

CHINA & US FOCUS DIGEST

A Year of Crises or Cooperation



CHINA & US FOCUS

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CONTENTS

THE HOT PEACE PARADIGM

P. 06



Wang Jisi
High-level dialogues in 2021 between China and the United State clarified their positions. Now it's imperative that the two rivals avoid a new cold war by engaging in substantive working-level talks.

THE BANKS OF CHANGE

P. 12

INTERVIEW WITH LAWRENCE H. SUMMERS



“

My hope is that competition can be managed for the benefit of workers here and workers in China.

PROSPECTS FOR CHINA'S ECONOMY

P. 18



Lawrence J. Lau
The future looks bright, but China must maintain economic openness.

AVOIDING WAR, BUT ALWAYS WORRIED

P. 26



Yan Xuetong
Shooting is not likely to break out, but the two countries will remain in dread of each other in the coming decade.

TURNING THE PAGE IN 2022

P. 29

He Weiwen

Despite a meeting of presidents and intensive talks at lower levels, the United States has not fundamentally altered its position. This needs to change. Next year should be characterized by reasonable, constructive efforts — followed by action — to ease the current tensions.

ESTABLISHING A NEW STRATEGIC FRAMEWORK

P.36

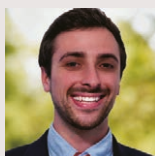
An Gang

China and the United States must take the opportunity to move relations forward following the Xi-Biden virtual meeting in November. A healthy future will be discovered through frank dialogue, sincere exchanges and taking advantage of every small but concrete commitment.

MAKING SENSE OF THE BUZZ:

P. 41

WHAT DOES “U.S.-CHINA CLIMATE COOPERATION” ACTUALLY MEAN?



Matt Geraci

Climate cooperation has been touted as an area of common interest for the United States and China — and the scientific work being done on the ground by scientists offers much to be shared between the two nations.

OMICRON’S GLOBAL SUPPLY CHAIN IMPACT

P.46

Earl Carr, Pengyu Lu, Gustav Andersson

The new COVID-19 variant, Omicron, is throwing a wrench into the recovery of an already strained global supply chain.

RESHAPING THE INTERNATIONAL SYSTEM

P. 50

Xiao Bin

China and Russia may be forced to seek a new equilibrium, with the result being two international camps. This could lead to a new cold war and subject other nations to unpredictable security costs.

IT’S ALL ABOUT IDEOLOGY

P. 54

Li Yan

THE PACIFIC DIALOGUE IN 2021

P. 59

2022 and Beyond: Crises or Cooperation?

Zhang Ping

The first weeks of 2022 were rife with ominous developments, including spikes in new COVID infections with the Omicron variant, conflicts in Ukraine and Kazakhstan, disastrous weather induced by climate change and ongoing tensions between the United States and China. There are no clear signs that relations will get better anytime soon.

Yet, 2022 offers opportunities for China and the U.S. to work together. Domestic imperatives and global challenges call for a constructive relationship, not a rivalry that jeopardizes all. If 2021 teaches anything, it is that patience, respect, political resolve and diplomatic finesse are critical in managing the complex relationship between the world's two greatest powers.

A recent China-U.S. Focus survey of leading Chinese scholars identified the U.S. midterm elections and the Communist Party of China's 20th National Congress in the fall, and the Taiwan issue as the key variables that will shape the future. It also found a consensus that China-U.S. relations are trending away from cooperation and toward competition — and potential crises. The year may end up with elements of both.

The articles in this issue can be taken as a review of the China-U.S. relationship in 2021. They also offer perspectives on what to expect in 2022 and beyond.

Referring to observations he made 20 years ago, Professor Wang Jisi argues that the current state of relations is best characterized as a hot peace, not a new cold war. Yet, he argues, neither situation serves the best interests of the two countries. Similarly, Professor Yan Xuetong suggests that there exists an “uneasy peace” between Beijing and Washington.

In an interview with Focus, former U.S. Treasury Secretary Larry Summers provides insights on what the two largest economies can do to foster the recovery of a global economy ravaged by COVID.

In a Q&A Professor Lawrence Lau addresses a host of questions about China's economy, from debt pressure to GDP growth. His commentary is complemented by He Weiwen, who looks at the latest trade and economic developments with the U.S.

