the Ming Dynasty 650 years ago, China was the largest economy in the world, with over 30% of the world's total GDP for years and years. During those periods, China never sought to expand her borders, export her method of governing, spread any extreme ideologies, or conquer other civilizations, although she would put up walls to keep invaders out. My point is that China does not seek to become a hegemonic power. It is not in China's DNA to do this.

Today China preaches peace and shared prosperity for all nations. The expansion of China's economic activities gives rise to common prosperity to everyone. A case in point: every year since 2008, China's economic expansion contributed over 30% to the growth of the global economy year in and year out. It is, indeed, China's hope that the expansion of her economy is not only good for her people, but also for the rest of the world.

Furthermore, let me justify why a good relationship between the US and China is not only good for the two countries, but also good for the world at large.



First, it needs to be pointed out that, in the years to come, the US-China trade relationship is going to become increasingly complementary. The US is the world's largest supplier of oil and gas, while China is the world's largest buyer of oil and gas. The US is the world's largest supplier of farm products, and China is the world's largest buyer of farm products. The US is a major supplier of consumer goods in the world, and China, with a huge middle class of consumers numbering in the hundreds of millions, has become the largest purchaser of consumer goods.

Furthermore, with its high savings rate at around 50%, China will be seeking investment opportunities overseas. The US is an ideal destination for Chinese investment. Moreover, China has announced that its imports will not be subject to restrictions, and foreign investment will be more welcome. All I can see is an increasingly complementary US-China trade and services relationship as time goes on. Some of you may ask - is this for real?

Yes, it is for real. Why should I believe it? It is for China's own interest too.

Secondly, US-China relations are not based on trade, commerce, and finance alone. The two countries have collaborated with each other in the recent past on major challenges that the world has faced. In 2008, China actively participated in an effort to support the global economic recovery in the face of the financial crisis. The US invested \$800 billion in the US, and China accepted the American suggestion, and invested \$400 billion in China to shore up the development of the world economy. US initiative and Chinese participation at that time was essential for the subsequent global economic recovery.

Another example of the collaboration between China and the United States was in the effort to sign the Paris Accords on climate change in 2016. This was only possible because the two countries came together. And in West Africa, the Ebola epidemic was contained within 6 months of the US and China coming together. Towards the end of president Obama's second term, China and the United States also began to discuss a collaborative effort to clean up the oceans of world, which is well-recognized as a very pressing problem. And in this respect, we are heartened that the G20 has taken on this issue.

China does not seek to become a hegemonic power. It is not in China's DNA to do this.

There are a host of other challenges that the world will face in the years to come, whether it is on issues such as how to reduce the migration of people globally, how to curb the proliferation of nuclear weapons, how to promote a weapon-free outer space, how to procure cyber security, etc. In all of these areas, collaboration between the United States and China is essential, and this collaboration can only increase the chances of attracting other important nations in support of these efforts and therefore the ultimate success.

Unfortunately, there is also talk that the US and China will not cooperate with each other in science and technology in the future. I believe that, when it comes to scientists, engineers, and innovators, one-plus-one is always more than two. It will be to the benefit of all the people of the world if the US and China can come together in these areas. Of course, for that to happen, intellectual property needs to be protected. For this China will be on board. It is in her own interest.

Time and again, my American friends have said to me that our political systems are vastly different. How can we possibly collaborate? My answer is that our political systems are different because we have different cultures, different histories, and we are at different stages of development. Therefore, our needs are different. It is entirely reasonable that we have different political systems. The ultimate goal of a political system is to serve its people. Poll after poll, conducted by many pollsters, has shown that 80% of Chinese people feel that the country is going in the right direction. This clearly demonstrates that China's

system works for China, and this should not in any way hinder the collaboration between the two countries.

For all of these reasons, I believe that decoupling is not in the interest of the United States, nor of China, and certainly not in the interest of the world at large. In fact, it is really short-sighted.

The more closely the two countries can work together, the better off the two countries will be, and the better off the world will be. Developing and maintaining a good US-China relationship will not be easy, and it is going to take people from the two countries to make major efforts to understand each other better, to listen to each other more, to give and take when things are difficult, and to keep an open mind, all because it is not just for our future, but also for the future of our children and grand-children. I listen carefully and make notes to many good suggestions. Stephen Roach - I hear you. The work that this forum has undertaken over the last 2 days is only a small step of a long journey. This is just the beginning. Shall we see each other again next year? 🍷

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because we have different
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and we are at different stages of
development.

Trump Won't Settle for a Bad Deal

Waiting for the expiration date of Trump's presidency will not remedy the issues the US has with China. A fundamental misunderstanding of China by the US and vice versa is what is truly standing in the way of successful trade negotiations.

■ **Edwin Feulner**
*Chairman
 Asian Studies Center at
 the Heritage Foundation*



In 1999, as the President of The Heritage Foundation, I convened a public gathering at Washington's National Press Club of the heads of the seven most influential, bipartisan, and broadly ideological think tanks in Washington to proclaim to the Congress and the United States public that we were unified in our belief that China should join the World Trade Organization, where it will begin to comply with international standards of "good economic behavior." That message was heard, and the Congress acted on a broad bipartisan basis, and China joined the WTO in the fall of 2001. So, I will not accept a label such as "Feulner is anti-trade" or "Feulner is anti-China trade."

Another note from my personal past activities: I was honored to chair candidate Trump's, and

then president-elect Trump's, domestic policy team during the 2016-17 presidential transition. I remain a supporter of President Trump. I suspect I will be one of the few participants in this conference speaking from this perspective. It's a perspective that everyone here should be aware of and should be realistic about.

Let me give everyone at least one "take away" point from my perspective: No matter the outcome of the 2020 US presidential and congressional elections, I caution my Chinese friends, and, indeed, all of the participants here, that "waiting for the

"Waiting for the end of Trump, so that things can get back to 'normal,' is not a viable strategy."

If China is the number two economy in the world, it is not unreasonable for America to assume that it will act like it and not try to game the world's systems.

end of Trump, so that things can get back to 'normal,'" is not a viable strategy.

I believe that no matter who wins the next Presidential election, from either political party, that the US-China relationship on economic policy issues will not revert to a pre-Trump position.

I say this based on recent Washington actions: it was Senator Mark Warner, a Democrat from Virginia, who, with Marco Rubio (R-Florida), has been leading the argument against Huawei being considered "just another international telecom supplier company." It was Senator Chris Van Hollen (D-Maryland) and John Kennedy (R-Louisiana) who have introduced the "Holding Foreign Companies Accountable Act," which would require Chinese companies registered in the United States to abide by the same accounting and transparency rules as companies from the United States and everywhere else in the world. That is not the case under current law in the United States. Several local American Chambers of Commerce in China have candidly expressed their concerns about doing business in China to Washington policy wonks in recent weeks. They have a specific list of grievances about the difficulty

of doing business in China and problems dealing with the Chinese government, Chinese SOEs, and Chinese-controlled financial institutions.

It is unlikely that any of these problems will be solved by a bilateral trade agreement between the two. So don't expect American policy to just bounce back to "the good old days of normalcy."

So, "Where are we now?"

Presidents Trump and Xi once again hit the "reset" button on the unfolding US-China trade talks when they met in Osaka on the sidelines of the G20 Summit.

If that meeting had achieved less, it would have prolonged the standoff and slowed global economic growth.

I am one of Washington's congenital optimists, and I note that given that both sides had seemed to be digging in, it is, in my opinion, an achievement in itself that the two leaders managed to avert the head-on collision that had appeared imminent.

Of course, the "grip and grin" handshake between the two leaders in Osaka is not a guarantee there will be a final deal.

Why not?

Because there are at least three basic unresolved fundamental issues from the American perspective.

The first one is the fundamentally different and independently-shaped, opposing

views on intellectual property. In the United States, the right to intellectual property is enshrined in the US Constitution (Article I, Section 8, Clause 8), as adopted in 1787. Obviously, this American perspective predates even those of us who have been around for a long time, as it has been our “law of the land” for 232 years.

Therefore, whatever the specific details of a case in the form of the theft of intellectual property, forced technology transfers, or concerns about cyber security, the whole question of respect for patents and intellectual property must be discussed candidly and openly, and it must be resolved with more than smiles, sound-good statements, and promises for reform “soon.”

The second challenge is the opposing views on the “developing country” status of China at the WTO, and the related receipt of massive World Bank loans by China as a developing Third World country. Of course, “developing” status gives China “special and differential treatment,” including subsidies, higher barriers to market entry, institutional cover for forced technology transfers, and validating some of the theft of intellectual property.

If China is the number two economy in the world, it is not unreasonable for America to assume that it will act like it and not try to game the world’s systems. There is a real issue here.

My third major challenge is the Chinese pattern of changing the ground rules of the negotiations.

Let me recount a personal conversation I had with a senior American participant in the bilateral negotiations: at first, he said, there was confusion and then frustration when the Chinese side basically decided to go back to square one and start the discussions all over. This person asked: why did we spend all this time and effort negotiating and making what we thought was real progress just to have it all thrown out?

Now, the two Presidents agreed just ten short days ago that talks would resume. Washington agreed to postpone levying additional tariffs on Chinese goods to ease the path towards negotiations. So, Washington is ready to move ahead with talks. Then, in a July 4 (an important day for Americans) Bloomberg story, we are told that the Chinese side is demanding that all tariffs be lifted before talks can resume.

This may simply be the opening Chinese position in the new negotiations, but, knowing my President and the people who are advising him, this tariff removal will not happen other than as part of an overall agreement.

And a word of caution to my Chinese friends: this way of returning to the table

The “grip and grin” handshake between the two leaders in Osaka is not a guarantee there will be a final deal.



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is never likely to succeed with a president who is well known as a tough negotiator and who has repeatedly said that “no deal is better than a bad deal.”

So, the challenges are real, but so is the opportunity for a remodeled and upgraded US-China economic relationship, which must be our shared goal.

By stating the challenges clearly and forthrightly, I hope that we can define the issues and lead to a fuller understanding of our differences and

perhaps even resolve some of them. Those of us who are in the forecasting business will come to the conclusion that the United States and China, in whichever order, will remain the two dominating economies for at least the next half century.

From our side, we have to learn how to adjust more effectively to our interactions with China, the rising power. China, the rising power, will have to also learn how to face the reality that the United States is the current dominant power, the two of us have to continue to talk and to act positively as we meet, and actually carry out the agreements that we can come together around. So hopefully we can learn together.📍

From our side, we have to learn how to adjust more effectively to our interactions with China, the rising power. China, the rising power, will have to also learn how to face the reality that the United States is the current dominant power.

Finding Our Voices and Deeper Dialogue

The growing anti-China sentiment in the United States is counterproductive to the trade relationship between the two countries. Americans must understand that this bilateral trade relationship is, in fact, beneficial to both nations.

■ Neil Bush

Founder and Chairman
George H. W. Bush
Foundation for U.S.-China
Relations



Throughout his amazing life, my father played important roles in shaping US policy towards China. He often stated that the US-China relationship was the most important bilateral relationship in the world. He had a deep understanding of the cultural, political, and economic complexities vital to normalizing ties. So my views are largely shaped by my father's views, but they are also shaped by over 140 trips to China over the past 44 years.

My first trip to China was in 1975 when my father was the "bicycling Ambassador" representing the US in Beijing. This was a time towards the end of the Cultural Revolution when there were very few personal liberties. China was pretty much closed off to the West. I remember going with my family to the zoo to see the pandas or to the Forbidden City only to notice that we were being followed by throngs of people curious to see Westerners. I've been back many times and have witnessed China's rise first hand.

At the core of our American value system is individual freedom. We know that once you have enjoyed freedom, there is no giving it back. And as a freedom-loving American, I have marveled that over the past 44 years, there has been an unprecedented freedom movement in China where more people have gained more freedom in the shortest period of time in all of human history. The freedom to choose where to live, who to marry, what career to pursue. The freedom to travel abroad, to find the best education anywhere in the world, to enjoy a better quality of life. Those freedoms and many more were unimaginable 44 years ago.

As China rises, so does the anti-China rhetoric. You'd think that China would be taking advantage of the United States at every turn to gain dominance over us. As most in this room know, the truth is that over the past 40 years, there has been tremendous mutual benefit to the United States and China from closer commercial, ed-



educational, diplomatic, and cultural relations. Globalization, and specifically our connectivity to China, has contributed to a sustained growth in the US economy, has led to full employment, and has benefited consumers with lower cost, high quality goods. Globalization, and specifically connectivity to the US, has been a major contributor to China's success in building a huge middle class and lifting hundreds of millions out of poverty. Our bilateral relationship has had bumps in the road but has produced a classic win-win scenario.

Central to our relationship is the question of whether China is a natural friend or a foe of the US.

My father, who fought in the Pacific in WWII, who lived in China for 15 months in the mid 70s serving as our Chief Liaison Officer, who worked with Chinese people in the UN, and who was Vice President and President of the United States, believed that China and the US have historical roots for deep friendship. He believed there is more that unites us than divides us and that the roots of our relationship today are deep enough to withstand the current typhoon. And he was disturbed by the rising anti-China sentiment that had become so prominent towards the end of his life.

So why the discord? Everyone in this room has studied replies to this question, and we heard plenty of explanations yesterday.

The very fact of China's economic rise is causing angst. Americans are quite competitive, and when we see a much larger country become the second largest economy in the world with GDP growth rates of over 6% per year, then our competitive juices start to flow. Many who fear China position this as a competition, and they point to the trade deficit to suggest China is winning and we're losing. The zero sum, winner-loser mentality is wrong and naïve. The truth is our trade deficit with China is natural – the richer country buys more stuff from the poorer country. As China develops and needs energy, agriculture, and consumer-demanded high-end brand products, the deficit will shrink. In the meantime, both countries benefit from our bilateral trade.

The demonization of China is being fueled by a rising nationalism in the US that is manifested in anti-immigrant, anti-Chinese, pro-America First rhetoric. These nationalists, joined by a broad coalition of unlikely bedfellows, view China's ruling elite as a monolithic communist authoritarian system that has no regard for personal liberty or human rights. It is clear to me that China is not ruled by a monolithic regime where one guy makes the decisions without regard to the sentiments of other leaders or the care and concern for the people. It is impressive to me how leaders rise based on performance with one measure of success being the areas' GDP growth. Often times, a successful district or city official will rise to be a provincial or central government leader and so on. It is also quite clear that the Chinese people aspire to enjoy a better standard

My son-in-law and many Americans only know what they hear. Those that believe that the US and China ought to work together need to find our voices.

of living, safe food, clean air to breath, improved health care, and a better system of education. The government has put in five-year plan after five-year plan that have led to the gradual maturation of societal systems, and that has led to unprecedented economic growth inching the country closer and closer to what we would refer to as the American dream, or what President Xi has called the Chinese dream - what one might call the American dream with Chinese characteristics.

Some critics of China feel that only a western style democracy will work in giving the Chinese people a full set of liberties. Cultural traditions and institutions required to sustain a thriving democracy are not present in China today. A premature move towards a US style democracy would be destabilizing and would most likely cause major setbacks to the freedoms gained over the past 40 years. The bottom line is that our system of government, our form of democracy, would not work for China, just like China's system would not work for us.

While on a family vacation last week I had a rather heated discussion with a well-read and quite astute son-in-law. He feels, like many in America, that China is fundamentally flawed in terms of human rights, citing the treatment of ethnic minorities in Xinjiang. He complained about the growing use

of intrusive big brother tactics, including monitoring social media to crack down on criticism of the government; the use of big data to give individuals a social credit rating designed to control behavior; and the use of facial recognition technologies that monitor citizens. He complained about the nefarious nature of the 1000 Talents Program and the aggressive use of the Belt and Road Initiative to gain influence globally. He expressed concern that the Chinese are increasingly cutting back on basic freedoms and seeking a dominant position in the world. At one point he even compared the authoritarian rule of China to that of Saddam Hussein in Iraq and Hitler in Nazi Germany. The wine may have been talking at that point. My son-in-law has never been to China. He has no appreciation for the distance Chinese people have traveled to obtain unimaginable freedoms, and his facts and assumptions are clearly flawed and based on half-truths or all-out fake news.

His views show just how hysterical and challenging the times are. The depth of his convictions indicates that we are at a critical time in the US-China relationship. My son-in-law and many Americans only know what they hear. Those that believe that the US and China ought to work together need to find our voices.

The bottom line is that our system of government, our form of democracy, would not work for China, just like China's system would not work for us.

Our close diplomatic and strategic ties will help humans address daunting challenges for a more peaceful and more sustainable life on earth.

I urge my Chinese friends to be as transparent as possible, as it relates to intentions and implementation of programs that are the target of widespread global criticism. I'd advise my American friends not to meddle in the internal affairs of China. Chinese leaders are walking a tight rope in terms of maintaining internal stability so that the solid platform that has produced such amazing results can continue to improve the quality of life for more of its citizens. If the Chinese government gets carried away with denying basic rights, then there will be a push back from within. Once people enjoy the taste of freedom there is no turning back.

Like in any bilateral relationship between friendly nations, there are plenty of issues that need to be addressed. Many of our speakers and experts have articulated these better than I ever could -- we need to address trade issues, IP protection, industrial sabotage, access to markets, national security, and human rights-related matters.

To our government, I would suggest we embrace the George H.W. Bush style of leadership to address these issues: a style that looks to create and maintain multiple levels of frequent dialogue, seeks to build trust, puts the parties in the other guys' shoes, looks for the best in others, is respectful, and accounts for cultural differences – an approach that is encouraging and hopeful,

but one that is honest, direct, and targeted.

It has been frustrating as an American to see politicians use China as a political whipping boy and to see and hear one sided anti-China reports over recent years that disregard the fact that our bilateral relationship has benefited the US tremendously in the past and still does. So it was nice to see a letter written by five US leaders and signed by nearly 100 others that openly stated, "China is not an economic enemy or existential national security threat" to the United States. I encourage others to speak out to add balance to the debate so that over time my father's vision for closer ties that lead to real collaboration in addressing growing human challenges will be realized. As the two largest economies being led by people of good intent, we must lock arms to collaborate on issues like climate change, pandemic infectious disease response, terrorism, space exploration, medical breakthroughs, technology developments that make the planet safer and more harmonious, setting parameters to address the proliferation of fake news, the control of other aspects, for the cloud and internet, and many others.

Our closer commercial ties -- the opening of our markets to Chinese companies and their markets to our companies -- will fuel a decade of high growth and prosperity and will lift people in both countries. Our close diplomatic and strategic ties will help humans address daunting challenges for a more peaceful and more sustainable life on earth.

So let us go forth inspired by the possibility of working together to leave this world a better place for generations of humans to follow. ●

China Is a Stakeholder in America's Success

This is no ordinary time in US-China relations. Yet there still exists a viable pathway to a US-China relationship that is mutually beneficial and politically sustainable.

Today, we see in the United States “a fight for the very heart and soul of the US-China relationship.”

Is China a mortal enemy of the United States, or is it an indispensable partner? Is there an inherent contradiction between China's rise and America's security and prosperity? Or can these two countries succeed at the same time? Can the Chinese dream and the US doctrine of global primacy exist in the same time and space? Or is the world simply not big enough for both nations to coexist

Today, we see in the United States “a fight for the very heart and soul of the US-China relationship.”

peacefully, while realizing their full potentials? These are some of the profound questions at the core of the current US debate about China.

At the George H.W. Bush Foundation for US-China Relations, also known as the Bush-China Foundation, we know where we stand on these questions. We take our cue from one of the greatest statesmen the modern world has ever known, President George H.W. Bush, who categorically rejected the idea that China is an enemy of the United States. On the contrary, President Bush articulated in 2007 a very different vision for the relationship: “I love the Chinese people,” President Bush wrote, “one of my dreams for our world is that these two powerful giants will continue working toward full partnership and friendship that will bring peace and prosperity to people

■ David Firestein

*President
George H. W. Bush
Foundation for U.S.-China
Relations*



The reason that President Trump gets so much wrong in his handling of China policy is because so much of his policy is based on alternative facts, known in some circles as “demonstrable falsehoods.”

everywhere.”

