

CHINA & US FOCUS DIGEST

Perilous Plunge



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CONTENTS

A ROUGH RIDE, BUT THERE'S HOPE

P. 06



Wang Jisi

Many factors are in play that work against a precipitous break in China-U.S. relations. The current fever of confrontation will break if the two countries adhere to a few bottom-line principles.

GLOBALIZATION AND MANAGING A COOPERATIVE RIVALRY

P. 14



Joseph S. Nye, Jr.

While the U.S. and China have entered a new phase in their relationship, it is misleading to call it a new cold war. Both sides should find the requisite “bottoms” and “safety nets” that establish a framework that best suits the U.S.-China cooperative rivalry.

DUSTING OFF COLD WAR TOOLS FOR U.S.-CHINA COMPETITION

P. 18

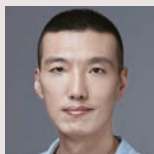


David Shambaugh

The United States and China may now be in Cold War 2.0, but the first Cold War has a number of useful lessons that must be heeded in order to avoid Sino-American relations spiraling out of control.

TACTICS MATTER

P. 22



An Gang

As China-U.S. relations spiral downward, a crucial moment has been reached. The next five months will determine whether or not the relationship can be salvaged. If Trump is re-elected, the two countries may slide into irreversible confrontation.

THE PACIFIC DIALOGUE: TALK MORE, NOT LESS

P. 28

CHINA CURRENT INTERVIEWS

P. 34

SEVEN TOOLS OF U.S. POWER

P. 36

Zhang Monan

China is the unambiguous target as the United States shifts from engagement to pure containment, even though economic logic suggests a more benign path would yield greater benefits.

TRUMP'S FINAL GAMBLE

P. 41

Dan Steinbock

The U.S. president's disastrous failure to contain COVID-19 will result in a catastrophic Q2. That's why Donald Trump is scapegoating China while staking his re-election chances on domestic unrest, fatal geopolitics and a global depression.

NO NEW COLD WAR

P. 46

James H. Nolt

Unlike the Cold War between the West and the USSR, a U.S.-China cold war is unlikely, given the fact that China is heavily integrated in the global economy and that people-to-people exchanges remain high.

MESSAGES TO ME FROM THE NPC

P. 49

Zhou Xiaoming

China has an encouraging story to tell. Its internal market is immense, but it is not turning inward. Rather, it's opening faster and wider to the rest of the world, backed by an economy that's poised to deliver.

TRENDS IN A POST-PANDEMIC WORLD

P. 54

Tao Wenzhao

Globalization is going to continue, but some rules and practices may need to be adjusted. The world should be open to such adjustments but continue to oppose economic nationalism and trade protectionism.

EDITOR'S NOTE

Restarting Dialogues

Zhang Ping

Following a month's long hiatus of direct high-level talks, the United States and China finally dispatched their top foreign policy officials to sit down for more than six hours of closed-door talks.

Details of the June 17 discussions in Honolulu, Hawaii, between U.S. Secretary of State Mike Pompeo and China's top diplomat, Yang Jiechi, were scant. Our contributor He Yafei sees the talks as the beginning of renewed positive momentum, while contributor Professor David Lampton calls for more dialogue across the board between government agencies, businesses and ordinary people. A transcript of a virtual conversation between these two experts — part of a new China-US Focus series called “The Pacific Dialogue” — is included in a special section of this issue.

We also feature commentaries by leading American and Chinese scholars, including Wang Jisi, Joseph Nye and David Shambaugh. Their discussions about the “floors” and “safety nets” of the bilateral relationship offer insights into what needs to be done to avoid a full-fledged U.S.-China showdown.

Wang proposes three bottom-line principles to guide the relationship — peace-

ful resolution of all conflicts, sustained economic cooperation and humanitarian exchanges. He also dives into the laundry list of issues that the two sides need to negotiate and address. Meanwhile, Nye argues against analogies to the Cold War and uses his preferred term, “cooperative rivalry.” He also identifies environmental and ecological globalization as an opportunity that's ripe for deeper cooperation between the two powers.

Finally, our special coverage of COVID-19 continues in this issue with James Chau, editor-at-large of Focus. His ongoing series of interviews with world leaders, health professionals and scholars shed light on global lessons learned and how and why science and humanity will eventually triumph.

Happy reading!



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A Rough Ride, But There's Hope



Wang Jisi
*President
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Many factors are in play that work against a precipitous break in China-U.S. relations. The current fever of confrontation will break if the two countries adhere to a few bottom-line principles.

The heat of summer has come, and so has the fever in relations between China and the United States.

Since the novel coronavirus began its rampage early this year, China-U.S. ties have been further strained. Washington has introduced a series of China-related policies and congressional bills have aimed to curtail Beijing's authority, power and international influence. U.S. officials and members of Congress are increasingly vocal in their denunciations of China on almost every issue. In particular, the Trump administration attacked Beijing for alleged disinformation on the COVID-19 pandemic, which had a high rate of infections and fatalities in America.

Speakers for China's Foreign Ministry, as well as official media, have fought back by revealing America's deplorable performance in coping with the pandemic. U.S. Secretary of State Mike Pompeo was named by CCTV as a "public enemy of mankind." More recently, China's media have reported extensively on racial discrimination, police brutality and the social injustice behind the riots and protests around the United States triggered by the killing of a black man, George Floyd, by a police officer.

The deterioration of China-U.S. relations is not confined to rhetorical battles but shows more ominously in actions.

The deterioration of China-U.S. relations is not confined to rhetorical battles but shows more ominously in actions related to bilateral trade, high technology, cybersecurity, Taiwan, Hong Kong, the South China Sea and other issues. To an alarming extent, economic, financial and technological links between the two

countries have been decoupled, although the damage has not yet been felt devastatingly in the two societies. Some Chinese and American commentators warn that the relationship is in free fall. Indeed, once China-U.S. ties get loose and out of control, it will be more difficult for the world's two largest economies to regain momentum in the post-pandemic era. Recovery of the global economy will be retarded, and arms races and geopolitical conflicts will likely intensify.

People often draw parallels and contrasts between China-U.S. ties today and Soviet-U.S. ties in the Cold War period. In my view, China-U.S. ties today may be worse than the Soviet-U.S. relationship, since the latter was at least “cold.” Relations between Moscow and Washington have remained essentially stable for more than four decades despite a few sporadic “hot” moments like the Cuban missile crisis in 1962. Those two superpowers were separate from each other politically, economically and socially and were actually unable to influence each other's domestic affairs. Contact between Washington and Moscow was rather superficial and involved little love-hate emotion.

By contrast, the China-U.S. relationship is now suffering from forceful disengagement after steady progress over four decades. The sentimental and material losses caused by the heated quarrels and grudging decoupling between the two sides — in particular during the pandemic period — are sensationally more distressing than the analogy of the Cold War. One remaining question is whether the China-U.S. rivalry will last longer and cost more for both sides than the Soviet-U.S. standoff.

It is urgent for China and the United States to avoid a complete free fall in relations. There must be floors or bottom lines that stay in place to stop the relationship from falling into an abyss.

Around 2014 when Beijing was searching for a “new model of major country relationship” with Washington, Chinese officials repeatedly noted that strategic mutual trust, economic and trade cooperation and humanitarian exchanges are the three pillars underpinning the China-U.S. relationship. To borrow ideas from this statement, I believe there are three bottom lines that should be upheld in today's China-U.S. relations.

Peaceful solution to all disputes

The first bottom line is that no matter how serious the competition between the two countries may be, it must be handled peacefully, not by resort to armed conflict. It is unrealistic at this stage to expect China and the U.S. to build genuine strategic mutual trust, but at the very least each side should try to convince the other that it would never take the initiative to provoke a war — including not only nuclear or conventional war but also unconventional war such as cyberwar, space war or biochemical war. There is no denying that the Chinese and U.S. militaries are preparing for the worst, which they are designed to do; in recent years each has made the other the main imaginary enemy. This trend will continue for a long time to come.

One remaining question is whether the China-U.S. rivalry will last longer and cost more for both sides than the Soviet-U.S. standoff.

Fortunately, the militaries of China and the U.S. have maintained close contact even in the face of poor political communication. In August 2017, the military command systems of the two countries signed the Joint Staff Dialogue Mechanism, a document that is expected to play an important role in crisis management between the two militaries.



- ▲ Ren Zhengfei, the founder of Huawei, has responded to American pressure by saying, “Our interests are always along the same line as those of Google.”

To avoid a head-on confrontation over the Taiwan Strait, the U.S. must honor its commitment to the “One China” principle, which has been sustained since the establishment of diplomatic relations in 1979. Washington should state that it will not support Taiwan independence. In turn, Beijing should continue to commit itself to a “one country, two systems” approach toward achieving peaceful reunification with Taiwan.

The Anti-Secession Law that the People’s Republic of China passed in 2005 declares: “In the event that ‘Taiwan independence’ secessionist forces should act under any name or by any means to cause the fact of Taiwan’s secession from China, or that major incidents entailing Taiwan’s secession from China should occur, or that possibilities for a peaceful reunification should

be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China’s sovereignty and territorial integrity.”

Cross-strait relations today, though not satisfactory and involving some risks, have not necessitated non-peaceful means to solve the Taiwan issue.

On the South China Sea dispute between Beijing and Washington, the two sides should stick to the principle of demilitarization. China and the Association of Southeast Asian Nations (ASEAN) have been engaged in talks for a code of conduct, a document that will lay the foundation for a future solution to their different territorial claims in the South China Sea. The United States should welcome this process.

Both China and the U.S. support denuclearization of the Korean Peninsula and should consult each other to defuse any possible flashpoint there.

A cyberwar between the two countries could be as catastrophic as a military con-

Cross-strait relations today, though not satisfactory and involving some risks, have not necessitated non-peaceful means to solve the Taiwan issue.

However, a complete decoupling of bilateral economic relations and technical cooperation would not be in the interest of either party. The key strategic question is: In what areas and to what extent can and must economic and trade cooperation be sustained?

flict; they should, therefore, conduct serious discussions to circumvent such a possibility.

Maintaining economic cooperation

The second bottom line is to maintain a certain scale of economic and trade cooperation and preserve financial stability. Because of the trade war launched by the U.S. against China, as well as other political reasons, bilateral trade volume and two-way investment have declined in the past two years, and the decoupling of cooperation in the high-technology sector has become a reality.

In the foreseeable future, it is unrealistic to expect economic and trade cooperation to become the “ballast and propeller” of bilateral relations, as Beijing expected in earlier years. However, a complete decoupling of bilateral economic relations and technical cooperation would not be in the interest of either party. The key strategic question is: In what areas and to what extent can and must economic and trade cooperation be sustained?

It is notable that the China-U.S. phase-one trade deal reached on Jan. 15 is still being implemented. Because of the impact of COVID-19, it may be difficult to fully implement the agreement in 2020; however, there is no reason to retreat from the principled consensus reached by the two sides.

In the foreseeable future, it is unrealistic to expect economic and trade cooperation to become the “ballast and propeller” of bilateral relations.

Take soybeans as an example. Nearly 90 percent of China’s soybeans need to be imported. As long as American soybean farmers are willing to produce and sell soybeans at a reasonable price, why should China not

purchase large quantities of U.S. soybeans in accordance with the phase-one agreement? The same question may be asked in regard to other U.S. agricultural products, such as pork and corn.

A stark fact also worth noting is that without the cooperation of U.S. technology companies like GE, China's large commercial aircraft, the C-919 and C-929, might not be able to operate in the foreseeable future. If China does not buy Boeing aircraft from the U.S., no other aircraft manufacturer, including Europe's Airbus, will be able to fill the gap in the Chinese aviation market. China already has about 600 Boeing aircraft, which also need technical maintenance, including spare parts. To this extent, the bottom line of China-U.S. cooperation in civil aviation is likely unbreakable. American businesses may never accept the loss of this incredibly huge commercial market.

If iPhones could no longer be bought and used in China because of deterioration in China-U.S. relations, it would cross users' bottom line. Similarly, Walmart stores, Marriott hotels, KFC, McDonald's and Starbucks in the Chinese mainland are all U.S. brands operated by Chinese merchants. Maintaining these brands and learning their management approaches and the rules of the market economy are important channels for economic reform in China.

A few U.S. politicians want American companies to divest from China and reduce bilateral trade. China should do just the opposite. In recent years, it has taken many steps to open up its economy and encourage foreign investment. This policy is a blow to such U.S. politicians, not a concession to their pressure.