A new Focus contributor, Matt Geraci, takes a deep dive into the much-discussed climate cooperation between China and the United States. His comments are a must-read.

We hope you enjoy this issue. And, as the Chinese New Year draws near (Feb. 1), we wish you a happy Year of the Tiger!



HAPPY NEW YEAR!



福

2022



福迎
虎春

寅虎





The Hot Peace Paradigm



Wang Jisi

*President of the Institute of International and
Strategic Studies
Peking University*

High-level dialogues in 2021 between China and the United State clarified their positions. Now it's imperative that the two rivals avoid a new cold war by engaging in substantive working-level talks.

Despite frequent spats, the China-U.S. relationship was relatively tranquil in 2021, compared with the drastic downward spirals of 2018-20.

Still overshadowed by the COVID-19 pandemic, Beijing and Washington were able to hold several meaningful high-level talks last year:

- Presidents Xi Jinping and Joe Biden spoke by telephone on Feb. 11, the eve of the Lunar New Year. In their dialogue, the two leaders agreed to maintain close communication on China-U.S. relations and issues of mutual interest. This yielded results.
- On March 18 and 19, Yang Jiechi and Wang Yi, China's top officials in charge of foreign affairs, engaged in a strategic dialogue in Alaska with their U.S. counterparts, Secretary of State Antony Blinken and National Security Adviser Jake Sullivan.
- On July 26, Wang Yi met with U.S. Deputy Secretary of State Wendy Sherman in Tianjin, China.
- President Xi received a phone call from President Biden on Sept. 10.
- Yang Jiechi and Jake Sullivan took a long trip to see each other in Zurich, Switzerland on Oct. 6, followed by a meeting between Wang Yi and Antony Blinken in Rome on Oct. 31.
- A virtual meeting between Xi and Biden lasted three and a half hours on Nov. 16.

These high-level political interactions were supplemented by agreements in two crucial areas that bind the two countries together. Chinese Vice-Premier Liu He

and U.S. Trade Representative Katherine Tai held a videoconference on Oct. 9. They appeared to be ready to drop some of the existing trade barriers.

On Nov. 10, China and the U.S. issued the Joint Glasgow Declaration on Enhancing Climate Action in the 2020s on the sidelines of the UN Climate Change Conference in Glasgow, Scotland. To many who are worried about rising global carbon emissions amid China-U.S. political discord, the declaration announced by the two largest carbon emitting countries presented a delightful surprise.

Some other encouraging news included the July arrival in Washington of Qin Gang, China's new ambassador to the United States and the U.S. Senate's approval in December of Nicholas Burns, President Biden's nominee to be the new U.S. ambassador to China. Both of them are seasoned diplomats and said to be trusted by the top leaders of their countries.

The latest Xi-Biden summit served to anchor the vessel of China-U.S. ties. The theme threading through their discussion was the need to "prevent China-U.S. relations from derailing," in Xi's words, or to avoid competition "veering into conflict, whether intended or unintended," as Biden put it. Both leaders denied the prospect of a new cold war in steering their relationship.

To assure peace, it is essential for the People's Republic of China and the United States to handle the Taiwan issue judiciously. Beijing recently reiterated its long-held goal of peaceful reunification and "one country, two systems." The PRC's twofold fear, however, is growing alarmingly. First, Washington's "salami tactic" is unfolding in the upgraded ties

“It is not inconceivable for some in Washington that Beijing could be baited into attacking Taiwan, giving America a chance to mold its rivalry with China back into all-out sanctions and decoupling — as was the case with the Soviet Union.”

with Taipei in political, military, economic and other dimensions. Second, pro-secession forces in Taiwan have consolidated their power base, pushing opposition parties into a corner.

To many observers in the PRC, time does not seem to be working for peaceful reunification and forceful means should therefore be applied, including a military takeover of the island, to solve the problem once and for all. They further contend that China cannot declare the achievement of national rejuvenation without its territories being fully recovered. These sentiments manifested themselves rapidly in the past year.