No one here needs to be told how great a gap there is today between the George H.W. Bush vision for the relationship and the prevailing sentiment toward China among an important segment of the Washington DC elite.

Substance, style, and factual basis of US policy

This gap is manifested not only in the substance of US policy, but also in the style with which that policy is formulated and implemented, and indeed even in the degree of importance attached to having a factual basis for policy decisions.

What we are seeing in the United States today is the greatest retreat from the limited government, pro-market, pro-trade principles of Ronald Reagan and George H.W. Bush, ever seen since Reagan left the Oval Office in 1989. President Trump would rather give American farmers government handouts than allow them to earn income through trade with China. In essence, he is nationalizing the

US agricultural sector. President Trump is giving US farmers an income they don't need with money America doesn't have.

In terms of style, President Trump's erratic lurching from one policy position or viewpoint to another, often a contradictory position or viewpoint, undermines the two vital conditions that undergird global trade: consistency and predictability. One case in point, on one day, just a week or so ago, the US ban on trade dealings with Huawei was purely a matter of national security and thus non-negotiable. Literally the next day, it became a trade matter, and the ban was partially lifted. Such fickleness severely damages US credibility, and I would argue, ultimately, weakens our negotiating position on a host of issues.

But apart from the substance and style of



US policy and discourse regarding China, the thing that I find most astonishing is the divorce of so much of our contemporary US discourse on China, including the content of President Trump's own statements from any factual basis.

The reason that President Trump gets so much wrong in his handling of China policy is because so much of his policy is based on alternative facts, known in some circles as "demonstrable falsehoods."

Here, listen to these statements, all of which have been repeatedly made by President Trump himself or other influential Americans associated with this approach to China: The deficit with China is \$500 billion. This level of US importation of Chinese goods and services represents an act of theft by China of our national wealth. China pays the Trump tariffs, not American consumers and producers, and thus Chinese money is pouring into our national coffers like never before. China is interfering inappropriately in our politics and electoral process. Confucius Institutes are nefariously and unlawfully infiltrating our campuses and our society. Almost every Chinese student in the United States, according to President Trump, is a spy. The list could go on and on. All of these statements have something in common. They are completely unsubstantiated. And in the case of statements of alleged fact, they are demonstrably and irrefutably false.

With this in mind, what I think, many myths about the current negativity to-

We are officially in the territory of the surreal.

wards China in the United States are two fundamental points. First, this hyper-negativity is largely – perhaps almost entirely – an elite phenomenon, not an organic grassroots phenomenon. And second, and this statement may surprise someone who may disagree with it, the negativity, while fairly widespread within the DC elite community is actually not very deep, probably because so much of the negativity is predicated on false premises, and because on some level people see through that. Perhaps the most important data point is that the China-bashing we have witnessed in the United States over the last 20 months or so, has had, thus far at least, very little perceptible impact on US public opinion towards China. As has been reported in the Washington Post, whose editorial line on China is perhaps even tougher than that of President Trump, US sentiment towards China is still fairly middle of the road, just as it has been for the last 25 years.

This is no ordinary time in US-China relations

As all of us are aware, this is no ordinary time in US-China relations. We have a Republican US President and up until January of this year, a Republican Congress leading the retreat from the principles of limited government, free trade, global-

Framing China as an enemy of the United States or self-fulfillingly turning it into one would be among the grandest and most tragic strategic blunders in the history of the United States of America.

ization, and indeed the very concept of comparative advantage itself. We have a US President who has focused obsessively on reducing the US trade deficit with China, but who now presides over the largest merchandise deficit the United States has ever had with China, and the largest overall foreign trade deficit ever logged in the 243 year history of the United States. We have the US administration that is now adopting many of the practices that previous administrations, under both political parties, have long chastised China for engaging in, effectively adopting some of China's worst practices as best practices to be emulated. And we have a President who decries the fakeness of the news, but whose virtually every substantive pronouncement on China has been deemed by fellow Republicans, including his own advisors, to be factually false.

We are officially in the territory of the surreal. To be sure, the current tensions in the US-China relationship do not lie solely at the feet of President Trump and his advisors and allies. China does in

fact, bear considerable responsibility for the present state of US-China relations. I don't think any of us in this room would disagree with the basic assessment that there has in fact been a substantial asymmetry and lack of reciprocity in the US- China trade relationship. In fact, that's incontestable.

In an interview this morning on CNBC, I shared the view that China should move to become as open to US goods and services as the United States has been in recent decades to Chinese goods and services. There's plenty of room for improvement on the Chinese side in this regard.

Enemy, competitor, or partner

Indeed, I largely agree with Dr. Edwin Feulner's assessment of the key issues. Where I strongly disagree with the current US administration is, regarding the best prescription for addressing those problems, the administration is dangerously off course. Framing China as an enemy of the United States or self-fulfillingly turning it into one would be among the grandest and most tragic strategic blunders in the history of the United States of America.

Like many of us in this room, I, my colleagues, and the Bush China Foundation, aim to do all in our power to prevent the United States from making this foolish and self-destructive choice. And here, let me hasten to add, I oppose the current US administration's approach to China,

I oppose the current US administration's approach to China, not because that approach is bad for China, but because it is bad for America.

not because that approach is bad for China, but because it is bad for America. And I hold President Trump accountable, not for his failure to achieve David Firestein's objectives, but for his failure thus far to achieve his own.

But let me conclude on a faintly positive if perhaps slightly contrarian note. The presidential election of 2020 is going to be different from recent presidential elections in one key China-related regard. Rather than having an exacerbating and polarizing impact on US discourse on China, it is more likely going to have a moderating and tempering effect on that discourse. Why? Because in my view, President Trump can be the tariff president, or tariff man as he puts it, or he can be a two-term president. But he cannot be both. I believe President Trump is increasingly becoming aware of the binaries of the strategic political choice now in front of him. And that's why I believe we will see over the

course of this year, and perhaps into early next year, some level of resolution of the trade issues now rocking the US-China relationship.

We in the United States need to do a better job of keeping in our mind a set of seemingly contradictory twin truths, that I think the Chinese mindset can somehow more easily accommodate at the same time. Namely, that China is both a tremendously formidable competitor to the United States, and also, an indispensable partner to the United States and major stakeholder in our success. By being cognizant of the essential veracity of both of these statements, we can – and I believe over time we will – get our approach to China right and get this relationship right.

There is still a viable pathway to a US-China relationship that is functional, mutually beneficial, and politically sustainable. For the sake of ourselves and our posterity, I pray that our leaders will have the vision and the wisdom to see that path and to take it. Let's all help them do just that. 🍀

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Win-win or Lose-lose?

A “lose-lose” situation in the China-US trade dispute would be devastating for both nations. The U.S must stop fostering the mentality that China is an enemy in order to avoid such an outcome.

Currently, some people in the US hold the view that “lose-lose is better than win-win” – the US may suffer from a trade war with China, but as long as China suffers greater losses, the US will emerge a winner. Such an idea has three layers: first, the US loses more than it wins from trade with China, therefore it has been a victim in such trade ties. Second, the US is bigger in size and can withstand greater damage, and thus emerges the winner in a confrontation with China. Third, if the US can slow down China’s development, it will be worthwhile even if both nations lose.

I think the real issue behind such thinking is how the two parties look at each other. Is the US taking China as a friend, partner, and competitor or as an enemy? If it deems China an enemy, then all negotiations will be superficial and won’t solve in-depth problems.

Such a lose-lose mentality is very dangerous. According to the Peterson Institute for International Economics estimates, if Trump imposes tariffs on all Chinese goods, the average annual loss for American families will surge to \$2,200, and the US econo-

■ Qi Zhenhong

*President
China Institute of
International Studies*



While US politicians are busy making empty promises to their public, the Chinese government is calling on its people to get ready for potential hardships as well as a protracted trade war.

my will sink into a recession. Some American scholars have pointed out that while US politicians are busy making empty promises to their public, the Chinese government is calling on its people to get ready for potential hardships as well as a protracted trade war. Under such circumstances, who will be better prepared for a lose-lose outcome? Vicious China-US competition, even confrontation, will inevitably stall growth in both countries as well as for the entire world, and create disorder in global governance.

For the United States, it is not wise to “Make America Great Again” by suppressing and containing a powerful rival. Former US President Jimmy Carter said in an interview in April 2019, “We have wasted, I think, \$3 trillion in American military spending, while China has not wasted a single penny on war, and that’s why they’re ahead of us. In almost every way.” So if the US can adhere to and carry forward its good tradition to reform and strengthen itself, it can benefit from the China-US relationship.

Immediately after outbreak of the 2008 financial crisis, China actively supported the US proposal to convene the G20 summit and stabilized the international financial and currency regimes. Then-State Secretary Hillary Clinton said during a 2009



visit to China, “When you are in the same boat, you should keep the peace on the crossing.” This statement remains valid when it comes to today’s China-US relationship.

Robert Wright, a famous contributor to Time magazine, pointed out in his 1999 book *“Nonzero: The Logic of Human Destiny”* that for humanity to prosper, it must proceed from a “zero-sum” era to a “non-zero-sum” one. The idea of “lose-lose” is against the trend of history. ●

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 “When you are in the same boat,
 you should keep the peace on the crossing.”

Cutting Losses and Preparing to Recover

The future of Sino-American relations does not look bright from the way that America is currently approaching its disputes with China. In order to promote global peace and prosperity, China, the U.S., and the rest of the world must set aside ideological differences and focus on resolving shared issues and concerns.



■ **Chas Freeman**

Senior Fellow

Brown University's Watson Institute for International and Public Affairs

Fifty years ago, President Nixon realized that no world order excluding China could be stable.

Sino-American relations are of vital importance. I have spent five decades working to steady and improve these relations in ways that benefit the United States as well as China, the Indo-Pacific region, and the world.

Fifty years ago, President Nixon realized that no world order excluding China could be stable. At his invitation and that of his successors in office, China gradually became an integral part of a new global architecture. Now another American president is demolishing the foundations of that architecture.

No country has a bigger stake in saving what it can of the system the Trump administration is dismantling than China. China's inclusion in the open, multilaterally-managed, rule-bound, market economy is what enabled the recovery of its wealth, power, and pride. Without a world order that maximizes global commerce and cooperation, China's continued progress is at risk.

It's appropriate to hold this discussion in Hong Kong. No part of China has a greater stake in preserving a well-regulated

Without a world order that maximizes global commerce and cooperation, China's continued progress is at risk.

international system than Hong Kong. The people of Hong Kong owe their prosperity to two key factors: the continuing rule of law and the inclusion of greater China in the American-led world order. Without both these factors, there would have been – and there may be – no Hong Kong. Without them, there can also be no long-term success for China.

America's sudden lapse into belligerent xenophobia and protectionism threatens more than China. It endangers the entire world, including the United States itself. I care deeply about that.

Like President Nixon, General Secretary Xi Jinping and his colleagues understand the importance of active participation by both the United States and China in every element of the international system. This is the prerequisite for global stability, predictability, and prosperity, as well as for both countries' continued advance. At present, such cooperation is not possible. It is very unlikely that the upcoming U.S. elections will correct this. If Americans choose to abandon the norms we promoted in the last century, China and other countries cannot stop us from doing so. They must live with our

America's sudden lapse into belligerent xenophobia and protectionism threatens more than China. It endangers the entire world, including the United States itself.

The existing order has been remarkably beneficial to China as well as to other countries, not least my own.

rogue behavior and cope with its consequences as best they can.

The existing order has been remarkably beneficial to China as well as to other countries, not least my own. China's response to its disruption has so far been reluctant, restrained, and limited. This is wise. But, while restraint can minimize damage, it does not offset it or provide a basis for its eventual reversal. The strategic question all must now ponder is: what stopgap measures, what interim arrangements, what long-term initiatives by China and others can preserve the benefits of the rule-bound international order and enable an ultimate return to it?

Despite occasional false dawns, the prospects for Sino-American relations remain gloomy. China and others must therefore look beyond today's America for answers. The starting point for doing this is awareness that dissatisfaction with China's international trade and investment practices is not limited to the United States. It is shared by many in Europe, Japan, and others. These countries, too, want China to boost imports, better protect intellectual property and technology, and curb discrimination against

The strategic question all must now ponder is: what stopgap measures, what interim arrangements, what long-term initiatives by China and others can preserve the benefits of the rule-bound international order and enable an ultimate return to it?

their investors.

If China cannot appease American grievances, there is nothing stopping it from acting to mitigate those of others. The objective would be to expand economic relations with them, bypass American obstructionism of global governance, demonstrate China's continuing commitment to reform and opening, and lay the basis for ongoing liberalization of global trade and investment flows. China has already provided proof that such an approach is feasible.

The Asian Infrastructure Investment Bank, the New Development Bank, and "Belt and Road" initiatives all supplement and complement the resources of legacy institutions like the World Bank and the regional development banks. The new funds are the partners, not competitors, of the old. They operate under similar, if slightly more open, rules. The international community welcomes

the capacities they add to global governance. They address needs that would otherwise remain unmet.

China and the other sponsors of such new structures have left the door open, the light on, and a chair free for the United States if and when it decides to rejoin the international consensus. Any effort to advance the missions of the WTO or other pillars of the rule-bound order by paralleling them should do the same. Americans will eventually rediscover the merits of free trade, supply-chain economics, and cooperative facilitation of trade and investment. But, in the meantime, other stakeholders need not stand idly by while a deeply misguided American administration destroys legal frameworks and economic arrangements that enrich the world and sustain its peace and prosperity.

This is true of international politics as well as economics. If the United Nations is stymied on issues like climate change, the laws of war, or outrages against universally accepted norms of behavior, there is nothing preventing its members from convening ad hoc gatherings to forge collective responses to these threats. If the parties to the Law of the

China and others must
therefore look beyond today's
America for answers.

Sea treaty differ about their rights and duties under it, perhaps they should meet to clarify things, and, if necessary, amend the text. If tensions between multiple countries are rising, maybe all concerned should empower plurilateral regional diplomacy to compose their differences. Opposition to problem solving by a few need not prevent the majority from acting to the benefit of all.

In the foundational document of Sino-American relations – the *Shanghai Communiqué* – the two sides wisely set aside ideological differences to enable each other to work in parallel on issues of common concern. The time has come to reinstate this approach. It is the key to reversing the current drift toward war over issues like Taiwan and the South China Sea.

This brings me to a final thought on the bilateral interaction between China and the United States. If the aim of bilateral negotiations is just to get along, they will almost certainly fail. Success requires each side not just to have a clear concept of where it wants to take its relationship with the other. Both must agree on the mutually beneficial objectives

they will pursue.

A relationship not grounded in strategy leaves its parties hostage to events. This is the current state of affairs in Sino-American relations. It will take time to correct it. For now, the world must conduct an active defense of globalization and multilateral systems of governance. These have been and remain the best ways to promote mutually beneficial, non-violent competition, peace, and prosperity. ●

In the foundational document of Sino-American relations – the *Shanghai Communiqué* – the two sides wisely set aside ideological differences to enable each other to work in parallel on issues of common concern. The time has come to reinstate this approach.

Another 40 Years of Stable China-US Relations Possible

China and the U.S. must learn to overcome the mistrust that exists between them in order to preserve a healthy bilateral relationship and avoid falling into the “Thucydides Trap” or, perhaps worse, a “new cold war.”

Since late 2017, the strategic rivalry between China and the United States has been intensifying, and frictions in economy and trade, politics, culture, and science and technology have been increasing. Is it true that the two countries have already stumbled into the “Thucydides Trap,” or, even worse, into a “new cold war?”

One of the most important lessons of the past 40 years from the diplomatic relationship between the two countries is that cooperation leads to mutual benefits, while conflict puts everyone in harm’s way. Cooperation is the best option for both countries. There is a misconception that the U.S.’s China policy has failed, in the sense that China has not integrated into the US-led political and economic world order. In fact, international relations are based on common interests. Forty years ago, it was mutual interests that brought about the establishment of China-US diplo-

matic relations, and forty years later, it is mutual interests again that help push forward this bilateral relationship.

From 1978, when I was first posted at the China Liaison Office in the United States, to 2005, when I was appointed PRC Ambassador to America, I was able to bear witness to the historical progress of a broadening scope of China-US cooperation and a growing number of benefits from cooperation. During the first years after the establishment of diplomatic ties, bilateral trade volume was less than \$2.5 billion, with the number of people-to-people exchange hovering in the thousands. In 2005, when I started as an ambassador to the United States, bilateral trade volume reached \$211.6 billion, and people-to-people exchange increased to over two million. In 2018, China-US trade volume went on to value at \$633.5 billion, making the two countries the largest trading partners of one another.

■ Zhou Wenzhong

*Vice President
China-US People's Friendship
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Advisors
Boao Forum for AsiaWorld
Watch*



And people exchange during the same year more than doubled to 5.15 million.

Both countries need to think hard about how to address a lack of strategic mutual trust - a fundamental issue underlying today's China-US relations. There is no such thing as the "Thucydides Trap" in world politics. Nevertheless, strategic miscalculation could lead to this "self-fulfilling prophecy." For some time, anti-China rhetoric in the US has been on the rise. Some are deeply skeptical about China's intentions. Believing China is bent on challenging or replacing US predominance, they advocate a US policy featuring containment of, "decoupling" from, or even confrontation with China. Some of them even go as far as generating ideas such as "clashes of civilizations" and "a new cold war." This is utter strategic misjudgment, and thus a wrong prescription for the woes in China-US relations. If we let such agitations fester, it will shake loose the foundation of China-US relationship, poison the atmosphere of bilateral relations, and even push China-US ties down into a "Thucydides Trap".

"Harmony" lies at the core of the Chinese nation's value system. This dictates that China will commit itself to a peaceful rise and uphold an opening strategy of mutual benefit and win-win objectives. The fundamental strategic intention of China is to help its people lead a decent life, and, together with all nations in the world, construct a community for the shared future of mankind. China

is by no means a replica of the former Soviet Union. It will never follow down the beaten path of "power inevitably leading to hegemony," for such a path will take us nowhere, nor is it welcome anywhere in the world. China will never become a second America, nor does it harbor ambitions of replacing it. Competition between China and the United States is bound to arise, but such competition should be constructive and rule-based. China's development and prosperity present opportunities for the United States, and the same can be said the other way around.

China and the United States stand in sharp contrast in terms of social structure, history and cultural tradition: whereas China is a socialist country led by the Chinese Communist Party, the United States is the world's largest and most powerful capitalist nation; China boasts a civilization dating as far back as 5,000 years ago, while America is a relatively young nation with a history of some 200 years; American people are proud to claim themselves as "God's Chosen People," while the Chinese burn with a strong sense of national pride. The two countries approach issues from different perspectives, thus it is inevitable that differences and disputes arise. However, it is critical that we do not allow these differences and disputes to prevail. In the bilateral ties, there are many more mutual benefits than differences, much more cooperation than friction. We are obligated to prevent differences and disputes from dictating today's China-US relations.

There is no such thing as the "Thucydides Trap" in world politics. Nevertheless, strategic miscalculation could lead to this "self-fulfilling prophecy."



Recently, the most prominent issue in China-US relations is frictions in economy and trade. No winner emerges from a trade war. All disputes need to be settled through dialogue and consultation. That being said, all negotiations are bound by principles and bottom lines. China will never budge on issues of principle that bear a direct connection to national pride and core interests.

Taiwan, Tibet, Xinjiang, and South China Sea are issues concerning China's sovereignty and territorial integrity, as well as the feelings of 1.4 billion Chinese people. On such matters, China has no room for any compromise or concession. The United States, with an eye to the overall bilateral relations and its own interests, should address these issues in a cautious and appropriate way, in order to prevent them from affecting and undermining the China-US relations.

