

CHINA & US FOCUS DIGEST

AFTER ALASKA



CHINA & US FOCUS

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

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CONTENTS

BUSINESS IS THE BACKBONE

P. 06



Fu Ying

Chinese and U.S. interests are profoundly intertwined. Some 85 percent of the members of the American Chamber of Commerce in China have no plan to relocate. In fact, most plan to increase their investment, highlighting the importance of China-U.S. cooperation.

SHIFTING RHETORIC

P. 11

Trade disputes have taken a backseat in the headlines, following the Anchorage talks. But concerns remain for communities impacted by the ongoing disagreement. Ambassador Craig Allen, President of The US-China Business Council draws on his wide-ranging background in commerce and diplomacy in this conversation with James Chau, Editor-at-Large of China-US Focus.

A LIST TOO FAR

P. 17



An Gang

U.S. Secretary of State Antony Blinken's suggestion that issues involving relations with China should be categorized according to their sensitivity is unrealistic. Yet progress was made at the Anchorage dialogue, including agreement that cooperation is necessary to address global challenges and that the focus ought to be on healthy competition.

BIDEN'S CHINA POLICY LOGIC

P. 22



David Shambaugh

The Biden administration is making its policy toward China clear as it maintains a position emphasizing democratic values and alliances. In contrast to the previous administration, Biden also recognizes the need to invest at home in order to remain competitive with China.

THE QUESTION OF INTERNATIONAL ROLES

P. 28

Nong Hong

When it comes to participation in international organizations, the objectives of the major powers are not entirely clear. Will there be competition for influence or can China and the United States develop opportunities for cooperation? Only the latter will promote a healthy model of global governance.

GETTING CPC RIGHT, THEN RELATIONS

P. 31

Wang Yiwei

The problems the United States has with China boil down to several basic misunderstandings, starting with the fact that Marxism in China bears little resemblance to outdated Soviet ideology. The CPC should be understood from the perspective of human civilizations and, especially, Chinese civilization.

THE PACIFIC DIALOGUE

THE GROWING NEED FOR A PACIFIC COMMUNITY

P. 37

CHINA'S GDP GOOD NEWS FOR U.S. TRADE

P. 43



He Weiwen

The strengthening of the economy means growing attractiveness for global investors. During the first quarter of 2021, FDI inflows to China accelerated tremendously. There are good opportunities for U.S. investors, with no chance to lose.

A CONVERSATION WITH STEPHEN ROACH: TACKLING PANDEMIC INEQUALITY

P. 50

DIGITAL YUAN ARRIVES ON GLOBAL STAGE

P. 55

Christopher A. McNally

A CHINA-U.S. COOPERATION CHECKLIST

P. 60

Yao Yunzhu

MONROE DOCTRINE VS. CHINA NEIGHBORHOOD RISKS

P. 63

Doug Bandow

EDITOR'S NOTE

No Easy Fix. No Easy Answers.

Zhang Ping

After Joe Biden took office, China saw some positive signs in its estranged relationship with the United States.

President Xi Jinping and Biden spoke on the phone in February. The meeting in March in Anchorage, Alaska, between high-ranking U.S. and Chinese officials provided an opportunity for both sides to compare notes. Tough rhetoric aside, progress was evident.

That meeting was followed by the visit to Shanghai of John Kerry, Biden's climate envoy, and then by Xi's participation in the Leaders Summit on Climate, which had been initiated by Biden. In May, Chinese Vice Premier Liu He had separate conference calls with U.S. Trade Representative Katherine Tai and U.S. Treasury Secretary Janet Yellen, offering some hope on the economic and trade front.

Other positive signs include the ever-growing trade between the two countries and strong interest in the

China market by a majority of American businesses, despite the clamor for decoupling and the havoc created by the COVID-19 pandemic.

Yet the prospects for bilateral ties have remained cloudy. Many seek clarity and direction and hope Xi and Biden will meet in person sooner rather than later.

In this issue, our contributors seek answers as well — where is this relationship now, and where it is heading after four decades characterized mostly by engagement? Will a so-called “three-basket approach” — compete, cooperate and confront — ever work? What are the policy consequences of such an approach? Are trade and economic ties still the pillar that stabilizes the overall relationship? Will the two countries be able to collaborate on issues such as climate change and global health?

The questions go on, and there are no easy answers. Let's continue to explore.



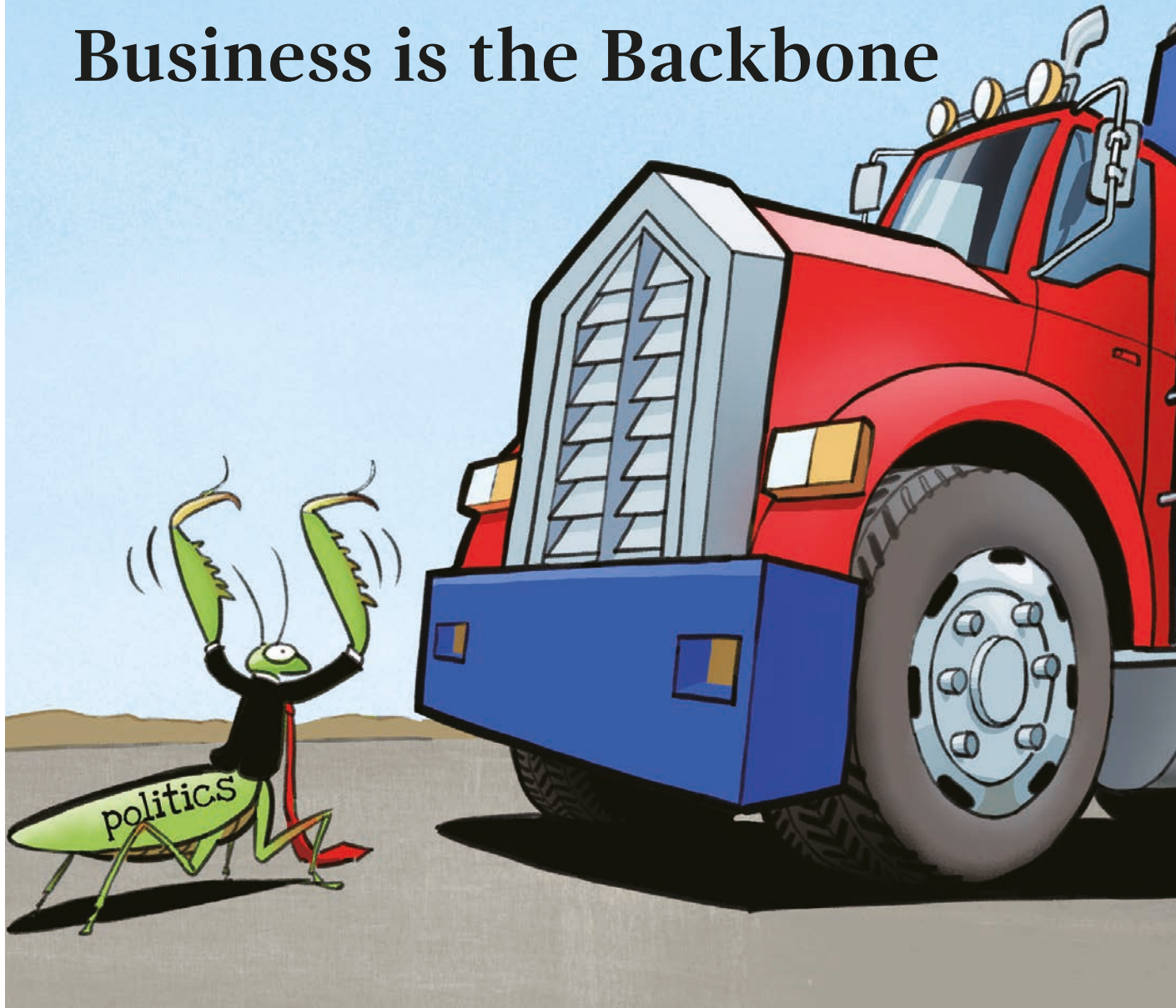
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Business is the Backbone



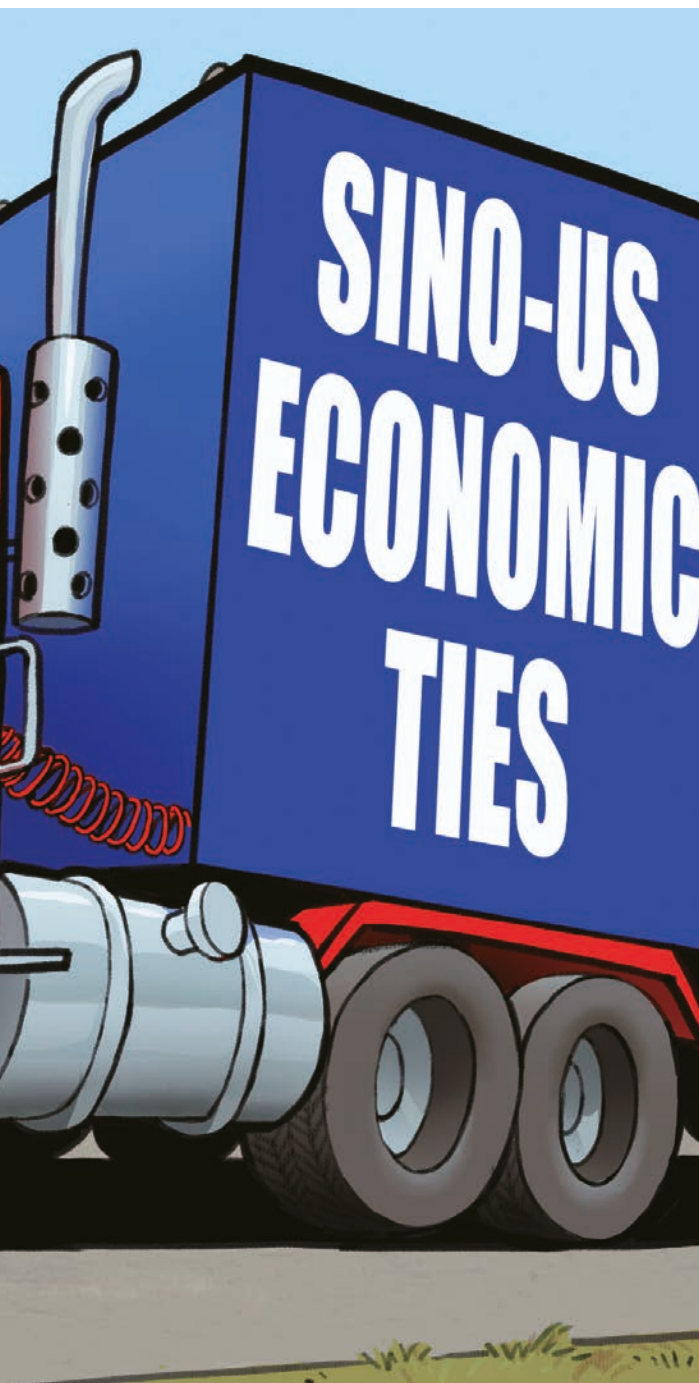
Fu Ying

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Chinese and U.S. interests are profoundly intertwined. Some 85 percent of the members of the American Chamber of Commerce in China have no plan to relocate. In fact, most plan to increase their investment, highlighting the importance of China-U.S. cooperation.



The continuous deterioration of China-U.S. relations in recent years has gone beyond what many people might have anticipated. The American Chamber of Commerce in China's white paper — 2021 American Business in China — mentioned that most of its members identified "tensions in China-U.S. relations" as their foremost challenge for business operations in China.

Indeed, China-U.S. ties are at a crucial moment in history. Owing to the mutual suspicion and structural differences, the two sides face an important choice: They can either slide into confrontation and conflict or engage in benign competition.

Divergences do exist between China and the U.S. The crux is how we approach them.

The new U.S. administration seems determined about "strategic competition" with China, and in its own words, such competition will be "long-term" and "fierce."

The thinking based on strategic competition excludes the possibility of the two countries sharing consensus on fundamental interests and makes cooperation impossible.

The Chinese side has difficulty accepting the term strategic competition to define relations because it's a zero-sum concept, which may drive diplomatic behavior in the wrong direction. The thinking based on strategic competition excludes the possibility of the two countries sharing consensus on fundamental interests and makes cooperation impossible.

Some international relations scholars recently announced the dawn of an era of "major power competition." In Chinese eyes, however, despite constant increases in challenges,

the general trend of global peace, development and cooperation has seen no fundamental change.

What the Chinese call ‘shi’ is irresistible, like the torrent rushing down from a high mountain. Politicians’ responsibilities are to judge where ‘shi’ lies, and then lead the people to follow and take advantage of it, thus achieving success.

Once when I was invited to speak at a forum in Europe, I used the English word “trend” to express the idea of the Chinese character 势 (pronounced *shi*), as I told the audience that China believes the current global trend is for peace and development. Dr. Henry Kissinger, who was chairing the occasion interrupted and said he could explain to the audience: “势 is a unique concept in Chinese politics, whose connotations can’t be fully conveyed with the English word ‘trend.’ So one may directly use ‘shi,’” he said, adding that “what the Chinese call ‘shi’ is irresistible, like the torrent rushing down from a high mountain. Politicians’ responsibilities are to judge where ‘shi’ lies, and then lead the people to follow and take advantage of it, thus achieving success.” He must have heard it many times in China and could make it clearer than I did.

We can’t deny competition as objective existence, but we advocate competition based on fairness and justice. As President Xi Jinping pointed out at the virtual Davos Agenda of the World Economic Forum in January, “We should advocate fair competition, like competing with each other for excellence in a racing field, not beating each other in a wrestling arena.”

China-U.S. relations are fluid, and the end game is far beyond our sight. There are various likely scenarios. I will try to liken them to a panchromatic spectrum.

The darkest end of the spectrum is the prospect of contradictions continuously escalating, which may evolve into all-around crises that trigger Cold War-style confrontation or even hot war. At the brighter end of the spectrum is the prospect of relative controllability and coexistence, where China and the U.S. resolve differences within the existing international structure. Bilateral ties enter a track of benign competition, finally achieving common evolution, and each is successful in its own way.

If the two sides can affirm each other’s red lines and bottom lines, reach consensus in some key realms, gradually establish rules for peaceful coexistence in a state of competition and maintain and expand cooperation in areas where they have shared responsibilities and interests, then the probability of China-U.S. relations heading toward the brighter end of the spectrum will be higher.

Big countries need to have the end in mind at the beginning in dealing with their relations, taking into considerati-

At the brighter end of the spectrum is the prospect of relative controllability and coexistence, where China and the U.S. resolve differences within the existing international structure.

on both the major objective (of course it should be feasible) and the price they would be willing to pay for it. To achieve a desirable outcome, they must avoid getting bogged down in divergences and hostilities.