While Washington has not failed to notice the Chinese mood, it has refused to talk to Beijing regarding the status and fate of Taiwan, insisting instead that it upholds the one-China policy (without recognizing Taiwan as part of China). It only occasionally notes that the United States “does not support Taiwan independence,” which is far from reassuring to Beijing. A more constructive approach would be a statement that the U.S. would welcome any peaceful resolution across the Taiwan Strait about the island’s future, thus not excluding the possibility of reunification.

The PRC and the U.S. should engage each other in quiet discussions leading

to a reduction of mutual mistrust, rather than saber-rattling and military exercises over the Taiwan issue. As Terry Su, a Hong Kong-based strategic thinker, suspects, “It is not inconceivable for some in Washington that Beijing could be baited into attacking Taiwan, giving America a chance to mold its rivalry with China back into all-out sanctions and decoupling — as was the case with the Soviet Union.”

Twenty years ago, I wrote that the state of China-U.S. relations would be best described not as a new cold war but as a hot peace — an intensity of interaction marked, yes, by heated rhetorical accusations against each other, but also by increasing trade, investment and tourism. It is time to recall this concept when peace is generally assured except for the potential hot spot of Taiwan.

But the danger of confrontation looms larger. Compared with the temperature of China-U.S. relations in 2001, the hot peace I referred to at the time has now become much hotter in most dimensions. The mutual rhetorical accusations are increasingly sensationalized and cover a wider range of issues, such as cybersecurity, military activities in the South China Sea, arms control, human rights, the treatment of national minorities, the origin of the COVID-19 pandemic and which political system is more democratic, among others.

The state of China-U.S. relations would be best described not as a new cold war but as a hot peace — an intensity of interaction marked, yes, by heated rhetorical accusations against each other, but also by increasing trade, investment and tourism.

In the economic dimension, China jumped from America's fourth-biggest trade partner in 2001 to its biggest in recent years. Unfortunately, however, the once-promising tourism and humanitarian exchanges were hit hard first by the Trump administration's frenzied trade war and then by the pandemic.

I maintain the expectation that the hot peace of China-U.S. ties may likely be shaped as a paradigm in 2022 and afterward, following the relative tranquility of 2021. It can persist in a variety of ways:

First, negative perceptions in each country toward the other are soaring, in national media and social media alike, as indicated by recent public opinion polls. In particular, Chinese citizens are angered by the Xinjiang "genocide" allegations they see as a Western demonization of China. The U.S.-led diplomatic boycott of the 2022 Beijing Winter Olympics is further evidence of American hostility.

The ongoing propaganda war between the two countries will probably intensify rather than subside in the near future.

Biden's virtual Summit for Democracy in December was obviously aimed at taking the initiative to bolster "democracy" around the world at the expense of China's expanding political influence. China appeared to be well-prepared to meet such political and ideological struggles. The Communist Party of China has boosted its global presence, partly in response to Western powers' joint efforts to isolate the country. For

example, the CPC hosted the World Political Parties Summit in July via video link. It was attended by 10,000-plus delegates representing more than 500 political parties and organizations in more than 160 countries. A few days after Washington's Summit for Democracy, the CPC's International Department organized several events to promote China's "whole process people's democracy" and reveal the faults and pitfalls of Western democratization. The ongoing propaganda war between the two countries will probably intensify rather than subside in the near future.

But the most serious long-term struggle is being waged in the high-tech field, where Americans want to keep their edge and forestall any Chinese attempt to surpass them.

Second, economic issues are being politicized and securitized (in the sense of undergoing national security scrutiny). Both the Trump and Biden administrations took steps to restrict inbound Chinese investment and curb high-technology exports to China. Alarmed by the mounting technological competition from China, the Biden administration and many members of the U.S. Congress have called for more government intervention to bolster strategic sectors such as semiconductors, drones and artificial intelligence.

The United States has also imposed extensive human rights-related sanctions on hundreds of Chinese individuals and entities. In response, the PRC has introduced laws and regulations related to national security and sanctioned a number of U.S. officials and organizations that infringe on China's sovereign



rights. But the most serious long-term struggle is being waged in the high-tech field, where Americans want to keep their edge and forestall any Chinese attempt to surpass them.