People-to-people exchange is an important aspect of informing and shaping public opinions in the two countries. Recently, some American departments and agencies have set up unwarranted barriers against China-US cultural exchange, including visa revocations and prolonged reviews. This has hindered interpersonal exchange between the two countries. As a result, starting from July of 2018, the number of Chinese tourists visit-

ing America has been experiencing a steady decline. Many American experts argue that America is over-reacting against the so-called "China threat," and it might deteriorate into a McCarthyism type of "Red Scare" from the 1940s and 1950s, which, in turn, harms American interests long term. President Trump, after meeting with President Xi in Osaka, said America welcomes Chinese students studying in the States. Thus, it is imperative that American departments and agencies follow through on the president's positive remarks with concrete measures, listen to those rational voices in the two countries, and facilitate, not discourage, people-to-people exchange between China and America.

I have faith in the prospects of this bilateral relationship going forward. As long as the two sides stand firm on the right direction of no conflict, no confrontation, mutual respect, and mutual benefit through cooperation; as long as the two sides expand cooperation in the spirit of mutual benefit and win-win objectives; as long as the two sides manage differences and disputes with mutual respect and are committed to promoting a coordinated, cooperative, and stable China-US relationship, this bilateral tie will be able to move forward for another 40 years. 📍

China is by no means a replica of the former Soviet Union. It will never follow down the beaten path of "power inevitably leading to hegemony," for such a path will take us nowhere, nor is it welcome anywhere in the world.

Patience, Positivity and Persistence: Keys to a Successful Relationship

There are a number of sticking points in the US-China relationship, ranging from trade to national security, that remain unsolved. At the heart of these issues is a lack of mutual understanding and mutual respect. Both sides should remain committed to dialogue and cooperation first in order to find common ground.

■ Max Baucus

Former U.S. Ambassador to China



I became very interested in China years ago when I met Premier Zhu Rongji, a very impressive fellow for all that he's done for China. We talked a bit about the WTO and about China becoming a member of the WTO, and so I took it upon myself to do what I could possibly do back in the States to help accomplish that result. I also introduced the bill in the Senate to grant permanent normal trade relations (PNTR) for China, which I thought to be very critical. It's very important to help China be part of the world economy.

Perhaps China is not really so much a developing country anymore, and perhaps the rules should be changed a little. Addressing this will help engender trust within the international community. As the rest of the world says of China, the per capita GDP is lower, but China is still

a big powerful country.

When I came over to Beijing, President Xi Jinping asked me what I was going to do, and I told him that I was going to visit all of China's provinces.

I also sat down with Henry Kissinger, and he told me a couple of things. I bought his book, *On China*. In that book, Dr. Kissinger talks about various parts of the US-China relationship. In western countries we play chess in which somebody wins absolutely. In China, you play *weiqi*. In *Sun Tzu's The Art of War*, you read that you surround your opponent and it becomes clear who's going to win. So you don't have to fight the battle, it's just that the outcome is very clear. That pretty much impressed me, and I saw many examples of that strategy when I served.

China is growing – its economy will soon be larger than that of the US. China is also a military power. Will those two factors have some consequence in the relationship?

Second, Dr. Kissinger talks a lot about the Thucydides Trap in his book and makes an especially impressive point. Dr. Kissinger talks about the British Foreign Service officer Mr. Crowe who was tasked with analyzing Germany in 1907. What is Germany going to look like for the rest of the decade, Mr. Crowe was tasked to determine. He came back and determined that even if Germany promised to be cooperative, that would be irrelevant. Instead, what counts are two things. First, Germany is a big country; and second, Germany is a military power. Those two factors alone are going to determine Germany's future in Europe and Europe's future, just those two factors alone. So Dr. Kissinger asked the same point with respect to China. China is growing – its economy will soon be larger than that of the US. China is also a military power. Will those two factors have some consequence in the relationship? He does not answer the question, he just poses it.

During my time in Beijing, I posed the question very often to Chinese leadership. The basic question I asked is how China wants to work with the United States and other Western countries. Look



at the trend line, China's GDP doubles every 10 years and its military spending doubles every six, seven years.

As Admiral William Owens pointed out, by the year 2039, figures will be a bit different. At that point, it won't matter what someone says at a meeting. It will be about actions. What actions are you taking to show that you want to work with and cooperate with the West? President Xi would raise the topic of international cooperation at meetings with President Obama and say no, there's no trap. And President Obama would say the same thing when they were in Washington – there's no trap. In my opinion, we don't know if there's a trap or not. It depends on China and the United States. But what we do know is that we've got to figure out how we are better together here. That to me is the essential question we're going to have to face, and that we cannot answer glibly.

Yesterday, Stephen Roach gave us four or five solutions to the tensions in the US-China relationship. One is especially helpful, which is the bilateral investment treaty (BIT). When I was serving, BIT was

number one on the list of priorities for all Chinese leadership. From 2014 to 2017, it was still on the list. If our two countries could at least start talking about the BIT again, that could help address some of the investment and trade issues that face our two countries.

Stephen Roach mentioned savings in both the US and China in his second solution, although I don't know if we'll be able to make large-scale changes there. I've tried for years when I was in the Senate to try and encourage US savings rates with tax issues, but we haven't seen any progress. We are just a country that consumes. We don't like to save. We can all pass big tax cuts and not have to pay for them. It's unfortunate, but that's where it is.

Stephen Roach did mention the third solution, which I think is key, and that is cyber. We've heard about the securitization of trading technology. It's evident that China completely changed its thinking of the US after Beijing went public with its allegations that the US is spying on China. We all knew it's true, and it works both ways. China started to pass a lot of national security statutes to protect their industry. We, the US, are doing the same thing.

The biggest question remains, and Prime Minister Goh touched upon it: the question of strategic trust. How in the world do two very different countries, with two very different systems, trust each other?

How do you do that? Frankly, I think that

it comes down to real respect for each other.

So how do we get that respect? We have to show more strength. So how do we be stronger? We should be stronger internally, it's all the infrastructure measures that should be taken. We stop fighting among ourselves. We work with our allies. We develop our own 2025. Let's develop our own technologies, not just try to put China down because we're worried that their technologies are going to be better than ours. But let's start developing our own too.

On the other hand, the US must show respect for China. China and the US are vastly different countries with different systems, and in the end, trust is really about mutual self-respect, not about looking down at them or telling them what to do. Instead, it's about setting boundaries and telling them what we can live with and what we can't live with. Ultimately, it's about respecting them as an equal.

Rule of law is one big concern for the United States. If you stand up on the

If our two countries could at least start talking about the BIT again, that could help address some of the investment and trade issues that face our two countries.

floor of the US Senate or Congress to defend China, your head would be taken off. You cannot say anything good about China in Congress today. It's because national security is a huge concern to so many Americans today, and especially to members of Congress, intelligence committees, and the Department of Defense, because there's virtually no rule of law in China.

On the other hand, China seems to be working towards the rule of law. We have to find some way for our two countries that are totally different to establish rules, so that we can have some understanding of what the agreements are and whether the agreements will be enforced.

A good way to deal with the Chinese is what I call my three Ps: You have to be patient; you have to be positive; and you have to be persistent. You just stick with it.

Some of the good news is that people who are very smart and who care about the US-China relationship are trying to find common ground.

That takes a lot of hard work, good faith, and listening to the other side. If I have any advice to my Chinese friends, it would be to find ways to be more transparent.

I believe that we are all in this together. We're joined together at the hip economically, and we've worked to-

gether on so many areas. The bottom line is, I find Chinese people just like American people. We're all the same.

Lastly, I have one great whimsical suggestion. The Americans do not visit China very often. I would propose that the Americans load up 747 with all of the members of Congress and fly them over to China for three weeks. Let's have Congress deepen their understanding of China and get to know the country a little bit better. 🍷

A good way to deal with the Chinese is what I call my three Ps: You have to be patient; you have to be positive; and you have to be persistent. You just stick with it.

We Are at a Critical Point

There is a tendency to look at the negative aspects of the China-US rivalry, but the situation is not the worst the world has seen. It is important to recall progress that has been made between the two nations as negotiations continue.

What we need in this relationship is a courage, a drive, and a passion for getting things done and facing challenges like many of us have never faced before, but doing it in a way that is collaborative and positive. This should be the tone, hopefully, of what we get out of these discussions.

I was honored to serve as Commerce Secretary in the late 1990s, to coordinate the passage of permanent normal trade status for China, which allowed China to enter the WTO, which then allowed, quite frankly, this enormous explosion, expansion, economic improvement in China, its outlook of how China looks at the world and how the world looks at China. It was a highlight of that administration. I also had the pleasure of coordinating the passage of the North American Free Trade Agreement (NAFTA). Trade has been good for all of

us. We know that. But we are at a critical point, not only in the relationship between US and China, but quite frankly, for those of us who believe in multilateral system, in how the system is working. Is it working well, not for those of us in this room, but for the average person who is being represented?

It brought up some extremely cogent points, at least about our political system and where we are at. The changes in China's economy, its lifestyle, its outlook, and its position in the world – are truly incredible in such a short period. We also, quite frankly, have, at this point

■ William Daley

*Vice Chairman
BNY Mellon
Former U.S. Secretary of
Commerce*



The changes in China's economy, its lifestyle, its outlook, and its position in the world – are truly incredible in such a short period.

in the leadership of both of our countries, two very strong people who are not afraid to exhibit that. Very different types of leaders than we've seen between the United States and China over the last 25 years.

I pointed out to many of my friends who worry about our President's attitude about China, that probably the most negative anti-China candidate for President in US history, at least in modern times, was Bill Clinton in 1992. He ended up being the president who drove the process, the difficult process. Some of you may remember, Zhu Rongji come to the United States thinking we were going to sign a deal. And it all blew up; he couldn't. It was rather embarrassing for him, very embarrassing for the United States and for President Clinton. But a year later, we got the deal done. And Congress passed it and passed it overwhelmingly.

And again, we spend a lot of time thinking about the negatives of what's going on, and today in our societies, both countries and in the world, we highlight those – the relationship between China and the United States, fraught with challenges. Compared to where we have

Compared to where we have been in the past, we are in a very good state.

been in the past, we are in a very good state, in my opinion. We will settle our issues economically; things will change. I do believe that the world is better off because of what China and the United States have done together over the last 25-30 years. I think we should keep that in mind as we discuss some difficult questions.

No doubt about it – there has been a sea change in our politics and very much so in the politics of the world. In the old days, or at least 15-20 years ago, you had Republicans, very much pro-trade, very much anti-isolation. You also had Democrats, who expressed a knee-jerk negative reaction because of their stance on labor unions and human rights. Those forces have joined together into a very powerful coalition.

The biggest challenge for all of us who believe in the benefits of this relationship is we have got to find a way to get

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the average person, probably in China, in the United States, and definitely in other parts of the world to begin to see those benefits.

That is our single biggest challenge. The truth is, that's really what is at the heart of US-China difficulties right now. I do believe progress can be made. I think it will be very difficult for the US in an election year. The President has pretty much put himself way out there. I truly believe he respects President Xi, and therein is the most important thing you can have in a negotiation. And I think President Trump has also shown that he wants to deal – he likes making deals.

We passed Permanent Normal Trade Relations (PNTR) almost 20 years ago, and the bulk of it was negotiated a little over 20 years ago. As with NAFTA and other major trade agreements, it's been controversial for 25 years.

Were they perfect? No, nothing is. Should there be changes now that we are 25 years into this system? Sure. We all ought to be reviewed. Where are we as countries? Where is the economy, the technologies that have changed our world? How does that affect us? How does this affect the economic relationship? We constantly have to be looking at them.

The other issue that I think is obvious: the need for a real ability to solve some of these problems globally. The WTO – some of us were at the WTO meeting in Seattle in 1999. What we thought we were going to do after that was come up with an honest way that the WTO could function better, quicker, and fairer and be perceived as fairer – that has not happened. That has to be a commitment by the world to try to do that. And now we've got to modernize them for the 21st century and make them work. ●

Not Really a Trumpian Issue

China and the United States find themselves in a situation that is gradually souring, but the current US strategy towards China is not exclusively a Trumpian one.

■ Vali Nasr

Professor of International Politics

Johns Hopkins University School of Advanced International Studies



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American foreign policy is changing very rapidly. There's a big debate within America about the role America plays in the world and the way it sees its place in the world. And a lot of what I have heard, from people from China and many other countries, is not unique to US-China relations. Instead it's about what is going on in the United States.

China is probably the most important country in terms of how the global order will be shaped and where American foreign policy will find itself.

I think the first thing to note is the American notion that wealth, development, and membership in places like World Trade Organization will somehow transform a set of values or system of governance.

I say that because the notion

that there is an historical determinism within wealth and power, which produces democracy and globalization that will ultimately change China, is now dead. The belief is that no matter the membership in WTO, no matter how wealthy China becomes, China is not going to be changed by this economic engagement, and China's more likely to change the world order than be changed by it.

We've seen for a while that there's been a replacement of that notion with a different kind of a historical determinism – the notion of a Thucydides Trap. The Thucydides Trap has become one of the most popular ways of thinking about the US-China relationship moving forward, and it says that if China doesn't change, we are somehow headed for a confrontation.

Even Henry Kissinger, who is a good friend of China and a pioneer of US-China relations, wrote a piece in Foreign Affairs a number of years back suggesting that we ought to look back at Germany and England on the eve of World War One as the possible scenario for the future of this relationship.

In this context, the best thing the US can hope for is to manage and contain China. And this actually started really under President Obama. The notion of a pivot to Asia was already a soft containment of China. The Trans-Pacific Partnership was about denying China what the United States saw in the run of the game in Asia, and it very quickly also shifted to military issues in the South China Sea and East China Sea.

So in that sense, you could say President Trump is following essentially where President Obama left off with this notion. The idea that we need to contain China is not really a Trumpian issue, although I will say that if President Trump was not President, some of his own ideas about trade and China would not be on the agenda. So we might have a very different kind of an engagement at the moment.

One difference about the Trump administration is this idea that this is more than just containment, it's about the United States only having about a decade or a limited time period in which it can stop China from becoming a superpower. It's not so much about hegemony, it's literally that China's economic rise is almost unstoppable,

and that there is a time period in which you have to do something to stop it.

It is more about the reassertion of America's unipolar position than it is about containment of China.

Something I hear a lot about these days, which some of the President's advisors such as John Bolton talk about, is that this is "a 1948 Moment," meaning that the United States has to organize all of its foreign policy in terms of something like a Cold War or Iron Curtain mentality.

So we got to think about, you know, what does this mean? How does it unfold past 2020? How may the United States move forward? There are a few arenas in which this will play out.

Trade is the first one. We've heard a lot about it. There are ideas out there about how to calculate and how to manage it. This is only sort of the frontal issue, but from trade you naturally move to technology.

Technology is really important, because for Americans, technology represents that the American economy remaining ahead of the curve, remaining

It is more about the reassertion of America's unipolar position than it is about containment of China.

But yes, if you lose the technology race with China, you lose and everything else is basically lost.

ahead of everybody else. But yes, if you lose the technology race with China, you lose and everything else is basically lost. So I think the Huawei issue really opens the door to a very different conversation about the competition between the two countries.

The third is geography – as in, what containment and global power rivalry are about. China is expanding rapidly in terms of its economic footprint into West Asia and Africa. The concept of Eurasia, now that the Americans have also picked up, literally goes from Ireland to Japan. China is becoming a very big influential force, and this is likely to be, if you will, the next frontier of competition.

Just a two months ago, Secretary Pompeo blocked an IMF loan to Pakistan, arguing that because Pakistan is receiving loans from China, the IMF should not give them loans that could go towards paying back the loan from China. It was using the IMF as a way of

combating China's expansion.

So ultimately, we have to think about the ideas, and not just about trade, but about technology and about geography. And we have to do it soon, as these ideas have to be discussed in various forms.

We're very much focused on what is going to be said in meetings at the high-level, between the leaders. But, what makes for a successful summit? We're in a situation that is gradually souring. You may very well have successful summits and successful agreements, but the mood among the people is actually getting more and more sour. I think this is a critical point, if China begins to be seen as the enemy, at least in the United States, it's going to impact people-to-people relations, and it's going to impact the overall perception of this relationship.

Those who are friends to this relationship, particularly American and Chinese businesses, shouldn't look to just a single meeting between President Xi and President Trump, they have to use their means and invest in order to make sure that the high-level meetings and summits actually bear fruit. 🍎

The concept of Eurasia, now that the Americans have also picked up, literally goes from Ireland to Japan. China is becoming a very big influential force, and this is likely to be the next frontier of competition.

Development or Disaster?

Globalization has brought a new set of international issues to the table. A neutral voice of moderation that understands the world's challenges should emerge to avoid decoupling or disaster.

■ Goh Chok Tong

*Emeritus Senior Minister
Republic of Singapore*



I shall speak on the topic of globalization, global governance and multilateralism from the perspective of a small country. Singapore is very tiny; trade is three times the size of our GDP. We are an open economy. Without a rules-based system, we might not even have been able to survive, because there would have been no jobs for our people.

So, I feel very strongly about this topic. Our world is at a new crossroads. We talk about global warming, climate change. I think we are also seeing “political warming” in the world, which may, if it is unchecked, set off a change to the entire global political climate. So, I see two possible futures – one is a path to disaster and the other a path of development.

Path to Disaster - De-globalization

There are two global trends that might lead to disaster – de-globalization and decoupling which leads to a divided global order. Globalization has benefited all of us, but we are now seeing the tail-end negative effects of globalization. One is international income inequality - that is very difficult to fix. By its own definition, globalization means competition – the ablest and the best will win, whether it is the Olympic Games, sports and so on. Those who are not so good will be left behind. The consequence of those countries being left behind will lead to migration, legal or illegal. You can see migration towards Europe from Sub-Saharan countries in Africa, you can see migration through Mexico,

I see two possible futures – one is a path to disaster and the other a path of development.

south of the American border. But that is income inequality on an international basis. Income inequality within a country is what drives angst in society, what allows politicians to either resolve it or to seize the opportunity to win elections – what you might call “populist politicians.”

Realistically, we should try and restructure our economy and recognize where jobs are being lost. We have to train people for a new economy where current technology is driving many people out of jobs, creating further income inequality. Redistribution is the easiest – you tax the consumers through tariffs and then you redistribute, provided you redistribute. But if you lower taxes for the rich, you do not have any additional resources to redistribute. But most importantly, it is to address the root cause of domestic income inequality – education, family support, skills training, where you can try and bring them up.

Unfortunately, that is not being done in my view, from looking at Europe and the US. That is when the politicians move in. The politicians allege that the cause for their grievance originates from the outside, and in this case, it's globalization. “Globalization has taken away our jobs, we must take them back.”

So, the people have spoken to reflect their fears. And these are genuine fears – they cannot cope with the changing world. In the UK, they chose Brexit, though Brexit is not over globalization but “Europeanisation”. In the US, “America First” has resonated with many people. In France, the “yellow vests” rioted in the streets. Most recently, right-wing and

That is the trend that we must watch out for, from multilateralism to nationalism to unilateralism, from an open global economy to selected protectionism.

populist groups gained ground during the European Parliament elections, especially in Italy and the UK.

Populist politicians have been able to tap into this vein of discontent. They blame countries, foreign investments, imports and immigrants for causing much of their domestic problems. We therefore see an inward-looking nationalistic attitude towards globalization. That is the concern, that is the trend that we must watch out for, from multilateralism to nationalism to unilateralism, from an open global economy to selected protectionism. I do not think we, the global community, will move into protectionism in a substantial way, but I believe more and more countries will likely go into selective protectionism to protect critically important industries.



In quarrelling over the distribution of the golden eggs of globalization, we may risk killing the golden goose itself.

I worry sometimes, that in quarrelling over the distribution of the golden eggs of globalization, we may risk killing the golden goose itself.