In the high-tech field, the U.S. government has made every effort to crack down on Huawei Technologies in the name of national security. Huawei has fought back

against sanctions by working with U.S. companies and other technology partners overseas. Ren Zhengfei, the founder of Huawei, has responded to American pressure by saying, "Our interests are always along the same line as those of Google."

A few U.S. politicians want American companies to divest from China and reduce bilateral trade. China should do just the opposite.

Huawei's more than 30 U.S. suppliers have been negotiating with the U.S. Congress and the Trump administration since last year in an effort to ease the sanctions. Huawei insists on multichannel communications with U.S. media, enterprises, government agencies and legal departments, and uses the law to handle disputes. As long as Chinese companies stick to the principle of linking up with their U.S. counterparts and strive to take a bigger place in global industrial chains, Huawei and other Chinese companies will surely survive.

In the field of international finance, China's financiers certainly do not want to see the U.S. dollar occupying a hegemonic position in the world forever. However, it is wise and necessary for China to hold a certain amount of long-term U.S. Treasury bonds. China will also respect the status of the U.S. dollar as the world's main reserve currency for many years to come.

It was reported recently that to punish China's behavior in the fight against the COVID-19 pandemic the U.S. may default by canceling China's purchases of Treasury bonds directly or refusing to pay interest on the bonds. When the news came to light, it immediately stirred up heated debates that threatened global financial markets. Such a violation of international financial rules would cause irreparable financial and credibility losses to the U.S.

Keeping up humanitarian exchanges

The third bottom line is to resolutely safeguard people-to-people and cultural exchanges between China and the U.S. After more than 20 years in retirement, Julia Chang Bloch, the first Asian-American to hold a U.S. ambassadorship, is devoting herself to the cause of China-U.S. educational exchanges. In March this year, she wrote in the *Global Times* that “through the ups and downs of China-U.S. relations, both countries have reached a consensus that the bonds forged by thousands of students across the Pacific Ocean should not be jeopardized.”

Humanistic exchanges are now the last pillar of China-U.S. relations and must not be dismantled.

She noted that 360,000 students from China are currently attending U.S. colleges and universities, with annual spending in the United States of \$15 billion.

It was reported that Washington was considering banning or restricting Chinese citizens from studying in the U.S. on grounds of national security. In Bloch's view, this would be a shortsighted decision that deviates from the U.S. international education tradition and foreign policy. Humanitarian exchanges are now the last pillar of China-U.S. relations and must not be dismantled.

According to the U.S. census, the Chinese-American population in the U.S. currently exceeds 5 million, of which 2.2 million were born in China. In 2017, 3.2 million Chinese tourists went to the U.S., spending \$35 billion that year on travel and tourism-related goods and services. A total of 2.3 million American tourists set foot in China in 2017 alone. Forcibly preventing population movements and cultural exchanges between China and the U.S. for political reasons not only brings huge economic and cultural losses to the two countries but also violates humanism and personal freedom.



▲ An assembly plant operated by General Motors and its Chinese partners in Liuzhou, China. American automakers have bet billions of dollars on the Chinese market. (Reuters)

The development of China-U.S. relations is currently facing enormous obstacles and a possible retrograde phase. This difficult situation may last a couple of years or a couple of decades, and people need to be fully prepared for this possible new normal.

But no matter what happens, the huge material foundation, spiritual wealth and human resources accumulated since the establishment of diplomatic ties 41 years ago will not be destroyed in an instant. The deep exchanges and cooperation between China and the U.S. are driven by strong internal forces in both societies and are a major feature of China-U.S. relations. Bilateral relations should not be simply shaped by the U.S.; China can and must do a lot.

We can see that those born in the 1990s and 2000s who want to study and communicate in each other's countries are among those who place their hopes on cooperation. This group also includes more than 1 million middle-aged Chinese-born entrepreneurs and intellectuals in the U.S. and millions of people in our two countries and around the world who can benefit from bilateral cooperation. Many senior diplomats and social elites in the two countries are working hard to stabilize bilateral ties.

It is only a matter of time and opportunity for China-U.S. relations to return to a normal track, so long as the above three bottom lines are sustainably upheld and an overall breakdown of bilateral ties is prevented. Perseverance and confidence are needed, but a bright light can be seen at the end of the tortuous and bumpy tunnel if you look for it.

Bilateral relations should not be simply shaped by the U.S.; China can and must do a lot.

Globalization and Managing a Cooperative Rivalry



Joseph S. Nye, Jr.
*Professor
Harvard University*

While the U.S. and China have entered a new phase in their relationship, it is misleading to call it a new cold war. Both sides should find the requisite “bottoms” and “safety nets” that establish a framework that best suits the U.S.-China cooperative rivalry.

Many analysts argue that the U.S.-China relationship is entering a new cold war. Indeed, the United States and China have begun a new phase in their relationship, but the cold war terminology is a misleading historical analogy. During the Cold War, the U.S. and the Soviet Union targeted tens of thousands of nuclear weapons at each other and had virtually no trade or cultural ties. By contrast, China has a more limited nuclear force, annual Sino-American trade totals a half-trillion dollars, and more than 350,000 Chinese students and three million tourists are in the U.S. each year. A better description of today’s bilateral relationship is “cooperative rivalry.”

How well can we manage it? Can we avoid a new cold war or worse? The distinguished scholar Wang Jisi is correct in his concern about finding “bottoms” or “safety nets” for the deteriorating U.S.-China relationship. His concern about avoiding military conflict and maintaining social exchanges are important, but I would like

to address the problem of how the two countries deal with economic and ecological globalization.

Economic Globalization

Many countries have valid complaints about Chinese economic behavior, such as the theft of intellectual property and subsidies to state-owned companies, which have tilted the playing field in trade. China has developed a hybrid system of public and private enterprises with a mercantilist approach, rather than an approach of open trade and investment. The Chinese Communist Party plays an important role in this, meaning that there are good security reasons for the United States and others to avoid becoming dependent on Chinese companies, such as Huawei or ZTE for 5G wireless telecommunications. After all, China has refused to allow Facebook or Google to operate within its Great Firewall for security reasons. But, it is one thing to restrict certain technologies and companies for security reasons and another to cause massive disruption of commercial supply chains in an effort to cause damage or develop political influence.

***A better description of today’s
bilateral relationship is
“cooperative rivalry.”***

A degree of decoupling within supply chains and economies is bound to occur, particularly in areas related to technology that directly and indirectly affect national security. Naturally, both sides will wish to limit vulnerabilities that endanger critical infrastructure or have important implications for military postures. Some measures will be unilateral, such as those Beijing has been undertaking for more than a decade, as well as new U.S. measures to restrict sensitive technology transfer via trade, investment, and scientific exchanges.

At the same time, intricate supply chains are not easily undone, and the effects can be costly for both countries. Bilateral and multilateral negotiations could help to prevent partial technological disengagement from degenerating into a stampede of tit-for-tat retaliation that leads to full protectionism. American and Chinese economists have suggested negotiating a framework for trade policy that distinguishes areas typically subjected to bilateral negotiations regarding reciprocity from those where countries are expected to undertake well-calibrated policy adjustments that minimize harm to its domestic economy or security. While some decoupling is inevitable, China and the U.S. should negotiate a framework that sets such a “floor”.

Ecological Globalization

While trade wars have set back economic globalization, environmental globalization, exemplified by pandemics and climate change, will continue to intensify because they obey the laws of biology and physics, not politics. In a world where borders are becoming more porous to everything, from drugs and illicit financial flows to infectious diseases and cyber terrorism, countries must use their soft power of attraction to develop networks and institutions that address the new threats. As technology expert Richard Danzig points out, “Pathogens, AI systems, computer viruses, and radiation that others may accidentally release could become as much our problem as theirs.

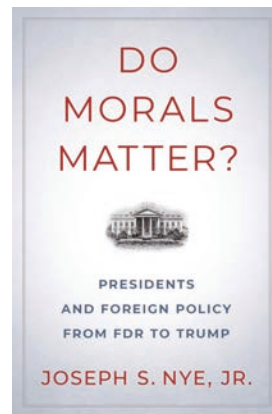
While trade wars have set back economic globalization, environmental globalization, exemplified by pandemics and climate change, will continue to intensify because they obey the laws of biology and physics, not politics.

Agreed reporting systems, shared controls, common contingency plans, norms, and treaties must be pursued as means of moderating our numerous mutual risks.” Tariffs and border walls cannot solve these problems.

On transnational ecological issues like COVID-19 and climate change, power becomes a positive-sum game. It is not enough to think of power over others; one must also consider power with others. On many transnational issues, empowering others helps a country accomplish its own goals. Neither China nor the U.S. can solve the problems by itself. Both can benefit if the other improves its energy efficiency or improves its public health system.

Leaders have a responsibility to put their country’s interests first, but the important moral question is how broadly or narrowly they choose to define those interests. Both China and the U.S. responded to COVID-19 with an inclination toward short-term, zero-sum, competitive approaches, with too little attention paid to international cooperation. As I show in my new book, *Do Morals Matter?* President Trump has interpreted “America First” too narrowly, stepping back from the long-term, enlightened self-interest that marked the post-1945





U.S. approach designed by Franklin Delano Roosevelt, Harry Truman, and Dwight Eisenhower.

Cooperation, however, is possible between geopolitical and ideological rivals. For example, during the Cold War, the U.S. and the Soviet Union both supported a United Nations program that eradicated smallpox worldwide. After the 2002-03 SARS epidemic, the U.S. and China both established a web of cooperative relations between national health authorities, and they worked together to combat the 2014 Ebola outbreak in West Africa. Although the U.S. and China differed at the UN meeting on climate change in Copenhagen in 2009, they were able to negotiate their differences and reach an agreement on the Paris Climate Accords in 2015. President Trump subsequently withdrew American participation, but in the future, it will be increasingly important to negotiate a framework that allows the strategic rivals to cooperate in coping with ecological globalization.

No country—including China—is about to replace the United States in terms of overall power resources in the next few decades. While the United States will continue to lead in production of global public goods, it will need to get comfortable with increasingly sharing that role with China. Since the Nixon administration, China and the United States have been able to cooperate despite ideological and geopolitical rivalry. As various forms of global interdepen-

dence have grown, efforts toward a total decoupling would involve enormous costs.

Rapid Asian economic growth has encouraged a power shift to the region, but Asia has its own internal balance of power. Chinese power is balanced by Japan, India, and Australia, among others. None want to be dominated by China, though none wish to see a Cold War-style containment strategy that would force them into an economic divorce from China, either. The United States will remain crucial to that Asian balance of power for years to come. If the United States maintains its alliances, the prospects are slight that China can drive the United States from the Western Pacific, much less dominate the world. The United States has high cards for managing the traditional competitive parts of our cooperative rivalry with China and does not need to sever the relationship by completely decoupling in a fit of panic.

The more difficult question for an effective strategy will be whether the United States and China can develop attitudes that allow them to cooperate in producing global public goods and managing interdependence while competing in other areas. Worst case analyses and predictions of a cold war make such a balanced policy difficult. The U.S.-China relationship is a cooperative rivalry where a successful strategy will require management of both aspects at the same time.

The United States has high cards for managing the traditional competitive parts of our cooperative rivalry with China and does not need to sever the relationship by completely decoupling in a fit of panic.

Dusting Off Cold War Tools for U.S.-China Competition



David Shambaugh

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The United States and China may now be in Cold War 2.0, but the first Cold War has a number of useful lessons that must be heeded in order to avoid Sino-American relations spiraling out of control.

Let's realistically admit it: The United States and China are now in Cold War 2.0. When it precisely commenced is debatable, but the tell-tale signs have been there for some time.

Both governments view the other as strategic adversaries. Both are engaged in global geostrategic competition and are maneuvering all over the world — particularly in Asia — to cultivate partners and clients and deny them to the other side. Both militaries war-game against each other, and prepare for the possibility of a direct or proxy conflict. Weapons are being procured by both militaries specifically to deter or fight the other. Both governments view the other as subverting each other's political system. There is minimal mutual trust among senior officials on both sides, and each views the other with deep suspicion. Both governments engage in intelligence gathering in order to understand and anticipate the other's hostile actions, while both experience espionage from the other. Both sides are building technological and commercial barriers against the other. Hyper-nationalist rhetoric increasingly pervades

official discourse, with U.S. Secretary of State Mike Pompeo and Chinese Ministry of Foreign Affairs spokespersons Zhao Lijian and Hua Chunying leading the way. News media and social media are increasingly critical of the other country, while public opinion polls show all-time highs in “unfavorable” perceptions of the other as well.