Cooperation is a bond the two countries must grasp tightly. In his phone conversation with U.S. President Joe Biden, President Xi said that when China and the U.S. cooperate, both will benefit; when they fight, both will get hurt. So cooperation is the sole correct choice for both sides. Biden also said the U.S. would be willing to cooperate with China when it's in the U.S. interest.

During their recent Anchorage meeting, ranking Chinese and U.S. officials had candid exchanges of views. Afterward the two countries' climate envoys met in Shanghai and issued a joint statement, after which Xi participated in the virtual Climate Summit Biden had initiated. These developments demonstrated diplomatic wisdom and professionalism and the willingness and capability for the two nations to address global challenges.

People used to say that economic and trade ties were the ballast of China-U.S. relations. Will this ballast continue to function?

Trade bullying and arbitrary decoupling the U.S. side has done in recent years have not addressed the business community's concerns. Instead, it has undercut normal exchanges between the two countries. Rather than bringing U.S. trade deficits down and bringing manufacturing back home, the tariff war has added to the burdens of U.S. consumers, causing disruptions to global supply chains. Some people believe they can limit decoupling to intended areas in the field of science and technology, but the risk is that there

is no way to control the potential chain reactions it may ignite.

This year's white paper indicates that more than two-thirds of the businesses AmCham surveyed view China as a priority market, with 85 percent of chamber members having no plan to relocate their manufacturing or purchasing procedures from China and nearly two-thirds of the members planning to increase investment in China in 2021. This is a show of confidence in the Chinese market and a vote for China-U.S. economic and trade cooperation.

The business community has been a part of China-U.S. interaction. How should the business community encourage the two countries to make rational choices about bilateral ties? I think it is important, first, to support fair competition; second, to maintain the momentum of cooperation; and third, to actively promote communication.

Business communities in both countries should actively explore paths for benign competition and create an all-win situation for society, businesses and consumers. In doing so they should learn mutual respect — respect for the other country's political, judicial and regulatory institutions, as well as for the other market's culture of production and consumption.

The white paper endorses the continuous headway China has made in reform and opening-up, as well as market building, with 47 percent of members believing the situation in IPR protection is improving. The white paper also raises concerns about market inclusiveness, oversight mechanisms, business compliance management and social responsibility awareness, and puts forward suggestions for both countries to perfect indus-

Some people believe they can limit decoupling to intended areas in the field of science and technology, but the risk is that there is no way to control the potential chain reactions it may ignite.

trial policies and market access and to strengthen law enforcement regarding IPR protection.

I trust that the voices of the business community will be listened to carefully here in China. Hopefully, the American business community and its Chinese counterparts' voices can also be heard by the U.S. government, and normal economic and trade exchanges will be less subject to politics.

I had an interesting dialogue with William Klein, acting deputy chief of mission at the U.S. embassy in China, in Bo'ao in early April. What worries us the most is the absence of trust between the two countries. The business communities in both countries need to speak out more often and help the two nations accumulate mutual understanding and trust.

Chinese and U.S. interests have been deeply and profoundly intertwined. Bilateral cooperation has extended into numerous areas, and potentials for the future will be even greater. This is the source of our confidence in the prospect of bilateral economic and trade ties. I hope the business community will make continuous efforts and play a backbone role in the development of China-U.S. relations.

The foregoing text is an excerpt from Fu Ying's May 11 speech at an AmCham China event in Beijing.



▲ “The longer the tariffs are in place, the more damage is done to the U.S. and Chinese economies.”

Shifting Rhetoric

Trade disputes have taken a backseat in the headlines, following the Anchorage talks. But concerns remain for communities impacted by the ongoing disagreement. Ambassador Craig Allen, President of The US-China Business Council draws on his wide-ranging background in commerce and diplomacy in this conversation with James Chau, Editor-at-Large of China-US Focus, on May 6, 2021.

James Chau:

Ambassador Craig Allen, thanks so much for your time today. In just 100 days, President Joe Biden's administration outperformed even their own bold ambitions. But not everything has changed for the better, especially on foreign policy, including U.S. relations with China. Do you think that's going to stay the same?

Craig Allen:

I think that we need to separate the rhetoric from the actions that we have seen thus far. If you look at actual policies, there's been practically no change whatsoever. The Biden administration is telling us every time we ask them that the policy is under review. But none of the sanctions that had been put in place by the Trump administration have been removed, except in a couple of small cases where courts have intervened. But that's different from the making of policy.

At the same time, from a rhetorical basis, there has been a very, very significant shift. That shift was presaged, if you will, or practiced, in the Anchorage meeting between Yang Jiechi, Jake Sullivan, Tony Blinken and Wang Yi about a month ago. There was quite a harsh rhetorical uptick at that time. And indeed the rhetoric of the relationship has deteriorated on both sides. President Xi Jinping's comments at the Bo'ao Forum were yet another rhetorical shift, indicating a degree of tension that had not existed before. I think that we'll probably continue to see increased use of difficult language going forward.

James Chau:

A lot of people say that the rhetoric and language plays to the domestic audience politically. But does it actually cause

long-term damage? And is that borne by businesses, such as those you represent?

Craig Allen:

Let's unpack that for a second. I think the shift in the administration of the United States has led to some frustration in Beijing. The Biden administration has done two things that underlie the shift and rhetoric. The first is a real emphasis on human rights and democratic values. That is coming from a heartfelt place, and we should expect it to continue. The Chinese, however, look at that as an ideological affront. They understand that this should be expected to continue, and they are hitting back.

The other major shift from the Trump administration to Biden has been a much greater reliance and demand for cohesion with America's allies. That is not rhetorical; that is real. The meeting of the Quad: Prime Minister Modi of India, Prime Minister Suga of Japan and Prime Minister Morrison of Australia with Joe Biden, shortly before the Anchorage meeting, was an indication of the importance of alliances and relationships within this, as the United States looks at China. Again, the Chinese side does not appreciate that shift in policy.

Being a good corporate citizen — in both countries — is becoming more and more difficult, as the gap between the two seems to grow ever wider.

On the Chinese side also, we see some significant shifts, as Xi Jinping prepares for the 100th anniversary of the Communist Party on July 1 of this year and as he begins to prepare for the Olympics some

six months later — but most important, as he prepares for the 20th Party Congress, which is expected to be held in October and November 2022. The rhetorical shifts here are embedded in domestic policy dynamics that are going to be difficult to change. Being a good corporate citizen — in both countries — is becoming more and more difficult, as the gap between the two seems to grow ever wider.

James Chau:

We hear about the United States and China in terms of gaps and differences. Those are words that have become commonplace now, but you spoke, for example, about the United States meeting with its allies, the Quad, in the run-up to Anchorage. The Chinese did exactly the same thing right after they left Alaska. So, if not equally, do you think they both bear a great burden of responsibility in terms of the actions, but also the consequences that come out of that?

There is a clear mirroring between Beijing and Washington on so many of these issues.

Craig Allen:

Right. There is a clear mirroring between Beijing and Washington on so many of these issues. And we saw that in Anchorage very clearly. The U.S. side spoke first at the meeting and raised human rights, while the Chinese side mirrored that exactly and raised human rights concerns in the United States as well. To the extent that the U.S. is going to be talking and working more closely with allies, China is going to be doing that as well. So this mirroring and this conflict, which really permeates many aspects of the bilateral relationship, continues to grow and change form, creating uncertainties in all elements of the relationship.

James Chau:

No matter how much they mirror, that damage doesn't cancel itself out. I think it's very fair to say that the state of the relationship has now declined to a level where decoupling and a new Cold War have become commonplace discussion points. If either were to occur, what would be the impact?

Craig Allen:

The word decoupling is not used by the Biden administration. I think that that is a very positive signal. Indeed, just yesterday, Secretary of State Tony Blinken rejected the term cold war. I think that's wise, because we need to be careful about picking our historical analogies to describe the U.S.-China relationship. The analogy that you pick will lead to certain policy prescriptions that may or may not be appropriate. The trade numbers, and to a certain extent the investment numbers, suggest that decoupling is a myth. U.S. exports to China in 2020 rose 18 percent. At least across most industries, decoupling is really not a relevant concept. In consumer goods, for example, in agriculture, in raw materials, in energy, in finance, we see a tremendous amount of growth in trade between the two countries. The question where decoupling becomes very real is across the technology industries. That's been true for a long time. But it's more true today. In both countries, we see a mirroring of technology restrictions and a chorus of voices calling for self-reliance, secure supply chains and clean networks.

The trade numbers, and to a certain extent the investment numbers, suggest that decoupling is a myth.



◀ USCBC President Craig Allen was invited to meet on short notice with the head of China's trade negotiation team and Vice Premier Liu He prior to the start of a round of talks set for October 10-11, 2019 in Washington, DC.

I expect that the results will be very complicated, depending on the industry. All American technology companies want to be in China, and all Chinese technology companies want to be in America. I think at the end of the day what we're going to see is American, and European, and Japanese tech companies in China, mostly for the China and the Asia market. But there are indeed structures, systems, institutions and projects that might be bifurcated and duplicated in some cases, with redundancies built in, that are required by law in one or the other country. Let me just add a coda on that. In China, the drive for civil-military fusion is real. The president of the country is heading a commission on civil-military fusion. That gives technology companies around the world second thoughts about to what degree R&D should be done in China.

James Chau:

We're living through an ongoing pandemic, which has brought the world to its knees, from the most vulnerable communities to the most advanced economies. The United States and China have an opportunity to shape opportunities for the world's poorest people. What must be done?

But there are indeed structures, systems, institutions and projects that might be bifurcated and duplicated in some cases, with redundancies built in, that are required by law in one or the other country.

Craig Allen:

The most important area for the U.S. and China to collaborate is climate change, because this is going to be where the world's poor are going to be most immediately impacted. And I think that due to Secretary Kerry's efforts we see a promising start there. But the devil is in the details.

The most important contribution that China could make to the global economy is to increase domestic consumption rapidly by a couple of percentage points a year, every year for the next 10 years, to draw in global imports, and simultaneously to move out of China a lot of the labor intensive manufacturing that is just getting really old and unprofitable. From the world's poorest perspective, raising China's household spending as a percentage of GDP by 20 points would do more for global welfare than any other thing I can imagine. It's a difficult thing to do: You would need a restructuring of State-owned enterprises, with more money going to the national treasury. You would need reform of the hukou system. You'd need much better enforcement of labor laws. You'd need massive investment of labor-intensive industries to Africa, to India, Pakistan, Bangladesh. It's a long-term process. But that process should be engaged in — and in a robust manner. The benefits to the Chinese people would be immense. And the spillover effects to the global economy would be extremely positive.

James Chau:

You represent the voices of more than 200 American companies doing business in China. What are they telling you?

Craig Allen:

We need to look at this on an industry-by-industry basis. Most of our consumer goods companies are very happy

with the growth of the Chinese middle class and robust consumer spending in China. Most of our agricultural companies are very happy also, with very significant increases in U.S. commodity — agricultural commodity — exports to China. Our energy companies are very happy in terms of China continuing to import a lot of oil and natural gas and some coal, especially metallurgical coal. I would say on the services side, people are pretty happy. The financial services industry is undergoing significant opening and reform in China. Foreign companies are getting licenses and are allowed to own 100 percent of their operations in China, in contrast to a year or two ago.

I think all of our companies want to be in China. Similarly, Chinese companies want to be in the United States.

The area of uncertainty and tension is in the tech area. There again, we need to kind of break it down. Pharma and medical devices are different from semiconductors, which is different from aerospace, which is different from IT. In all of those areas, there's both growth and pressures within both countries, as both try and sort out the geopolitical relationship and investment decisions are being affected as a result of the government demands coming from both capitals. That is an ongoing process. I think all of our companies want to be in China. Similarly, Chinese companies want to be in the United States.

One area to really watch is data. What are the rules for bringing data back and forth? China is developing its cybersecurity and personal information or personal data laws, and the U.S.s is having a lot of debate on the same subject. And the Europeans have yet another standard. This is going

to be an area where companies are going to have to spend an enormous amount of time in being fully compliant with the law.

James Chau:

I will finish by asking you what words you would share with the leaders of the U.S. and China. But before that, there's been some keen anticipation in the direction of the new United States Trade Representative Katherine Tai. How important will she be in terms of executing orders on behalf of the president?

Craig Allen:

I'm proud that I've been a colleague with Ambassador Tai for many years. I have enormous respect for her in every way. She comes from the background of a litigator and having worked with the WTO in that context. She also brings her immensely valuable background with our Congress, because trade policy at the end of the day under the U.S. Constitution is made by Congress, not by the executive branch. So she has her thumb on the pulse of the Senate and the House of Representatives where, ultimately, decisions will be made. Trade policy is a subset of both domestic policy and foreign policy, and the emphasis of the Biden administration right now is really on getting domestic policy right. On the foreign policy side, the role of alliances and working with our partners around the world has really been given a new importance that we had not seen in the previous administration. I think that China will remain a focal point, as well.

If I had the ear of both presidents, I would say that effort is needed to engage on the cooperation and on the competitive side of the relationship. More effort is needed also to manage the antagonistic side. There should be full discussions going on at all levels, between our two countries, from

military to military, economics, trade, people to people, visas, climate change, public health. I fear that that the current lack of dialogue is just feeding suspicions and ceding the ground to those who might wish to exaggerate the threat that they see on the other side. It's easy to judge somebody when you don't understand them. It really requires effort to understand the other side's perspective, to be able to manage their expectations and to manage the inevitable conflict that we know is coming in the U.S.-China relationship.

James Chau:

Ambassador Craig Allen, thank you very much for your time.

Craig Allen:

Thank you for this opportunity.

(The foregoing transcript was lightly edited for clarity.)

I fear that that the current lack of dialogue is just feeding suspicions and ceding the ground to those who might wish to exaggerate the threat that they see on the other side.

A List Too Far



An Gang

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U.S. Secretary of State Antony Blinken's suggestion that issues involving relations with China should be categorized according to their sensitivity is unrealistic. Yet progress was made at the Anchorage dialogue, including agreement that cooperation is necessary to address global challenges and that the focus ought to be on healthy competition.

The China-U.S. Anchorage dialogue in March tested each country's bottom line. At this critical juncture, the Biden administration should review its China policy, and the two countries can begin preparing for competition.

But two issues remain in which Chinese and U.S. interests coincide as they make strategic adjustments. These were revealed during the meeting:

First, both agree that cooperation is necessary to address global challenges. Second, both are aware that they should avoid vicious contention and focus instead on healthy competition.

John Kerry, the U.S. special presidential envoy for climate, visited China shortly after the Anchorage dialogue and met his Chinese counterpart, Xie Zhenhua. They issued a joint statement about China-U.S. cooperation in addressing

the climate crisis. Afterward, President Xi Jinping attended, via video link, the Leaders Summit on Climate initiated by U.S. President Joe Biden. The two sides have confirmed that the leaders reached a consensus as to attitude and approach.