Third, both China and the United States are soliciting international support from traditional allies and like-minded players in a sustained geostrategic competition. The AUKUS (Australia, UK, U.S.) pact and the Quad (U.S., Australia, Japan and India) mechanism have paved the way to deepen defense cooperation in line with Washington's Indo-Pacific strategy. China claims that its partnership with Russia is "not an alliance but stronger than an alliance," as military cooperation is enhanced. China's new footprint in South Asia, the Middle East, Africa and Latin America, together with its Belt and Road Initiative across the board, have generated a great deal of jealousy and reaction from Americans.

Last but not least, the domestic agendas of the United States and China in 2022 may or may not work to lessen the strain. As pointed out by Robert Zoellick, former U.S. deputy secretary of state, "Biden's do-

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mestic foes will attack any move away from confrontation with China, but he will have to choose between indulging their fears or achieving results” before the 2022 midterm election. In preparing for the 20th CPC National Congress set for next autumn, Beijing is expected to show stronger resolve to resist any U.S. challenge to its legitimacy and authority.

Therefore, the next stage of the China-U.S. relationship is not going to be easy sailing. Yet there are enough incentives on both sides to remain sober-minded and keep the relationship manageable, since both are faced with imperatives at home.

In China, to smooth the political transition related to the 20th Party Congress, the top priority is arresting an economic slowdown while controlling variants of COVID. The task of pursuing common prosperity — affluence shared by everyone — is also mounting. For the U.S., beyond halting the spread of omicron, the priority list on the domestic front includes financial stability, inflation, national and local debt and infrastructure building in the short run, as well as racial tensions and political polarization in the long run.

In reality, a gradual recovery of China-U.S. economic cooperation will help to manage their respective imperatives. Despite escalating political difficulties, Chinese and American businesses remain deeply integrated in terms of financial, intellectual and production networks. The vast majority of Chinese and American companies are not embracing the idea of decoupling.

In the meantime, China continues to attract record-setting foreign investment because of its high-quality infrastructure, skilled labor and the promise of its vast domestic market. If the global supply chains that link their businesses and those of other countries are not severely damaged, the two economies will continue to benefit from each other.

Neither a new cold war nor a hot peace serves the best interest of China, the United States or anyone else. Rather, cooling down the blame game and geopolitical competition — while warming up cooperation in such areas as commercial ties, finance, investment, public health, the environment, technology and humanitarian exchanges — will provide more hope for sustained peace and prosperity of these two great nations and the world.

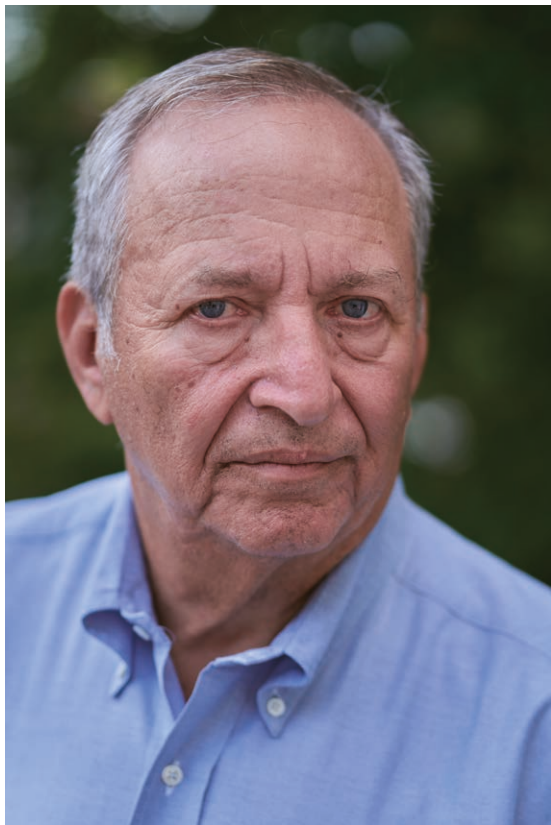
Neither a new cold war nor a hot peace serves the best interest of China, the United States or anyone else.

The high-level China-U.S. dialogues in 2021 spelled out their respective positions and kept bilateral channels open. It is now imperative that Beijing and Washington engage in substantive working-level talks to solve practical problems.