***Have we hit rock bottom yet? No.
It can and likely will get worse.***

Have we hit rock bottom yet? No. It can and likely will get worse. The downward competition spiral still has a lot of momentum. While the Chinese government continues to regularly call for increasing cooperation as the only logical basis for the relationship, foreign policy practitioners both inside and outside the Trump administration do not agree. Most Americans now see a contentious adversarial relationship with China as the new normal, and many are prepared to get on with fashioning a new Cold War-like set

of competitive policies vis-à-vis China. This is by no means the case with all politicians, strategists, and China experts, but is most certainly the case for a bipartisan majority. A Biden administration is likely to make little difference in this more assertive US approach to China — the tactics may be different, likely even systematically tougher, but the overall approach would likely be very similar to the Trump administration.

Chinese officialdom needs to ask itself: why didn't we see this significant strategic shift coming in the United States? China's America specialists and intelligence analysts really failed to predict or understand the deep changes in American thinking about China over the past decade. More deeply, Chinese officials should be pondering what the Chinese side did to "lose America". For its part, the American side failed to appreciate the real orientation of Xi Jinping and the depth of nationalistic and anti-American sentiment in the country.

While introspection is an important step in facing the future, the question for both sides now is (to invoke Lenin): what is to be done? How can the two powers manage their new Cold War relationship so it does not result in a hot war? In other words, keeping a Cold War cold should be the principal goal.

In other words, keeping a Cold War cold should be the principal goal.

But how to establish buffers and guardrails that can bound and contain an adversarial relationship, restrain unnecessarily provocative behavior, and construct a series of stabilizing mechanisms? I agree with Wang Jisi (my friend and colleague for 40 years since being classmates at Peking

University 1983-1985), whose accompanying article suggests that new steps need to be taken to stabilize the relationship and hopefully slow the hemorrhaging. Professor Wang speaks of establishing "floors" and "bottom lines." But I am not so much concerned about floors and bottom lines as much as I think about erecting walls and stabilizing mechanisms. To do so, lessons and instruments from Cold War 1.0 should be carefully reexamined and drawn upon where appropriate. Both sides need to adopt a conceptual framework of détente amidst an adversarial relationship.

But I am not so much concerned about floors and bottom lines as much as I think about erecting walls and stabilizing mechanisms.

These are two nuclear powers, which (unlike the U.S. and USSR in Cold War 1.0) have no bilateral strategic arms control accords or "rules of the road" for managing conflict escalation. That in itself is very dangerous and should be the top priority: to engage in bilateral nuclear arms control negotiations (not three-way with Russia as the Trump administration proposes) focused on intermediate range ballistic missiles, strengthen existing and build new communications mechanisms between the two military and national security establishments, and establish very precise procedures to control escalation in the event of an accidental military encounter. Establishing limits on conventional force deployments is likely a bridge too far in the Asia-Pacific (although that was done during the Cold War with the Conventional Forces in Europe accord). Ideally, a Helsinki style framework for overall relations should be explored.

During Cold War 1.0, the United States and Soviet Union not only had their "red lines," but also established a wide varie-

ty of conflict avoidance, confidence building, crisis management mechanisms, and cultural exchange protocols. U.S.-Soviet détente was a protracted and multilayered set of reinforcing processes. Specifically designated but unofficial “Track 2” exchanges of experts and the creation of so-called “epistemic communities” played important roles in narrowing mutual misperceptions (I recall well meeting with a group of Soviet experts on America in 1986; in addition to exchanging views and socializing, we all watched “Dr. Strangelove” together).

We need to get the “hawks” and those who advocate “competition” in the room with each other for very frank conversations.

Unlike the Soviet-American experience, however, the United States and China have had four decades of direct exchanges of experts and students. Yet, the expert exchanges have badly atrophied in recent months and years, and need to be rebuilt. Those that do continue to meet tend to be the like-minded proponents of “engagement” and “cooperation.” Such discussions tend to create echo chambers and are not as fruitful as they could be. We need to get the “hawks” and those who advocate “competition” in the room with each other for very frank conversations (without propaganda slogans). Unfortunately, the Chinese side eschews and is unwilling to engage with such Americans (I know from personal experience).

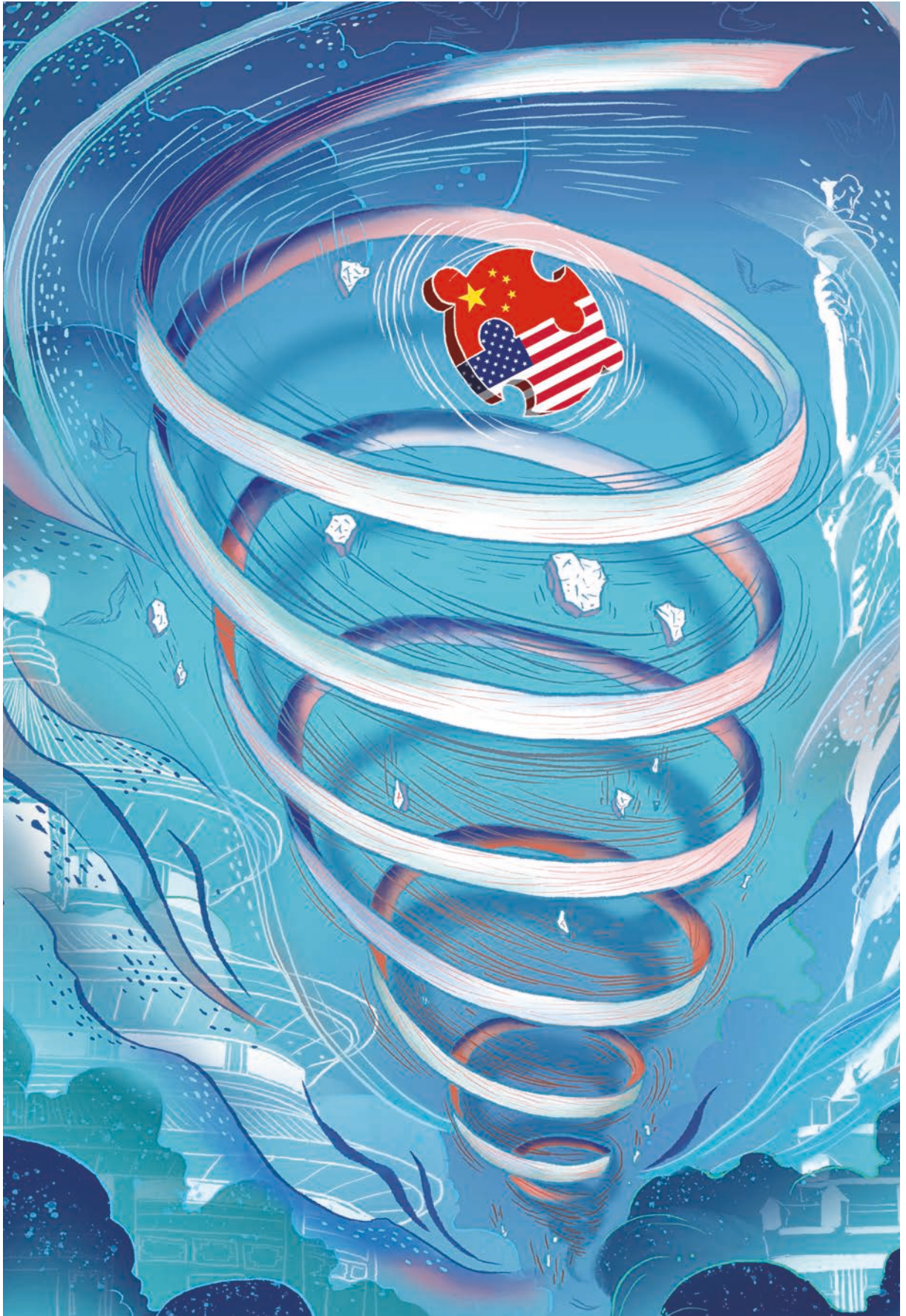
These are just a few examples of the conceptual framework and institutionalized architecture drawn from the détente period of Cold War 1.0 that need to be dusted off and reconstructed between the United States and China, in order to buffer and regulate their escalating competition. In order to defuse tensions, some American scholars believe that a “grand bargain”

needs to be struck between Washington and Beijing—as Nixon and Kissinger did with Mao and Zhou Enlai—but such overarching schemes are not suitable to the moment.

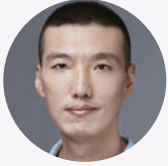
Meanwhile, both sides are erecting various defensive barriers against the other—in trade, technology, media, information, and other domains. This is both understandable and appropriate among competing and adversarial powers. This was also the case during Cold War 1.0. But these defensive measures did not simultaneously foreclose establishing channels of communication, confidence building measures, military agreements, and engaging in direct blunt talk.

It is time to accept Cold War 2.0, to get on with it, but constrain it. The conditions are by no means identical to Cold War 1.0 — China’s economy and global position are both much stronger than the Soviet Union ever was — yet there are still parallels and lessons to be carefully studied and drawn upon. A return to a framework of “cooperation” and “engagement” is a chimera; it is time for both sides to reframe the relationship to one of “managing comprehensive competition.”

It is time for both sides to reframe the relationship to one of “managing comprehensive competition.”



Tactics Matter



An Gang

Research Fellow

Center for International Strategy and Security

Tsinghua University

As China-U.S. relations spiral downward, a crucial moment has been reached. The next five months will determine whether or not the relationship can be salvaged. If Trump is re-elected, the two countries may slide into irreversible confrontation.

China-U.S. relations have plunged to an unprecedented low after four decades of diplomacy. The countries continue to interact but are unfortunately aggravating the classic “action-response-reaction” cycle. One can assume the worst is yet to come.

Given this unfavorable context, more attention should be paid to changes in the following aspects of China-U.S. relations:

- **A strategic consensus has been reached within the U.S.**

Since 2019, President Donald Trump and members of his administration have increasingly mobilized the country to build a consensus for a firmer, more effective containment policy toward China. The frictions between the two powers during the COVID-19 pandemic have emphatically accelerated this process and have



even resulted in mobilization accomplished in advance.

Two driving forces led to this outcome. One is U.S. fear of China's outstanding performance and its rising national strength in development, values and leadership; the other is dissatisfaction with the alleged "infringement," "theft" and "fraud" perpetuated by some Chinese agencies, enterprises and individuals. The discontent in the U.S. has reached a tipping point, and the country is primed for an outburst, catalyzed largely by Trump's provocations and smears.

- **Issues are deeply interwoven.**

Beijing and Washington once tackled problems on their own merits, which meant frictions in trade, finance, military, security and politics were addressed in a professional manner. However, even slight friction now is likely to raise overall tension. For instance, the trade frictions over the past year or more have brought bilateral ties to the brink of collapse. In addition, Washington has made clear that it doesn't like China's creation of a national security law for Hong Kong. Voices in both countries have evolved dramatically, highlighted by escalating nationalism.

Moreover, while it's clear by sheer scale that China-U.S. competition underlies the countries' strategies, it is increasingly difficult to fully understand the scope, scale and intensity of the frictions in detail.

Voices in both countries have evolved dramatically, highlighted by escalating nationalism.

- **Rivalries are no longer specific.**

In the past, when China implemented its U.S. policy, it would treat the U.S. administration, Capitol Hill, the military, states, advisory groups, the industrial and commercial community and the general public differently under the principle of "unite with all forces that can be united." It would downplay or even ignore some extreme anti-China voices. Since there are limited channels now, differentiated approaches are impossible. In other words, China-U.S. relations have become a concern across all sectors and all people on both sides, rather than a concern for relatively small groups; and they have been further hamstrung by public opinion and manipulated by media and several special "media influencers."

The changing nature of China-U.S. relations and the emerging political correctness featuring competition, containment, rivalry, and retaliation in the two countries have not only hindered the voice of cooperation but also limited the options for risk management in a crisis.

- **The most resilient bond has been severed.**

That bond is the close personal relationship of the two countries' leaders. It has been taken for granted that even if head-of-state diplomacy cannot serve as a booster for cooperation, timely dialogue between the leaders in Beijing and Washington can pull relations back from the brink in response to any emergency. As a result, we have believed that communication between the top national leaders can solve everything.