U.S. Secretary of State Antony Blinken proposed assigning issues in bilateral relations to one of three categories — competition, confrontation and cooperation. China gave its response after research and analysis. On April 23, Chinese State Councilor and Foreign Minister Wang Yi spoke with members of the U.S. Council on Foreign Relations, saying the U.S. blurs the distinction between “mainstream” and “substream” relations and lacks a clear direction and goal. Cooperation is the only way forward that meets the common aspirations of both countries and the world, he said.

Blinken's "tripartite taxonomy" is neither scientific nor feasible. Not all issues in China-U.S. relations are easily classified in this way. Economics and trade, for example, which once supported the development of bilateral relations, is currently filled with competition and friction, whereas the military, a highly competitive and adversarial field, has shown an ability to control risk.

On the other hand, the U.S. claimed that its approach to China will be "competitive when it should be, collaborative when it can be and adversarial when it must be." In other words, the U.S. doesn't want conflicts and disagreements to affect cooperation with China on issues that concern the U.S. This is fundamentally arrogant: The U.S. seeks to both suppress the development of China and restrict China's reactions — and that's never going to happen.

Yet Blinken's taxonomy also shows that the Biden administration's China policy is not entirely negative. China's hopes seem focused on effective cooperation first. From its perspective, despite inevitable competition and confrontation in certain fields, the two countries should not take the initiative to categorize agendas as competitive or confrontational, nor define bilateral relations simply in terms of strategic competition.

This is fundamentally arrogant: The U.S. seeks to both suppress the development of China and restrict China's reactions — and that's never going to happen.

The top priority now is to resume dialogue as soon as possible to clarify each other's strategic intentions, reduce resentment, restore mutual trust and start cooperation in certain fields. If the resumption of over-

all cooperation is not possible for the time being, the low-hanging fruit should at least be gathered.

It must be admitted that cooperation in fields where there are shared interests is both the major channel to promote steady growth of the relationship and an effective tool to manage disputes, control conflicts and prevent a new cold war. When the two countries get along well, cooperation goes without saying. But even when competition and confrontation stand out, plans for cooperation should not be given up.

In the new era can China and the U.S. find a common strategic basis on which to cooperate?

In the planning process, the two sides must first answer the following question: If the joint strategic need to defend against threats from the Soviet Union was the cooperative basis in the early stage of normalization of China-U.S. relations, and if integration, mutual benefit and globalization have been the strategic driving forces for bilateral cooperation thereafter, then in the new era can China and the U.S. find a common strategic basis on which to cooperate?

A convincing answer is that developing cooperation to tackle global challenges, as well as shouldering global power responsibility, could and should serve as the new common strategic basis. But this vision collapsed in the face of COVID-19. Can we expect a renewal of such a vision in the future? Can the stability and driving force brought by cooperation, which aims to meet global challenges, support such a complex system as China-U.S. relations?

The second problem is that China and the U.S. exchanged views during the Ancho-



rage dialogue on a host of other topics, including economy and trade, military, law enforcement, culture, health, cybersecurity, climate change, the Iranian nuclear issue, Afghanistan, the Korean Peninsula and Myanmar, and they agreed to maintain and enhance communication and coordination. The two sides do not lack tools when planning cooperative initiatives from such a list, but these issues may also cause massive conflicts of interest while providing room for cooperation. So what sorts of insights and efforts do China and the U.S. need to show when handling them?

Obviously, climate change has already been put into this category. The joint statement issued by the two special envoys not only raises this cooperation to the level of tackling a crisis but also displays the diplomatic wisdom of seeking common ground while resolving differences in things such as adjusting the timetable for realizing the goal of limiting temperature increases.

The two sides should be keenly alert to prevent the issue of climate change from moving out of the cooperation category.

However, when meeting goals of reducing emissions, achieving peak carbon emissions and carbon neutrality, interests of various kinds, including economic growth, energy security, technological competition and more will certainly become deeply entangled. It is inevitable that complex domestic dynamics will be created, which could lead to a crisis of confidence, and conflict, at any moment. Thus, the two sides should be keenly alert to prevent the issue of climate change from moving out of the cooperation category.

Other transnational challenges, such as public health, nonproliferation and the fight against transnational crimes could also be categorized as areas of cooperation. Prevention and control of COVID-19 is the top priority now and it is both necessary and urgent. Efforts to promote trade in protective supplies and medical facilities, enhancing communication and cooperation between professionals in laboratory R&D, vaccine development through bilateral and multilateral channels and starting intergovernmental negotiations on problems such as vaccine shortages and barriers in cross-border travel require resolution to prepare for the resumption and recovery of the global economy after the pandemic. This requires both countries to go beyond strategic and geopolitical competition, transcend ideology and values, embrace a global perspective and show political courage. Putting those into the cooperation category is no easy thing.

Trade cooperation between China and the U.S. is not likely to be welcomed in the court of public opinion before certain remaining issues in the trade war are resolved. At the same time, bilateral trade, with its special needs amid the fight against the pandemic and the requirements of economic recovery, actually showed an upturn, with the business communities of both countries continuing to do their usual work. In the days to come, adjustments in economic policies after the pandemic, financial risk prevention and green finance will be placed on the agenda. Therefore, it is necessary to start preparing now to put new substantive issues into the basket of China-U.S. cooperation.

In terms of rules, the research and development as well as application of new technologies, such as artificial intelligence, have deeply influenced people's lives.

Reforms taking place in space and in digital security will also impact international relations. Admittedly, China and the U.S. cannot eliminate competition or even confrontation in certain fields, but there is still room for dialogue and cooperation to push for rules of conduct that are generally accepted by the international community.

Fields in which severe strategic distrust and disputes exist should not be overlooked when considering issues for cooperation, since these also have potential for cooperation. It is unwise to simply take certain issues as absolute and think only with emotion. For instance, speaking of the Belt and Road Initiative, while the U.S. is attempting to work out an offset plan with its allies and partners, it is possible that “third-party cooperation” can be developed for countries along the Belt and Road, especially in helping less-developed countries build infrastructure and promote a low-carbon economy according to internationally recognized standards.

What’s more, for issues concerning the Indo-Pacific maritime order, there is still an obvious need to carry out cooperation in navigation safety, humanitarian rescue and marine ecosystems despite the increasingly fierce strategic games.

China and the U.S. have a tradition of cooperation on hot regional issues, but some of them, including the Iranian nuclear issue, the Korean Peninsula nuclear issue, the Myanmar issue and Afghanistan, are experiencing changes in context or nature. For these issues, questions remain as to whether China and the U.S. will join hands. Yet it is certain that these cannot be solved without the cooperation of both sides. If the situation spirals out of control, regional turmoil will surely hurt the fundamental interests of the two countries.

In this case, China and the U.S. must decide whether they can cooperate on these issues. If the answer is no, are they willing to sit on the sidelines while making these issues their wrestling arena?

It is challenging to draw up lists and categorize issues in light of new situations. Now that both sides are able to find some common ground, the opportunity must not be missed. Over the past several years, confrontations in China-U.S. relations have piled up quickly. This has placed great pressure on both countries and also on the international community. Under these circumstances, neither party will be a winner.

Now that both sides are able to find some common ground, the opportunity must not be missed.

To stop this trend, both sides should renew their cooperative spirit, reflecting a sense of responsibility and matching professional diplomatic wisdom as great powers. There is no doubt that mutual respect, equality and win-win cooperation should be the basic principles.

Biden's China Policy Logic



David Shambaugh

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The Biden administration is making its policy toward China clear as it maintains a position emphasizing democratic values and alliances. In contrast to the previous administration, Biden also recognizes the need to invest at home in order to remain competitive with China.



One hundred days into President Joe Biden's term, the core underpinnings and internal logic of his administration's policy toward China are becoming clear. While it is still taking shape, and systematic policy reviews are being carried out in several of its dimensions, there is now enough known to outline a number of central features.

China has been designated as a very high overall policy priority, one that crosses multiple domains domestically and internationally. It is a centerpiece around which many policy initiatives are being formulated, planned and implemented. In other words, China is seen as a driver of policies at home and abroad — a multidimensional set of challenges of enormous proportions — which requires the full attention and resources of the U.S. government.

China has been designated as a very high overall policy priority, one that crosses multiple domains domestically and internationally.

The intellectual and policy framing of the relationship is definitely one of competition. There have been different adjectival modifiers placed in front of this term (Biden himself has even used “extreme competition”). While all senior administration officials have endorsed the competition paradigm, Secretary of State Antony Blinken has introduced some nuance, stating on March 3 that U.S. policy should be “competitive when it should be, collaborative when it can be and adversarial when it must be” — thus leaving the door open to selective governmental cooperation on certain issues such as climate change and nuclear nonproliferation, and even confrontational in certain areas of national security concern.

It is important to understand what competition means in the thinking of the president and his administration. Competition has four main spacial dimensions (domestic, bilateral, regional and global) and a variety of functional ones (economic, technological, military, diplomatic, cultural and political). This is a multi-spectrum simultaneous approach that proceeds from the premise of rivalry. It is principally seen as a means to rebuild and strengthen the United States so that it can effectively compete against China well into the future.

What makes the Biden administration's approach different from Trump's is a clear recognition that effectively competing with China begins at home — with enormous targeted investment into hard and soft infrastructure, education, research and development, technological innovation and other dimensions of intrinsic national power.

It is principally seen as a means to rebuild and strengthen the United States so that it can effectively compete against China well into the future.

Internationally, the Biden administration's foreign policy is clearly anchored on twin pillars: democratic values and alliances. Biden and all senior officials have repeatedly made this clear. His own view of the world and the contemporary age is one of autocracies competing with democracies, and he has said that the former are not going to prevail over the latter "on my watch." Biden is an ideologue in this regard, which indicates a Cold War style approach in his thinking. This has been echoed in Secretary Blinken's speeches as well. So, there should be no doubt in Beijing that competing political

ideologies and systems are at the very center of the Biden administration's approach to China. Values matter and are central to the American approach.

So, there should be no doubt in Beijing that competing political ideologies and systems are at the very center of the Biden administration's approach to China.

Partnerships with other democratic allies and partners is also at the center of the administration's foreign policy. This is an affirmative policy priority — affirming the value of democracy — not an expedient tactical mechanism to contain China, Russia or other autocracies. That is, for example, the central rationale for the Quad (U.S., Japan, Australia, India). To be sure, there is also an ancillary view of China as a disruptive and threatening autocratic power shared by these states. But the Quad and the five American alliances in Asia do not exist because of China alone. Nor does NATO exist because of Russia.

There is no doubt that this multidimensional set of Biden's policies related to China place the United States on the offensive against China, and not passively sitting back and responding to China's own domestic and international actions. While the tactics and emphases are slightly different from the Trump administration, notably on values and alliances, it is also abundantly clear that there is considerable continuity between the two administrations.

This is simply a reflection of the deep bipartisan consensus about China in American society and the political class. Yes, it must be noted that there remain a handful of retired State Department officials, some

leading academic China specialists, a considerable component of the business community and their advocate organizations and some NGOs that still lament the deterioration of U.S.-China relations, blame it on the United States, wistfully wish for a return to the days of “engagement” and that are reluctant to criticize China — but this cohort remains a distinct minority. The vast majority of American politicians and experts have lost faith in China under Xi Jinping, as well as in the former U.S. policy of engagement. This new consensus has taken several years to coalesce, but it is now widely shared.

The widespread distrust of China is borne out in a variety of public opinion polls that show Americans’ views of China at an all-time low. A recent Pew Research Center poll on March 4 shows that nine of 10 Americans (89 percent) view China either as a competitor or an enemy rather than partner. This survey shows rising concerns about China across every issue area.

The act is an important piece of legislation, but it is only one of approximately 60 China-related pieces of legislation currently floating around Congress.

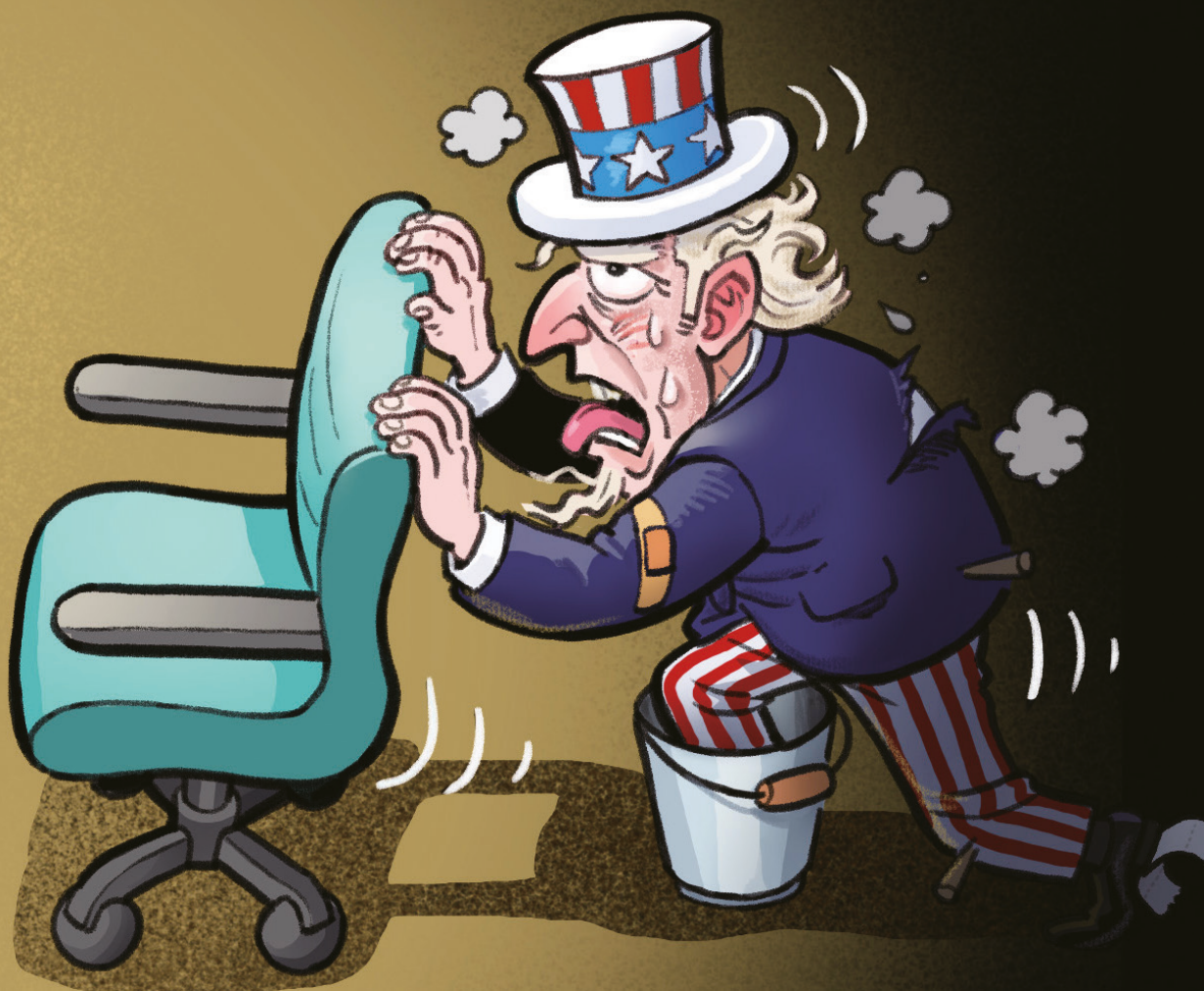
Another key barometer of American concern and antipathy toward China lies in Congress, where there is remarkable bipartisanship on the issue. There has been no greater indicator of this recently than the formulation of the Strategic Competition Act of 2021, which is entirely about competing with China at home and abroad. The mammoth act (S. 1169), which runs to nearly 300 pages, was overwhelmingly adopted by the Senate Foreign Relations Committee by a vote of 21 to 1 on April 22 and will likely be signed into law by President Biden.