This morning, I listened to the talks on the US-China strategic rivalry. In Beijing at Tsinghua's World Peace Forum, I made the point that we have to do what we can to avert this catastrophic trend. The two elephants are fighting, or at least one elephant sees the other elephant as a threat. When you point your finger at someone as a potential enemy, that person or that country must begin to prepare itself for the future. Although they might not have started as enemies, the party being treated as an enemy will begin to carry itself as such simply because of the other side's antagonism.

China Threat?

It is precisely that potential conflict which all of us are trying to avert. Are we helpless as small countries? No. In Beijing, I urged the formation of the "Voice

of Moderation." I do not mean this as a bloc or a new movement, but people like ourselves, people here who understand China, understand the US, who understand the conflict and challenges – we must speak up to the right audience. And the right audience will be the US establishment, who do not travel very much – we have to find a way that the narrative can get through to them – that China is not an enemy.

I say so because, like many of you, I have been to China many times. I first visited China in 1971 in the midst of the Cultural Revolution. Those who have been there from the early days understand that in a matter of 30, 40 years, China has transformed itself, China has grown. So why should China destroy everything?

Nevertheless, China is growing very big. It is a "threat" in the sense that whatever we can do, China can do. I use the term "economic threat" for Singapore. Whatever Singapore can do, China can do better. We have scientists, they have more scientists. We have engineers, they have more engineers. Manufacturing, semiconductors, we used to do that; now they can do better. Telecomms, 5G – they are way ahead.

So, my concern as a former Prime Minister is over Singapore's prosperity if Chi-

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Having a prosperous
neighbour is better than
having a poor neighbour.

na is indeed perceived as a “threat.” I came to the conclusion that having a prosperous neighbour is better than having a poor neighbour. When I was in office, I only needed to feed and get jobs for six million people. If China has 1.4 billion people, with a growing number entering the middle and upper class, Singapore has a much easier job of doing business with a wealthy country.

I am not dismissing everything the US has said regarding unfair trade rules. China joined the WTO as a self-declared Developing Country. China will be at the forefront of innovation, intellectual property, which China must protect, or other countries will steal it. These are part of the process of globalization. My speech in Beijing mentioned the lack of strategic trust – so the question is, how do we get people to develop this trust?

When I listen to William Owens, I understand how difficult, how conflicted you are. The US must prepare for war, the worst kind of disaster, but no one really wants to go to war. You cannot win a war, because innocent lives will be lost, economies destroyed, countries will be vanquished. I have tremendous respect for your attitude – we have to prepare for war, but we do

not want war.

Can the US change China? I think in some ways you can, and China should make changes and reform where they can. But to change a system of governance is not possible. China is not just a system of communist government; it is a civilizational form of government. China has always been governed from the center, the emperor, the mandarin system in China. You change it – call it Chinese governance with American characteristics – and parts of that system China will be able to learn. But to change to a governance system that allocates one man with one vote, I don’t think that will happen for at least another century in China, probably never. Maybe in certain areas that will be allowed, but not across the nation.

The Chinese actually sent people to Singapore to study our system because my party, the People’s Action Party, has been winning election after election overwhelmingly. Anything less than 60 percent for my party is regarded as a loss. One possibility is that China could use that model, and have elections where they could win again and again and again.

In 2011, we had a setback, meaning

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that votes went down from about 65% to 60%. Chinese officials came to study how the party would react and recover these votes. This suggests to me that China knows you must allow freedom of votes in many areas. And in fact, China started to allow counties and villages to elect their own leaders. But when Chinese officials look at the problems of the liberal democracies in Europe and the US, their experiment at democracy has not gone upwards. They must have a system, like the Catholic Church, that you elect your local priests who then elect their bishops and so on, and a small group of bishops then elect the Pope. The Pope appoints the bishops. You cannot do that for the US – it is a different culture and system.

There should be the democracy of nations. Within each country, everyone has the right to exercise democracy. Within the world, each country must exercise their right of the form of government. Then you judge whatever system you have by certain norms: rule of law, the way you treat a human being, whether you are able to develop

growth and a better life for people. These are objective norms which can be exercised by forms of government that allow each one of us to have the best form of government for ourselves.

Voice of Moderation

Therefore, I come back to my first point, how to avoid the path of disaster – and that is to have this “Voice of Moderation”. When we can, we speak up. Not to take the side of China or the US, but the side of principles: for rule of law, for a multilateral trading order where big and small countries have equal rights. That is what I hope we do, and that we build trust and understanding between all countries, not just between the US and China. Because I am also thinking about China and Japan, South Korea and North Korea. Trust and understanding, that is important. This is where the “Voice of Moderation” can play a part. ●

Learning from Japan's Trade Tensions with the U.S.

Japan has faced difficulties in its trade with the United States very similar to those that China faces today. But Japan has only grown since overcoming economic conflict with its Western competitor, and China should follow its lead.

We are all living in a world today that is so dramatically changing.

The China of ten years ago was not playing as much of an important role in the world economy as it is today. Within the last decade, the Chinese people, who have exerted all out efforts on economic development, have elevated their country to today's world power position.

As interests in China have grown globally, some stark eyes are inevitably cast on what such a world power status implies. It is because each statement China makes and each step she takes affects gravely not only the future of US-China relations but also the direction of the entire world.

Given this situation, we must seriously contemplate what

kind of role China ought to play. This is the most serious issue of our era that we are faced with.

Japan does have considerable understanding on today's frictions between the U.S. and China. It is simply because we, too, have had protracted trade frictions with the United States for decades – very similar to what is taking place between the U.S. and China today. In fact, we have almost ceaselessly had trade and economic frictions and confrontations with the U.S. since the early 1970s.

In our case, at each phase of the bilateral frictions, we negotiated with the U.S. with great pains, head-aches, and often set-backs. But it is a fact that we concurrently learned many significant lessons from the negotiations. Throughout these bilateral negotiations, we were often compelled to make

■ Yasuo Fukuda

*Former Prime Minister
Japan*



Of course, the difficulties seemed to out-weigh any positive outcome we might have foreseen by far. This was particularly true at the time of the Plaza Accord.

concessions. There were many stark occasions. But ultimately, all the difficulties we had to undergo proved to be the “delivery pains” needed to modernize and internationalize Japanese industries and society.

By repeating and overcoming these difficulties, Japan is recognized today as a modern nation state by the U.S. and European countries. And our neighboring Asian countries today regard us as their friend.

So, as we look at the frame and substance of today’s Japan, we consider that our economic frictions and confrontations with the United States – stretching for almost half a century – have not brought about only negative results.

Of course, the difficulties seemed to out-weigh any positive outcome we might have foreseen by far. This was particularly true at the time of the Plaza Accord – when we were forced to up-value the Japanese yen so sharply and abruptly in the mid-1980s. The politicians and bureaucrats who engaged in such a tough negotiation had to endure unspeakable hardship. This is not to say that the Plaza Accord was bad per se.

But unfortunately, in Japan, due to mis-judgements and mismanagement by the political leaders and decision-makers who were directly responsible for these negotiations, an unprecedented bubble economy was created shortly thereafter, which soon burst, resulting in more than a decade-long serious recession.

The problems China is facing today are quite similar to those of Japan in those years. Back then, Japan was bad-mouthed as “Japan, Inc.” We were criticized as a bureaucratic state in which bureaucrats dominate and control our industrial sector, and that Japan was challenging the U.S. to compete as though our entire nation state was a single business corporation. As I hear the recent rhetoric of American negotiators with China, it reminds me of their attitude towards Japan in those years.

Even after the Plaza Accord, the U.S. and Japan ceaselessly negotiated on trade and on economic issues that were either pending or newly emerging, almost on an annual basis. There were issues that could not be easily solved, but we could not leave them unattended, and we had to find a solution for each. Even the issues that seemed trivial – we tackled them with a strong sense of responsibility and from a broader perspective. It is because we considered that those small issues might not be confined to just the U.S. and Japan but might also affect the world economy as a whole.

China, as one of the two world powers today, is in a position in which it must recognize its own status and must share the

China, as one of the two world powers today, is in a position in which it must recognize its own status and must share the global perspective with other major countries with a sense of responsibility required for a world power.

global perspective with other major countries with a sense of responsibility required for a world power. Nonetheless, I do appreciate that the problems China must cope with are so diverse.

As I look back at the Japanese experience, I can state with confidence that our bilateral negotiations with the U.S. provided us with a golden chance to transform our society.

Of course, these entailed very tough decision-making processes. We feared that unless the political class coped with the challenges adequately, a terrible chaos would spread within the Japanese society, giving existential blows to both the manufacturing and agricultural industries. Deeply cognizant of such a risk, we searched for a more desirable form of our society and industries, and we have made enormous efforts to change ourselves courageously when changes were necessary.

Fortunately, these decades' efforts led us to create a new culture encompassing not only major industrial goods and

home appliances, but even daily cuisines, while at the same time allowing us to tenaciously protect our traditional cultures. To me, the result is today's Japan. Such a historical process might be comparable to what the European countries went through.

It is true that demands from the U.S. are numerous and often oppressive. But I believe China should not regard itself as a victim of trade frictions with the U.S. On the contrary, China should take this difficult phase as a great chance to transform the nation for the better, and utilize it to adequately solve the problems. Such a determined effort will pave a way forward to the future and enable China to find new engines for continued economic growth. I pray that China will not miss this good opportunity and succeed in transforming the crisis into a chance amidst these fraught negotiations.

Of course, half the responsibility rests with the U.S. But it is a fact that after World War II, the U.S. built the world's effective political and economic system – i.e., the United Nations, the IMF, and World Bank – based on the philosophy the U. S. has long upheld. And the U.S.

China should not regard itself as a victim of trade frictions with the U.S. On the contrary, China should take this difficult phase as a great chance to transform the nation for the better, and utilize it to adequately solve the problems.



has managed that international system so well for so many decades.

But there are diverse thoughts in the United States. Some presidents have been more committed to these ideals than others. Nonetheless, we cannot deny that both Japan and China have benefitted from this system.

I believe that China, as a major power, should squarely face the challenge in cooperation with other countries. I believe China should take the specific first step to construct a “Community of Shared Future for Mankind”: I am a believer of this concept of a human community bound together by a common destiny. And I believe that this should be the future goal of not only China, but of the world as a whole.

Today, as the U.S. is losing its enthusiasm to maintain this great system, the responsibility of its beneficiaries

is heavy. American demands are not always necessarily just. But unless appropriate policy measures can be formulated, terribly negative effects are felt throughout the world, as we are actually witnessing today. If a major power like China could not come up with responsive measures that meet expectations, who could? Other countries would certainly face dead walls.

I would like to remind the Chinese people never to forget that you are standing on an enormously trying junction. With the dramatically changing international situation, I believe all of us should stand up confidently to this new historical phase and the challenges it embodies. 🇨🇳

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Solving Global Problems Collectively

The tariffs being implemented by the United States will not do anything to support the economic progress the world has made in the last 20-30 years. Rather, it will negatively impact the American people, China, and the world as a whole.

■ Jean Chrétien

*Former Prime Minister
Canada*



The world has made a lot of progress. There used to be starvation everywhere in the world, including in China. It is gone now. The level of education around the globe is much better than it was before. The death of kids has gone down tremendously.

We all have made a lot of progress; even Africa has made progress. The difficulty is, we talk about the problems and we don't talk about the successes. And it's why we have to tell people: look back and look at the progress we've made. We always have problems. I've been in politics for 40 years. I have a feeling that when you fill a hole, you're obliged to dig two more to fill that hole, and you keep shoveling all your life.

I was elected in 1963, and I'm still waiting for the headlines that say things are good today.

Of course, there are problems – there will always be problems. But look at the real situation. Look at America – it has the lowest level of unemployment it has had in a long time. Same thing in Canada – we have some problems with deficits and so on, but you can solve the problems with deficits. When I became Prime Minister, our deficit was 6.1% of GDP, and three years after that, I was balancing the books, and got reelected.

I was elected in 1963, and I'm still waiting for the headlines that say things are good today.

We've made progress, and we have problems. But we have a problem with China this time. I think it is very unfair that the President of the United States has created the problem we are having in Canada today with the lady (Meng Wanzhou) that is living not in a bad way – she is not in prison, she is living comfortably in her home. But it is the Canadian farmers who are paying the price, as you know, because Mr. Trudeau decided to respect the treaty that we have with the United States. It is very tough for us and we're not responsible. So, this is a problem.

Let's look at the increase in wealth around the globe in the last 20 or 30 years. Everywhere is much better. When I first came to China, I went to Shanghai – we were on one side of the river, and they were growing rice on the other side. Now, there's no more rice there. Just huge buildings bigger than the ones in New York. So, it's the progress we've made.

We realized very rapidly that this great increasing wealth has disguised one problem – the redistribu-

This great increasing wealth has disguised one problem – the redistribution of the wealth. That is a big problem.

tion of the wealth. That is a big problem. All around the world, everyone knows that some of them are better off than others. And collectively, we have to solve this problem or else we will not be able to carry on. It's complicated; sometimes you have to raise taxes to pay for the poor, but at least the poor spend their money in the economy.

It is false that China ultimately pays for America's tariffs. Instead, it is the American consumer that pays for them. But the revenue they make out of it is to pay for the tax cuts for the rich. ●



Has the United States Suffered a Loss in Trade with China?

US claims of its trade deficit with China is a massive over exaggeration of the reality. In fact, the US is benefitting from its trade with China far more than it lets on.

Not long ago, some people in the US alleged that due to its trade deficit with China, the US has suffered losses. Such a view is lopsided and lagging behind the development of the times. It makes no sense if you carefully analyze the situation.

In the global industrial chain and value chain, factors such as goods, technology, human resources, and capital have realized large-scale cross-border movement, seeing a greater market, exchange, circulation, and balance of global factors, substantially increasing the efficiency of factor allocation and promoting global economic prosperity. Therefore, in such an era of globalization, new ideas must be adopted to make calculations from the perspective of global factor movement rather than purely from the perspec-

tive of trade in goods. Benefits of trading parties depend on their comparative advantages in factors such as their natural endowment, capital accumulation, level of science and technology, development of industries, and quality of labor force, as well as their models for participating in trade. I would like to make an analysis from three aspects.

The inevitability of US trade deficit

There is long history to the US trade deficit, which is closely linked to the dominance of the US dollar in the international monetary system, the domestic imbalance due to low savings and high consumption, the adjustment of its industrial structure, and the transfer of manufacturing overseas from the US.

■ Zeng Peiyan

*Chairman of CCIEE and
Former Vice Premier of
China*



The dominance of the US dollar as an international currency is the major reason that determines the long-term trade deficit of the US.

First, the dominance of the US dollar as an international currency is the major reason that determines the long-term trade deficit of the US. The US trade deficit and the dominance of the US dollar are two sides of the same coin. As a dominant international currency, the US dollar must meet the ever-growing need for trade and reserve in international trade and world economic development. Countries have to rely on their exports to the US for US dollars. After the Second World War, the US ran trade surplus for a long time, until the early 1970s, when the US dollar was unhooked from gold, and the Bretton Woods system disintegrated. The US then began to run goods trade deficit, which kept expanding. In the 1980s, the annual average trade deficit exceeded US \$80 billion and grew to around US \$170 billion in the 1990s. Since the beginning of this century, it has grown to an annual average of over US \$ 600 billion. In the meantime, dollars held by other countries have continued to grow. The share of the US dollar in global trade and payment settlement is around 40%, and its share in the global foreign exchange reserve has remained over 60% for years.

Second, the imbalance between consumption and savings within the US is another key reason for its trade deficit. The US is a consumption-oriented society. Personal consumption spending accounts for nearly 70% of GDP, and the overall saving rate has kept at less than 20%. As a result, the imbalance between the low savings and high consumption needs to be offset by foreign trade. In 1960s, the overall saving rate in the US was around 23%. Since then, it has shown a downward trend. In recent years, the annual average savings rate has been

around 18%, down by nearly five percentage points. In the same period, the annual average share of US goods trade surplus in its GDP changed from 0.6% to a deficit of 3.8%. It's a difference of 4.4 percentage points, nearly the same as the decline of the overall saving rate.

Third, the adjustment of industrial structure in the US is another important reason for its trade deficit. In the second half of the last century, the United States started to pursue the growth of its service sector with greater value added. Due to the impact of rising costs of labor, more environmental restrictions, and other factors, the US started moving its manufacturing overseas. Since 1960, the share of manufacturing has declined from 25% to 11%, and the share of the service sector has risen from 64% to 80%. The domestic production capacity of the US cannot meet the growing demands for industrial and consumer goods. So it has to rely on imports. The decrease in the working population in manufacturing and the widening income gap are the results of systemic deficiencies within the US.

Fourth, the US restriction on high-tech exports to China is the policy reason for its widening trade deficit with China. For decades, the US has continued to restrict the high-tech exports to China, formu-

The US restriction on high-tech exports to China is the policy reason for its widening trade deficit with China.

lating the Export Control Act and relevant system and framework focusing on exports of key technology and products. In 2018, the US high-tech exports to China valued only US \$39.1 billion, accounting for only 10.6% of its total high-tech exports, less than a quarter of China's exports of high-tech products to the US. Scholars estimate that if the US eased the restrictions to the level of its high-tech exports to France, its trade deficit with China would go down by 35%.

A comprehensive and objective view of the figure of the US trade deficit with China

As globalization is evolving, the mode, model and structure of the international trade have undergone profound changes, turning from focusing on trade of goods to giving equal importance to trade of goods and trade of services, from focusing on trade of final goods to trade of intermediate goods. The lopsided views of only looking at trade of goods without trade of services, only looking at total trade volumes without value added, or only looking at the international trade from the perspective of GDP without GNP cannot fully reflect the broader picture of international trade.

Both trade of goods and trade of services must be taken into account. The volume of trade in services and exports of the US have long ranked first globally while China has been the 3rd largest export market of services for the US. In China-US trade, though the US runs a deficit in trade of goods, it enjoys surplus in trade of services. Generally, trade of service has two types: cross-border trade of service and commercial presence. Cross-border trade of services includes cross-border provision of services and overseas consumption. In 2018, the US service

trade surplus with China reached US \$40.53 billion. Business presence refers to sales of services by organizations set up by foreign companies in the host country. In 2016, the US surplus in this aspect was US \$46.8 billion and, the figure for 2018 is even bigger. Based on such estimation, when the above two types are combined, the US trade surplus with China has amounted to nearly US \$100 billion, which is able to markedly offset its deficit with China in trade in goods.

The US deficit with China in essence is, to a large extent, its total deficit with the whole of East Asia. With globalized division of labor, exports from a country include products from many other countries. An accounting method based on value added in trade can better reflect the actual trade of one country. Over half of Chinese goods exports to the US are intermediate goods from processing trade, most of which are from economies in East Asia such as Japan and the ROK. Take an iPhone sold at US \$999 in the US - most of its parts are from over 100 suppliers in countries like Japan and the ROK while China gains only US \$55 in the whole production and 3 dollars for the workers' wage. Therefore, if calculated with the traditional method, the US trade deficit with China would be seriously overestimated. According to the statistics of the Ministry of Commerce of China, if calculated with the method of value added in trade, the US trade deficit with China from 2018 would be US \$182.7 billion, down nearly

Over half of Chinese goods exports to the US are intermediate goods from processing trade, most of which are from economies in East Asia such as Japan and the ROK.

The production of a one-hundred US dollar bill costs only several cents, but other countries need to provide real products and services worth 100 US dollars to get this one-hundred dollar note.

43% compared to the value calculated using the traditional method.

From the perspective of GNP, the US has gained more benefits than China from the bilateral trade. The current statistical method for trade is based on GDP. However, under globalization, such a method is lagging behind the realities. In calculating China-US trade volume, a method based on GNP should be used to include the business revenues of enterprises from their operation in other countries. According to the statistics of US BEA, in 2016, the branches of American companies in China sold goods and services valued at US \$400 billion (including parts of goods and services imported from the United States). If these enterprises were based in the US, their sales in China would be regarded as exports. So, if the bilateral cross-border trade of goods and trade of services are included, the US has gained more benefits from the bilateral trade.