In the past year, however, the Trump administration has turned to rhetoric that makes distinctions between the Chinese

The “U.S. Strategic Approach to China” outline issued by the White House on May 20, makes clear that Washington intends to target the Chinese system and leadership.

leadership, the Communist Party of China and the Chinese people, and has also begun to draw up a sanctions list against senior Chinese officials in certain spheres. The “U.S. Strategic Approach to China” outline issued by the White House on May 20, makes clear that Washington intends to target the Chinese system and leadership, which means that China-U.S. relations are on the same path as U.S.-Russia relations.

• **An issue of political philosophy exists.**

We had thought that both China and the U.S. sought to prevent their strategic competition from evolving into a battle over their respective models, systems, values and ideology, but restraint has eroded and the opposite trend has taken hold.

Before the COVID-19 pandemic, many in the U.S. had believed that the rise of China was increasingly chipping away at Washington’s influence and leadership. Given the stark contrast in the performance of China and the U.S. in response to the coronavirus outbreak, U.S. strategists may have realized that the Chinese model, and the maintenance of its own sustainable development and handling of public security crises, had provided other countries with an alternative, and that China’s rise is not only a challenge to U.S. interests and its global position but also a threat to the stability of its system and its ability to export its values. In short, China has placed U.S. global leadership at risk.

The Trump administration’s distinctions between the Communist Party of China and the Chinese people has raised China’s suspicions.

Washington has never stopped trying to subvert China's socialist system. The Trump administration's distinctions between the Communist Party of China and the Chinese people has raised China's suspicions, and the struggle against the U.S. has once again become an issue of basic political legitimacy.

Great importance should be attached to the changes listed above, which indicate that China-U.S. relations have evolved in terms of interests, structure and strategies. Further, in light of overlapping events in the short and medium term — the U.S. presidential election, COVID-19 pandemic and China's changing perception of the outside world — specific incidents, rather than natural development, will serve as the fundamental driving forces shaping future Beijing-Washington relations. Therefore, China-U.S. relations are more likely to spiral out of control.

In other words, no matter how U.S. domestic politics and external situations may evolve in the future, all sectors in the U.S. have decided to grapple with the rise of China in a more explicit and tough manner. Measures that previously could be employed to work out the contradictions and differences between the two sides have failed one by one. The right wing, whose voices dominate the White House and Senate, with echoes from a minority of the public in the U.S., has both the power and motivation to plot emergencies designed to build a new framework of China policy that future administrations will find difficult to change.

At this point, Beijing and Washington have stepped onto a sensitive stage, and any technical response to specific issues may affect the overall picture. In

the fierce China-U.S. game, Washington might intensify its rhetoric for the coming U.S. presidential election. Unexpected moves will appear from time to time, and nothing is impossible.

The situation will become more risky over the next five months. Whether the incidents that arise in that time frame will set the tone for China-U.S. relations in 2021 and afterward depends not only on what the U.S. side does but to a larger extent on China's responses and choices. It will be an unprecedented test of our intentions and capabilities.

U.S. tradition and practice in the past was to contain the former Soviet Union, and it's no different with respect to today's Russia. The U.S. imposes mental and practical deterrence on its rivals and forces them to overconsume their power on a predetermined path by creating narratives (Reagan's Strategic Defense Initiative, for example) and by making heavy investments in key competitive fields (Apollo 11 program).

All things considered, what the U.S. wants is a total decoupling.

If Washington adopts this tactic with China, the unexpectedly popular theories about a "China threat" and "China challenge" that have prevailed in the U.S. will have a bearing on public debate in China. Ultimately, they will shape China's decision-making. For instance, the repeated sanctions against China's tech giant Huawei are not merely attacks to China's scientific and technological competitiveness but attempts to stifle China's will and use of its opening-up policy. All things considered, what the U.S. wants is a total decoupling.

Three scenarios suggest themselves for Washington's China policy after the 2020 presidential election:

First, Trump could win reelection with a softer China policy, in which case tensions between the two nations might be eased, more or less.

Second, Trump could win reelection with a hard-line China policy, throwing China-U.S. relations into a state of confrontation.

Third, Biden could be elected, with a Democratic Party less aggressive toward China and willing to repair relations with allies and partners for multilateral cooperation.

If Biden wins, it is likely that Beijing-Washington tensions will ease. However, if bilateral relations plummet over the next five months, it might be extremely difficult, even for a Biden administration, to adjust U.S. China policy.

There is no need to respond to every move by our rival.

China-U.S. relations are so important that they cannot risk being reconstructed by each other. We should avoid playing the game on the predetermined track set by each country but rather strive to take the initiative in defining the agenda and allowing more space for strategic movement. There is no need to respond to every move by our rival. However, when its moves threaten our core interests, we must counteract them appropriately. The more impatient the U.S. appears, the more levelheaded we should be; the more careless the U.S. be-

comes, the more careful we must be; the more confrontation the U.S. seeks, the more in-depth understanding of bilateral relations we need. While engaging in this growing strategic struggle, we cannot give up sincerity in trying to reset China-U.S. relations.

Against this increasingly complex backdrop, we need to review the downward spiral in China-U.S. relations in the previous stage as soon as possible; consider what can be done and what cannot; what to do more of, what to do less of; what to do quickly, and what to slow down. In this way, we will improve our strategy toward Washington as we delegate responsibility to all levels.

Moreover, we need a short-term strategy for the next five months, which I believe can be described as "reasonable response, universal adaptation." This is of paramount importance. The outcome will influence how much leeway remains when projecting a longer-term U.S. policy. That longer-term strategy should be characterized by "active action, active shaping," which should contribute to a new relationship featuring coordination, cooperation, equilibrium and stability.

The Pacific Dialogue



The Pacific Dialogue is a new way to virtually connect thought leaders across the Pacific Ocean to continue frank and direct conversations during this difficult time.

Talk More, Not Less



”

The Hawaii talks could be a beginning. We hope it will be the beginning of a systemic talk between the two major powers.

”

I would say, as soon as possible, restart as many dialogues between as many bureaucracies, companies, and NGOs as possible.



The Pacific Dialogue is a new way to virtually connect thought leaders across the Pacific Ocean to continue frank and direct conversations during this difficult time. As Covid-19 continues to fracture the international community, concern is mounting that China and the U.S. are on a path of dangerous confrontation. The following are highlights of episode two of The Pacific Dialogue, between veteran Chinese diplomat Ambassador He Yafei and long-time American scholar on China Professor David Lampton. The dialogue took place on June 25, 2020, and was moderated by China-US Focus Editor-at-Large James Chau. For the full conversation, please visit www.chinausfocus.com/videos.

That's the core. And as long as you build a relationship on threats, it's going to be very difficult to reassure.

James Chau :

Ambassador He Yafei and Professor David Lampton, thanks very much for joining us. You know the world is complex and nuanced and challenged, all at the same time. We've got a global pandemic. We have mass protests over in the United States. We have a lot of uncertainty, and in changing settings as well. And within all that, a summit took place in Hawaii between China and the United States — between Mike Pompeo and Yang Jiechi. Let's start with Ambassador He Yafei. Tell us, why did this summit take place? And what do you take from it?

He Yafei:

There is no public disclosure of what had been discussed in the meeting in Hawaii. But I believe talking is always better than not talking. So, my guess is that there was extensive exchange of views on very critical issues concerning both countries. They may have agreed on something or disagreed on something else—we don't know. But I can see a beginning of good momentum in talking. You mentioned COVID-19, I think this is only an accelerator. It [COVID-19] exposed some of the deeper frictions in the relationship. For one thing, I think it's mostly the relationship going in a bad direction, because the balance of power has changed. This is, you know—Professor Lampton is an expert— from a realist point of view on international relations. When the balance of power changes, relations between major powers – if one is rising, the other is the incumbent power – the frictions will increase. It's a test for both countries, but it's inevitable.

James Chau:

Professor Lampton, what do you think? Do you share that same take?

David Lampton:

Well, I do think that friction as power relationships change is inevitable. But I don't

think it's inevitable how each side will manage that shift. And secondly, I don't think it's always obvious what direction the power relationship is going. In other words, you could have economic problems in the short run, but have a very innovative and dynamic society for the long run. And so, judging exactly the state of the balance of power between countries is as much an art as it is a science. And I think, furthermore, on how we manage this changing balance of power, is that there are multiple ways to handle it. And right now, I don't think either side is handling it very well.

Decoupling and ideological conflict, or ideological war, are most dangerous because it will only deepen the mistrust.

But I agree with Ambassador He that, overall, the momentum (I think was the word he used) is going in a negative direction, which brings me to the Hawaii summit. And I'll speak more about my understanding of the American side than the Chinese side. But frankly, I don't think it was very successful. I don't think it's solved any problems, frankly. I think at least – I don't speak for the U.S. government, I don't consult with the U.S. government at the current time, so I'm speaking my own mind – but I think, frankly speaking, President Trump is running for re-election. And he does not want one of the few accomplishments he has in foreign policy – the phase one trade deal – to be seen as unsuccessful. And on the other hand, he's built his political brand on being tough on China. So, I think he wanted to use the summit for what I would call "tactical" reasons; to look tough on China, but not destroy his signature achievement, namely the trade deal. So, I think it served mostly domestic political purposes. But it did not fundamentally address the issues between China and the United States. And just to wind up, I do think, yes, friction bet-

ween our two countries is inevitable. We've had that friction for the last 40 years. And of course, in the Cold War, we had big frictions, but I would say the last 40 years prior to the Trump administration, and frankly, in the time prior to President Xi, we were much more successful in managing difficulties than we are now.

James Chau:

Ambassador He, what was the dangling fruit for China? Why would they want to go for this summit?

He Yafei:

You cannot obviously expect that the first round of talks in so long to be so productive. People say, "wow, there were so many frictions and some are very deep and dangerous." So, for me, I would turn, rather, to see whether we can identify some of the major frictions between our two countries now, and how, as Professor Lampton said, "how can we manage it better?" I think the first one, in the economic field, is decoupling. Decoupling was pushed, again, on the U.S. side, by some people out of geopolitical considerations, etc. I don't want to overstate that, but decoupling is happening, especially in the high-tech area. But personally, I do not believe a full decoupling will soon become a reality. The second thing is [about] ideological conflict and friction. We all know China and the U.S. are different countries. They have different political systems, believe in different ideologies. But now, this ideological conflict and friction comes to the fore. You know, China has been labeled as whatever, short of an evil country. Almost every bad name has been attached to China. And China, of course, is not happy, and you have people reacting to that and saying things about the United States. So, decoupling and ideological conflict, or ideological war, are most dangerous because it will only deepen the mistrust.

James Chau:

If you look at the world as a whole, mistrust (as Ambassador He says just there) in our governments, and in our institutions, has become something of the norm rather than the exception. So, should we be alarmed by what we are seeing?

David Lampton:

Well, I do think there are global trends, and then there are the trends in our bilateral relationship. And I think there is a global trend towards more populist leaders around the world. [There are] people who try to build strongman political positions by speaking to the grievances of those left behind by globalization. I firmly believe that globalization 1.0 improves the livelihood of people around the world, probably 85-90% of people are better off. But in each of our societies, there are people who have been left behind, or certainly people who think they were entitled to do better, and they have grievances. And now around the world, we have leaders in each of our societies that play to these grievances of various sorts, including a rising power such as China that believes the United States is not moving rapidly enough to make room for China in the international system, or worse yet, even desires to slow China's growth and development down. So, I think these are the global trends that are also reflected in US-China relations.

The reality is, that for about three-plus years, we've virtually had no, what we call, systemic, system-wide dialogues on an ongoing basis. And now we don't have those avenues of dialogue and I think we need to develop them. So, that'd be the first thing.

There have been fewer talks in the last three and a half years.

Secondly, I think this issue of decoupling... Quite frankly, yes, there are a lot of Americans who incidentally probably don't know much about economics, that talk about decoupling and, certainly, the COVID pandemic raises the issue of reliance on other countries to provide commodities, such as antibiotics or personal protective equipment. And also, as Ambassador He said, in the security area, high technology has become sensitive. But the point I want to make is, it's not just the United States making this point. Well, you hear that in China too, because as we become less trustful of each other, we're each less willing to rely on the other for essential inputs into our economic or strategic systems. So, I would say that on decoupling is that there are people thinking this way in both societies. I think we need to get back to what I might call globalization 2.0. And that is, don't throw out comparative advantage. Don't throw out the idea that we each need each other. But let's make globalization more friendly to that 20% of the populations in our countries or around the world.

James Chau:

Is it possible to manage this talk of a broader decoupling? Is it possible to forestall that decline?