To some extent the act will tie the hands of the Biden administration as it specifies an extraordinarily wide range of specific policies and measures that the executive branch is directed to adopt, but the vast majority of these are in congruence with administration thinking. The act is an important piece of legislation, but it is only one of approximately 60 China-related pieces of legislation currently floating around Congress. They are all indicative of the central preoccupation and focus of the United States on the multiple challenges posed by China.

The Trump administration must be said to have catalyzed the process, reorienting many entrenched bureaucracies and considerable resources against China, and this has made it much easier for the Biden administration to pick up where the Trump team left off. It is anticipated that, under Biden, there will be considerably better policy coordination and disciplined implementation, with a priority emphasis of working in concert with other countries. But these are matters of strategy and tactics. The Trump and Biden administrations appear to be in considerable agreement in almost all areas of substantive policy. If Beijing naively hoped for a “reset” of relations in a more cooperative direction, the first 100 days have shown this to be an illusion.

The Trump and Biden administrations appear to be in considerable agreement in almost all areas of substantive policy.





The Question of International Roles



Nong Hong

Senior Fellow

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When it comes to participation in international organizations, the objectives of the major powers are not entirely clear. Will there be competition for influence or can China and the United States develop opportunities for cooperation? Only the latter will promote a healthy model of global governance.

On May 4, the U.S.-China Economic and Security Review Commission published a document identifying Chinese nationals serving in leadership roles in key international organizations and in other top leadership positions in United Nations, its principal organs, funds and programs, specialized agencies, international trade and financial institutions and other entities.

China now heads four of the 15 UN specialized agencies.

The United States has been watching closely, particularly since the latter part of the Trump administration. The increasing number of Chinese representatives in international institutions suggests that the U.S. sees China more as a competitor than a cooperative partner in many global matters. Whether there

will be a perception change within the current Biden team about China's role in international organizations remains to be seen.

Trump pulled the U.S. out of the Iran nuclear deal, the Paris climate agreement, the United Nations Human Rights Council, the Trans-Pacific Partnership and the World Health Organization. He also repeatedly questioned the value of NATO and spoke about withdrawing from it. As he stepped back from many parts of the multilateral order established after World War II, China is no longer a passive side-player within multilateral institutions. Its growing economic might and foreign policy goals drive its increasingly active participation within the multilateral system. China now heads four of the 15 UN specialized agencies — the International Civil Aviation Organization, the International Telecommunication Union, the Food and

Agriculture Organization and the UN Industrial Development Organization.

In the U.S. view, China clearly sees international organizations as convenient vehicles for expanding global influence. The U.S. has become more sensitive, particularly as it notices that China's increasing role in these international organizations is occurring at a time when Trump expressed no interest in international organizations and moved to cancel or suspend funding for some of them.

On the first day of his presidency, Biden moved to undo the most damaging aspects of Donald Trump's legacy and fulfilled promises he made during the campaign, including rejoining the Paris climate accord, recommitting to the World Health Organization and moving to rejoin the UN Human Rights Council.

Although there are voices calling for international cooperation over competition, some Americans point out that the new administration cannot simply paper over the real geopolitical frictions that will persist post-Trump. The U.S. may have difficulty countering China's growing influence, particularly given the backsliding of U.S. priorities and policies with respect to multilateral institutions.

The Biden administration may still see China's increasing presence in international organizations as a challenge to America's ultimate goal to continue its leadership in international institutions.

The document released on May 4 by the U.S.-China Economic and Security Review Commission suggests that the Biden administration may still see China's increasing presence in international organizations as a challenge to America's ultimate goal to continue its leadership in international institutions.

China sees its active participation in international organizations as reflecting the two primary goals of its independent foreign policy: furthering domestic economic development through cooperation with the world and promoting peace and stability by cultivating ties with other nations on the basis of equality.

China is especially active in organizations, committees and subcommittees that set procedures and standards, especially with regard to the most innovative technologies.

The rise of China's status is noticeable in the area of UN peacekeeping operations, both in terms of money allocated and the number of contingents sent. The goals of its Belt and Road Initiative are getting a lot of attention throughout UN agencies. The United Nations Children's Fund praised the initiative's capacity to "multiply our impact" in fighting child poverty. And the UN high commissioner for refugees applauded the initiative's emphasis on connectivity.

China is especially active in organizations, committees and subcommittees that set procedures and standards, especially with regard to the most innovative technologies. It is working to turn its

International organizations in the areas of health, international law and human rights are likely to become new arenas for China-U.S. competition.

growing scientific and technical potential into a real influence in the process of formulating rules in institutions such as the International Organization for Standardization, the International Electrotechnical Commission, the International Telecommunications Union and the 3rd Generation Partnership Project, or 3GPP. Establishing international standards for technology that are beneficial to Chinese companies has a chance to partially offset the limits imposed by intense competition with the United States.

In the current tense political environment between the two countries, a question arises: Will we see the U.S. and China enter a period of overall competition in international organizations, or will they seize the opportunity to enhance cooperation for addressing many global issues that the world faces today?

The answer will be mixed. The U.S. will continue to retain its membership in international organizations relating to the global economy, such as the World Bank and the International Monetary Fund. But the World Health Organization became a battleground since the coronavirus outbreak in 2020, signaling that China-U.S. competition had expanded from security and economics into non-economic international organizations such as public health.

In the future, on one hand, international organizations in the areas of health, international law and human rights are likely to become new arenas for China-U.S. competition. On the other, cooperation already happens and will continue at many levels in international organizations, such in the fields of climate change and marine research, particularly in the Arctic and Antarctic regions but in others as well. Enhancing cooperation in international organizations will promote a model of global governance that works toward the common interests of the two countries and the world.

Getting CPC Right, Then Relations



Wang Yiwe
*Jean Monnet Chair Professor
Renmin University of China*

The problems the United States has with China boil down to several basic misunderstandings, starting with the fact that Marxism in China bears little resemblance to outdated Soviet ideology. The CPC should be understood from the perspective of human civilizations and, especially, Chinese civilization.

I once asked Dr. Henry Kissinger whether he had seen any Marxist classics in Chairman Mao's personal library, since Mao had received him there multiple times. His answer was probably not. There were all kinds of thread-stitched books, all Chinese classics.

Since the Chinese don't believe in gods, the Chinese communists are atheists, so how can they be trusted? Thus, Americans often describe "communist China" by using such terms as "dictatorship," "opaque," "unfree," "non-believers," "undemocratic," "no human rights," "unstable" and "inhuman."



▲ The Communist Party of China will commemorate its 100th anniversary in July 2021.

It seems that understanding the Communist Party of China is the key to rebuilding China-U.S. political mutual confidence, because U.S. misunderstandings and misjudgments about China are focused on how to understand the CPC. Party leadership, as inscribed in the Chinese Constitution, is the most fundamental characteristic and biggest systemic advantage of socialism with Chinese characteristics. Only when the U.S. side understands and respects this will it stop finding fault with China on such matters as Taiwan, Xinjiang, State-owned enterprises and labor rights.

Here are three important misgivings to overcome:

It seems that understanding the Communist Party of China is the key to rebuilding China-U.S. political mutual confidence.

- **Seeing China as an alien that can evolve**

Some people lament the failure of the U.S. policy, begun under Richard Nixon, of engaging China. Seeing they have successfully turned Japan into a Western country, they wanted to convert China likewise, neglecting the fact that China has been a singular, independent entity since ancient times, a civilization 5,000 years old, and it is unlikely to adopt a completely Western model. But China has learned a lot from Western civilization. Traditional China has developed into a modern China and is striding toward a China that faces the world, as evident through the Belt and Road Initiative and the idea of a “community with a shared future for mankind.”

- **Believing the biggest difference between China and the West lies in the CPC.**

Neglecting CPC leadership combines with

misunderstandings of traditional Chinese culture. The assimilation of the cream of Western civilization by a 5,000-year civilization is similar to the Buddhist religion being incorporated into the culture of the central plains of China, giving rise to the theories of Buddhism and Zen.

- **Believing the Chinese revolution picked up what the West had discarded as heresy: Marxism**

Actually Marxism has been Sinicized and is no longer what is imagined as Soviet-style Marxism, which arose from a mixture of backward Russian serfdom, Slavic culture and theories of communist revolution. But it has been modified and integrated with the splendid Chinese civilization.

To eliminate these misgivings, the CPC must be understood in three dimensions — 100 years, 500 years and 5,000 years.

100 years: The CPC’s catchword has evolved from “Communist Party/communism” to “China/socialism,” and socialism itself has been Sinicized from the perspectives of movement, institutions and civilization.

To eliminate these misgivings, the CPC must be understood in three dimensions — 100 years, 500 years and 5,000 years.

It is worrying that Americans are increasingly seeing China through the prism of ideology and nation-state, rather than from the perspective of history and culture. Nor has China fully sorted out the inherent correlation between the CPC and Chinese civilization, which favors grand unity. The CPC’s logic involves “standing up,” “getting rich” and “growing strong,” as well the transformation from a revoluti-

onary party to a ruling party and finally to a governing party.

500 years: Since the industrial revolution 500 years ago, the prosperity of Western civilization has also benefited China. The CPC-led country has built the world's largest industrial system and become the largest industrialized manufacturing base. It is now the largest digitalized country. Now it's time to think about the CPC as the genesis of China's peaceful rise and great rejuvenation.

5,000 years: That the CPC has adapted well to the popular culture of China and preserved a state of grand unity is evidence that the soil of 5,000 years of civilization has borne fruit. The CPC has learned from Western civilization and integrated it with traditional Chinese culture.

Thus, China-U.S. strategic dialogue can start with the core values of domestic and global governance and then explore the CPC's governing logic in such realms as climate change, public health and digitalization. The two countries can work together for fairness and justice for mankind.

As the CPC celebrates its 100th anniversary, it is important for Americans to understand so they can rebuild their outlook on the CPC and hence their outlook on China. For that there are three key words: China, communist and party.

China: The Communist Party has been localized in China. Sinicization means it has been integrated with the Chinese revolution and traditional culture, transforming the traditional ideals of eliminating wealth gaps and grand unity under heaven into today's building of a society with all-around moderate prosperity and realizing all-around modernization.

*For that there are three key words:
China, communist and party.*

Why does the CPC emphasize a people-centered governance philosophy? The cultural gene can be found in Chapter 49 of "Tao Te Ching":

"The sage has no invariable mind of his own; he makes the mind of the people

Students wave flags ► of the Communist Party as they prepare to watch a movie "The Founding of a Party" in Yangzhou, Jiangsu Province, on March 23, 2021, to mark the 100th anniversary of the founding of the Communist Party of China.



Mao Zedong monument in Chengdu China. The Chinese Communist Party was founded at a time when China was treated humiliatingly and with disdain by the Great Powers. The Party as well as the country are now stronger than ever 100 years after its creation. Today the country largely succeeds in containing the coronavirus and experiences a robust economic recovery. ▶



his mind. To those who are good [to me], I am good; and to those who are not good [to me], I am also good — and thus [all] get to be good. To those who are sincere [with me], I am sincere; and to those who are not sincere [with me], I am also sincere; — and thus [all] get to be sincere.”

Traditional Chinese culture appreciates harmony rather than revolution and struggle. A “community with a shared future for mankind” reflects the integration of the CPC’s ideals with traditional Chinese culture, which no longer states proletariat overthrowing bourgeois rule but rather believes capitalism and socialism can coexist. It resonates with other cultures’ appreciation of harmony, such as the Christian teaching of “one for all, all for one.”

The CPC’s legitimacy lies not in elections, as Americans understand them; it is a choice informed by history, reality and the people. As Daniel Bell said in “The China Model: Political Meritocracy and the Limits of Democracy,” it is election plus selection when it comes to official appointments.

What is China? China is a “civilization-state, pretending to be a [nation-] state.” Traditional Chinese civilization has been transformed by the CPC, and the Chinese civi-

lization in its popular sense doesn’t equal a secular one that subscribes to no religious beliefs. It’s not that the Chinese don’t believe in a god but that they don’t have a common god; they respect both those who believe in gods and those who don’t. Which is why the CPC can seek truth in facts and demonstrate the greatest possible openness and inclusiveness to achieve social justice and fairness.

Communist: “Communist” as adjective is neither “sharing assets and wives,” as the Kuomintang once smeared it, nor the state capitalism that Americans imagine. China’s ownership structure is far from the simple way it was in the planned-economy era. The private sector in China contributes more than 50 percent of tax revenues, more than 60 percent of GDP, more than 70 percent of innovations and more than 80 percent of urban jobs. It accounts for more than 90 percent of all enterprises.

Therefore, “communist” has incorporated the ideas of common prosperity and the public good. China has just bid farewell to poverty and embarked on a journey toward all-around modernization, which is why the CPC and General Secretary Xi Jinping have won hearts.

Party: Americans tend to believe the Chinese revolution picked up what the West trashed as heresy — Marxism. Actually Marxism has been Sinicized and is no longer the Soviet model they assume it to be. Dr. Sun Yat-sen borrowed from former U.S. President Abraham Lincoln’s “of the people, by the people, for the people” and developed his “three principles of the people” (nation, civil rights, people’s livelihoods).

The CPC isn’t a political party in the traditional Western sense, nor one in the traditional Chinese sense.

The CPC has taken one step further to accentuate “in the people” (people-centered), “before the people” (pioneer, because they stand out in the face of hardship) and “after the people” (public servant), because they won’t relax until the rest of society finds comfort. The CPC isn’t a political party in the traditional Western sense, nor one in the traditional Chinese sense. It is seeking fairness and justice for humanity as a whole, and it advocates humanism.