The statistics of US trade deficit with China have long been overestimated. A joint study conducted by the Chinese Ministry of Commerce and the US Department of Commerce has shown that the US statistics of its trade deficit with China have long been overestimated by around 20%. The overestimated part mainly includes two aspects: one is that the US has included the transit trade through

other counties and regions such as Hong Kong. The other is that due to the existence of international intermediary traders, the selling prices of Chinese exporters are different from the buying prices of US importers, hence the difference in the statistics made by the Chinese and US Customs.

The US has gained a lot of tangible benefits in its trade with China

For years, the US has not suffered losses in its trade with China. Instead, its government, businesses, and households have gained a lot of tangible benefits.

The US has gained massive international coinage tax thanks to the dominance of the US dollar. The production of a one-hundred US dollar bill costs only several cents, but other countries need to provide real products and services worth 100 US dollars to get this one-hundred dollar note. The difference is the international coinage of the US. It has been estimated that between 2011 and 2018, US dollars circulated outside the US grew annually by around \$55 billion. By the end of 2018, the US dollars circulated outside the US reached \$1.0256 trillion. In addition, foreign exchange reserves held by other countries in US dollars exceeded US \$6.7 trillion by the first quarter of 2019.

China-US trade has provided a large number of affordable, quality products to US consumers. The imports of Chinese products have lowered prices and residents' living costs in the US. Households in the US have greatly reduced their spending as a result. Research conducted by Oxford Economic Institute has shown that imports from China to the US have cut the living cost of every American household by 1-1.5 percent. According to the



estimates of American institutions such as the Peterson International Economic Institute, the 25% tariff levied on US \$250 billion worth of Chinese products exported to the US will increase the annual spending of every household by US \$500-800. If all the Chinese exports to the US are levied by 25% tariff, every American household will have to raise their spending by around US \$2,000.

US companies have made rich returns from the Chinese market. China is one of the major retail markets in the world. Through their trade with and investments in China, US companies have shared the dividends of China's development. For instance, business turnover of Boeing from the Chinese market made up for 13% of its global total. The percentages for Apple and Qualcomm were 20% and 66%, respectively. In addition, profit margins for American companies have been high in the Chinese market. For example, Nike's EBIT in China is 35.2%, higher than in North America and Europe by a dozen percentage points. According to the survey of AmCham China, in all the companies they surveyed, 64% of them had their EBIT in China higher or equal to their global EBIT.

Furthermore, China has provided a large

amount of low-cost dollar capital to the US. China's trade surplus has mainly returned to the US through the US treasury bonds for years, providing low-cost capital for the US, allowing for economic development and prosperity. By the end of March 2019, China held around US \$1.12 trillion, the largest foreign holder of the US treasury bonds. The average yield of the US treasury bonds is 2-3%, but the average return rate of US multinationals from their overseas investment is several folds of it. Even for World Bank, which focuses on providing development aids, the floating lending interest in the US dollar reaches around 2.8%-3.7%. Market-based interest in the US is even higher. The average yield for 10-15 year corporate bonds is around 4%, while the base lending interest of banks is 5.5%.

Certainly, trade is mutually beneficial. China-US trade has also helped drive China's economic growth, created more jobs, advanced industrial development, and contributed to China's reform and opening-up. China's economy has been deeply integrated into globalization and, in the meantime, has facilitated the economic development of Asia and the world. The US should put the issue of trade deficits into perspective. It should not only emphasize deficits in trade of goods. Instead, it should take a comprehensive view of the reasons for trade deficits as well as its gains and losses. Its policies and measures must be taken on the basis of objective analysis. Simply levying tariffs will only be counterproductive. 🍷

False Narratives on Trade with China

The approach to the current China-US disputes by the US administration is counterproductive. The US must not let falsehoods being spread about China interfere with the creation of productive strategies that would better solve these economic issues.

■ Stephen Roach

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In the United States today - and this has been growing over time - the debate over China is really tainted by a profusion of false narratives: false narratives at the macro level and false narratives at the structural level. And in many respects, they are driven by the politics of the blame game.

This one is penchant to holding others accountable for problems that we are either unwilling or unable to solve ourselves.

Prime Minister Fukuda actually offered an interesting perspective precisely on that point: we focused our energy in this

blame game 30 years ago on Japan, and now we're doing it again to China. The question is, why? Why do we need to hold others responsible for problems that we should be able to deal with more effectively ourselves?

Let me just start with an elementary point of macroeconomics that we teach undergraduates in the second week of their introductory course in econ. And that is: investment must always equal saving, and when you don't save, and you want to grow, you import surplus savings from abroad, and you run a big balance of payments deficit to attract the foreign capital. This is not sophisticated economic theory.

With that current account deficit comes trade deficit with many, many countries. It's a multilateral trade problem.

Why do we need to hold others responsible for problems that we should be able to deal with more effectively ourselves?

We teach this at Yale, we teach this at every major university in the United States. Unfortunately, Yale failed in being able to teach that to a number of senior cabinet officials in the Trump administration who are charged with economic policy.

The savings rate for the nation as a whole was less than 3% last year. That's the savings we have left over from businesses, households, and the government sector to fund the growth in our capital stock. And there basically isn't any. So we run current account deficits every single year since 1982, with the exception of one: 1991, to attract the foreign capital.

Under the Trump tax cuts in late 2017, it is going to go from bad to worse.

There is a list of the countries that we run trade deficits with. There were 102 of them last year. China was the biggest with 48% of the total merchandise trade deficit. The smallest: The Vatican.

The point is that if we don't address the savings problems, and we close down trade with China, the Chinese pieces will just get spread through trade diversion to other countries on the list. Higher cost producers then will tax the American public.

So the macro is clearly a key lightning rod in the false narrative that is perpetrated day in and day out by the President and the Congress.

The US Trade Representative Robert Lighthizer issued a report in March 2018 that laid out in great detail – 182 pages and

1,139 footnotes – the structural case for America's new aggressive policy against China. (*Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Section Under Section 301 of the Trade Act of 1974*)

It made the case for violation of intellectual property rights, forced technology transfer, China's predatory outbound M&A policy, and gobbling up innocent U.S. technology companies. The report argued that China was alone in embracing state-sponsored industrial policy and talked about cyber hacking, namely the prominent role that China plays in industrial espionage through illegal cyber means. Much of the USTR's report draws on evidence assembled by the IP Commission, headed by two illustrious Americans: Former US Ambassador to China, John Huntsman, and retired Admiral Dennis Blair. They laid out a series of estimates said that the US was losing between \$200 and \$550 billion of intellectual properties a year predominantly from China.

I have looked at the evidence from this report that Mr. Lighthizer assembled: it would not be admitted in a U.S. court of law. It's weak evidence.

Just one example of that forced technology transfer, which is the lightning rod of this structural debate: U.S. companies get involved in joint ventures, and they're forced to turn over their proprietary technology to China.

On page 19 of section 301 report, the US Trade Representative admits that he has

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no hard evidence at all for that allegation. Instead he relies on proxy evidence from the US-China Business Council that suggests some companies are uncomfortable in dealing with China on technology grounds. As weak as this case is, it has become the foundational evidence for the President, who says, “I am a tariff man, I like tariffs”.

The view of the tariff man is ahistorical at best. It completely overlooks the devastating role that tariffs played in the 1930s – the catalytic role of transforming a pretty tough recession into the Great Depression. Back in 1930, when the tariff war played a catalytic role in causing the Great Depression, the trade share of the US (Gross National Product) GNP, as we called it back then, was 11%. Today, it's 28%. Our economy is much more vulnerable to a trade shock today than it was back then. Secondly, in the New York Times issue of May 5, 1930, over 1000 leading economists in the United States wrote an open letter to then President Herbert Hoover urging him to veto the tariff bill that was on his desk. President Hoover, like the President we have today, says, “I know more than experts. I am a stable genius.” Then he signed the bill, and the rest is history.

I've been critical of my own country, but I'm not letting China off the hook. There are a number of issues that need to be addressed in China, from dealing with productivity and supply side efficiencies, state-owned enterprise reform, the debt intensity of the growth model, and the innovation challenge. China has a number of critical issues, and the risk is by going tit-for-tat with the US on tariffs and trade restrictions, you lose sight of your compelling domestic agenda. My advice for China is: please do not be distracted. The trade threat from the United States is a serious problem, but these problems are far more serious for longer term, sustainable economic growth and development in China.

The United States is very fearful of a great challenge to its role as the world's leading innovator. And you know, with good reason: traditionally it saves short economies who don't have the domestic wherewithal to fund domestic investment, which is critical to drive R&D and innovation. And as I showed you earlier, our saving shortfalls are very worrisome in that regard. Moreover, if you look at the Global Innovation Index, there's convergence coming from China. The U.S. has characterized China's innovation challenge as an existential threat. The President's leading advisor on trade, former Professor Peter Navarro, has said in no uncertain terms that China is threatening America's emerging industries

There are existential fears on
both sides of the debate.

of the future, and without those industries, we will have no economic future. It's a very deep and worrisome fear if that is, in fact, correct. There are existential fears on both sides of the debate.

China clearly fears that the United States is trying to contain its development and growth, that the United States wants China to change the system to conform with that which drives the liberal Western economic and political system.

The US has existential fears of its own primarily concerning innovation, technology, and the future of our prosperity.

I'm not too optimistic about where we're headed. I'm not going to sugarcoat what happened in Osaka. It's nice that they shook hands, but there was a grimace to the handshake.

There are those who conclude that if we're going to have a protract-

The prevailing view in America is that we're good at Cold Wars – we won the first one, and we'll just win the second one. I have one word for that: wrong.



ed conflict, it'd be reminiscent of a different type of Cold War. The first Cold War was more of a military conflict between two superpowers; this one, potentially more of an economic conflict. I hope not. The prevailing view in America is that we're good at Cold Wars – we won the first one, and we'll just win the second one. I have one word for that: wrong.

If you look at the economic strength of the United States today versus what it was during the 1947 to the 1991 period, Cold War 1.0. On all three metrics – GDP growth, saving, and productivity – the US today is performing far, far more deficiently than it was back then.

Let me just close with giving you a few of mine.

Number one: we need to improve market access in both nations to each other. The best way to do it

China has 145 bilateral investment treaties.
United States has 42 of them. Around the world
there are 3,000 of them.

was the framework we were engaged in for 10 years, which has now been aborted – a bilateral investment treaty (BIT). China has 145 bilateral investment treaties. United States has 42 of them. Around the world there are 3,000 of them. There was a framework that had been under way in Bush II and through the Obama administration that got us this close, and we've abandoned it.

Number two: savings. Both nations should really commit to serious macroeconomic adjustments. The U.S. needs to save more. By saving more we reduce our natural bias toward the trade deficits. It is the only way we can get a multilateral fix to our macro economy. China needs to save less; we know that, and China's savings rate is coming down, but it needs to come down more to fund the social safety net to encourage internal private consumption.

Cyber: everybody hacks, China hacks, the U.S. hacks. Cyber is not a bilateral problem, it's a multilateral problem. Why can't the two largest economies in the world show some joint leadership in forging a global multilateral cyber accord with a dis-

pute and enforcement mechanism that resembles another multilateral organization?

And finally, the dialogue. We used to have biannual strategic economic dialogue, and then it became an annual one, and now we have only one dialogue in the current administration. We need a more permanent organization to house experts from both sides working full time on issues of mutual significance and importance. And a permanent Secretary would go a long way in giving much more of a robust framework for engagement. ●

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US Demands Are Unreasonable. Here is Why.

The United States says that it wants “a good deal” and that is also what China wants. As a result, the two countries should work to reach a fair deal that contributes to their economic development.

According to official Chinese statistics, in 2018 China-US trade in goods hit \$633.5 billion, up by 8.5% from 2017 and 2.4 times larger than in 2006 (262.7 billion dollars). At the same time, China's trade surplus with the US rose from \$143.3 billion to \$323.3 billion, 54% of which were contributed by foreign-invested enterprises in China. The United States is China's largest export market, and between 2009 and 2018, China was the fastest growing export market of US goods: its imports of American goods grew by 73.2%, much higher than the average growth (56.9%) of other countries. Bilateral trade in services was valued at \$27.4 billion in 2006 when official documentation started. In 2018, it hit \$125.3 billion, or 3.6 times higher than in 2006. The US trade surplus with China in services has been on the rise, reaching \$48.5 billion in 2018.

By importing American mechanical and electrical products and agricultural products, China has filled the domestic gap and also created many jobs in the US. On the other hand, the United States imports a large quantity of reasonably-priced quality products from China, which delivers tangible benefits for American consumers. According to the US-China Business Council, bilateral trade saved \$850 for every American family in 2015. In addition, by investing their operations in China, American companies, including GM, Apple and HP, sell their products to consumers in China, America and the wider world and in doing so, they have made handsome profits.

■ Zhang Xiaoqiang

*Executive Vice Chairman
and CEO of CCIEE
China*



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The US claims that China's 300-billion-dollar trade surplus comes at its cost. But the above-mentioned numbers prove otherwise.

Since March 2018, the United States has triggered economic and trade frictions through unilateral actions. It has adopted bullying and maximum pressure measures, insisted on unreasonable demands, and refused to scale back additional tariffs targeting Chinese goods. In addition, it insists on the incorporation of compulsory measures that involve China's sovereignty affairs into the final deal. All this makes it impossible to bridge the remaining differences between the two countries.

Why are the US demands unreasonable? In the negotiations, China made it clear that it stands ready to increase the import of American goods that are in demand and reasonably priced. And according to some experts, China said that it could increase imports of American goods by \$200 billion by 2020, compared to the 2018 level. It is a dramatic increase. To put it into perspective, China's imports of American goods totaled \$134.4 billion in 2018, according to Chinese customs authorities. But in early May, the US suddenly asked the Chinese government to pledge to ensure an increase of \$300 billion to \$330 billion. Obviously, this is an unreasonable demand because:

First, increasing US imports is China's fundamental stance, but such a measure is realized by market purchase behavior among companies, meaning that it de-

Increasing US imports is China's fundamental stance, but such a measure is realized by market purchase behavior among companies, meaning that it depends on market demand and reasonable pricing.

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Second, American businesses enjoy strong comparative advantages, because their hi-tech products are in high demand in China. But the US has imposed stringent restrictions and intensified control over such exports to China. On November 19, 2018, the US Department of Commerce published an advance notice of proposed rulemaking titled "Review of Controls for Certain Emerging Technologies." It focused on export restrictions on emerging and foundational technologies and covered 14 categories of technologies, including biotechnology, logistics technology, 3D printing, robotics, and advanced materials. To a large extent, it was targeted at China.

Third, no matter how many more billions of dollars Chinese companies import from the United States, it all depends on increased demand from China and corresponding supply from the US. Given restrictions on the exports of high-tech



products, main US exports to China now consist of agricultural products, mostly soybeans. Boeing passenger airplanes, chemical products, mechanical and electrical products, and oil and natural gas are high-potential commodities that can be exported more to China.

Take soybeans as an example. In 2018, China's global imports were 88 million tons and worth \$39 billion, including 16.6 million tons from the US – that was equivalent to \$7.4 billion. If the prices grow in a moderate manner, China could import 90 million tons valued at \$40 billion in 2020. Even if the US accounts for 50% of the total imports, that is just \$20 billion, or \$13 billion up from 2018. When it comes to passenger aircrafts, China is emerging as the world's largest market, with its passenger numbers growing by 9% each year. Over recent years, trunk liners in China have increased by 330, or \$25 billion, each year, with half of them from Boeing and half from Airbus. In 2020, the increase could reach 400 at most. And at the current rate, 200 could come from Boeing, an increase

of 30, or \$2.5 billion. More importantly, due to serious accidents involving the Boeing 737-800 since last year, many countries, including China, have grounded this model and many airlines around the world have lodged claims against Boeing. And the company has reported zero new commercial plane orders. In addition, China is now the world's largest importer of crude oil and natural gas. In 2018, their imports were 462 million tons and 90 million tons respectively, worth \$280 billion combined. But less than 4%, or \$11 billion, came from the United States. It is estimated that in 2020, China will import 540 million tons of crude oil and 130 million tons of natural gas, with a total value of \$370 billion. On the other hand, China has diverse sources of imports. In 2018, its largest source was Russia, which accounted for 15.5% of its global imports. Imagine that in 2020, the US accounts for 20% of China's imports and China's imports of US crude oil and natural gas reach 110 million tons and 26 million tons respectively, that would amount to \$74 billion dollars, an increase of \$60 billion from 2018. In contrast, US global exports of crude oil and LNG were 93 million tons and 22 million tons, and are projected to hit 160 million tons and 47 million tons in 2020. So, can it ensure sufficient exports to China by then? In addition, there are many uncertainties concerning its pipelines, ports, LNG installations and export policies.

The increase in China's imports of

The United States has also launched trade protectionism against the EU, India, Japan, and Mexico. But in 2018, its trade deficit in goods rose to a record high of \$890 billion, up by \$84 billion from 2017.

American soybeans, airplanes, crude oil and LNG could reach \$79 billion. To ensure Chinese imports of \$200 billion more goods from America in 2020, cooperation at the government and business level is required. Yet without any notice, the United States has asked China to import another \$100 billion of goods, or allow more Chinese companies to import American goods. Obviously, this is an unreasonable demand that even America fails to understand.

In 2018, American exports of soybeans to China reduced by about 15 million tons from the previous year, down by 50%. In the first five months of 2019, China's imports from the US fell by 25.7% year on year, and its exports to the US dropped by 3.2% as well. According to the National Retail Federation, a 25% tariff on furniture from China would cost American consumers \$4.6 billion a year.

The United States has also launched trade protectionism against the EU, India, Japan, and Mexico. But in 2018, its trade

deficit in goods rose to a record high of \$890 billion, up by \$84 billion from 2017. American protectionist measures conflict with the WTO rules, disturb global industry chains, erode market confidence, and pose serious challenges to the world economy. Consequently, some international organizations, including the World Bank and the International Monetary Fund, have lowered their growth forecasts for the global economy and goods trade, and warned that economic and trade frictions will continue to dampen global growth and undermine the already sluggish investment flows.

The United States says that it wants “a good deal”, and that is also exactly what China wants. As a result, in the next stage of consultations, they should work to reach a fair deal that contributes to their economic development. For China, the top priority is to attend to its own affairs by deepening reform, opening wider and pushing for high-quality development. Also, it needs to work together with other countries to sustain the sound development of an open world economy and economic globalization. ●

The United States says that it wants “a good deal”, and that is also exactly what China wants.

Bilateral Investment Under Threat

Differences and frictions in economic and trade ties between China and the United States are unavoidable, but they can be resolved through increased dialogues, equal-footed consultation and expanded cooperation.

■ Ma Xiuhong

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Trade is an important aspect of China-US relations. As the world's largest developed country and developing country, they are at different stages of development. Since the establishment of diplomatic ties four decades ago, the two countries have leveraged their respective strengths and expanded the depth and breadth of trade cooperation. In 2018, their two-way trade in goods and services rose to \$633.5 billion and \$125 billion respectively, and bilateral investment amounted to nearly \$160 billion. Today their economic cooperation spans almost all economic sectors, including trade, investment, agriculture, environmental protection, technology education, tourism, finance and energy.

Overview of bilateral investment

China and the US are each other's major investment partner. The United States is an im-

portant source of investment for China. By the end of 2018, there were more than 70,000 American companies in China, with their paid-in investment worth \$86.34 billion, according to the Ministry of Commerce of the P.R.C. And with that, the US is the fourth largest investor of China.

At the same time, China has emerged as an important source of investment for the US. According to the Rhodium Group, by the end of 2017, China's accumulative outbound FDI in the United States amounted to \$138 billion; more than 3,400

By the end of 2018, there were more than 70,000 American companies in China, with their paid-in investment worth \$86.34 billion.

By the end of 2017, China's accumulative outbound FDI in the United States amounted to \$138 billion; more than 3,400 Chinese companies and subsidiaries were present in 46 states, and together they created more than 148,000 direct jobs for local communities.