He Yafei:

[I have] several points to make: One, as Professor Lampton mentioned, there have been fewer talks in the last three and a half years. I also noticed that there is not too much talk – systemic talks – between the two major powers. We need to restore that. But my concern is that there was less enthusiasm on the part of the United States to engage in systemic talk with China. That's why I'm saying the Hawaii talks could be a beginning. We hope it will be the beginning of a systemic talk between the two major powers. Secondly globalization 2.0 is absolutely necessary. Lastly, concerning the

Competition is not scary. It's not the worst possible thing. The worst possible thing is to try to put the other side into the corner.

relocation of the global supply chain, I do not believe self-reliance is a negation of globalization. China is in full support of further globalization. Well, China's progress so far is a product of globalization, not the other way around.

James Chau:

Are there ways where halfway points can be established?

David Lampton:

Our politicians have to recalibrate the distribution of benefits within their societies. But they also have to try to level the playing field that wasn't so level before, for good reason. Not all of the parties were, you know, economically equal. So, I think it's a very difficult task. And I would say one other thing. It's not just globalization and economic circumstances that have changed, both within and between societies. It is basically our strategic posture. For the preceding 40 years, the United States and China basically tried to reassure each other. Sometimes we didn't succeed at that. Sometimes we failed. Sometimes we had crises. But the overall trend was to convince each other that, as we each got stronger, we did not represent a threat to each other. I think that basic effort has broken down. And what we are now both doing strategically is organizing ourselves for deterrence. And what deterrence means is to threaten the other, so they don't do what you don't want them to do. That's the core. And as long as you build a relationship on threats, it's going to be very difficult to reassure.

He Yafei:

I have a few points in response to what the professor said about the fairness between countries, among countries. I agree we need to have a level playing field when we compete, economically or otherwise, but level playing fields have to be two-way traffic. Secondly, I also agree with you that strategic assessment, strategic judgment, is extremely important. And in the past, personally, I led the negotiation on the part of China during Obama's visit in 2009 to China. We issued the joint communique and we've managed to agree on many things and managed to agree to disagree on a few things. But the important thing is that we do agree that China and the U.S. should strive to build a forward-looking, more comprehensive partnership. Unfortunately, that fell by the wayside when President Trump took office. We need to restore and seriously engage in strategic dialogue to make sure there will be no, you know, "either you die or I die," that kind of thing, in the strategic competition. Competition is not scary. It's not the worst possible thing. The worst possible thing is to try to put the other side into the corner.

But I would say, as soon as possible, restart as many dialogues between as many bureaucracies, companies, and NGOs as possible.

James Chau:

What do you think can be done to utilize the next couple of months? Especially since we're in the middle of a humanitarian crisis right now, in every part of the world.

David Lampton:

Well, I think there are a number of things. First of all, we started with the Hawaii summit. So, I would say, start talking. And I would say, start talking a lot – a dialogue among

multiple sectors. And one of the things that strike me is that it's not only top-level dialogue that has pretty [much] been ended, partly because nobody can travel in this pandemic. But I think, you know, our people, the people - our nongovernmental organization to nongovernmental organization relationships have really frayed and certainly, and the NGO law in China was part of that, the pandemic is part of that, bad bilateral relations are part of that. But I would say, as soon as possible, restart as many dialogues between as many bureaucracies, companies, and NGOs as possible.

Secondly, I think quite frankly the biggest strategic mistake China has made, or among the biggest, is to somehow lose the underlying support of the American business community. For 40 years, American business looked to the future with optimism. It always had its problems. It always was unhappy about something. But in the end, American business always said, "better to have good relations with China than not." Well, American business isn't saying that anymore. And so China's got to turn that around.

He Yafei:

One, I agree totally with Professor Lampton that we need to talk. We need to have systemic talk, not only government-to-government, both at federal and state levels, but also, people-to-people exchanges. Once COVID-19 dies away, we need to increase people-to-people exchanges, and we especially need to involve American business in our talks.

Secondly, both domestically, China and the United States need to take care of its groups of people who are vulnerable, who are angry, who are not happy with the distribution of gains, economic gains, whether by globalization or otherwise. Governments have responsibilities for their own people. Internationally, I've been advocating the view for some time now, that the world will not be a

happy one, that the global economy will not grow anymore if we have a large number of developing countries being left behind. That fairness needs to be addressed. I think the U.S. and China have a common responsibility. We need to unite. We need to work together. We have some successful experience in working in Africa to combat infectious diseases – that was before COVID-19 – The U.S. and China working together to help African countries to build up a public health response system.

James Chau:

Well, as the moderator, it's been fascinating hearing you both engage on some of the most critical aspects of what I believe to be the most critical bilateral relationship in the world today. Ambassador He Yafei and Professor David Lampton, thank you for joining the Pacific Dialogue. We hope to welcome you back again one day.

I think quite frankly the biggest strategic mistake China has made, or among the biggest, is to somehow lose the underlying support of the American business community.

Learning from Experience in Battling COVID-19



A World of 'Three Zeroes' ▶

Muhammad Yunus

Founder

Grameen Bank and Nobel Peace Prize Laureate

Nobel Peace Prize Laureate Muhammad Yunus is often called the “banker to the poor.” Now, he is responding to COVID-19 by empowering communities on their paths to achieving zero poverty, zero wealth concentration, and zero unemployment.

<https://chinacurrent.com/story/19885/our-fate-moving-forward-muhammad-yunus-the-nobel-outbreak>



A Humanity-First Response ▶

Erna Solberg

Prime Minister

Norway

Norway was fourth in Europe for COVID-19 infections earlier in the year. Now, its science-first leadership presents a shining example of how to bring a pandemic under control. In partnership with SHE, the world's largest gender diversity conference, James Chau speaks with Prime Minister Erna Solberg about science, solidarity, and leadership.

<https://chinacurrent.com/story/19918/planning-for-humanity-erna-solberg-the-novel-outbreak>



Finding Collaborative Solutions ▶

Jeffrey Sachs

Director

UN Sustainable Development Solutions Network

The world needs strong global partnerships in times of trouble – something the international community has been lacking in recent years. World-renowned economist Jeffrey Sachs talks about how multilateral relationships can be restored.

<https://chinacurrent.com/story/19776/solving-problems-together-jeffrey-sachs-the-novel-outbreak>



Bending the Curve ▶

Rajiv J. Shah

President

The Rockefeller Foundation

Balancing economic health and the wellbeing of citizens has been an existential challenge for governments all over the world this year. Drawing examples from the 2014 Ebola outbreak and 2010 Haiti earthquake, The Rockefeller Foundation President Raj Shah underlines the importance of uniting business, politics and philanthropy.

<https://chinacurrent.com/story/19902/meeting-this-moment-dr-rajiv-shah-the-novel-outbreak>





A Threat to Us All



Helen Clark

*Former Prime Minister
New Zealand*

The international community's response to the COVID-19 pandemic was largely "flat-footed", says Helen Clark, former New Zealand Prime Minister and former Administrator of the United Nations Development Programme. In the interview, she emphasizes the importance of looking back at successful disaster responses and emboldening multilateralism to react.

<https://chinacurrent.com/story/19745/a-threat-to-stability-the-novel-outbreak>



Between Heaven and Earth



Peter Piot

*Director
London School of Hygiene and Tropical Medicine*

As a leading authority on epidemiology, Peter Piot has many stories to tell about new diseases, including his co-discovery of Ebola in 1974. In this special interview, he recounts another story, this time involving his recent near-death experience with COVID-19, and how a vaccine is not the silver bullet many think it is.

<https://chinacurrent.com/story/19977/i-moved-between-heaven-and-earth-peter-piot-the-novel-outbreak>



This Crisis is Not Equal



Winnie Byanyima

*Executive Director
UNAIDS*

As the Executive Director of UNAIDS, Winnie Byanyima pioneered the United Nation's response to the AIDS virus and advocated for society's most vulnerable. In this interview, she explains how the lessons of the AIDS epidemic can inform how we respond to the health crisis today.

<https://chinacurrent.com/story/19832/this-crisis-is-not-equal-winnie-byanyima-the-novel-outbreak>



The Next Generation



Vali Nasr

*Professor and former Dean
Johns Hopkins University*

The pandemic has closed schools and universities, and has shook economies to their core. Vali Nasr, former Dean of the Johns Hopkins School of Advanced International Studies sits down with James Chau to discuss how young people are responding to the crisis, and how global tensions could reverberate through the world economy for years to come.

<https://chinacurrent.com/story/19866/young-people-were-already-worried-vali-nasr-the-novel-outbreak>



Seven Tools of U.S. Power



Zhang Monan
*Senior Fellow
China Center for
International Economic
Exchanges*

China is the unambiguous target as the United States shifts from engagement to pure containment, even though economic logic suggests a more benign path would yield greater benefits.

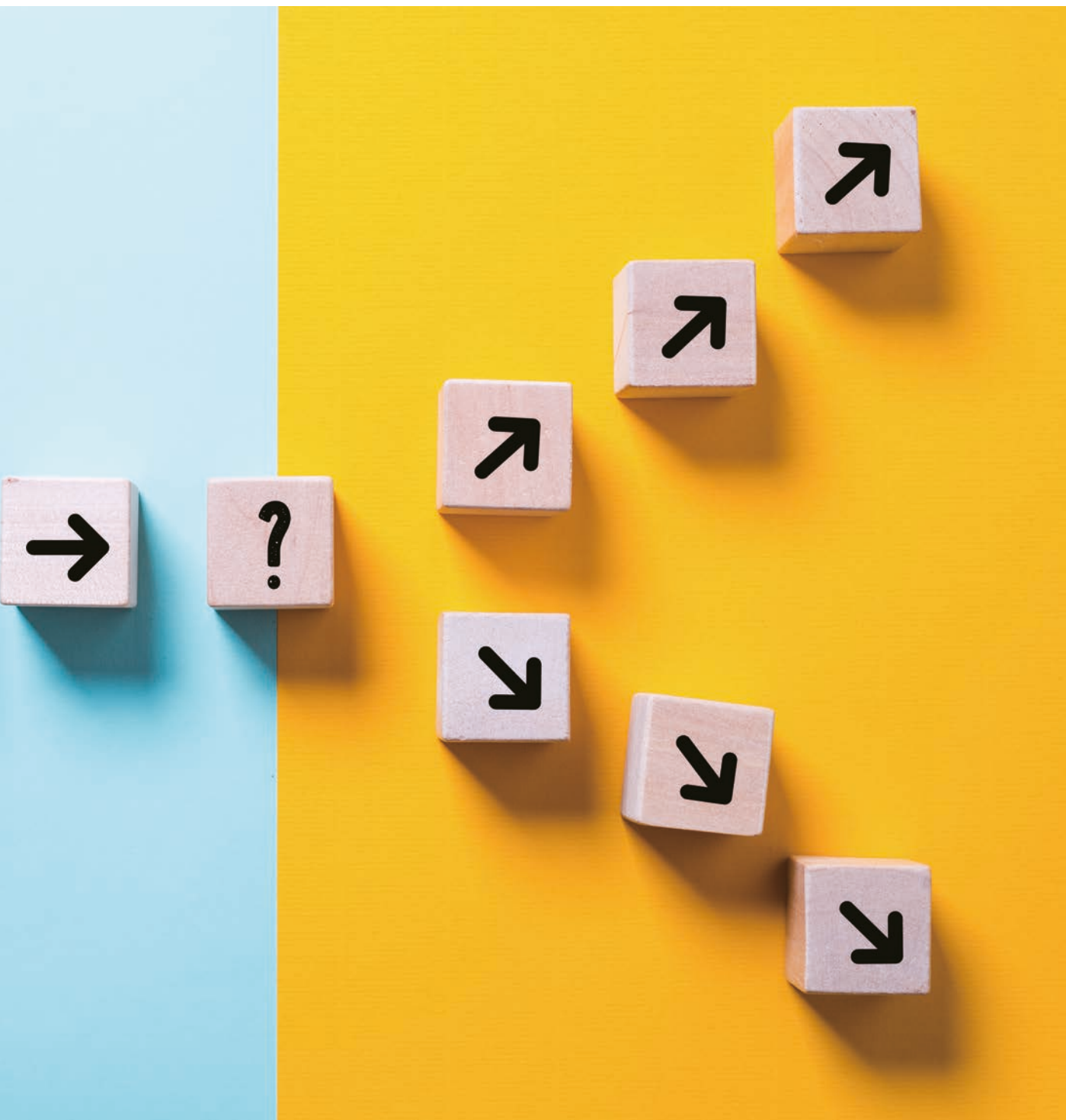
Since Donald Trump took office, America's China policy framework has been transformed from the traditional "engagement plus containment" to pure containment. That transition climaxed in the trade and high-tech frictions that started in 2018 and represent the most profound change in bilateral relations since the establishment of diplomatic ties.