The CPC is continuing the religious revolution and the Western Enlightenment. From the separation of politics and religion to our present emphasis on the unity of man and nature, people first and seeking truth from facts, it is dedicated to helping mankind get rid of superstition.

The U.S. worries China may take its place, which is only natural. How could the U.S., which absolutely does not want to be in second place, tolerate a rising China? What is the goal of the great rejuvenation of the Chinese nation? It is neither to return to the Han or Tang dynasties nor to overtake the U.S. but to make greater contributions to human progress and provide public goods that are better, more inclusive and

more affordable. From the perspective of traditional culture, it is not difficult to understand that the CPC will not only not seek hegemony but instead will oppose it. The CPC is spearheading the great rejuvenation of the Chinese nation to open up a new era that is free of hegemony.

As a Chinese diplomatic tradition, the country’s opposition to hegemony is also obvious in the China-U.S. Shanghai Communiqué of 1972. Deng Xiaoping once said, “If one day China seeks hegemony in the world, people from all over the world share the obligation to expose us, condemn us and oppose us as a hegemon, along with the Chinese people.” Rather, the CPC wants to build a community with a shared future for mankind and wants to end the era of hegemony. This is an important contribution to mankind.

Facts have shown that attributing all the problems facing the U.S. to China and the CPC won’t resolve America’s troubles. Former U.S. President Donald Trump’s trade war against China failed to bring industry, capital and jobs back to the U.S. Instead, it made China stronger.

Suppressing China in a different way today won’t solve the U.S. leadership problem either. China could become a partner in solving U.S. problems, rather than being blamed as the cause of trouble. Resolving basic epistemological issues is a precondition for rebuilding mutual political confidence.

The CPC should be understood from the perspective of human civilizations and, especially, Chinese civilization. China and the U.S. may carry out political dialogue on the ideas in traditional Chinese culture that support the CPC, together with the core values of globalization, to accumulate mutual trust and prevent misjudgments.

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.

The Growing Need for a Pacific Community



Wang Jisi,
President,
Institute of International and
Strategic Studies, Peking
University

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If we only see the China-U.S. relationship as a power game, a zero-sum power game, we may put ourselves in trouble.

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I don't want to say the rest of Asia should be a marriage counselor for the U.S. and China. But in a sense, that's kind of what I mean.



David Lampton
Professor,
Johns Hopkins University

The Alaska talks raise new questions about the state of the U.S.-China relationship, say Professor Wang Jisi of Peking University and Professor David Lampton of Johns Hopkins University. Harsh rhetoric, different approaches and the absence of a joint closing statement may be an indication of a new style of diplomacy. But what is more important to both countries? To be the global superpower or to focus efforts against threats including poverty, disease and climate change? James Chau, Host of The Pacific Dialogue, engages them in debate — and asks them about the Pacific Community Initiative they co-lead.

James Chau:

This episode of “The Pacific Dialogue” we welcome two people who shape our understanding of global affairs. In Beijing, Wang Jisi, president of the Institute of International and Strategic Studies at Peking University. And in Washington, David Lampton, professor emeritus of China Studies at Johns Hopkins University. I’m James Chau. There was so much to engage them on, including the Pacific Community Initiative they led and a look back at Alaska.

Let’s begin with Alaska, the symbolic midpoint between the two countries, where they met in March 2021. It was a very wide-ranging discussion. But what was the top-line takeaway for you both?

Wang Jisi:

I think the Alaska talks were the first high-level, physical meeting between Beijing and Washington after Biden assumed office in the White House. That in itself was significant and positive, as it shows the willingness of both sides to discuss the difficult challenges they face with each other. I believe they also discussed regional and global matters, such as the DPRK nuclear issue and climate change. That was a good start. But much public attention was paid to the open debate. I guess Yang Jiechi’s tough and long response to Tony Blinken had been well prepared. It was natural that Blinken’s reference to Xinjiang and Hong Kong touched upon Chinese sensitivities. And just before they went to Alaska, Washington had sanctioned Chinese officials in charge of Hong Kong affairs. Yang’s remarks won him millions of likes in the media from Chinese citizens. So it was his personal success as well. The attitude of Yang and Wang Yi was consistent with China’s official line, as well as the public mood.

Recently, President Xi Jinping made a comment that China can now [hold its] head up to the Western world, so I think this reflects a new pattern of diplomatic style that probably will persist in the near future.

The attitude of Yang and Wang Yi was consistent with China's official line, as well as the public mood.

David Lampton:

I think there was a lot of theater, and there were two audiences for the two sides. The Americans, I think, were speaking to their allies and friends abroad. But, principally, you had a new American administration that had to show that it has tried to, in a sense, distinguish itself from the earlier Obama administration policy, which means in the politic language of American politics, be tougher on China. After Yang Jiechi's extended remarks, there was quite a bit of online positive reaction. In a way, the opening presentation reinforced the bad image each has of the other. But it seems telling to me that there was no joint statement at the end of the meeting. I think it's important if we're going to emphasize that this is a partially competitive relationship and partly a cooperative relationship, we surely showed it's competitive in that meeting, but I didn't see much cooperation.

James Chau:

Joe Biden made the following remark in his first news conference at the White House: "China has an overall goal. And I don't criticize them for the goal. But

they have an overall goal to become the leading country in the world, the wealthiest country in the world and the most powerful country in the world. That's not going to happen on my watch." What's your take on that, Professor Wang?

Wang Jisi:

Of course, many Chinese want China to become number one in the world. But if we only see the China-U.S. relationship as a power game, a zero-sum power game, we may put ourselves in trouble. First, China is lagging far behind the United States in comprehensive power terms — economic, military, technological, education and so on. Second, China's ultimate goal should not be to replace the United States as number one, but to do better in improving our living standard, protecting the environment and raising educational levels. Third, we should engage us in peaceful and benign competition to see which country is doing better in our domestic reconstruction... not which country is more dominant militarily.

But if we only see the China-U.S. relationship as a power game, a zero-sum power game, we may put ourselves in trouble.

David Lampton:

So, I very much agree with the general proposition that dominance is not only a pernicious goal, it's a basically an impossible goal. Because if globalization has done nothing else, it has empowered other countries. What was most troubling about Anchorage in a sense

was, if you looked at the travel schedule of the Americans going out, they went to Japan and Korea. And I'm not criticizing that. If I'd been in the position that our government is, I would have done the same thing. But it was, in a sense, lining up our support base and giving confidence to our allies. If I look at the time after the Anchorage meeting, of course, then Foreign Minister Wang Yi goes to Guilin and meets Russian Foreign Minister Lavrov, and then on to Turkey and Saudi Arabia and Iran. What I'm afraid of is we are in — I don't want to say a sort of cold war, two-camp, kind of a world. We're not. It's much more complicated. As I said, no one can dominate. But both sides are going around the world trying to build organizations and make big power friends in a competitive relationship.

James Chau:

Your institutes at Peking University and Johns Hopkins University led what we call the Pacific Community Initiative. It was inspired by Dr. Henry Kissinger and envisages a common enterprise that seeks to generate the necessary conditions. Why have you chosen, of all the projects you could invest in, to commit yourselves to this particular endeavor?

Wang Jisi:

Since 2016, my colleagues and I have been encouraged by Mr. C.H. Tung to conduct a research project with Mike Lampton and people on the American side, especially a few young American scholars, based on a strategic vision to build up a Pacific community. I think there are two ways to look at the issue. One argument might be that no regional community could be achievable unless and until China and the United States mitigate their bilateral tensions. In fact, when we began to work on the project, the China-U.S. relationship was de-

teriorating. Today, the situation is even worse. So, if we had waited for the improvement of China-U.S. relations, we would still be waiting.

David Lampton:

I think another conceptual way to look at it is when the United States and China have their own difficulties, these difficulties often show up around the periphery of China, whether it's on the Korean Peninsula, in Japan, Southeast Asia. And if you reflect back on the Cold War, most of the large-scale conflicts in the Cold War were in Asia and on China's periphery. And so I think the idea of building a community — and particularly the other nations, particularly in Southeast Asia — they really do not want to see conflict between the United States and China. So, in a way, they are a balance wheel. They are going to push the system I think generally toward moderation, cooperation, and a focus on win-win economic kinds of issues. And I don't want to say the rest of Asia should be a marriage counselor for the U.S. and China. But in a sense, that's kind of what I mean.

So, in a way, they are a balance wheel.

James Chau:

I rather like that analogy of the marriage counselor. Professor Lampton, when the world was huddled down and locked down, you released a new book on China's relationship and America's relationship with Southeast Asia. Do you see the Pacific Community Initiative taking in more countries? Could this take the form, for example, of a membership club of nations?

David Lampton:

I suppose people could look at the European Union, particularly before Britain left. I think Asia is a far different place than Europe. And I think it's regionally more diverse, with culturally and religiously very big divisions throughout Asia. Northeast Asia is very different than Southeast Asia. So I don't have the anticipation that a, quote, "community" would be as tightly knit, as we've traditionally thought of the European Union. But I think, you know, ASEAN has been increasingly successful over the years. It has operated according to a consensus principle,

Wang Jisi:

When we talk about the Asia Pacific region on American terms — now the Indo-Pacific region — we don't even know which countries are involved. Not like Europe. In Europe, you have a more or less clear distinction between European countries and non-European countries. But in Asia, we have India, we have even Australia, we have Canada bordering the Pacific Ocean. So one thing we have to think about is, What is Asia? What is the Asia Pacific or Indo-Pacific?

So one thing we have to think about is, What is Asia? What is the Asia Pacific or Indo-Pacific?

James Chau:

The future state or the U.S.-China relationship is obviously a global concern. Climate change has been earmarked as an area of strong interest that could rescue and return it. Will this method of pragmatic cooperation be close enough to what people like Dr. Henry Kissinger conceptualized, where strategic unease is replaced

by the elaboration of shared purposes?

David Lampton:

I think the fact that the United States has designated former Secretary of State John Kerry is a very credible move. He's both interested in the topic and knows all the players. And frankly, I don't know exactly the lineup on the Chinese side. But Xie Zhenhua has been a longtime climate leader for the Chinese government, and I think he enjoys confidence. Clearly, climate change is a global, existential threat, you can't address the issue without the United States and China, and I would say India addressing this issue. So, it's very important, it's eminently feasible. The United States and China both have good people on the issue.

And even in talking about climate change, we have domestic politics to think about.

Wang Jisi:

I think, of course, the climate change is essential in U.S.-China collaboration, but not enough. And even in talking about climate change, we have domestic politics to think about. Trump and other Republicans were not interested, or were even opposed to having climate change as part of global collaboration. In China, there has not been adequate public attention to this issue. So China has seized time to formulate an open plan for peaking carbon dioxide emissions before 2030, and this is a very bold plan. But if we look at society at large, we still have to do a lot more to look at the situation. And on top of climate change, we have other environmental issues to think about.

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James Chau:

I just want to finish very quickly with the Pacific Community Initiative. The scope of your work brings in so many of the traditional and nontraditional security threats that we face today. Is the timetable and the scope of that work being altered by the current pandemic?

David Lampton:

I think the pandemic has made the idea of community and transnational organizations more self-evidently needed than ever. I mean, just look at the World Health Organization and the need for pandemic information and so forth. So, I think as the problems get more global in scale and more technical in character, the argument for a community approach to solving problems is going to become more powerful, not less.

Wang Jisi:

Today, this morning, I heard the news that both China and the United States are accusing each other of being the origin of the pandemic. This is politicized, and I don't like that to happen.

David Lampton:

The politicians and the diplomats should get on with the job of solving the problem. And the epidemiologists can argue about the facts in due course. But we shouldn't hold up cooperation on the problem we can all see, just because we can't fully agree how it started.

James Chau:

Professor Wang Jisi at Peking University, Professor David Lampson at Johns Hopkins, thank you very much for your time, your skill and your insight.

(The foregoing transcript was edited lightly for clarity.)



China's GDP Good News for U.S. Trade

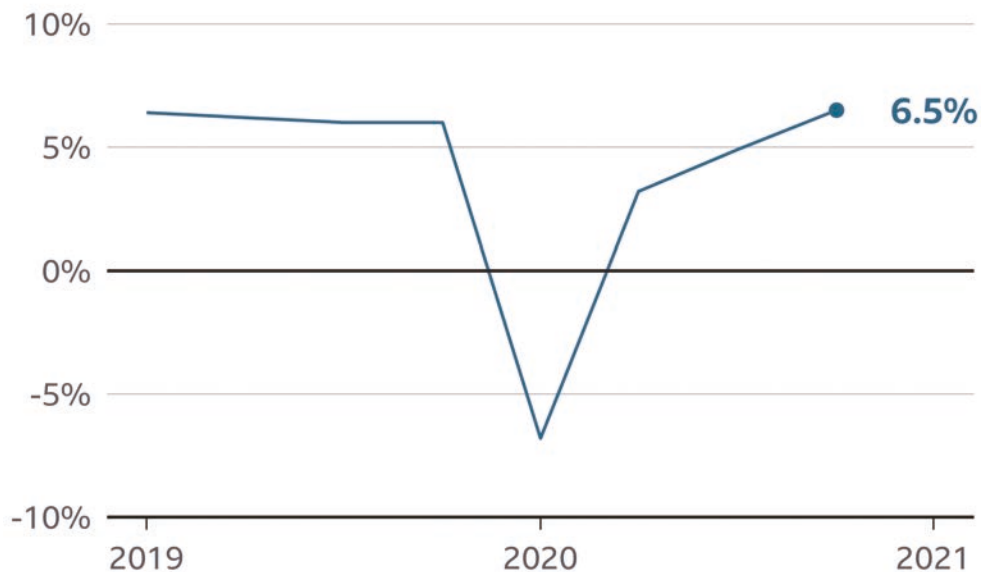


He Weiwen
Senior Fellow
Chongyang Institute for Financial Studies

The strengthening of the economy means growing attractiveness for global investors. During the first quarter of 2021, FDI inflows to China accelerated tremendously. There are good opportunities for U.S. investors, with no chance to lose.

China is the only major economy to grow in 2020

Quarterly year-on-year GDP



Source: China's National Bureau of Statistics

It is unsurprising that Chinese GDP rose by an astonishing 18.3 percent year-on-year during Q1. It was on a very low base of Q1 2020, when its GDP fell by 6.8 percent because of the coronavirus outbreak, the steepest drop of the past 59 years. Compared with the pre-pandemic period of Q1 2019, it was up 10.3 percent, or a 5.0 percent average annual rate, still roughly 1 percentage point lower than the years before COVID-19.