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In addition, China has made a heavy financial investment in the United States. According to the US Treasury, it held 1.12 trillion dollars of US Treasuries by the end of 2018.

China's measures for greater openness and better investment and business environment

Opening up is a fundamental national policy in China. Four decades ago, the country launched its reform and opening up. Since then, businesses from more than 200 countries and regions, including the United States of course, have made investment in China. By May 2019, foreign-invested enterprises in China numbered 977,000, with their paid-in investment worth nearly \$21 trillion.

Today China's social and economic development is in a new era. The Chinese government has taken a series of measures to expand opening up and improve its investment and business environment. Specifically, these measures include:

- major breakthroughs in reforming the foreign capital management system, with registration replacing the 40-year-old market entry approval system, and the introduction of pre-entry national treatment and negative list management system for foreign investment;
- expansion of market entry for foreign capital, shortening the negative list and slashing restriction measures from 190 six years ago to 40 in the national list and 37 in the FTZ list respectively; and, strict enforcement of "either banned or ok";
- introduction of a new Foreign Investment Law;
- strengthened protection of intellectual property rights;
- reinforced protection of the rights and interests of foreign investors by

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creating and improving complaint systems for foreign businesses;

- tax cuts and fee reductions worth RMB 2 trillion, which brings down operating expenses for foreign businesses;
- the first-ever incorporation of investment promotion as a major item in national laws through the new Foreign Investment Law.

According to the World Bank's *"Doing Business 2019,"* China's global ranking jumped from 78th to 46th, thanks to the notable improvement in its business environment. And according to the World Investment Report of UNCTAD, global flows of foreign direct investment fell by 23% and 19%, respectively, in 2017 and 2018. On the other hand, as a result of its improved investment environment, China's inbound FDI rose by 2% and 1.5%, respectively, over the same period, and paid-in foreign investment increased to \$136.32 billion and \$138.3 billion, respectively, both of which were record highs. In the first five months of 2019, paid-in foreign investment rose by 3.7% year on year, and the number of investment projects worth \$50 million and above jumped by 45.4% year on year. All these numbers mean that international capital and foreign investors recognize the improvement in China's investment environment and have confidence in its economic development.

In 2017 and 2018, the number of new US-invested companies in China increased by 8.7% and 30%, respectively,



and paid-in US investment rose by 11% and 1.5% over the same period. In the first five months of 2019, American investment in China registered rapid growth: the number of new American companies rose by 22.4%; paid-in US investment increased by 10.4% year on year, 6.7 percentage points higher than the growth of China's inbound FDI. Also, the 2019 American Business in China White Paper published by the American Chamber of Commerce in China reveals in 2018, nearly 70% of the businesses recorded profits and more than 40% viewed China as one of their top three investment destinations worldwide.

Major challenges to bilateral investment

1. Economic and trade frictions have a negative impact on bilateral business investment.

Since 2018, the United States has waged trade warfare against many countries, including China, through a series of unilateral protectionist measures in the form of Section 201, 232 and 301 tariffs. These measures go against WTO rules and undermine the multilateral trading system.

Foreign-invested enterprises account for about 45% of China's global exports, and 60% of its exports to the United States. By increasing tariffs on Chinese goods, the US has undermined the interests of these export-oriented companies, including those funded by American investors. More significantly, it has disrupted global and regional industry chains and supply chains, eroded market confidence and posed grave challenges to global trade and investment.

2. Increased scrutiny on foreign investment on inbound investments in the United States, especially those made by Chinese businesses, has dampened the sound momentum of bilateral investment.

In 2018, Congress approved the Foreign Investment Risk Review Modernization Act and, according to some senators, this legislation was designed to erect barriers to Chinese investment. From January 2017 to September 2018, only 19 of the 41 Chinese investment projects under CFIUS review were cleared, according to Pillsbury Winthrop Shaw Pittman LLP. And statistics from Rhodium Group reveal that in 2018, Chinese businesses withdrew from invest-

ment transactions worth over \$25 billion, due to their failure to address national security concerns of American authorities.

As a result, the sound growth momentum of investment by Chinese businesses in the United States has been dampened. In the past two years, Chinese investment in the US dropped significantly: 62.3% in 2017 and 10% in 2018. And in the first five months of 2019, it fell by 17.6%.

Suggestions for Enhanced China-US Bilateral Investment

- Presidents Trump and Xi agreed in Osaka to "develop coordinated, cooperative and stable China-US relations, and restart economic and trade consultations on the basis of equality and mutual respect." This should be the principle upon which bilateral economic and trade negotiations move forward.
- China should stay focused on attending to its own affairs. It needs to implement measures proposed by the central government on opening up and improving its investment and business environment, to build a stable, transparent, predictable

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and fair market environment and ensure a market-based and law-based investment and business environment.

- American states and cities play an increasingly important role in bilateral investment cooperation. It is important to strengthen and deepen province-to-state and city-to-city economic and trade cooperation, and mobilize all forces against protectionism to minimize the impact of current economic and trade frictions.

- When ready, the two countries should restart negotiations on the Bilateral Investment Treaty (BIT). BIT talks have been stalled after 34 rounds of negotiations during the nine years since 2008. And by January 2017, the two sides had agreed on some core issues and major articles of the text. Officially the two sides have never announced the suspension of negotiations.

- In the Osaka Declaration, G20 leaders commit to realize a free, fair, non-discriminatory, transparent, predictable, and stable trade and investment environment. I hope that guided by this principle, the United States can provide fair and non-discriminatory treatment to Chinese businesses that make investment in the country, regardless of their ownership structure.

I agree with Stephen Roach that Chi-

na and the United States need to establish a formalized bilateral mechanism to discuss their long-term and strategic issues of mutual concern.

As the world's largest economies, China and the US now enjoy close economic and trade ties, with their interests intertwined. Differences and frictions in economic and trade ties are unavoidable, and they can be resolved through increased dialogues, equal-footed consultation and expanded cooperation. ●

It is important to strengthen and deepen province-to-state and city-to-city economic and trade cooperation, and mobilize all forces against protectionism to minimize the impact of current economic and trade frictions.

A Weak Global Economy Needs Policy Coordination Between China and the US

An economic recession in the near future is not as unlikely as we'd hope it to be. China and the United States must cooperate and consult with one another to alter their recent economic policies to prevent such an outcome.

Since last year, China-US exchanges on macroeconomic issues have decreased or even stalled. Macroeconomic issues are quite important because China-US economic and trade relations are more than about trade; they also involve investment, macroeconomic policy coordination, and cooperation in global economic governance.

In 2008 when the global economic crisis occurred, it was China-US policy cooperation that helped establish the G20 Summit. It is fair to say that without China-US cooperation in the past decade, there would have been no global cooperation against the financial crisis and consequent progress under the G20 framework. This is a historical fact for all to see.

But there are real reasons to be worried about the world econo-

my. Given downward pressures, the IMF in 2019 has lowered global growth forecasts three times, from 3.9% to 3.3%. It also predicts that global trade could grow by just 2.6% in 2019.

Economic recession is not a false alarm; it requires international cooperation, especially cooperation between China and the United States.

In enhancing our cooperation, we must examine the policy tools we have today. Global fiscal tools have seen their latitude, and room for maneuver has shrunk over recent years. American deficit ratio remains high, with the American government's public debt at more than US \$22 trillion. The EU has not formed unified fiscal policies, and in 2019 China increased fiscal deficit from 2.6% to 2.8%. Around the world, there is also

■ Zhu Guangyao

*Former Vice Minister
Ministry of Finance, China*



little latitude and room for maneuver for monetary policies.

In this context, international policy coordination, especially between China and the US, takes on more significance.

What is particularly concerning is that the United States, especially President Donald Trump, has linked monetary policies with foreign exchange policies. In the past decade, the US increased the money supply by more than two trillion dollars through four rounds of quantitative easing. But no other country has accused it of manipulating interest rates. Now the US Department of Commerce has linked US dollar exchange rates with anti-dumping policies, and this is a dangerous development. According to the Department of the Treasury, a country is labelled a currency manipulator if it meets three criteria: 1) a bilateral goods trade surplus with the US of at least \$20 billion; 2) a current-account surplus of more than 3% of gross domestic product; and 3) intervention in the foreign-exchange market that exceeds at least 2% of GDP. All three conditions have to be met before a country can be designated a currency manipulator. But now the United States links anti-dumping policies with its currency rate, which poses a serious constraint on macroeconomic policy.

Cooperation in global economic governance is also affected. During the 2008 financial crisis, a widely known “one-trillion-dollar firewall” was established by the IMF, thanks to the efforts of the G20, especially China-US cooperation. In fact,

the firewall was worth 1.29 trillion dollars, including 60 billion dollars of IMF quota, 250 billion dollars of new borrowing arrangements, and 440 billion dollars of bilateral loan arrangements. Its establishment marked the success of international cooperation and our commitment to a strong quota-based IMF system. But in the World Bank/IMF Spring Meetings in April 2019, the United States announced that it would no longer support the IMF’s voting shares reform.

China and the United States should engage in consultation on bilateral trade. More importantly, they should enhance cooperation in macroeconomic policy coordination and global economic governance. This serves their interests and upholds world peace as well.

Dr. Edwin Feulner previously indicated that China demands the United States scrap tariffs before trade negotiations can be resumed. This is misinformation from the press. As a matter of fact, China said that both sides need to scrap all tariffs after they reach a deal. Today we are gathered here for candid communication and face-to-face policy exchange. It is crucial to increased mutual understanding and mutual trust between China and the United States. 🇨🇳

A New Round of Technology Revolution is Upon Us. Let's Collaborate.

There is a growing need for nations to strengthen international exchange and cooperation in technological innovation, and bring the world economy into a new phase of continued growth.

The world economy is now at an important crossroads. It faces a greater risk of recession as a result of reduced productivity and trade frictions, and other adverse factors. Consequently, many international organizations and experts have lowered global growth forecasts over recent years. In this context, there is a growing need for nations to strengthen international exchange and cooperation in technological innovation, speed up a new round of global science and technology revolution and industrial transformation, and bring the world economy into a new phase of continued growth.

One of the imperatives is to enhance China-US cooperation in technology and innovation for shared development. And there

are strong reasons for it.

First, China and the United States play a key role in promoting a new round of global science and technology revolution and industrial transformation. Together they account for 40% of global R&D spending, 40% of research personnel, 36% of published scientific papers, 60% of patent applications, 80% of venture capital investment and 50% of added value of the high-tech industry. Also, they are important players in such sectors as the digital economy. It is fair to say that China and the United States are the main engines for global technological innovation.

Second, China and the United States are highly complementary in science, technology and

■ Wang Changlin

*Executive Vice President
Chinese Academy of
Macroeconomic Research*



innovation. The United States is home to many world-class research universities and research institutes, and takes a leadership role in basic research and breakthrough technology. On the other hand, China has a vast market and many application scenarios for new technologies and new forms of business. Also, China has abundant human resources and complete industrial infrastructure. Now the two countries have formed close cooperation in science, technology and innovation, and built mutually dependent supply chains, industry chains and value chains.

Third, expanded cooperation in technological innovations is an irreversible trend for China and the United States. It contributes to the recovery of the world economy, and is instrumental in the resolution of many global challenges, such as population growth, public health, natural resources and environmental protection. According to the Brookings Institution, Chinese and international technology and production capacity, when integrated, help promote the transition towards low-carbon energy sources, and this transition is not possible in a new era of protectionism. And a McKinsey report shows that by 2040, \$22 trillion to \$37 trillion of economic value could be at stake from less or more engagement between China and the world in five areas, including collaboration on global public goods (\$3 trillion - \$5 trillion) and flows of

According to the Brookings Institution, Chinese and international technology and production capacity, when integrated, help promote the transition towards low-carbon energy sources, and this transition is not possible in a new era of protectionism.

technology and innovation (\$8 trillion - \$12 trillion).

Indeed, as they work to facilitate a new round of science and technology revolution and industrial transformation, China and the United States need to iron out some differences to achieve shared development.

To this end, I'd like to offer the following advice:

First, promote significant breakthroughs in basic science and major technologies. With the emergence of a new round of science and technology revolution and industrial transformation, new economic sectors are taking shape, including the digital economy, the biological economy and the green economy, and they revolutionize how people live and work. In addition, opportunities abound in theoretical studies and technological research. Cooperation is a must, because no country can



address the increasingly complex scientific and technological issues on its own.

Second, enhance exchanges and cooperation between technology professionals, which is key to promoting a new round of science and technology revolution and industrial transformation. Throughout history, industrial revolutions are in large part a result of collaboration among global scientists, engineers and entrepreneurs, and the United States has set a good example of global cooperation. We need to encourage the exchange of international students and technology professionals, and help academic organizations, research institutes and universities organize academic exchange activities. In doing so, we can pool global knowledge to make breakthroughs in major scientific and technological issues and push forward the new round of technological and industrial revolution.

Third, accelerate the creation of a management system and policy infrastructure that accommodate a new round of science and technology revolution and industrial transformation. In the process of technological innovation, problems that

arise from new technologies, new models and old regulations are unavoidable, and some of them may conflict with scientific and social ethics. Globally, there may be problems concerning the distribution of proceeds from technological innovation. In response, we should engage in extensive consultation, establish prudent and inclusive regulatory regimes, and build management systems and policy infrastructure that help the growth of artificial intelligence and the sharing economy. Also, we need to strengthen the protection of intellectual property rights to ensure appropriate compensation for innovators, entrepreneurs and creators; help global businesses develop supply chains, industrial chains and value chains for shared development; and translate new technologies into marketable products, to deliver greater benefits for the global population. ●

Throughout history, industrial revolutions are in large part a result of collaboration among global scientists, engineers and entrepreneurs, and the United States has set a good example of global cooperation.

A Confidence-Building, Durable and Enforceable Trade Deal

There are significant and worrisome cracks forming in the commercial relationship between the US and China; neither party should have to resort to large-scale actions like tariffs in order to remedy their trade disputes.

■ Jeremie Waterman

*President
China Center
U.S. Chamber of Commerce*



As long-standing supporters of close US-China ties and the vast two-way commercial gains and the opportunities to which they give rise, the US Chamber of Commerce and our members are deeply concerned about the current state and arc of the relationship. We fully agree with CCIEE Chairman Zeng Peiyan that the trade deficit is not a core challenge in the US-China relationship. There are significant challenges, however, as highlighted in the Trump administration's section 301 report. Since 2010, the US Chamber has highlighted in a series of reports the mounting risks to US businesses, workers, and US competitiveness of China's approach to localize industries through subsidies and state intervention, forced technology transfer, misappropriation of intellectual property, and mar-

ket protectionism.

American business, whether AmCham, the US-China Business Council, or the US Chamber of Commerce, has long warned of a brewing backlash in the United States and other advanced economies against certain unfair trade and regulatory policies and practices across a range of areas. This is not just an American narrative.

To be clear, we in the American business community and at the US Chamber are encouraged by some of the recent actions that

The trade deficit is not a core challenge in the US-China relationship.

have been taken by China, as well as rumored actions that may be taken in the future. Rest assured that American businesses can and will continue to serve as a bridge in this relationship. There remains great optimism about significant commercial opportunities in the China market, notwithstanding our alignment with the majority of the administration's section 301 diagnosis. Neither side can afford two-way tariffs or other actions that are expanding dangerously the scope of this conflict.

The US Chamber and our members are alarmed by and deeply opposed to the escalating tariffs that threaten the benefits of regulatory tax reforms, jeopardize the strength of the US and global economies, and are eviscerating the global trading architecture. And as some of you may be aware, our executive vice president and head of international affairs, Myron Brilliant, speaking on various issues on CNBC a couple weeks ago, provoked the interests of the President. And the President, of course, called in and responded very vehemently, but I only mention that to show how the US Chamber is speaking out vigorously on these issues.

But as we heard from Dr. Edwin Feulner this morning, the commercial relationship, which has long been regarded as the ballast of the broader relationship, has significant and growing cracks. In the current climate, business is quite concerned that there appear to be diminishing circles of overlapping interests between the United States and China. Let me just highlight three points in this regard.

First, there are concerns about the expansion of the China model, which has commoditized certain sectors of the global economy, and which is now migrating into the higher value-added sectors, whether it be under the moniker of Made in China 2025 or efforts to achieve high quality, growth, or digitization. To be clear, for most American companies and workers, the issue is not that they have to compete with China. The issue is what the terms of competition are.

Second, national security concerns regarding the impact of economic policies on national security interests are rapidly accelerating on both sides. Recently, the Trump administration took long considered steps to address the mix of national security and foreign policy concerns posed by the role of Chinese telecom giant Huawei in the US and international networking systems. From the perspective of American business, those actions should be addressed outside of trade talks, unless those talks focus on resolving core concerns on technology transfer, intellectual property protection, and market access outlined in the USTR section 301 report.

Meanwhile, the Chinese government over

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The escalation and broadening of the conflict by both sides is further undermining trust and increasing risk for companies in both countries.

the same period has moved to deepen its ongoing technology globalization campaign by developing an unreliable list of US firms and individuals, announcing a technology security management system, and proposing potential restrictions on rare Earth exports. It has also released a new barrage of draft cyber inspection measures, technology and procurement standards, data security restrictions, and privacy metrics all with significant trade and investment implications for US companies in its market, regardless of sector. The escalation and broadening of the conflict by both sides is further undermining trust and increasing risk for companies in both countries.

China's recent cyber and data methods in particular are undermining prospects for some of the potential groundbreaking market openings and regulatory improvements, which trade talks could otherwise deliver, including market access for cloud computing, freer data flows, global trade, and cross border services.

Third, populism isn't going away anywhere. The inability of policymakers to keep up with changes in technology will exacerbate, not moderate, populism, even as technology advancements are widening the gap between the beneficiaries – the United States

and China on one hand, and the rest of the international system on the other. For example, Price Waterhouse Coopers estimates that the US and China will enjoy a combined 70% of the global windfall of artificial intelligence. Technology is acting as an accelerant in the US-China conflict. Both sides feel increasingly vulnerable and anxious. Anywhere from 10 to 50% of US jobs could be displaced by automation in the coming years.

To be clear, changes in attitude towards China in the United States began to take hold long before President Trump was elected to office, as Mr. Feulner remarked. And they are almost certain to continue after he leaves. As a reminder, it was the Bush administration that advanced new visa and deemed export control restrictions, specifically focused on China and access to technology at US universities. It was then Bush administration Deputy Secretary of State Bob Zoelick who, responding to growing concerns about Chinese behavior across a variety of areas, delivered his “responsible stakeholder” speech before the National Committee on US-China Relations in 2005. It was Obama administration Defense Secretary Ash Carter who commissioned the DIUx (Defense Innovation Unit Experimental) report on China's investments in the US

Technology is acting as an accelerant in the US-China conflict. Both sides feel increasingly vulnerable and anxious.

This is unprecedented over the last 20 years of US-China relations. Solutions and effective management will require strong leadership on both sides.

emerging technologies. It was Obama administration officials who argued, as they were leaving office, that CFIUS export controls require urgent reform. And it was Obama administration USTR Michael Froman who began the process of starving the oxygen from the WTO appellate body over concerns that the appellate body was undermining the organization's ability to deal with critical issues, including state subsidies and public bonds.

So what I would say is history did not begin anew in November 2016 when President Trump was elected, at least in terms of US-China relations. To echo another Dr. Feulner point about changing sentiment in the US Congress, I have not seen the US Congress this energized about China, and I don't mean that in a good way, since prior to China's WTO accession. Bipartisan concern in Congress is being led not by an old guard of anti-trade, anti-China hawks, but by pro-trade, pro-business members of Congress in both houses like John Cornyn, Mark Warner, Dianne Feinstein, Tom Cotton, Marco Rubio, Chris Van Hollen, Devin Nunes, and others.

This is unprecedented over the last 20 years of US-China relations. Solutions and effective management will require strong leadership on both sides.