The United States has moved to decouple from China in areas where the most Chinese interests are involved, such as trade and high-tech. Determined to strike at China's economic, industrial and technological development, the U.S. launched a trade war, even though heavy losses would certainly be incurred at home.

Obviously for the U.S., the logic of power has replaced the logic of the market. The country has begun trying to use its power to control China with tools in such fields as manufacturing, trade, sci-tech, investment, finance and data.

These attempts can be broken down as follows:





Obviously for the U.S., the logic of power has replaced the logic of the market.

1. Accelerated moves to decouple from China at all costs.

Trump has done everything he can to pull manufacturing back to the U.S. Even in the face of the COVID-19 pandemic, the U.S. government has increased efforts to speed up supply chain relocations. Securing all-around independence in supply chains and the manufacturing sector is becoming an important strategic option.

The White House's Strategy for American Leadership in Advanced Manufacturing, released in October 2018, vowed to ensure the domestic manufacture of medical products and to expand the capabilities of the domestic manufacturing supply chain.

The Trump administration plans to promote policies to lure U.S. companies back from China by, for example, offering 100 percent immediate expensing of the costs of moving.

2. Increased science and technology sanctions.

In addition to sanctions imposed through the Entity List, the U.S. Department of Commerce recently announced new export restrictions on China, Russia and Venezuela, including:

- expansion of military end-user and end-use restrictions to cover semiconductor equipment and sensors;
- elimination of civil end-user license

exceptions to place future exports of integrated circuits, telecommunications equipment, radar and high-end computers under stricter scrutiny;

- revision of the additional permissive re-export license exception to require third-party countries to seek U.S. permission to re-export U.S. items to China.

3. A push for closer economic unions.

Actions are being taken by the U.S. for the creation of the so-called Economic Prosperity Network, or EPN, an alliance of trusted partners including companies and civil groups in such fields as digital business, energy, infrastructure, trade and education. Members of the alliance will follow the same set of standards to reduce dependence on China through coordinated planning.

Chinese exports to the U.S. fell 13 percent in 2019 from a year earlier, while imports fell 21 percent, the largest drop since 1984. Exports to China fell to \$23 billion in the first quarter of this year, down 14.7 percent year-on-year, while imports fell 30.1 percent and two-way trade shrank by 27.2 percent, according to the U.S. Commerce Department.

4. Tighter investment restrictions on grounds of national security.

The U.S. has been tightening investment restrictions on China, with its allies Japan, Australia, with other countries following suit more recently. More discriminatory legislation and policies have been introduced that are not limited to overseas investments, leading to increased risks for Chinese investors.

As a result of tighter foreign investment reviews in major countries, the total value

of mergers and acquisitions of listed companies worldwide fell 39 percent to \$498 billion in the first quarter, the biggest quarterly drop in seven years. After the 2008 financial crisis, it took eight years for global M&A deals to return to pre-crisis levels. It may take longer to revive global cross-border investment and may be far more difficult than restoring production and supply chains.

5. Asset controls plus investment and financing bans.

It has been a general trend in regulation to strengthen the financial supervision of listed companies. However, abuse of this measure may well amount to a de facto investment and financing ban. The U.S. Senate recently passed the Foreign Company Accountability Act, obviously targeting the listing of Chinese companies in the U.S. In addition, the act indefinitely delays plans to restructure international portfolios and halts investments in Chinese capital markets.

6. Poison-pill provisions within multilateral trade frameworks.

The USMCA, which links the U.S., Mexico and Canada, has a poison-pill sunset clause providing that if any of the three parties signs a free trade agreement with a “non-market economy,” the other parties will be entitled to withdraw from the USMCA within six months. The U.S.-UK trade agreement currently being negotiated will include a similar poison pill: The UK will have to choose between the U.S. and China, and the U.S. will have the right to withdraw from the agreement if the UK enters into an agreement with China.

Poison pill clauses, it seems, will become a template to be used in other bilateral, plurilateral and even multilateral agreements

Poison pill clauses, it seems, will become a template to be used in other bilateral, plurilateral and even multilateral agreements involving the U.S., Europe or Japan.

Further objectives seem to establish a West-centric framework of rules governing cross-border data flows and even ultimately putting in place data exclusivity based on a country's ideology and political system.

involving the U.S., Europe or Japan. This will consolidate an international trading system based on the U.S. paradigm and virtually devastate the world multilateral regime.

7. Data exclusivity system.

The U.S. has placed controls related to China in the fields of cutting-edge and basic technologies. It restricts the cross-border transfer of large amounts of technical data and sensitive personal data through long-arm jurisdiction and with strong intelligence and law enforcement capabilities.

The U.S. is also teaming up with other countries to try to set rules for the flow of data across borders. In early 2019, the U.S., Japan and Europe opened discussions on digital governance, addressing the issue of permission when transferring personal, business and industrial data, as well as restrictions on the transfer of data to countries with inadequate or unfavorable systems for protecting personal information and data.

Further objectives seem to be the development of a “data circulation circle” mutually recognized by the U.S., Japan and Europe to establish a West-centric framework of rules governing cross-border data flows and even ultimately putting in place data exclusivity based on a country's ideology and political system.

Trump's Final Gamble



Dan Steinbock
Founder
Difference Group

The U.S. president's disastrous failure to contain COVID-19 will result in a catastrophic Q2. That's why Donald Trump is scapegoating China while staking his re-election chances on domestic unrest, fatal geopolitics and a global depression.

China's recent two sessions, the annual meeting of top legislative and political advisory bodies, heralds a rebound of the economy. Meanwhile, U.S. President Trump has escalated the trade war, withdrawn from the World Health Organization amid a global pandemic, triggered multiple geopolitical storms and aggravated the worst domestic unrest in decades.

His objective is to deflect responsibility from the White House's disastrous mishandling of the pandemic and the consequent economic plunge.

Pandemic costs, economic damage

The Trump White House missed three opportunities to contain the U.S. outbreak.



▲ U.S. President Trump holds a news conference on the coronavirus outbreak at the White House in Washington, Feb 2020. (Reuters)

Human Costs of the Pandemic

	Q4 2019 (#)	Q1 2020 (#)	Q2 2020 (#)
Cumulative Costs	China: 1 US: 0	China: 82,500 US: 140,600	China: 0.85 million US: 2.1-2.3 million

Economic Damage of the Pandemic

	Q4 2019 (%)	Q1 2020 (%)	Q2 2020 (%)
Annual GDP Growth	China: 6.0% US: 2.1%	China: -6.8% US: -4.8%	China: 3% to 4% US: -35% to -42%

Source: WHO, IMF, Goldman Sachs, Morgan Stanley, Difference Group

The first was in the full month between the first recorded case in China on Dec. 30 and the WHO's announcement of an international emergency on Jan. 30. The second was a span of more than a month, between Jan. 31 and March 10. And the third was in the second quarter, when social distancing finally began — six to eight weeks late and grossly inadequate.

The cold reality is that the Trump administration learned about the virus on Jan. 3, when Dr. Robert R. Redfield, director of the Centers for Disease Control and Prevention, informed Secretary of Health and Human Services Alex Azar that China had discovered a new coronavirus. Yet no mobilization was initiated until late March. Instead, a long debate began within the White House over what to tell the American public, while Azar and Secretary of State Mike Pompeo launched a stream of attacks blaming China for the crisis in the United States. The consequent economic carnage is evident in the Q2 free-fall (Table).

The costs of complacency are cataclysmic. By the end of June, the U.S. is likely to have some 2 million to 2.4 million cumula-

tive cases and 130,000 to 140,000 deaths. In Q1, U.S. annual GDP growth contracted 4.8 percent, but the real carnage will be a Q2 plunge of -35 to -40 percent, as major investment banks have warned.

The Trump White House has targeted China as a politically expedient re-election scapegoat.

At home, the White House has resisted science-based public health measures by the nation's top health experts, which is reflected in the ongoing debate about the risks of a premature exit from the lockdown. Internationally, policy mistakes are about to have far worse consequences.

First fatalities of Chinagate

As the Trump White House has targeted China as a politically expedient re-election scapegoat, the early victims include Sino-U.S. high-level bilateral dialogue, trade, investment relations, U.S. treasuries, military relations and destabilization in East Asia.

High-level dialogues. Undermining decades of Sino-U.S. progress, Trump has let high-level economic, law enforcement and cultural dialogues languish since autumn 2017; the diplomatic and security dialogue has been stalled since autumn 2018. When great powers no longer talk, misguided perceptions tend to replace cooperation — which is part of the Chinagate script.

When great powers no longer talk, misguided perceptions tend to replace cooperation.

Trade. Trade tensions are escalating. The phase-one deal obligated China to buy \$200 billion in additional U.S. imports over two years on top of purchase levels from before the trade war. The truce would require 18 percent annual import growth from the U.S., which is trying to China amid Trump protectionism and dire global prospects.

Investment. Before the trade war, U.S. investment in China averaged \$15 billion per year, whereas Chinese investment in the U.S. soared to \$45 billion. U.S. investment in China has persisted, but Chinese investment in the U.S. has plunged to \$5 billion. Thanks to Trump's decoupling, more than a decade of progress has been reversed. Nevertheless, seven of 10 U.S. companies do not plan to leave China.

Treasuries. For years, Beijing invested much of its foreign exchange reserves in U.S. assets, particularly U.S. Treasury securities. In another low-probability but high-impact re-election scenario, Republicans are threatening Beijing with a unilateral \$1.1 trillion debt cancellation, while others in Washington hope to delist Chinese companies from U.S. stock markets. As a result, Beijing is diversifying its investments away from the U.S. by encour-

aging Chinese companies to invest overseas, while pumping over \$1.4 trillion into the tech sector by 2025.

Military relations. Despite political differences, U.S.-China military exchanges once featured high-level visits, exchanges between defense officials and functional interaction. According to the Pentagon, these engagements have dropped off by two-thirds in the Trump era, while bilateral tensions are rapidly escalating in the South and East China seas. Whether accidental or provoked, conflict is a matter of time.

According to the Pentagon, these engagements have dropped off by two-thirds in the Trump era, while bilateral tensions are rapidly escalating in the South and East China seas.

Special administrative regions. Destabilization efforts aimed at Chinese regions have escalated dramatically since 2017.

- **Taiwan.** Unlike previous administrations, the White House, in cooperation with Taiwan's elected leader Tsai Ing-wen, seeks to undermine decades of "One China" policies. If the past strategic ambiguity gives way to force, the geopolitical impact could destabilize East Asia.

- **Hong Kong.** According to the White House, "pro-democracy" elements are under threat in Hong Kong. Radical-right Sen. Marco Rubio (R-FL), chair of the Senate Intelligence Committee, will exploit the Hong Kong Human Rights and Democracy Act for regime change in China, which he has also sought in Iran, Russia, Venezuela and elsewhere.

- **Macau.** While the gambling mecca has had a lower profile in international me-

U.S. debt has soared to \$26 trillion, which puts the U.S. debt-to-GDP ratio at 120 percent (on par with Italy at the height of its 2011-12 debt crisis), and the White House and the Fed will soon have to increase it further.

dia, billionaire casino magnate Sheldon Adelson and his Sands Corp. has funded the Trump campaign and Republican conservatives and allowed the CIA to use his Macau properties for intensified U.S. espionage since the early 2010s. More recently, Las Vegas Sands played a critical role in an apparent spying operation targeting Julian Assange, when the CIA came under the control of Mike Pompeo, another Adelson ally.

- **Tibet.** Before Trump's Hong Kong declaration, U.S. lawmaker Scott Perry, a retired Pennsylvania Army National Guard Brigadier General, introduced a bill recognizing Tibet as a sovereign country.

From pandemic to debt crises

In 2003, the George W. Bush administration started the Iraq War on the pretext of achieving a domino-effect democracy across the Middle East. The consequent nightmare led to yet another “forever war” in the region, with costs soaring to \$3 trillion, according to an estimate by economist Joseph Stiglitz.

Barely two decades later, the Trump administration has initiated what in Beijing looks like a nascent hybrid war to win re-election. The cost of coronavirus complacency, is estimated at \$9 trillion. That's three times the cost of the Iraq War.

These tragic losses could pale beside imminent new policy mistakes. In what I have termed a Great Power Conflicts scenario, lingering pandemic risks could result in intense trade and technology wars, hot geopolitical conflicts and a multi-year global depression. This is the current path of the Trump White House, which is predicated on leveraging the U.S. economy to the hilt.