Drivers and changes

The primary and secondary sectors are back to normal growth in general. The average annual growth rates during this period were 2.3 percent and 6.0 percent respectively. In 2019, the primary sector grew by 3.1 percent and the secondary sector by 5.7 percent. The tertiary sec-

tor, on the other hand, grew by only 4.7 percent annually over the past two years, compared with 6.9 percent growth in 2019.

The high-tech industry served as the prime engine for the economy. New-energy vehicles, industrial robots, microcomputers and integrated circuits shot up more than 60 percent year-on-year and managed 19 percent annual growth over the past two years. The import and export of goods served as another engine. Total import and export volume exceeded \$1.3 trillion, 38.6 percent higher than a year ago, and was 20.9 percent higher than Q1 2019.

The average annual growth rate for the past two years was as high as 10.0 percent, nearly three times the rate of the

whole year of 2019 (3.4 percent). It means that trade has already enjoyed above-trend growth. Exports performed better than imports. During Q1 this year, exports grew by 49.0 percent and imports by 28.0 percent, making net exports a good driver for GDP growth.

Net exports, however, will lose steam somewhat as a result of a faster recovery in many parts of the world, reducing demand for Chinese goods.

There will be changes in the main drivers for the rest of the year. The tertiary sector will gain momentum while net exports will level off. Recent indicators have shown a late rebound in the tertiary sector. The overall business index for the service sector stood at 55.2 percent in March, 4.4 percentage points higher than in February.

Accommodations, catering and leasing have seen a return to the boom zone. Rail and air transportation, and financial and internet services too, have business activity indices above 60 percent. With the fast expansion of industrial production, industry-related services will grow faster. It looks likely that the tertiary sector will have a higher growth rate during Q2, to be further accelerated during the second half of this year. As the tertiary sector accounts for over half of total GDP, its acceleration will become a new, decisive driver for the whole economy.

Net exports, however, will lose steam somewhat as a result of a faster recovery in many parts of the world, reducing demand for Chinese goods.

Industrial production will continue its

current strength, supported further by a rise in manufacturing investment. On balance, China's GDP growth for 2021 will be around 9 percent, slightly higher than the latest IMF estimate of 8.4 percent, leaving the average annual growth rate during the 2019-21 period at 5.5 percent, still lower than the pre-pandemic years.

Boosting world recovery

Unlike last year, this year will see significant change in the world's economic growth scenario. China will no longer be the only leading economy that had growth. The recovery will be broadly based. The latest IMF World Economic Outlook released on April 6 estimated that global GDP will grow by 6.0 percent, after a 3.3 percent dip in 2020. Developed economies will grow by 5.1 percent, with the U.S. leading the way at 6.4 percent. Emerging markets and developing economies will grow at 6.7 percent, with developing Asia set to grow by 8.6 percent.

If we take 2020 and 2021 together, the world will grow by 2.5 percent, with 1.7 percentage points contributed by China.

China will no longer be the fastest-growing leading economy either, with India expected to grow by 12.5 percent. China accounted for 17 percent of total global GDP last year. With 8.4 percent GDP growth, it will contribute 1.4 percentage points to world growth. The United States — if it hits 6.4 GDP growth for 2021 — will contribute 1.6 percentage points. If we take 2020 and 2021 together, the world will grow by 2.5 percent, with 1.7 per-

centage points contributed by China, which will be the leading contributor.

New impetus for trade

Paradoxically, China-U.S. trade, which is generally perceived as depressed as a result of the trade war, became a bright spot during Q1 this year when it shot up by 73.1 percent year-on-year. Chinese exports to the U.S. were up by 74.7 percent and imports from the U.S. by 69.2 percent — 19.3 and 11.7 percent higher, respectively, over Q1 2018, the high before the trade war. In other words, the much-troubled China-U.S. trade relations in fact contributed positively to China's GDP growth for Q1 this year. If this trend continues, barring any significant, unexpected setbacks, two-way trade volume in 2021 will hit a historical high, outstripping the previous record of \$633.52 billion (China Customs data) set in 2018.

U.S. exports to China grew much faster in March, at \$17.29 billion — up 74.8 percent year-on-year, exceeding the growth rate of Chinese exports to the U.S., which was at 53.3 percent. If U.S. exports keep up their tempo in March for the rest of the year, 2021 will see U.S. exports to China breaking the \$200 billion barrier for the first time in history and exceeding the target of the China-U.S. phase one agreement for the first year.

Paradoxically, China-U.S. trade, became a bright spot during Q1 this year when it shot up by 73.1 percent year-on-year.

Don't forget that extra tariffs imposed by the U.S. on Chinese goods, and the Chinese countertariffs on U.S. goods



▲ While the rest of the world still struggles to tame the virus, inside China COVID-19 is under firm control, and China's economy has whirled back to life.



are still there. The latest developments show that Chinese products suit the market needs in the U.S., with its economy in firm recovery. And U.S. products have good, growing prospects in the Chinese market as the economy there is also gaining strength. During Q1, Chinese imports of agricultural products worldwide increased by 33.8 percent year-on-year. Automobiles were up by 30.2 percent, machine tools by 29.2 percent, aircraft by 100 percent, machinery and electronics by 30.9 percent and high-tech products by 31.0 percent — and U.S. exporters have had a good share of it.

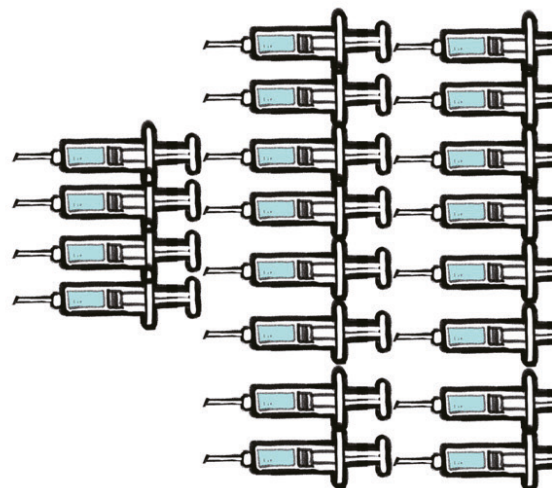
The strengthening of the Chinese economy also means growing attractiveness for global investors. In 2020, China was the only destination where world cross-border direct investment flows registered growth. During the first quarter of 2021, FDI inflows to China accelerated tremendously, hitting \$ 44.86 billion (nonfinancial sector), a 43.8 percent rise over the depressed Q1 2020, but even 24.8 percent higher than Q1 2019 in the pre-pandemic period. Again, there are good opportunities for U.S. investors, and no chance to lose.

If U.S. exports keep up their tempo in March for the rest of the year, 2021 will see U.S. exports to China breaking the \$200 billion barrier for the first time in history and exceeding the target of the China-U.S. phase one agreement for the first year.

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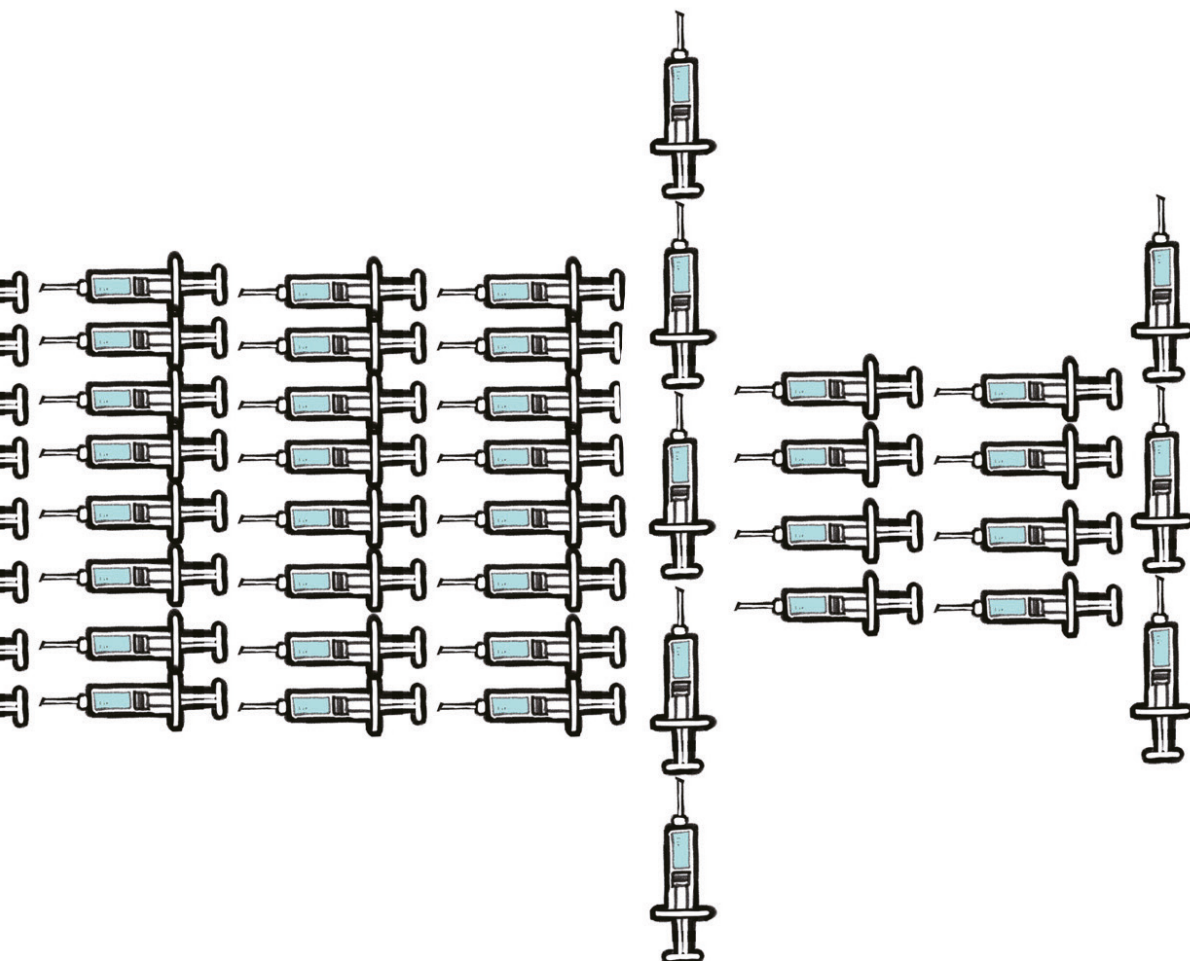


FOR
POOR
COUNTRIES



FO

CINES



OR RICH COUNTRIES

WOW!
CHINADAILY

Tackling Pandemic Inequality

Stephen Roach is known internationally for his former roles as Chief Economist of Morgan Stanley and Chairman of Morgan Stanley Asia. But behind each statistic is a person and a story. In this interview with James Chau of China-US Focus on May 7, 2021, he discusses current challenges including global poverty and the inequity, and the necessary ideas to address this meaningfully.

James Chau:

Your expertise in global economics has led to a number of books, including one that you authored in 2014 called “Unbalanced: The Codependency of America and China.” What do you think the conditions are that have shifted the balance between the two nations?

Stephen Roach:

The book ended on the note of a great question. I said that a codependent relationship, particularly between the United States and China, was not a stable and sustainable relationship. The risk was that one of the partners would go its own way, and that would lead to a reactive response by the one who was left behind. As China has rebalanced, the U.S. was sort of left in the dust. The scorned partner, the United States, lashed back. We saw a very destructive trade war during the past four years that unfortunately looks like it is continuing in the early months of the Biden administration.

James Chau:

Well, you recently wrote about the two events, the Anchorage summit being one. Let’s not forget the trade deficit that is ongoing. How would you advise

Washington and Beijing to proceed?

Stephen Roach:

I think that the Biden administration is in many respects trapped in the venomous bipartisan political sentiment that now exists in the United States against China. That makes the political strategy of the Biden administration more difficult to extricate from this current conflict. Nevertheless, that’s what we have political leaders to do, to take tough and sometimes courageous stands against the other groundswell of bipartisan support. There are three things that I would urge the two nations in conflict to do: Number one, end the trade war, roll back the tariffs and eliminate the so-called phase one purchase requirements that were an unrealistic strategy from the start. Number two, find areas of mutual interest such as climate change and global health policy where trust can be rebuilt. And number three, don’t shy away from the tough structural issues like innovation, policy force, technology transfer, cybersecurity and intellectual property rights protection, but use a more systematic framework to address them, such as a bilateral investment treaty, which was under negotiation prior to the Trump administration.

I think that the Biden administration is in many respects trapped in the venomous bipartisan political sentiment that now exists in the United States against China.

James Chau:

Is there enough ability, will and forgiveness from both sides to move forward in the directions which you now propose?

Stephen Roach:

Ability? Yes. Will, and forgiveness — those are two of the most difficult aspects of this conflict. China, rightly or wrongly, has a hard time forgiving those who raise questions about its intentions, especially after the so-called century of humiliation that began with the Opium Wars in the mid-19th century. The U.S. also feels wounded when it suffers economic problems and experiences a trade deficit at the same time. It tends to direct the blame on others. It did that with Japan 30 years ago, and it's doing that with China today. But America has a multilateral trade problem and had deficits with 96 nations in 2020 that it cannot resolve by taking bilateral action against anyone, China today or Japan 30 years ago.

James Chau:

Can we circle back to Anchorage? Because that links to another of your recently expressed deep concerns around rising rhetoric and tensions. As you know better than most people, there's been calls on both sides, not only the Americans but also the Chinese, to decouple. How real is that threat of separation? Should we imagine it as one side hitching their wagon away from the other?

Stephen Roach:

Well, decoupling is a slippery concept, and yet there are visible manifestations, certainly from the U.S. side, of an effort, in particular on the technology front, to wean America's dependence on China-centric supply chains. The aggressive posture toward Huawei, and its multitude of suppliers, both in China and elsewhere around the world, is a case in point. There is a view, unsubstantiated, of course, that Huawei poses an enormous existential threat to the integrity of America's telecommunications platform now and in a future dominated by 5G technology. There's no verification of that intention. But in the case of the United States and its security community, it's move now and rationalize or explain later. I think that's a dangerous approach. Supply chains have been critical in linking not just the U.S. and China but the U.S. and China to a multitude of other nations around the world. It's taken years to construct the supply chains of the current globalization and disentangling them or decoupling them would be a very painful outcome. So we have to move very carefully and adjudicate the validity of the reasons for moving down this path of decoupling before we just embrace it without much thought.

Ability? Yes. Will, and forgiveness — those are two of the most difficult aspects of this conflict.

James Chau:

But of course, the world is much larger and deeper than two nations alone. As we look around that world, a lot of the economic priorities have been reordered, especially in the past year due to the pandemic. What from that basket of actions could

have a lasting impact going forward?

Stephen Roach:

In terms of the pandemic itself?