China's new foreign investment law provides an opportunity to address concerns, a welcome opportunity to address concerns about forced technology transfer. The value of a new law for US companies will be defined not by outlying practices, but by whether cases such as Micron, Huntsman Chemical, and DuPont, and others like them, can be quickly resolved.

More broadly, the US business community is concerned that excessive government intervention in a market of China's size, with the aim of creating domestic champions in a globalized economy, will continue to fuel the zero-sum, antibody response by US and other policymakers to China's approach of competing as socialist at home and capitalist abroad. The ensuing uncertainty and instability are bad for business planning, growth in the two economies, and global prospects.

For the US Chamber and American business, giving up and accepting isolationism, or worst yet, pushing for decoupling, is not an option. Confidence building measures in the commercial arena are urgently needed to stave off a catastrophic divorce by our two countries, the fallout of which would be severe, lasting, and leave no country's economy untouched. Further deterioration of relationships is in neither countries interest, as it will erode growth and jobs in both countries and around the world, thereby leaving all with a

The ensuing uncertainty and instability are bad for business planning, growth in the two economies, and global prospects.



smaller pie, less security, and less prosperity. The good news is that the two sides have engaged in months of intense negotiations: eleven rounds of talks, no less than eight reciprocal high-level visits in less than two years, and numerous late night and early morning phone calls. Ambassador Lighthizer and Vice Premier Liu He have a keen understanding of the demands of the other. They are not starting from scratch and have well over 100 pages of text from which to work. For business, negotiation provides the best opportunity to address the serious concerns that are continuing to rapidly erode the substrate of US-China relations.

If an agreement could be reached that is comprehensive, high-standard, verifiable, and enforceable, it can provide the basis for rebuilding confidence and trust in certain facets of the economic and commercial relationship. The durability of any outcome will depend in part on the scope and depth

For the US Chamber and American business, giving up and accepting isolationism, or worst yet, pushing for decoupling, is not an option.

It's critical that we do not allow politics on both sides to get in the way of progress made by professional negotiators.

of key commitments, but even more so on their verifiability and enforceability. While a positive outcome would surely not address all concerns in the relationship, a strong and enduring agreement has the potential to allow for areas of positive-sum cooperation – and there are many – to return to prominence and hopefully take root to counterbalance the zero-sum aspects of the relationship.

Let me say in closing: it's critical that we do not allow politics on both sides to get in the way of progress made by professional negotiators. And it's equally critical going forward that the two governments find ways to make progress, without either side resorting to large-scale actions, like tariffs, to get the attention of the other that something is wrong in the relationship. 🇺🇸

United States Leads to Global Economic Imbalances

Certain facets of the US economy have caused imbalances in the global economic system, and such imbalances cannot be remedied if there is confusion as to what is a macroeconomic issue and what is a microeconomic issue.



■ **Liu Shangxi**

*President
Chinese Academy of Financial Sciences*

It is natural to see disagreements arise between China and the United States because they see things in different ways. But these disagreements cannot be addressed when problems at the macro and micro levels are mixed up.

Although it has made big contributions to economic globalization and integration, the United States has also led to global economic imbalances. Why and how? Because the US is the world's largest economy, and, given its economic heft, other economies naturally follow its lead. So, what are the strongest pull-points of the American economy?

First, the US dollar: the US dollar holds the greatest appeal as an international currency. By exporting the dollar, America gains monetary seigniorage when other countries use the currency. This leads to imbalances in the global economic system with the US in deficit and other countries in surplus.

Second, American consumption: the US has an attractive consumer market and most of China's products are sold to American consumers. The

international trade settled in US dollars and the huge American consumer market lead to imbalances, as seen in the huge gap between savings and spending in the country. Macroeconomic imbalances in the United States also have spilled over into the entire global economic system.

China has tried for years to solve the imbalance of high domestic savings and low consumption, which is diametrical to that of the United States. In recent years China's consumption rate is rising, and the United States has also made some effort on this. I think these are macroscopic problems which cannot be solved from a microscopic perspective.

Macroeconomic problems require macroeconomic solutions, not microeconomic solutions. Global macroeconomic policy coordination is needed to address these imbalances, and every country must be involved. China, the United States, and, in fact, every country in the world, must work together because their economies are now integrated. Any country that wants to disconnect from international cooperation will bring huge risks to itself and to others, too.●

What Would We Do Differently If We Knew What Happens in 2039?

The world is changing rapidly, and in 20 years the international status quo will have changed as well. China is likely to surpass the US in GDP and military technological capabilities. Establishing dialogue and transparency today is necessary for a safe world tomorrow.

■ William Owens

*Executive Chairman of Red Bison Advisory Group
Former Vice Chairman of the Joint Chiefs of Staff*



I am writing a book called “*China-United States 2039*” and it is an attempt to look at what China and the United States will look like in 2039. If we knew what the world is going to be like in 2039, what would we do in 2019 to prevent that from happening?

The book looks at many different areas, but I’ll just mention two or three of them.

One area we believe is true is that China will be significantly larger in GDP. China will have a much greater buying power, so the Renminbi goes much further than the dollar goes in buying things. Although the GDP per person is still less than the United States, I want to remind you of something which President Eisenhower reminded us of: the military industrial complex. When you are the largest economy in the world by GDP, typically, we will build our militaries around a certain percentage of GDP, and the percentage normally accepted is 3 or 4%. China today spends far less than that; United States spends

more than that. We have a \$750 billion defense budget; the Chinese probably have \$300 billion.

But if the Chinese economy is larger in 2039 than it is today, and if they spend 3% of their GDP on defense, and let’s say artificial intelligence (AI) and quantum sciences and robotics have developed a long way in 20 years, then there can be no doubt that China might have the best military in the world, leaving the United States at number two. I have been to China many times and I’ve seen a lot of the AI, the holograms, the robotics and the quantum sciences. There is no doubt that they’re further forward than we think. So, it’s not inconceivable to think that the Chinese might have a larger military than the US in 2039.

This situation won’t be like a Cold War like the Soviet Union. The Chinese are a great and honorable country, and they will be a larger and more successful country. That’s what it’ll be like in 2039.

I’ve seen a lot of the AI, the holograms, the robotics and the quantum sciences. There is no doubt that they’re further forward than we think.



I'm going to give three recommendations. The first is a people-to-people program, led by the Premier of China and the Vice President of the United States, with a military vertical, an education vertical, a business vertical, and a government vertical to try to bring people together for real and to make something happen. But it won't happen unless there's that kind of leadership that acts to make it happen.

Second, the world is going to be much more transparent in 2039. For the minds of many who have been in the military, that means a lot. I was someone who helped develop what we call in the United States, "The Revolution in Military Affairs." I read a lot about Sun Tzu and what he said about war fighting, and he said that if he you could see a battlefield in its entirety, and the enemy didn't, you would win. Think about what that means in terms of the battlefield. If the world is transparent, the Chinese can see everything in a battlefield, and we Americans can see everything in a battlefield. So the strategic deterrent of the Trident submarines and others is not going to be as profound. If the world is transparent, the equation of military-to-military looks very different.

I suggest in this book that the United States should come together with the Chinese to talk about those important technologies, because we will be leading the world. We should look at a new world of deterrence, built around two countries that will see the world transparently.

In the United States Military and the Joint Chiefs, if we were tasked with a challenge, like a war, the first thing we would do is try to put all the intelligence resources to see the battlefield. If we could see the battlefield, then all of those things in the battlefield became targets.

The third point is, the world is changing and getting worse. The oceans are polluted, the air is bad, and the world is getting warmer. We, the Chinese and Americans, together could have a government-to-government initiative to look at all of the technologies available on this front.

Ten years ago, with the help of Mr. Tung, Chairman of the China-United States Exchange Foundation, I started something called the Sanya Initiative. It was an attempt to get five ex-members of the US military - all four-stars - and five Chinese, to come together twice a year to talk about the world and what was going on. We've done this for the last 10 years.

After 10 years of this, I can't tell you the degree of trust exists between them and the Americans. Twenty five American four-star generals have been involved in this, and we have talked about things from North Korea to the South China Sea, to Taiwan, and then at the end of every one of these meetings were invited to see a couple of the members of the Central Military Committee in Beijing. And when they come to the United States, we have a dinner with the Joint Chiefs of Staff. It's a very warm and friendly meeting. ●

We should look at a new world of deterrence, built around two countries that will see the world transparently.

Security Matters

Security and geopolitics are of growing importance when it comes to US-China relations. It is necessary to have these factors in mind when approaching US-China disputes so as to prevent negatively impacting the rest of the global community.

■ Karl Eikenberry

*Director
U.S.-Asia Security Initiative
Stanford University*



The question of agency versus the environment is about the role of humans versus the structure that they act within.

There is no question, when we talk about President Trump, that agency matters in terms of our domestic politics in the United States, our foreign policy, and, profoundly, US-China relations. Without a President Trump, would we have the so-called trade war right now? But let's be clear – agency matters from the Chinese side as well. Five years prior to President Trump, President Xi Jinping took power, and he has mattered profoundly in Chinese domestic politics, China's foreign policy, and US-China relations.

So, I make that point to then lead into a discussion about security. I have two points about the environment in terms of security.

Point number one is what I think is very important is the so-called securitization of economic exchange that's taken place over the last five years preceding President Trump.

What do we mean by the securitization of economic exchange? In the 1970s, if you had asked a leader in the Pentagon and the leader of the Chinese Central Military Commission, "What technologies are out there that matter for national security?" The answer might have been about 70% of the technologies that matter are under government proprietary contracts. They're siloed. They're outside of the commercial sector. Now, if you were to ask those in the Pentagon and those in the Central Military Commission, "What

Agency matters in terms of our domestic politics in the United States, our foreign policy, and, profoundly, US-China relations.

We are now in an era where, for the first time in many decades, when we talk about trade negotiations, the elephant that's also in the room is the security dimension.

technologies matter for national defense?" They would say probably the reverse of that: about 70% of what matters is found in the commercial sector. It's found commercial off the shelf; it's found in Silicon Valley; it's found in Austin, Texas, not under a defense contract. And the numbers of these technologies that are proliferating, that have profound national security consequences, are extraordinary. Autonomous vehicles, nanotechnologies – they're found in space, they're found in artificial intelligence.

So we are now in an era where, for the first time in many decades, when we talk about trade negotiations, the elephant that's also in the room is the security dimension.

Second point is about geopolitics. We talk a lot about US-China's security competition in the Western Pacific, and, of course, that matters. The United States talks about freedom of navigation, China talks about sovereignty in the seas, and we are all worried about the risk of an accident and miscalculation, which would be terrible.

What I worry about is that in the longer term, it'll be more geopolitical, called

geo-economic competition. It's not surprising that China, the largest trading partner for 126 countries in the world today, is a huge investor with ambitious programs like the Belt and Road Initiative. Chinese presence is found globally.

A concern, however, is that as that presence gets felt around the world, as opposed to back in the 1980s, when we were always concerned with trade imbalance in bilateral relations, now, it is a global competition.

A concern is that as China moves forward and invests around the world, and its presence is felt around the world, an alternate system is starting to develop in terms of financial practices, in terms of market practices and transparency, and in terms of IPR.

If that alternative order starts to develop, it will have geopolitical consequences.

Let me end with the importance of values. Values do matter. And I believe that to have an analysis of our relations without talking about consequences and political values would be to have an incomplete analysis. So, if we are talking about increasing mutual understanding, we should put values on the table. ●

If that alternative order starts to develop, it will have geopolitical consequences.

Optimism and Faith in the People

US-China relations hold 40 years of rich history, but today there remains many challenges within the relationship. Ultimately, it will be the two countries' people, not governments, that will heal the relationship.

My interest is and always has been in people, and in bringing people together – some of whom have similar points of view, some of whom differ greatly – and helping facilitate their interaction, break down barriers, and find their commonalities.

It's that work of bringing people together at a personal level that I always had and even now continue to love, which is why I find the current state of the relationship so deeply troubling.

I am not quite sure how we have arrived at where we are today, but just last week I read a very interesting manuscript by a British historian that focuses on U.S.-China relations from 1969 to 1978. Rather than looking at the relationship from the perspective of the high level summitry that was going on between Mao Zedong and Zhou Enlai and Richard Nixon and Henry Kissinger, or their successors, this book focuses

on what the author calls the “transnational institutions,” those that were actually doing the on-the-ground, day-to-day work of nurturing the relationship.

On the U.S. side, it was the National Committee and our sister organization, the Committee on Scholarly Communications (CSC) with the People's Republic of China. The CSC focused on the scientific, medical, and scholarly aspects of the relationship, and the National Committee handled everything else, from athletics and performing arts, particularly in the 1970s, to sub-national governance, rule of law, education, public policy, and many other areas.

One of the book's chapters devotes a lot of time to CSC's early excitement and frustration in handling the steady increase in China's desire for scientific cooperation. The early enthusiasm of U.S. medical and scientific organizations began to

■ Jan Berris

*Vice President
National Committee on United
States-China Relations*



wear thin by what seemed to the Americans to be “lopsided collaboration.” One of several examples: China sent more delegations to the United States than it was willing to host in China. Another: Beijing insisted on survey tours of Chinese cities with lots of sightseeing rather than extended stays in one or two cities so that Chinese and American scientists could actually engage in substantive discussions.

In 1976 these tensions came to a head and the CSC threatened to curtail its cooperation if the desires of the Americans involved in the program weren’t met. This tough stance meant that the CSC was at odds with the U.S. government, which saw the exchange relationship and its symbolic role as evidence of continuing rapprochement. But CSC stood its ground, and by the end of 1976, the number of science and technology exchanges (S&T Exchanges) was rebalanced and other issues began to be addressed.

Reading this history, I began to wonder whether if we had all taken a leaf out of CSC’s playbook, and had we been a bit tougher over the years regarding matters of reciprocity, we might not be where we are now. The fact is that many American concerns these days stem from a deep sense of a lack of reciprocity or fairness in the relationship.

The fact is that many American concerns these days stem from a deep sense of a lack of reciprocity or fairness in the relationship.

There are multiple areas where the lack of fairness and reciprocity is stark.

First is Diplomatic Treatment: Ambassador Cui Tiankai and his fellow diplomats at the embassy and the six PRC consulates are able to travel at will and can go to whatever institutions they wish, or wherever they are invited to give talks, whereas our diplomats lack that freedom, and many are not even able to visit schools and universities.

Confucius Institutes present another reciprocity issue. I must add first that I find much of the debates over Confucius Institutes to be sophomoric. China has every right to try to expand its soft power through such institutions: Among other countries, Germany has Goethe Institutes, England has British Councils, and the U.S. used to have the U.S. Information Agency. To my mind, the problem is not that they exist, because the majority of them play very useful and much-needed roles in teaching the Chinese language. Instead, the major mistake was housing them in U.S. federal or local government-funded schools, whereas other countries established their operations as independent, free-standing institutions, and thus don’t come under the same kind of scrutiny.

And in fact, the United States brought some of the current Confucius Institutes problems on ourselves, as it was the reduction in state budgets for Chinese language education that created the fertile ground for such symbiosis.

I mention Confucius Institutes in relation to reciprocity because there are almost 100



Confucius Institutes in the United States. While a few have closed recently, most of them continue and are very welcome in their communities because they fulfill a need.

However, in China, the U.S. government has been granted permission for only a few “American Corners” located at selected universities. American Corners are places where books or other materials on the United States can be placed and where visiting American lecturers can make presentations. At least that was the idea - almost all of them have now closed, either because of restrictions on their activities or because American diplomats aren’t permitted to visit them. Nor are visiting lecturers routinely welcomed as in the past; now they are seen as “bufangbian,” (不方便), or “inconvenient.”

There are many reciprocity issues when it comes to the media, ranging from the blocking of various news outlets such as the New York Times and several social media companies, to the treatment of journalists. The latter has been an issue since the first American news bureaus were opened in 1979. A major concern always has and continues to be about surveillance, both human and digital, with people being followed,

having their phones tapped, having their hotel rooms entered, and so on.

There has also long been harassment of and pressure on Chinese who work for American journalists, and lately reports of security personnel visiting these assistants and urging them to be patriotic by finding other jobs. Interviewees, too, are often “visited” by security officers.

And finally, visas, which in the past have often been an issue for journalists, continue to be denied, or take so long to be issued, that journalists have to move on to other jobs.

These kinds of things do not happen to Chinese journalists in the United States, or those who work for them or who are interviewed by them. However, I will say that I have recently been told that the U.S. government has made the lives of some Chinese journalists in the states very difficult. One manifestation of that is that the Department of Justice asked both Xinhua and China Global Television Network to register as foreign agents in 2018: CGTN complied, Xinhua has not.

Up until this past year, I would have put the issuance of visas high on the list of things that are not reciprocal. Americans, usually academics, have been denied entry into China for writing or speaking about things that the Chinese government finds sensitive. The National Committee has been involved in several such cases over the years.

The U.S. government does not do that (at least not yet), but we have, within the past

Another category of concerns falls into the basket of American uncertainty of how to deal with a rising China.

year, denied visas for a number of Chinese academics at universities and think tanks, on the grounds that some of their activities while in the United States have gone beyond the bounds of normal academic inquiry and discourse. Many in the American academic community are very troubled by this.

Another category of concerns falls into the basket of American uncertainty of how to deal with a rising China. Bill Burns, former Deputy secretary of State and now head of the Carnegie Endowment for Peace said, “The overarching challenge for U.S. foreign policy today is to adapt to an international landscape in which American dominance is fading.” Not that that means that we are declining, but just that we need, as he says, to do “a better job managing the return of great power rivalry.”

The third basket of concerns are those that revolve around differing cultural values.

America is an open pluralistic society. China is much more homogeneous: but it, too, has dozens of ethnic minorities. This may be a controversial statement, but I would posit that neither of our countries has done a very good job at managing our minority cultures. Nevertheless, instead of focusing on resolving our own problems, we each tend to chastise the other for the way it is handling its internal issues.

Another big value-related concern of many Americans encompasses a wide range of “rule of law” topics in China. There are indeed many problems in that area: suppression of rights lawyers, extra-legal detention, especially of the over one million Uyghurs in Xinjiang, to name just two that receive a lot of attention in the states. Yet while decrying these, we need to give China credit for the enormous gains it has made in several “rule of law” areas, particularly the very impressive reform of its court system and the growing professionalism of its judges.

We heard from Mr. Fuelner earlier of how the enthusiastic support of the business community has weakened. There are other constituencies whose support has waned as well. In the non-profit sector, the introduction of the international NGO management law has made it more difficult for even non-controversial non-profit organizations to operate in China, thus losing an important voice for stable U.S.-China relations. The denial of visas, the difficulty of accessing archives that were once open to all, recent sudden changes in long-standing university-to-university programs – all are taking a toll on American academics who began studying China because they were fascinated by and loved the culture, the history, and the people. Their support, too, is slowly changing.

Instead of focusing on resolving our own problems, we each tend to chastise the other for the way it is handling its internal issues.

But the Chinese seem even more pessimistic. For years I have heard Chinese characterize U.S. policy as containment, and for years I would tell them that they needed to look at a dictionary and read the definition of the word, or look at the relations between America and the Soviet Union to understand containment. Would the United States be pouring so much time, money and manpower into FDI and joint ventures if this was true?

However, now I fear, there are indeed some in the U.S. government who would like to see a policy of containment. Certainly not all, but alas anti-China sentiment is one of the few things that Democrats and Republicans agree on these days.

It is not all doom and gloom. Organizations that believe in constructive engagement are meeting internally, looking at historical precedents trying to find ways to manage the problems and to get the relationship back on track. But do heed Mr. Fuelner's warning: it will not go back to being the pre-Trump relationship, at least not for a long time and until many things change, and in both countries.

There are some signs of that change. In mid-June a total of 661 US companies and associations signed a letter to President Trump, urging his administration to abandon tariff hikes and reach a deal with China; and just last week, 100 China specialists signed a letter to the president and Congress about a more balanced China policy.