U.S. debt has soared to \$26 trillion, which puts the U.S. debt-to-GDP ratio at 120 percent (on par with Italy at the height of its 2011-12 debt crisis), and the White House and the Fed will soon have to increase it further.

Because of the central role of the U.S. in the world economy, such economic leverage — coupled with the human costs of the pandemic and deadly geopolitics — is pushing the world to the edge of an economic abyss.

A New Cold War Isn't Coming



James H. Nolt
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New York University

Unlike the Cold War between the West and the USSR, a U.S.-China cold war is unlikely, given the fact that China is heavily integrated in the global economy and that people-to-people exchanges remain high.

Many people are talking about a new cold war between the United States and China. I don't see it. One reason I reject this hyperbole is that I know that America is bigger than President Trump.

There are particular reasons why Trump, in his desperation to win re-election, is eager to cast his own failures onto China, or indeed anyone but himself. His eagerness to play the blame game should be obvious to all. Amid the sound and fury of Trump's rhetoric, there is also a strong yearning among a growing majority of American people for a return to something like normal, or even better than the previous normal that enabled him to win election in 2016 in the first place.

The return to something like normalcy will also necessarily return U.S.-China relations to something much more normal than the recent years under Trump. As we contemplate relations after Trump, it is also important for Americans to remember that China, as well, is bigger than its president, Xi Jinping. There is much more to every country than its leader or even its governing party.

I teach a branch of international relations called "international political economy" (IPE), which focuses on how nations relate to each other across a broad range of interactions that involve the entire people and economy, not just the government. Within IPE, I emphasize private power and strategy more than many of my colleagues because of my conviction that if you do not understand the interests and initiatives of great, private forces in a society, you are unable to understand its government and policies, since these derive from the societies they govern. Every society has internal conflicts over how it should relate to the world, but these first exist in society at large before they can empower or constrain what governments do. It is temptingly simple to personify an entire country by its leader — or its warlord-in-chief — but in a world where the future is largely determined by economic development rather than military conquest, this is an absurd caricature.

The Cold War between the U.S. and the USSR, each with their respective allies and dependencies, did not become World War III because World War II was bad enough. Every world leader un-

There is much more to every country than its leader or even its governing party.

derstood the senselessness of a thermonuclear reprise. Albert Einstein famously said, “I know not with what weapons World War III will be fought, but World War IV will be fought with sticks and stones.” It would have been the end of civilization.

We could even think of the Cold War in this light as an extremely positive era: Despite intense mutual antagonism, the U.S. and the USSR both understood that peaceful coexistence was necessary, at least among the superpowers. The supreme virtue of a cold war is that it is cold, not hot.

The original Cold War ended by the same means that today prevents a recurrence of a new cold war: economic interdependence. There is a false narrative about the end of the original Cold War involving tough words by Ronald Reagan and his military spending. In fact, his policies tended to prolong it. Much more subversive were the less well known public and especially private policies that created powerful mutual incentives in both the West and the Soviet bloc to seek mutual prosperity rather than mutual ruin. The Cold War started with the Soviet bloc already segmented from the global economy thanks to state management of trade during the world war but ended with its reintegration into it.

The USSR and Eastern Europe became much more integrated into the global economy starting in the 1960s and accelerating during the 1970s, when the USSR emerged as a major oil and gas exporter. The completion of a gas pipeline from the USSR to Western Europe in 1984 created



the wealth and other conditions for a major segment of the Soviet elite to subvert the USSR from above. The rapid expansion of bearer bonds within Europe provided a covert way for the rising capitalists in the USSR to stash billions in the West,



thereby effectively investing in the demise of monolithic state planning.

I will not describe all of these policies and incentives here. More detail can be found in Chapter 13 of my book, “International

Political Economy: The Business of War and Peace.” Needless to say, the net effect of economic integration during the Cold War was to create broad mutual economic incentives that favored cooperation. The need to survive kept the Cold War from turning hot, but the mutual desire to thrive terminated the Cold War and now mitigates against a repetition.

China is the world’s largest trading nation. It is at the center of the global economy, not an isolated periphery as was the old Soviet bloc. Most of the world’s largest corporations that are not Chinese have extensive operations in China and, therefore, big stakes in the future of global cooperation that includes China. Whereas there will always be struggles over the detailed rules of the global business system, these are details of implementation rather than existential challenges.

The supreme virtue of a cold war is that it is cold, not hot.

The drumbeat for a new cold war comes not just from Trump but also from an alliance of national security and internet-telecom businesses. I say “businesses” because whether the proponents are temporarily occupying government offices or dwell in corporate boardrooms, the competition has to do with global business powers masquerading as “national interest.”

The “military-industrial complex” that President Eisenhower warned about has morphed into a military-internet-telecom complex that profits from the public’s acquiescence to overweening monopoly power over the collection and commercialization of private information on a scale never before possible. The internet, smartphone, and “artificial intelligence”

The need to survive kept the Cold War from turning hot, but the mutual desire to thrive terminated the Cold War and now mitigates against a repetition.

revolutions have made it possible to concentrate power as never before.

Conservative pundits have seen this as a conspiracy of the “deep state,” but it is more accurately portrayed as the business model of the new internet giants, such as Google and Facebook, that pioneered the way to profit from unregulated centralization of commercial intelligence and power.

Whereas China is well integrated into the global goods economy of the postwar liberal world order, it is also the site of the most significant resistance to the global dominance of U.S.-headquartered internet-telecom giants. Originally China did protect and subsidize its own private internet-telecom companies to prevent their early demise while they were still in their infancy. Now they are so successful they might out-compete the high-priced U.S. monopoly telecom in much of the world if allowed to compete according to the rules of the liberal order. Therefore, U.S. defenders of monopoly business power stoke false “national security” fears and isolate Chinese competitors commercially, since they are unwilling to forgo monopoly profits and compete in the liberal way, with lower prices and better service. Business competition is the real excuse for the empty “cold war” talk.

Business competition is the real excuse for the empty “cold war” talk.

Messages to Me From the NPC



Zhou Xiaoming

*Former Deputy Permanent Representative of
China's Mission to the UN Office in Geneva*

China has an encouraging story to tell. Its internal market is immense, but it is not turning inward. Rather, it's opening faster and wider to the rest of the world, backed by an economy that's poised to deliver.

Over dinner the night before the opening of the National People's Congress on May 22, a friend of mine who works at a security firm suggested that I should take seriously the messages coming out of the current session of China's legislature for investment ideas if I wanted to invest in stocks.

Because the NPC makes decisions that impact businesses and families alike, it is closely followed by government officials, company executives and people on the street.

This year's NPC convened at an extraordinary time, after a two-month delay due to the coronavirus pandemic, and it made some extraordinary decisions. It was noticed that, for the first time since 2002, the government did not set a GDP target for this year. The news caught many by surprise and was reported extensively by both local and international media.

The move reflected the Chinese government's sober assessment of the domestic and international economic conditions and the impact of the global pandemic as it considered whether the country should stick to its original ambitious "doubling"

plan — the goal set in 2009 to double the country's GDP by 2020. China was on course to hitting the target until the coronavirus outbreak in January.

More important was the high degree of uncertainty brought by the pandemic and the international economic situation that prompted Chinese leaders to drop the GDP target.

The pandemic has wrought immense damage on the Chinese economy and is setting back the realization of the cherished objective by six months or more. China's GDP contracted 6.8 percent year-on-year in the first quarter of this year, the most severe economic downturn since the 1970s. More important was the high degree of uncertainty brought by the pandemic and the international economic situation that prompted Chinese leaders to drop the GDP target. The Chinese economy is intertwined with the rest of the world, with the country's exports accounting for 30 percent of global GDP. It is, therefore, impossible to shield itself from shocks beyond its borders.

If that forecast comes true, the country will continue to serve as a major engine of growth for the world economy.

Take the automobile industry, for example. The country's automobile production in April increased by more than 5 percent year-on-year. Yet the industry is seeing disruptions in its international supply chains and drop-offs in overseas sales. As the pandemic rages in many parts of the world, it is neither wise nor realistic for the government to set a specific GDP target for the year.

Some people have speculated that China would abandon the practice of setting a yearly GDP growth target altogether in favor of adopting targets for employment and inflation and focusing more on areas such as the environment and household income. To be sure, more emphasis will be placed on the quality of economic development, which continues to be of paramount importance for China as a developing country.

Of course, GDP has its limitations, but it remains the most accurate and comprehensive gauge of a country's economic achievements. I believe that setting an ambitious yet realistic target is conducive to its fulfillment, and it's likely that China will want to resurrect that long tradition in the future.

By some estimates, the Chinese economy will grow by around 1 percent in the second quarter and then pick up speed in the second half of this year. The IMF's prediction in April placed the country's GDP growth for 2020 at 1.2 percent. If that forecast comes true, the country will continue to serve as a major engine of growth for the world economy, since most of the major economies in the world expect negative growth.

China's economy is on its way to recovery. Despite the battering by the pandemic, the fundamentals of the economy remain large-

ly unchanged. Potential capacity and long-term trends that point to sustained growth are still in place. Barring a second wave of the virus, an expansion of 6 percent, if not higher, in the second half of 2020 is deemed achievable. If that is the case, the country will achieve GDP growth for the year between 3 and 4 percent. What is more, it will contribute massively to job security — another top priority for the government this year.

It would be quite an achievement if the government were to succeed in capping the urban surveyed unemployment rate at 6 percent, compared with the 5.2 percent of 2019.

China is aiming to create 9 million new jobs, but the country faces enormous challenges in sustaining good employment numbers. In addition to workers dislocated by the epidemic, 8.74 million university and college graduates, a new record, will join the workforce this autumn. Although 3.5 million jobs were already created in the first quarter of this year, the task remains daunting.

To this end, the government seeks to improve the business climate, encourage startups and retain workers. Despite all the government's efforts, however, unemployment is expected to rise substantially this year. To put things in perspective, more than 11 million jobs were created in 2019. It would be quite an achievement if the government were to succeed in capping the urban surveyed unemployment rate at 6 percent, compared with the 5.2 percent of 2019.

Elimination of poverty in every corner of the country is another top priority. Back in 2012, the government set the end of 2020 as the deadline for the historic undertaking. In the seven years that followed, 94 milli-



▲ The third session of the 13th National People's Congress (NPC) opens at the Great Hall of the People in Beijing, capital of China, May 22, 2020.

on people have been lifted out of poverty. Helping the remaining 5.5 million rural residents, the hard core of the impoverished population in the country, to get out of the trap of poverty is the “last mile” in the government’s poverty eradication drive. Arduous as the mission will be, especially in the context of the pandemic, the government is determined to accomplish it — and to ensure that no one will be left behind.

To fight the pandemic and stimulate the economy, China plans to raise its fiscal deficit to more than 3.6 percent of GDP, up from 2.6 percent last year. On top of this increased spending — 1 trillion yuan (\$140 billion) — the government will issue 1 trillion yuan in treasury bonds and increase the quota on local government special bond issuance to 3.75 trillion yuan (\$527 billion), up from 2.15 trillion-yuan last year.

According to the IMF, as of the end of April China had announced fiscal measu-

res amounting to around 2.6 trillion yuan (\$366 billion), or 2.5 percent of its GDP. The increased spending is dwarfed by developed countries such as Italy and the United States, whose fiscal measures account for more than 10 percent of GDP. It also falls short of China’s stimulus package during the 2007-08 global financial crisis. At that time, China injected capital into the economy equivalent to 13 percent of its GDP.

The government is expected to pursue a more proactive and impactful fiscal policy when conditions warrant. Until recently, a 3 percent deficit had been considered in China as a redline. An expression in Premier Li Keqiang’s report to the NPC — “at least 3.6 percent” — indicates that government spending could rise further, as it is determined to maintain a stable economy. Justin Lin, former chief economist of the World Bank, suggested that given the hammering of the economy in both demand and supply by the pandemic, a budget deficit higher



▲ An employee works on a production line manufacturing steel structures at a factory in Huzhou, Zhejiang province, China. The latest Chinese factory numbers suggest that better times might be around the corner. (Photo: Reuters)

than 3.6 percent — or even as high as 6 percent — should be considered.

In terms of monetary policy, China is believed to have a lot of room to maneuver. The current one-year loan prime rate stands at 3.85 percent. Li Dao Kui, an economics professor at Tsinghua University and a former member of the monetary policy committee of China's central bank, endorsed the government's approach to create some leeway for a rainy day but predicted that it will adopt a more aggressive monetary policy if the international economic situation worsens.