James Chau:

In terms of the pandemic, but also in terms of the actions leading up to that and what you see coming after globally.

Stephen Roach:

But in the case of the United States and its security community, it's move now and rationalize or explain later.

The world economy was actually in a pretty vulnerable place before the pandemic hit. In 2019, world GDP growth had slowed to about 2.9 percent, according to the IMF. I remember writing an article about that before the pandemic hit, that this is dangerously close to what we thought was the global recession threshold of only 2.5 percent world economic growth. I had no idea that COVID-19 was around the corner when I wrote this. But I cautioned that with such a slow pace of growth in 2019, a shock could tip the world into recession, unfortunately quite easily, and that's what happened. While the world now appears to be on a path of recovery, I don't think we can lose sight of the underlying pre-COVID vulnerability that was very much evident in the world. It's wishful thinking to think that we can simply pretend that the world is now a stronger and more resilient place in the aftermath of this unprecedented shock and global recession. Just because we've seen a significant injection of what I think is unsustainable, a monetary and fiscal stimulus at very low levels of interest rates, that is not a way to run the

world in a post-COVID future.

James Chau:

How would you ask us to prepare, particularly the world's most vulnerable communities who've been hit by the inequality of this pandemic?

Stephen Roach:

That's a great question and one that I'm thinking deeply about myself. I think that crises have an uncanny way of really forcing us to rethink some of our priorities and values that shaped the way in which the world is governed, and the way in which various systems deal with difficult economic, social and ultimately political problems as well. That word inequality that you just used is one that is clearly evident in the aftermath of this COVID crisis — that we can even speak of an aftermath right now. In some countries like



Stephen Roach is an American economist and serves as senior fellow at Yale University's Jackson Institute for Global Affairs and a senior lecturer at Yale School of Management.

India, there's no aftermath at this point at all. But the pandemic, of course, has taken a devastating toll on those least capable of being able to provide medical support to their citizens. The policies that have been put in place by major central banks and fiscal authorities have benefited financial markets more than they have the real economies. We talk a lot about the wealth effect from a strong rally in equity markets. Just think about what a wealth effect is. It's designed to help the wealthy, not the poor. So, this has been a recovery of growing and vast and worrisome inequality from the standpoint of health, political tensions and economic rewards. I think the post-COVID world has got to address this issue of inequality once and for all.

This has been a recovery of growing and vast and worrisome inequality from the standpoint of health, political tensions and economic rewards.

James Chau:

Well, I was going to close up by asking Mr. Roach about what China and the United States — which do so much to shape the world's fortunes — could do to shape the world's economies post-pandemic, whenever that time may arrive. But six years ago, Joe Biden, Barack Obama, Xi Jinping and Ban Ki-moon worked so well together on the architecture and execution of the Paris agreement. Will climate change return to be the game changer, say in 2021 and far beyond?

Stephen Roach:

I think that climate and global health are two areas of mutual interest for both China and the United States that could be key in rebuilding the trust that has been broken and shattered by this destructive tra-

de war. Trust is sort of a fuzzy amorphous construct, but if two countries can come together grappling with these existential threats, then they are better positioned to deal with some of the thornier trade and structural issues. So I am encouraged that we do see now, for the first time in my lifetime, a serious commitment to climate change and peaking of emissions and zero-carbon commitments by both China and the United States. To the extent that we can continue to move forward with enforceable agreements and progress in that regard, that would be a very encouraging development. I would couple that, though, to making similar progress on global health policy, alleviating the tensions of vaccine nationalism that have been destructive, as the developing world is far less secure in this post-COVID era than the rich developed world is. But these are issues that can be addressed; we have the science to do it. You raised earlier the question of whether or not we have the will to do it. That will be the ultimate test of this post-COVID climate.

James Chau:

I just want to finish by going back to your role, where so many people remember you serving and the bold ambitions that you had, as chairman of Morgan Stanley Asia, and also for a lot of that time as the firm's chief economist. Many people will always be interested in the hot topics of technology and sustainability. If you were to look into the crystal ball that you've created through your work, what do you see both countries achieving in the 25- to 50-year benchmark around environmental, social and corporate governance?

Stephen Roach:

I think the sort of intersection of technology and productivity is an area that I've studied as Morgan Stanley's chief economist, as a chairman and as an academic

now for over 35 years. It's not easy to move ahead in the area of technological innovation and translate that into measurable and sustainable increases in productivity, especially when externalities such as climate and pandemics come into play. China is clearly mindful of shifting its own technology platform away from importing technology from others with potentially significant negative feedback, depending on how that importing of technology occurs to move into more of an indigenous innovation platform. Homegrown innovation is done by its own scientists, engineers, and researchers, rather than getting into the contentious way of acquiring innovation from others. The U.S., in the same sense, has to redouble its own efforts. We've been a leader in innovation and technology for most of the post-World War II era, but we've been underinvesting in research and development. We've been underinvesting in higher education. We've created very powerful technology platforms that are driving productivity change around the world right now. We can't take for granted our ability to keep doing that in the future. So I go back to that intersection between innovation, technology and productivity, especially in an interconnected supply chain in a global world. Both countries face considerable challenges in pushing ahead on those fronts in the years ahead.

James Chau:

Well, you obviously care very much about the world and the state of the world and the humanity within. So in the last question, may I ask you: What would you say to people who are living through the chaos of the current state of the world and who are deeply confused about what lies ahead? What would you tell them not as an economist, not as an academic, but simply as Stephen Roach?

Stephen Roach:

It's a thoughtful question, and the easy answer that I think you hear from politicians is we're a resilient race. We've been through this time and time again, and we've always bounced back. You look at economic numbers and they show a precipitous collapse during lockdown, a very strong bounce back on reopening. We've got to do more than just extrapolate on the basis of the arithmetic snapback of reopening. Of course, we were going to have strong numbers post-lockdown, but we've got a lot of heavy work to do before we can speak with great confidence about the inherent resilience of our system. Resilience is something that has to be earned, not taken for granted. In the lessons of COVID, the lessons of climate change, the lessons of still vast swaths of poverty afflicting the developing world that are taking such a devastating toll on strong countries, potentially strong countries such as India are a worrisome reminder of what we need to do to make our systems more resilient in the future, and we're a long way away from that. We have to think long and hard about resilience in a world still afflicted by potentially devastating inequality.

James Chau:

Stephen Roach, senior fellow at the Jackson Institute of Global Affairs at Yale University, thank you very much for your words of advice, which we'll listen to very carefully. And thank you for steering much of the world today.

Stephen Roach:

Thank you very much. Pleasure.

(The foregoing transcript has been lightly edited for clarity.)

Digital Yuan Arrives on Global Stage



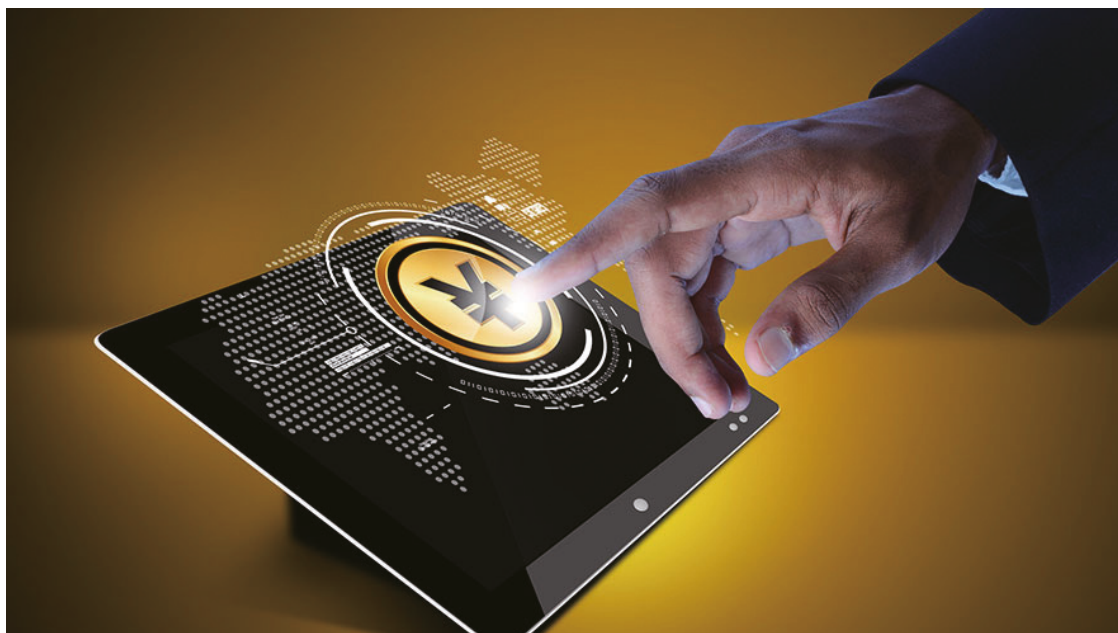
Christopher A. McNally
Professor of Political Economy
Chaminade University

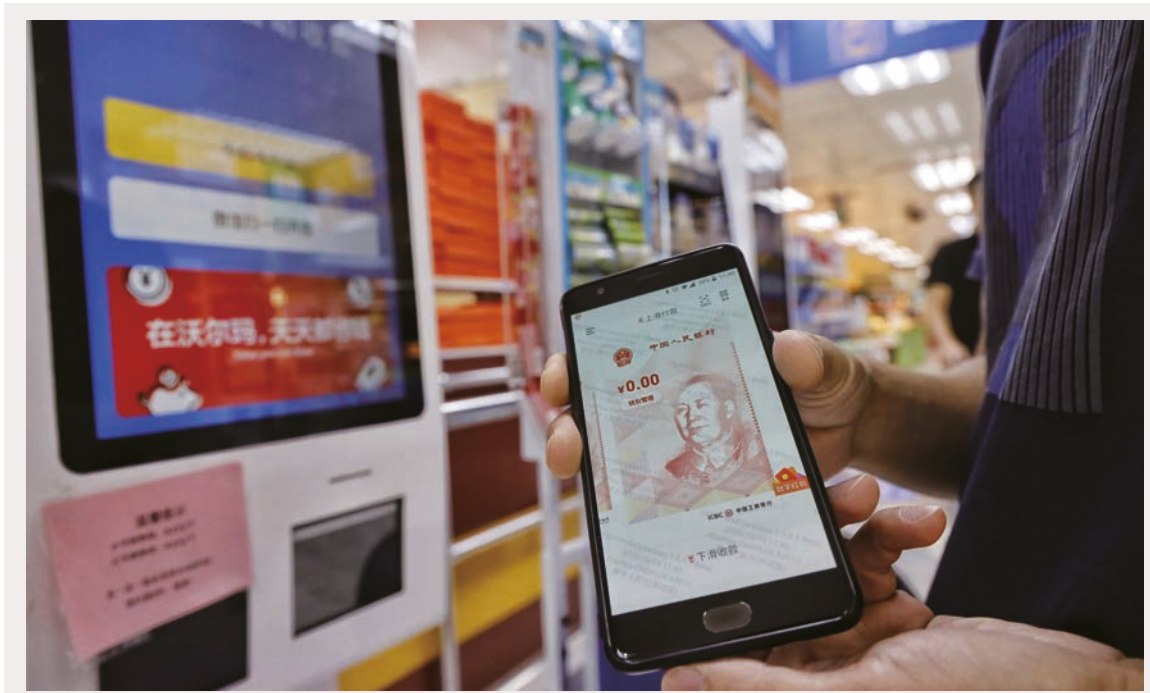
China is working to assert itself as a global leader in digital currency through the implementation of the digital yuan. The results of this could unravel the global financial system at worst, but at best could establish a global infrastructure with equal monetary anchors.

Cryptocurrency fever has gripped popular interest in recent months, as the prices of Bitcoin and Ethereum reached new records. This has resulted in the emergence of an intense debate over the value and significance of cryptocurrency technology. But the most significant development in this space is not the growing appeal of private cryptocurrencies; it's the rapid race to furnish the first Central Bank Digital Currency (CBDC). Far

ahead in this race is China, which is undertaking advanced trials of digitizing its currency, the yuan (or renminbi).

This new digital currency uses the abbreviation DCEP for Digital Currency Electronic Payment. Officially it is sometimes rendered with a slash as DC/EP. This captures its dual structure, under which the Chinese central bank, the People's Bank of China (PBoC), controls





- ▲ Residents who received “red packets” of digital RMB use the money in stores in Shenzhen, Guangdong Province. The city launched a pilot program to distribute 10m yuan (\$1.49m) in the form of digital currency to residents in December 2020.

the issuing of digital tokens at the central level. The actual electronic payment platforms serving consumers and businesses, though, are one level below the PBoC and include banks and payment applications such as Alipay and WeChat Pay.

As I laid out in an earlier article, DCEP is built on cryptographic methods and distributed ledger technology (DLT), also known as blockchain. There are multiple objectives underlying its development, but one of the major goals is to increase the global circulation of the yuan and, in turn, its international demand.

For Beijing, the need to internationalize the yuan is rapidly moving from a desirable concept to a necessary objective. Ever since National Security Agency contractor Edward Snowden revealed that the U.S. government monitors transactions on the Society for Worldwide Interbank Finan-

cial Telecommunication (SWIFT) network, Chinese policymakers have sought a way around the system. More recently, rising U.S.-China tensions over a range of hot-button issues, including Hong Kong’s national security law, Taiwan and alleged human rights abuses in Xinjiang, have created the specter of China being excluded from SWIFT. This would curtail Chinese banks’ access to the global dollar system, a catastrophic prospect for economic stability.

For Beijing, the need to internationalize the yuan is rapidly moving from a desirable concept to a necessary objective.

One major goal of the digital yuan is thus to strengthen financial sovereignty — only the PBoC would have final insight into yuan transactions. The DCEP would also encompass capabilities to directly challenge the U.S. dollar's dominance in cross-border payments. Especially in economies already heavily tied to China and familiar with the yuan, such as those participating in the Belt and Road Initiative, the digital yuan could provide a much more convenient and efficient international payment alternative with much lower transaction costs.

Despite this clear logic, doubts as to what extent the digital yuan could unseat the U.S. dollar's monopoly are voiced regularly. Eswar Prasad, for example, argues that the yuan will only become prominent as an international reserve currency after the Chinese government removes major restrictions on capital movements: “The DCEP on its own will not be a game-changer that elevates the renminbi's role in international finance.”

The digital yuan could provide a much more convenient and efficient international payment alternative with much lower transaction costs.

This view has merit. The lack of a fully liberalized capital account and, more generally, the full trust and faith of international creditors in the politico-economic stability of China make the yuan as a safe-haven currency a somewhat distant proposition. Still, legal and institutional certainty in international finance is inherently relative and dynamic. For investors, it is often one of the lesser evils that attracts long-term capital, especially in a world of near-zero interest rates. Chinese policymakers are addressing this chal-

lenge by pursuing a broader strategy: the establishment of a new financial ecosystem centered on DCEP.