I join the optimists you've heard today, and I do so not because I am confident that our two governments can work things out, but because of my faith in the people of both countries. My experience has been that the people are very adaptable. I first saw this

during the US-China ping pong trips in 1971. Our Chinese visitors were constantly asked what had surprised them most about the United States. Invariably their responses were some variation of how warm and friendly and welcoming the American people had been. The first several times I heard this, I assumed it was something that they had been told to say; but as the trip went on, and I witnessed the warmth, friendliness, and welcome on the part of Americans across the country. I realized that even if they had been coached, it was indeed true.

The Americans seemed to be able to put aside two decades of anti-communist, anti-Chinese propaganda both our government and the right-wing segments of our society had been spewing and be willing to be open to a people and culture they had been taught to hate and fear. And in my early visits to China, beginning in 1973, I found the mirror image, and was struck by the warmth and extreme curiosity with which we Americans were welcomed, despite the still prevalent billboards decrying American imperialism.

Two different peoples, two different cultures but underneath, All Men Are Brothers! 🇨🇳

Organizations that believe in
constructive engagement are
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The American Heartland Will Lead the Way in Ties with China

If you truly want to influence what is going on in the United States of America, the heartland is where you have to plant your flag.

■ Bob Holden

*President
United States Heartland China
Association*



Why is the heartland important to you? Because by and large, when thinking of the United States, most people coming from another country will say they've gone to the East Coast, New York, DC, the West Coast, San Francisco, and Los Angeles. And this area that we're talking about is a flyover region of the country. But, if you truly want to influence what is going on in the United States of America, it's this region where you have to plant your flag.

I say that for many, many reasons. One, being a 501(c)(3) organization, we (the United States heartland China Association) are bipartisan and we're going to maintain that. We're also going to really focus on three key areas – in cultural

advancement, educational relationships, and business ties. If you're able to put those three things together, you will have a strong economy. You'll have an even stronger relationship in the partners that are working in both countries to see that success occur.

If you look at the US heartland, we have within our region a significant number of the major political leaders in the past 20 years of this country: Presidents Bush, Carter, Obama... all of these people come out of our heartland region, and they carry with them a commitment to build America to be stronger in the future, and build those relationships with China and other parts of the world, which allows us to continue to be an

We're also going to really focus on three key areas – in cultural advancement, educational relationships, and business ties.



influential leader in the world of tomorrow. Our region has some of the best universities in the country. In fact, over 30 of the top 100 in the United States are in the heartland region. We also have about 200 academic institutions that are just below the top tier but have relationships with those top tier institutions.

Education is critical in every endeavor if you want to be successful. The fact is, we don't make many changes in people's values that are 60 years old or 70, like I am. You make those changes when the people are five years old, 10 years old, 15 years old, and 20 years old. And so, if you can reach people at that age, for them to understand, they will carry those set of values with them for the rest of their life.

In addition, not only do we need to focus on the education program, but also the cultural aspect of it, because the cultural aspect is laying the foundation for businesses to connect and go forward.

When people talk about manufacturing, agriculture and tariffs, they're not just talking about the United States. More importantly, they're talking about this region of the United

States. Six of the top 10 manufacturing states in the country come from this region. In terms of agriculture production, about 16 out of the top 20 states come out of this region.

We must find ways to build those bridges of understanding and cooperation, so that we can proceed and move forward. The most difficult issue we've got to deal with is how we separate economic competition from national security issues. And if you can do those two things, and do them properly, then we can continue to have a competitive aspect in economic development and job creation that we all need for our benefit. And we also protect the security of our own nations in that process and lay a foundation for another 50 years, so that we can have a peaceful world that was put together by the Bushes, by the Carters, by the Obamas. They have built what we've got today. Let's don't allow a few people today to destroy it for tomorrow. ●

The most difficult issue we've got to deal with is how we separate economic competition from national security issues.

Next Generation of City Leaders Steps Up to the Plate

Municipalities are at the core of the American economy. It's important that we view international relations, especially the recent trade disputes between China and the US, through their perspectives.

It is critical that we start thinking about international relations through a municipal lens.

I represent one corner of the city of Austin. Austin is the 11th largest city in America. But it's only the fourth largest just in the state of Texas: Houston, Dallas and San Antonio are larger than Austin, and the four of our cities together represent a very significant portion of the Texas economy, which, as you heard, is a very significant portion of the world economy.

Austin is the fastest growing city in America. It is a very young city. It has a major university as its core – the University of Texas at Austin, of which I am a graduate. Austin has a very powerful startup and tech industry and culture; it has the most startup companies per capita of any city in America; and it has a very strong, vibrant,

and creative economy. In fact, of all the cities in America over the last few decades, it has had the strongest and most resilient economy, having survived a number of business cycle recessions, and come out on top in each case, like the last time that we went through a recession, but Austin's creative economy still expanded by 25%. That level of engagement and diversification of our economy has helped make us strong.

The city of Austin also has a long history with China.

In fact, a lot of cities have to think about international relations in a different way, in a way that I think may be lacking in the US and at the federal level. The US system is very complicated. We talk about China's system – "one country two systems;" I think in the US, we have a "one country 1,000 systems."

■ Jimmy Flannigan

*Councilmember
City of Austin
Texas*



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In fact, a lot of cities have to think about international relations in a different way, in a way that I think may be lacking in the US and at the federal level.

And one of the untold stories that city leaders know is that a majority of Americans have no opinion about China.

Every city, not just the 50 states, has its own style government and its own political perspective, with American-style free speech, open criticism, and an open media. Every city has a different take on what is happening at the federal level.

I have written and sponsored resolutions that have passed unanimously on the city council, deriding the decisions of the Trump administration. Most recently, the Trump administration is now attacking American cities for what he says is a failure of leadership, when in fact what we know is true is that American cities are the core of the most successful economy in the world.

When we think about some of the things that we've heard today, it's also important to note that Americans are not part of a monolithic culture and do not have a monolithic perspective.

"There are lies, damned lies, and statistics." This is a phrase in America in which we talk about how you can put a chart up on a screen, and there's a whole untold story that happens behind that. And one of the untold stories that city leaders know is that a majority of Americans have no opinion about China. In reality, as a municipal leader, what we know is that the number one issue facing my constituents is how much time it takes to get to work in the

morning, not so much the large and multinational concerns of trade relationships.

As city leaders, we know that we cannot view any relationship simply as win or lose. If you just do something as win or lose, there are only losers. I think about this in the context of a city, where you have every decision based on building a community, a community where your neighbor lives next door to you. You want them to be successful because the quality of your neighborhood is based on the level of shared prosperity you have with their neighbors. If your neighbor starts to suffer, your neighborhood suffers. City leaders know that the only prosperity is a shared prosperity.

When my constituents talk to me about the rising cost of goods at the local store, they are not thinking about tariffs that were placed on those goods by an administration that is thousands of miles away.

When there are job losses, when industries close, my constituents are not asking me what my relationship was with the ambassador of whatever country that company was headquartered in.

And in fact, even to this very small detail, when my community asks for a new traf-

When my community asks for a new traffic light at a busy intersection, the steel tariffs have added six months to a year in my ability as a municipal leader to answer their concerns.



fic light at a busy intersection, the steel tariffs have added six months to a year in my ability as a municipal leader to answer their concerns. My constituents do not understand that. All they know is I couldn't get their job done as quickly as I wanted to.

These international decisions have local impacts in American cities, as I'm sure they do in China.

The future of the relationship between US and China is unknown. It is unknown two

years from now. It is unknown twenty years from now. But I think there is something that we do know – the future of the United States and the future of this relationship is not going to be dictated by the people who are currently in office in Washington DC. It is going to be dictated by the next generation of leaders in United States, leaders like myself, city leaders all across America who are thinking about these pragmatic issues, many of whom are currently running for president. I find their ability to slice through this nonsense, this ego-driven competitive insanity, and get right down to the facts to be very inspirational.

I think this future that we are contemplating includes a generation that did not experience the Cold War as a baseline of operations, but one that grew up in a tech economy in unprecedented world peace and collaboration. They witnessed a war on terror that joined countries of industrialized nations together to fight an enemy we could not identify. But the future we are contemplating is one where city leaders in the US and in China can collaborate and develop the next generation of the relationship between our two nations, and a future where our city leaders and your city leaders work together as neighbors in a global neighborhood that desperately needs us to. 🌐

The future of the United States and the future of this relationship is not going to be dictated by the people who are currently in office in Washington DC. It is going to be dictated by the next generation of leaders in United States, leaders like myself, city leaders all across America.

Texas Vying for a Bigger Share in Trade with China

China is Texas's third largest trading partner in the world. China is an active buyer of Texan exports, and Texas is a great place for Chinese investment. That is a special relationship that ought to be preserved.

■ Jeff Moseley

CEO

Texas Association of Business



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It's an occasion where we celebrate the 40th anniversary of the formal establishment of diplomatic relations between the United States and China and the 40-year anniversary of the China Reform and Opening in 1979. I'd like to talk about something related to Texas.

Isn't it interesting that two of the world's most powerful leaders, Mao Zedong and Nixon, began the discussion of opening relations between our two nations? As that door started to open in 1979, 40 years ago, Deng Xiaoping stepped up as the architect to start formally finding ways to bring China into the world market. We were very honored when President Carter invited Deng Xiaoping to come to the United States because he came to Texas as a part of his visit, and he came to the Johnson Space Center. Although Deng Xiaoping was relatively small in stature at 4 feet 11

inches, whenever he put on the cowboy hat, he was a long, tall Texan. And many of you remember that beautiful photograph, where he was celebrated for coming to Houston, Texas.

So Texas is very pleased to continue this dialogue that began with Deng Xiaoping's visit. We're happy because we share a relationship with China – it is our number three trading partner behind Mexico and Canada.

We know that there's been a tremendous opportunity for us as we go forward. But the risks are high too if these talks for trade fail.

Our association, the Texas Association of Business (TAB), by Chinese standards, is not too old. We were started in 1922; we are almost 100 years old. We have 2,500 businesses, and we speak on behalf of our members. About 20 years ago, we

had a China trade organization within the TAB, and recently we created the Texas and China Trade and Investment Coalition (TACTIC) within TAB. We're very committed to that because we know now more than ever, we should have a formal opportunity to open this dialogue.

We're full partners with the George H.W. Bush Foundation for US-China Relations and happy to work with Neil Bush and David Firestein to talk about how to make sure that this foreign capital that we know has already come to Texas is invested strategically in our various clusters, especially in the energy cluster.

We want to make sure that when Chinese capital is looking at America, it doesn't just automatically go to the East coast or West coast, but that Texas is seen as a very wonderful place for that capital to grow. And that's one of the opportunities for TACTIC.

We also want to protect the Chinese investment that's already there and help the companies that have already come to Texas have opportunities to expand and grow

We want to make sure that when Chinese capital is looking at America, it doesn't just automatically go to the East coast or West coast, but that Texas is seen as a very wonderful place for that capital to grow.



their jobs and paychecks.

Texas is the number one exporting state in America. We've benefited tremendously by trade. We have 700,000 Texans and their families that depend on trade with Mexico, about 350,000 because of trade with Canada, and China's third. We want to fight to grow that so that China can continue to be even bigger in our state. 🇺🇸



SIDELINE INTERVIEWS



Decoupling is Short-Sighted

Former Chief Executive of Hong Kong SAR Tung Chee-hwa expresses his optimism for the future of US-China relations. "Great things will happen if the US and China take advantage of their complementary trade relationship."

<https://www.facebook.com/ChinaUSFocus/videos/2627859067234173/>



Reflecting on a Changing World

The disconnect between China and the US is obstructing the path to a resolution of the tensions between the two superpowers, according to former Prime Minister of Singapore Goh Chok Tong who spoke at the What Now What Next forum. More of his insights can be found in this video.

<https://www.facebook.com/ChinaUSFocus/videos/477825362997311/>



Learning from Japan's Trade Tensions with the US

The US and China are in a bitter battle over trade that seems to have no end in sight, but former Japanese Prime Minister Yasuo Fukuda believes that the US has been here before with Japan, and reconciliation is, in fact, possible.

<https://www.facebook.com/ChinaUSFocus/videos/868419993519927/>



"Trump Won't Settle for a Bad Deal"

"Don't rehash the same old arguments from 10 or 15 years ago. Let's deal with where we are now." Ed Feulner, founder of the The Heritage Foundation, shares his thoughts on how to resolve the US-China trade war.

<https://www.facebook.com/ChinaUSFocus/videos/2389102327974460/>





“Deeper Dialogue”

In our recent conversation with Neil Bush, son of former President George H. W. Bush, he said that facilitating communication between the US and China is the key step in diluting the tensions between them.

<https://www.facebook.com/ChinaUSFocus/videos/452539505341222/>



“Containment Policy with China Can’t be Effective”

According to Zhou Wenzhong, VP of China-US People’s Friendship Association and a former PRC ambassador to the U.S., the importance of a peaceful, non-confrontational relationship between the US & China cannot be stressed enough. Mr. Zhou explains how he sees what a robust relationship with the U.S. should be like going forward.

<https://www.facebook.com/ChinaUSFocus/videos/707351896354641/>



Trade Relationship May be “Off-track”



Stephen Roach, economist and lecturer at Yale University, discusses the “false narrative” that has been fabricated concerning the current relationship between China and the US. He speaks on what he believes we should be doing differently.

<https://www.facebook.com/ChinaUSFocus/videos/2079832022326701/>



How Does the US See China in the World?

“The United States and China both have to come to terms with the rules of the game,” says Vali Nasr, Professor of International Relations at Johns Hopkins School of Advanced International Studies.

<https://www.facebook.com/ChinaUSFocus/videos/2077443095694474/>



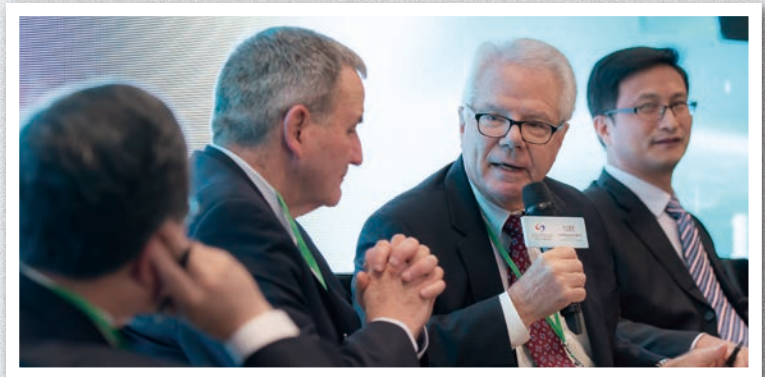
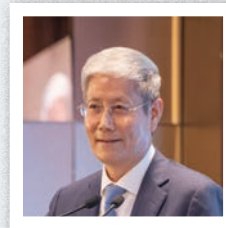
Role of State-owned Enterprises in China

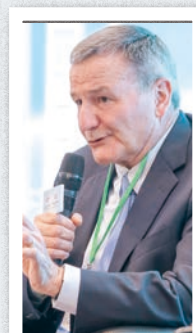
The rapid privatization of Chinese enterprises could lead to a more influential Chinese presence in the global market, according to Fu Yuning, Chairman of China Resources.

<https://www.facebook.com/ChinaUSFocus/videos/389987388536857/>



PANEL DISCUSSION HIGHLIGHTS





PANEL DISCUSSION HIGHLIGHTS



Mark Kirk

Former U.S. Senator

It is a very easy argument to make that the future of big employers in Illinois like Abbott Laboratories and United Airlines will be written in China. The way out of the U.S.-China trade problem is to look at the sum of the parts, which are way more than the whole.



Lawrence Lau

Ralph and Claire Landau Professor of Economics, Lau Chor Tak Institute of Global Economics and Finance, The Chinese University of Hong Kong

My definition of winning the trade war is a situation where, after all this has settled, the bilateral China-U.S. trade, the total volume of trade, would exceed what it was before the trade war.



John Zhao

President, Hony Capital

The old world order is over. The new one is yet to be established. My suggestion is Globalization 2.0 and a more inclusive digitized world. National leaders should quit thinking about wanting to become number one. The new order is going to be inclusive, multilateral, value-driven, and people-focused.



Jerry Guo

Vice President, Qualcomm

In the past decade, China has made impressive progress in IP protection. But there is a gap between the internal reality and external perceptions – many expect China to act in a way consistent with its status as the world's second largest economy, not as a developing country.



Zhao Changwen

Director General, Industrial Economy Department of Development Research Center of the State Council, China

When left with no choice, China will move further away from its reliance on foreign technologies towards indigenous technological innovation.



Clayton Dube

Director, USC U.S.-China Institute at USC Annenberg

This trade war is not about the trade deficit. The issue before us now is not about the economy of today, but the economy of tomorrow. And that's where we have to find a way for us to foster healthy, fair competition.



Jeffery Lehman

Inaugural Vice Chancellor, NYU Shanghai

The economic damage of decoupling would not be catastrophic. I am more worried about a different kind of damage that decoupling could cause: the damage to values, to culture, and to the humanistic spirit.



Fu Yuning

Chairman, China Resources Holding Limited

China Resources is also very commercially competitive in many fields – we compete on commercial terms without any government subsidies or preferred policies. The Chinese government's relations with SOEs are like those of shareholders. The best way to promote understanding is to invite American friends to visit us to see how we, as a Chinese SOE, operate.



David Lampton

Oksenberg-Rohlen Fellow, Stanford University, Asia-Pacific Research Center

I agree with Chairman Feulner's point: don't assume that everything's going to get back if there's a change in the U.S. administration. But don't draw the opposite conclusion, that if there was a change in administration nothing would change.

I would recommend that everybody take their grandchildren to China or the United States. Let them draw their own conclusions about what kind of place China or the U.S. is.



Yang Jiemian

President Emeritus, Shanghai Institutes for International Studies

The good old days are gone forever. However, the new days are not necessarily going to be a nightmare.

ACKNOWLEDGEMENTS

In an effort to build on the forward momentum of U.S.-China bilateral discussions, the China-United States Exchange Foundation (CUSEF) and the China Center for International Economic Exchanges (CCIEE) co-hosted the “U.S.-China Trade & Economic Relations: What Now, What Next” forum in Hong Kong on July 9-10, 2019.

This was a high-level, non-governmental international conference that brought together politicians, former heads of government, senior diplomats, business leaders, and renowned scholars of different countries to explore the current status and prospects of U.S.-China relations in a two-track discussion.

The forum coincided with the 40th anniversary of the establishment of U.S.-China diplomatic relations and followed the G-20 Osaka Summit where a consensus for continued negotiation was reached by U.S. and Chinese leaders on June 29, 2019.

The forum - a free and open dialogue - brought together the wisdom and strength of the international community, allowing many voices converge on the critical issues of multilateralism, free trade, long-term global economic growth, and global governance.

We would like to express our sincere gratitude to all who participated and supported this Forum, and look forward to our work together in the future, as we continue to foster ongoing dialogue and positive interactions.

About China-US Focus

China-US Focus is a platform where Chinese and American thought leaders can openly express their views on the myriad issues that face the two nations.

China-US Focus is published by the China-United States Exchange Foundation (CUSEF), an independent, non-profit and non-governmental foundation committed to the belief that a positive and peaceful relationship between the strongest developed nation and the most populous, fast-developing nation is essential for global wellbeing. Founded in Hong Kong in 2008 and privately funded, CUSEF builds platforms to encourage constructive dialogue and diverse exchanges between the people of the U.S. and China.

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ABOUT JAMES CHAU

James has earned a special reputation for his interviews with world leaders in politics, science and health. Amongst them, Nobel Peace Prize winners Jimmy Carter, Kofi Annan, Muhammad Yunus and Aung Sang Suu Kyi, and also Winnie Mandela, Arianna Huffington and Christine Lagarde. He serves as World Health Organization Goodwill Ambassador and UNAIDS Goodwill Ambassador.