All these actions point in one direction: The country is opening faster and wider to the rest of the world.

In light of the uncertainty beyond its borders, China is placing more emphasis on internal demand for stability and growth. Meeting the internal demand is now regarded as the “point of departure” and the “foothold” of China's development efforts.

China's domestic demand is huge. It has a middle class whose population is equivalent to the European Union. It has the world's largest market with 1.4 billion people. It has also established a comprehensive industrial system with powerful manufacturing capacity. As the country undergoes urbanization and the digitalization of its economy, domestic demand for investment will be huge.

Does this mean China is turning inward? On the contrary, the country is committed to a more open and inclusive economy for the world. New measures are being taken. The “negative list” for foreign investors will be “significantly shortened,” meaning that more sectors will be opened up to

foreign investment, with fewer restrictions. In addition, an increasing number of free trade zones will be set up. All these actions point in one direction: The country is opening faster and wider to the rest of the world.

The so-called phase one trade agreement between China and the U.S. also found a place in the government's work report. The Chinese government called for joint efforts to implement the agreement — more clear evidence of its intention to honor its commitments despite diminishing demand in the country for U.S. goods and services.

However, the fate of the agreement is uncertain. The ability of the U.S. to supply goods has been hit hard by the pandemic. What is worse, U.S. President Donald Trump may find it politically convenient to dump the agreement at some point in the election campaign, as he threatened to do in early May.

As I watched Premier Li addressing the NPC on television, I was impressed by one particular item on the government's must-do list for this year: The China International Export Expo, or CIEE. It was launched in Shanghai in 2018 with President Xi Jinping blessing the gathering by delivering opening remarks in two consecutive years. The annual event has attracted tens of thousands of overseas businesspeople and has served as an important platform for foreign companies to break into China or expand their share in the Chinese market.

This time, however, despite all the difficulties the country is facing this year, China hopes to contribute to the global economic recovery by sharing business opportunities through the expo. It is a blessing for the world business community at a time when the entire globe has plunged into an economic slowdown.

Trends in a Post-Pandemic World



Tao Wenzhao
Researcher
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Globalization is going to continue, but some rules and practices may need to be adjusted. The world should be open to such adjustments but continue to oppose economic nationalism and trade protectionism.

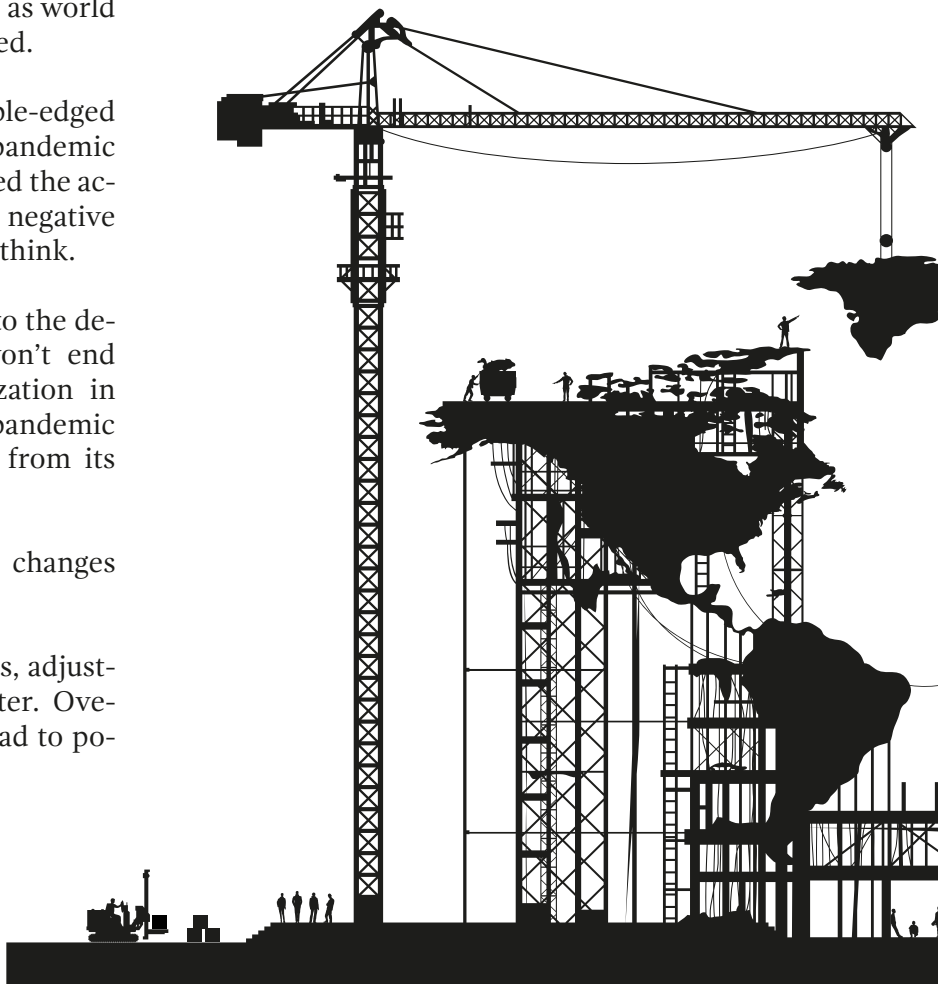
The global landscape changed dramatically after the Cold War. A freer flow of capital, goods and people created unprecedented wealth and aided the growth of emerging economies as world markets became more integrated.

Yet globalization is a double-edged sword. The novel coronavirus pandemic seems to have suddenly upended the accepted process, amplified the negative effects and caused people to rethink.

While the pandemic gave rise to the de-globalization movement, it won't end integration. However, globalization in the wake of the COVID-19 pandemic will be significantly different from its present form.

Following are some notable changes that we expect to see:

First, on efficiency and fairness, adjustments will tilt toward the latter. Overemphasis on efficiency can lead to po-



larization in society and reduce fairness. At the same time, undue emphasis on fairness may deprive society of drivers for progress and lead to stagnation. In recent decades, virtually every country has concentrated more on efficiency. As a result, problems of fairness have grown increasingly prominent, endangering social stability.

The contrast between “winners” and “losers” in globalization is particularly conspicuous in the United States. Wealth has been concentrated disproportionately into the hands of technological and business elites — literally those in Silicon Valley and on Wall Street. While the general public has seen little direct benefit from globalization, those in the intermediate and lower strata of the middle class have seen their standing lowered. The so-called Rust Belt, on the other hand, has witnessed massive blue-collar job losses.

The Occupy Wall Street movement took place in 2011 in protest of polarization and the wealth gap in American society. Since the COVID-19 outbreak, a universal trend is to create policies that better reflect fairness in society and to narrow the wealth gap. That’s because only fairer growth is sustainable.

The contrast between “winners” and “losers” in globalization is particularly conspicuous in the United States.

Markets need effective guidance to deliver fair outcomes. Government can realize second-time distribution via economic and tax policies, offering better protection for the interests of society’s underdogs and allocating more attention and money to public welfare, pensions and medical services.

Second, between interests and security, adjustments will tilt more toward security. Capital chases profit, and goes wherever profits are higher. Goods need markets, and go wherever prices are better, which is natural.

During past decades of globalization, however, to pursue maximum efficiency and a better cost-output ratio, the industrial and supply chains of many products have been stretched very long. From design to final assembly of an iPhone, for



instance, 43 countries and regions are involved.

In the early stages of the pandemic in China, factory closures dealt a blow to international industrial chains. Another blow came with as the pandemic expanded. China resumed production and supply, and other countries struggled — especially those in Europe and America that were deeply involved in globalization.

Since the U.S. has relied increasingly on outsourcing in recent years, its needs for pandemic containment have depended mostly on overseas supplies, especially those from China.

Some Americans believe industries that are directly related to the safety of human lives should not be outsourced too much. The Federal Emergency Management Agency has already consulted some businesses, asking them to change their production lines to pandemic contain-

ment materials and medical products. It may be more costly for the U.S. to produce these goods itself, but lives are more important than prices. Such adjustments are understandable, and are different from what some claim is an example of China-U.S. decoupling.

The pandemic has also revealed the fragility of national security.

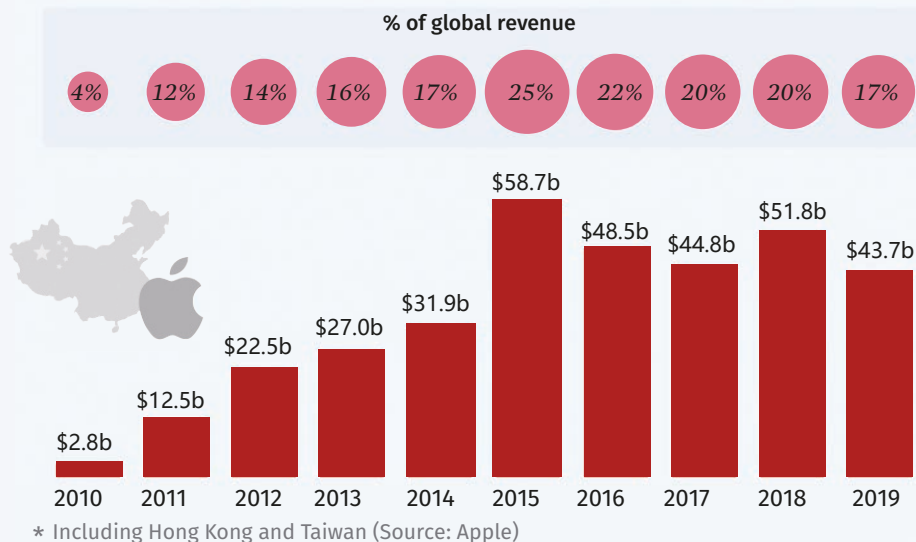
Third, there will be regionalized adjustments in industrial chains. In close relationship with the aforementioned issues, besides safety, the pandemic has also revealed the fragility of national security. When a major contagious disease or other big event results in broken supply chains, national security will be in danger.

At present, because of supply chain troubles, production of the U.S. F-35 fighter



| The Size of Apple's China Business

Apple's revenue in Greater China since fiscal year 2010 *



- ▲ After entering the Chinese smartphone market in 2010, Apple's sales in the region grew more than 20-fold within five years, peaking at \$58.7 billion in 2015.

jet cannot proceed normally. Companies in many countries are already considering how to shorten their industrial chains.

I believe three industry-chain centers may present themselves in the post-pandemic era: North America (U.S., Mexico, Canada); Europe; and East Asia (China, Japan, South Korea). Generally speaking, 70 percent of core components and semifinished products in the value chains will be supplied by the local center.

The U.S.-Mexico-Canada trade agreement reached during the Trump presidency has already laid the foundation for the North American industry chain center. European countries have already been deeply integrated.

The economies of major trading countries — China, Japan and South Korea — are profoundly interdependent, and negotiations for a trilateral free-trade agreement are underway. The pandemic may prompt the three to reach an agreement ahead of schedule.

The industry chain centers we're talking about here are relative, and not mutually isolated, and so there will also be considerable mutual complementarity and inter-dependence.

Fourth, between a country's transference of territorial sovereignty and the preservation of economic sovereignty, emphasis will increasingly tilt toward preservation. In the process of globalization, all sovereign states have transferred part of their sovereignty rights

In the post-pandemic era, some countries and international organizations may raise more questions about the preservation of countries' economic sovereignty and advocate revision of the rules of globalization.

and naturally benefited from those transferred by others. The UN, international organizations and international treaties have all imposed restrictions on countries' sovereignty.

Increasingly, such powerful non-state actors as transnational corporations have also put constraints on state power, becoming factors not to be neglected in international politics.

The formulation of global industry chains is the outcome of corporate and market behavior, where businesses are the real heroes. The Obama administration had wanted to initiate "insourcing," while the Trump government ordered American transnationals to move back to the U.S. after he launched his trade war against China. Few have responded positively. These are examples of corporate restrictions on government powers. In the post-pandemic era, some countries and international organizations may raise more questions about the preservation of countries' economic sovereignty and advocate revision of the rules of globalization. Globalization may thus enter its 2.0 stage.

To sum up, in the post-COVID-19 era, globalization will continue. While the trend won't change, some rules and practices may be adjusted. We should be open to such adjustments but continue to oppose economic nationalism and trade protectionism. A proper balance needs to be found between the two.

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.

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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.