As I noted in previous analyses, a digital yuan could enable new levels of control over currency flows and thus more subtle and less intrusive ways of managing China's capital account opening. Channels used to control capital flows into and out of China (e.g., the stock and bond connections between Hong Kong and the mainland) could be further expanded with the use of DCEP.

At the center of all of this stands the enhanced transparency and control the PBoC will have over all money movements. Everything is visible in real time. Combined with AI tools to flag suspicious behavior and large capital movements, the PBoC could target certain flows in times of crisis, creating more targeted and pinpointed means for managing China's capital account and exchange rate. DCEP therefore augments China's strategy for capital account opening — to broaden channels for capital flows while keeping overall control.

The lack of a fully liberalized capital account and, more generally, the full trust and faith of international creditors in the politico-economic stability of China make the yuan as a safe-haven currency a somewhat distant proposition.

Specifically, greater transparency over capital flows could support the opening of China's \$15 trillion domestic bond market to foreign participants with lower transaction costs. This could gradually solve the lack of yuan-denominated assets for foreigners to own, which is inhibiting the yuan's status as a reserve currency. Similarly, a DCEP-based international payments system could help the Cross-Border Interbank Payment System (CIPS) China established to gain wider acceptance. With turnover of roughly \$20 billion a day, CIPS still trails SWIFT's \$5 trillion per day by a very wide margin.

An expansion of CIPS, in combination with a digital yuan, would make it easier to establish a financial ecosystem independent of the U.S. dollar and thus the reach of U.S. sanctions. This is in part the rationale behind establishing Hainan Island as a new testing ground for financial reforms, including increased yuan convertibility and market access for foreign investors. Hainan is slated to develop onshore mobile payment systems that can conduct business overseas. As with the digital yuan, the ultimate goal for Hainan is to build a cross-border monitoring system of capital flows that can speed up yuan internationalization.

At the center of all of this stands the enhanced transparency and control the PBoC will have over all money movements.

Finally, Chinese authorities are busily testing new systems to clear the digital yuan internationally. The Finance Gateway Information Service is a joint venture between SWIFT and the Chi-

na National Clearing Center under the PBoC. This joint venture aims to direct all international yuan payments through CIPS, while still being integrated with the SWIFT system. In essence, its purpose is to enhance the role of CIPS alongside SWIFT, rather than in opposition.

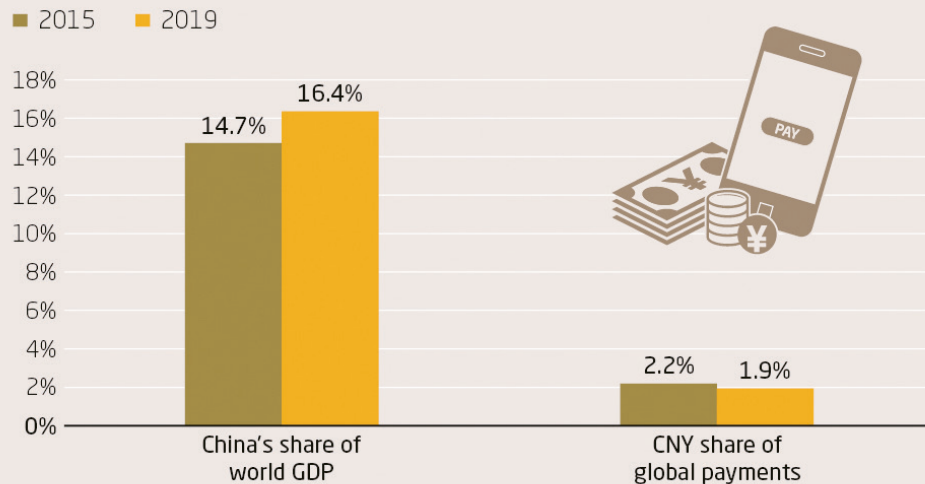
A DCEP-based international payments system could help the Cross-Border Interbank Payment System (CIPS) China established to gain wider acceptance.

The PBoC is also participating in various other projects to integrate different CBD-Cs, including standard-setting efforts by the Bank for International Settlements and a real-world trial launched by the Hong Kong Monetary Authority and the Bank of Thailand. The PBoC has undertaken promising simulations that combine DCEP with machine-learning to test policymaking scenarios for the management of money supply on foreign currency exchanges. All of these initiatives have the same purpose: to engender a new global payments network based on the digital yuan. The American financial superpower, at present so effective and far-reaching due to the dollar's global monopoly, would certainly be dented.

Launching the digital yuan is thus a strategic move by the PBoC. It establishes the digital foundation for a new ecosystem that could fill the demand for currency diversification in the rest of the world. According to a Morgan Stanley report, "Global demand for yuan-denominated assets could rise in a post-COVID, ultra-low-interest-rate, multipolar world." In particular, Europe, the third major pole in the globe's financial system, fears being squeezed between the United

The Yuan's share of global payments does not match the size of China's economy

China's share of global GDP and payments in comparison



Sources: World Bank, SWIFT

States and China. European efforts are naturally most focused on the global role of the euro. Nonetheless, the launch of DCEP could trigger an evolution to a more distributed version of monetary power than the one now centered on the United States. A digital yuan would not replace the U.S. dollar's global position, but usher in something more akin to a balance of power in global monetary affairs with three, or perhaps even more, poles.

Such a development could end in a chaotic contest to exert monetary power that unravels the global financial system, splitting it into rival camps. Global economic growth could be set back by decades. Alternatively, a best-case scenario would see the emergence of a consortium of equal monetary anchors that coordinate and harmonize the global payments infrastructure. As the planet faces a whole new dimension of money, let us hope the latter scenario prevails.

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A China-U.S. Cooperation Checklist



Yao Yunzhu

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There's a long list of worthwhile possibilities in the military and security fields, and it's of utmost importance that China and the United States engage with one another. The result of failure could be catastrophic.

Since the 1990's, China and the United States have had extensive conflicting interests in both military and broader security issues. However, if the purpose is to map out a cooperation list, I will venture the following suggestions:

First, intensifying strategic competition has given rise to a shared interest: prevention of military conflict resulting from misjudgment, accident or inadvertent events at the operational level. Such a military conflict runs the risk of escalation to a larger scale and higher intensity.

Now that both countries can little rely on strategic trust to avoid a crisis, they must improve the existing crisis management regimes, including updating the code of behavior in close encounters in the air and at sea, regulating the use of communication channels and clarifying protocols and procedures when emergencies do occur. This may be the most important area in which the two militaries can work together.

Second, given that China and the U.S. have the responsibility of maintaining world peace and regional stability, they must discuss, negotiate and eventually agree upon a relationship of strategic sta-

bility. For that purpose, they need to first explore a conceptual construct of what that means — how it draws upon and differs from what the U.S. and Soviet Union had during the Cold War. The U.S.-Soviet strategic stability was based on a balance of nuclear arsenals and focused on “crisis stability” and “arms race stability.” A framework for strategic stability for the U.S. and China might have to be more extensive and inclusive.

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Given the nature of China-U.S. military relations, the architecture for strategic stability should not only cover the size and composition of nuclear arsenals and defensive/offensive balances but should also explore ways and means for preventing cyberattacks on nuclear facilities and nuclear command, control and communication systems (NC3), as well as on assets in space.

Currently, there are studies in academia



and the policymaking community in both countries looking at how peaceful coexistence can happen, what military balances would aid stability and what kind of military posture is needed that would both satisfy their security requirements and avoid an arms race.

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In any case, the Cold War concept of “mutual assured destruction” (MAD) should not be the only option. There have been studies and discussions raising concepts such as “mutual denial” or “mutual vulnerability,” which need further exploration on both sides.

Third, China shares interests with the U.S. in the area of international arms control. U.S. President Joe Biden ranks arms control as a policy priority and extended the New Start Treaty with Russia for another five years immediately after he took office. The Trump administration had tried to force China into disarmament negotiations with Russia, which was neither fair nor practical. China is and will continue to be opposed to such coercive behavior.

However, China and the U.S. have ample room to cooperate in bilateral and multilateral frameworks on arms control, including reducing their reliance on nuclear weapons for national security and promoting a political consensus to minimize the utility of nuclear weapons in the P5 framework. Both countries should call for a joint P5 statement that “Nuclear war cannot be won and should never be fought,” which presi-

dents Reagan and Gorbachev made decades ago.

Considering that President Biden has promised during his campaign for the White House to seek a “sole-purpose” nuclear policy, and that China has a long-held “no first use” policy, both sides can work together for the adoption of a “no first use” or sole-purpose policy by all nuclear-armed states.

At the same time, both should continue to cooperate on nonproliferation issues, as they did in the past, seek a peaceful solution of the DPRK nuclear issue and keep the Iran nuclear deal (the Joint Comprehensive Plan of Action) intact.

Even when both countries are less inclined to cooperate during a period of heightened strategic competition, nonproliferation remains a common interest, and cooperation is a necessity for regional and global peace.

Last, China and the U.S. can and should engage each other in setting standards, rules and norms for emerging technologies involving space, cyberspace, artificial intelligence and so on — especially on whether or how such technologies should be used for military purposes. Exclusion of each other from this process could have grave consequences.

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Monroe Doctrine vs. China Neighborhood Risks



Doug Bandow
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When two highly motivated powers compete for influence, its defenders prepare for the worst — full blown military conflict. The cost of deadly conflict must weigh heavily on the minds of national leaders before they take their next steps.

Attempting to dominate the People's Republic of China in its own neighborhood is a prescription for conflict. Yet, rather than taking a less confrontational approach to China, as suggested when candidate Joe Biden called it a "competitor" rather than a threat or adversary, the Biden administration appears to be preparing for war.

Secretary of State Antony Blinken made his first official trip to Asia in mid-March. He lectured Beijing, threatening to "push back if necessary when China uses coercion or aggression to get its way."

The administration is being pressed hard by Washington's bipartisan war party. For instance, the Atlantic Council, one of America's most important foreign policy think tanks, published "The Longer Telegram for Dealing with the PRC." The title references George Kennan's famous "Long Telegram," which set forth the policy of containment for dealing with the Soviet Union.

The Cold War turned into a continuing military confrontation despite Kennan's belief that Washington's focus should be on political means. The Atlantic Council is up front in pushing "coercive containment." It proposed a series of red lines backed by the threat to use military force in response to "any nuclear, chemical, or biological weapons action by China against the U.S. or its allies or by North Korea; any Chinese military attack against Taiwan or its offshore islands, including an economic blockade or major cyberattack against Taiwanese public infrastructure and institutions;

any Chinese attack against Japanese forces in their defense of Japanese sovereignty over the Senkaku Islands, which China claims as the Diaoyu, and their surrounding exclusive economic zone in the East China Sea; any major Chinese hostile action in the South China Sea to further reclaim and militarize islands, to deploy force against other claimant states, or to prevent full freedom of navigation operations by the U.S. and allied maritime forces; and any Chinese attack against the sovereign territory or military assets of U.S. treaty allies."

The U.S. armed forces are preparing for possible conflict, and not just the Navy and Air Force. Army Gen. Richard Coffman pointed to China's possession of 7,000 tanks and 3,000 infantry fighting vehicles, warning that "10,000 vehicles will be decisive if we are not there." Thus, he insisted: "We have to be there with armor to prevent the Chinese from getting into a position of relative advantage." His combat plan remained obscure: a ground assault to capture Beijing, perhaps?

As evidence of Chinese belligerence, Gen. Coffman pointed to the recent statement by Gen. Xu Qiliang, vice chairman of China's Central Military Commission, that war is inevitable. "That is the first time China has made that statement publicly," Coffman observed, which could reflect Chinese aggressiveness. Or Xu might have been responding to what and his colleagues see as increasingly militarized — and grandiose — demands by the U.S.

The Biden administration should halt this apparent rush toward confrontation. As it formulates policy, how about hitting “reset”?

Washington should exhibit humility in dealing with the PRC. Americans care deeply about human rights and the government under Xi Jinping is behaving badly in a number of areas. Perhaps most infamous are recent events in Hong Kong. But there is much more that offends the West’s values. In response, Chinese officials have pointed to America’s militaristic foreign policy, which has caused far more harm than any Chinese government action since the Cultural Revolution. Washington officials should exhibit more modesty when addressing Beijing’s faults.

The Biden administration should halt this apparent rush toward confrontation.

The U.S. is also understandably concerned about freedom of navigation in the oceans, as well as the independence of friendly states. Nevertheless, these issues are as important as defending America, which is not at risk. Rather, U.S. officials are using these points to justify threatening war thousands of miles away.

Imagine how Americans would react if Chinese warships were sailing down the East Coast into the Caribbean; Beijing was filling Latin America with bases and troops; PRC officials were attempting to dictate American policy regarding Cuba; and the National People’s Con-

gress was demanding a more aggressive posture in the Western Hemisphere to contain America.

Particularly significant is the Atlantic Council’s failure to set priorities. Should the U.S. really go to war with a nuclear-armed power over a handful of worthless rocks, such as the Senkaku/Diaoyu Islands? Is the sovereignty of Scarborough Shoal, controlled by China and claimed by the Philippines, as important as the security of the entire archipelago? Should Washington risk full-scale war over Taiwan, part of China throughout all but the last century or so, and as close to China as Cuba is to America?

U.S. officials presume inevitable victory, but it is far more expensive to project power than to deter its use. The results of multiple war games have not been reassuring. Plans for massive investments in new technologies are likely to founder on Washington’s virtual bankruptcy: America’s debt-to-GDP ratio is over 100 percent, nearing the record high set in World War II, and could break the 200 percent level by 2050.

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Nor should Washington expect its allies to enthusiastically join an American crusade. Would the Philippines aid a U.S. fight over Taiwan? Would South Korea make itself a permanent enemy of its huge neighbor to back war over the Senkakus? Would Japan send a task

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force to help drive the PRC's Navy from Scarborough Shoal?

Of course, China has significant weaknesses itself. However, it has far more at stake facing threats so close to home. Washington would be fighting over influence, not survival. Beijing would have another significant advantage in being able to rely on the mainland. This also creates a danger of escalation. U.S. forces would have little choice but to strike military targets in the PRC, creating extraordinary pressure on the latter to retaliate accordingly.

Perhaps the greatest danger is that even an American victory would only be temporary. Absent a complete collapse, China likely would double down to prepare for an extended campaign to expel U.S. military forces from its vicinity. History has shown us the price that could come to: Two terrible global contests were necessary to settle Germany's role in the global order.

The U.S. and China have many important differences. However, it remains vital that the two governments settle their disputes peacefully. Generals are paid to prepare for the worst. But diplomats, like Secretary Blinken, must labor to achieve the best.

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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