The Banks of Change

Interview with
Lawrence H. Summers





■ Lawrence H. Summers

Lawrence H. Summers has made a deep and unique contribution to public life, serving variously as Chief Economist of the World Bank, U.S. Treasury Secretary in the Clinton administration, President of Harvard University, and Director of the National Economic Council under President Barack Obama. As the global economy struggles to find its footing in a disruptive century — and now as the current pandemic enters a third year, Secretary Summers shares his insights on what's next, and how we can prepare for those changes. He speaks in this interview with James Chau, Editor-at-Large of China-US Focus.

James Chau:

Secretary Summers, thank you very much for this time and for the opportunity. If we look at the global challenges today — and there are any number of them, including labor shortages, supply chain issues, and of course, rising inflation — what do you think we as a world need to be focused on and what do you make of the world as it stands today?

Secretary Summers:

There are many places that require focus. I think, in some ways, the broadest way of framing it is traditionally that the overarching problem in a global system has been maintaining a balance of power and avoiding excessive aggression between nations. I think today our success requires, of course, maintaining that type of balance, but even more requires achieving effective cooperation between nations on issues that challenge all of humanity — issues like climate change, issues like the global pandemic threat, issues of disillusioned and angry populations that turn to terror, issues of maintaining a well-functioning global economy. And so, managing an effective global system is, I believe, the central challenge globally for our time. And of course, the two globally dominant economies — the U.S. as an established power, China as a rising power; the U.S. with the democratic system that it's had for 250 years now, and China with a one-party state that has produced economic miracles for the last 40 years; the U.S., a rich country by any measure and China, an exceedingly rapidly growing country — for all our differences, we share that common imperative.

James Chau:

What binds them together? I mean, when we look at John Kerry and Xie Zhenhua, who are the climate change envoys for the U.S. and China, they found a way, and again in Glas-

gow, to create new partnerships against the impact of climate change, but more broadly, to help move humanity forward. Do you think that climate change rather than trade, for example, will become the accelerator bilaterally and through these two economies, the accelerator for us as humankind?

My hope is that competition can be managed for the benefit of workers here and workers in China.

Secretary Summers:

I'm hopeful that we will be able to have spheres in which the cooperative element is stronger, as well as spheres in which the competitive element is stronger. I think, inevitably, in the area of trade, there will be competition between American firms and Chinese firms, between America as a location for production and China as a location for production. But my hope is that this competition can be managed for the benefit of those byproducts in the United States and those byproducts in China. My hope is that competition can be managed for the benefit of workers here and workers in China.

James Chau:

May we go back to what you called "anger," the fundamental anger of people? Now that's been made much more complex by a pandemic, which we were told even before it occurred was going to upend economies and create social chaos. Will the creation of jobs and keeping people in jobs, education and allowing people to participate in the mainstream economy be enough to unplug the anger that you speak of?

Secretary Summers:

I think it depends very much on the policies that are pursued. If we are successful in causing a larger fraction of parents to feel that their children are going to live better lives than they did, I think that can go a long way to reducing frustration. If people continue to feel, as I think they too often have in recent years, that broad forces beyond their control are shaping their opportunities, as the financial crisis in the United States did in 2008 and onward, and as various financial changes have buffeted Chinese households, I think that it will be more difficult to give people that feeling of secure confidence.

James Chau:

Many people continue to follow you as a guide for what's going to happen next in the world, including the opinion piece that you wrote a couple of weeks ago speaking about what you described as entrenched inflation, followed by recession in the United States. Many economists believe that's going to play out internationally as well. What do you think are the global risks of inflation, slowdown, and recession? And where would you see China and the United States coming in to help meet and solve that?

My own judgment is that the Fed is likely to find it necessary to raise interest rates by more than the markets or the Fed currently recognize.

Secretary Summers:

I think we're moving into a period when interest rates are likely to rise. My own judgment is that the Fed is likely to find it

necessary to raise interest rates by more than the markets or the Fed currently recognize — that in that context we are likely to have some real difficulties, particularly for some developing countries, I think it is hard for me to judge how China is going to deal with the twin short-run problems of substantial financial overhang in the real estate sector and the exit from lockdown with respect to COVID. So, I think that with greater strains in both the U.S. and China, it may be a difficult period for many emerging economies. Just how it will play out is very difficult for me to know. My hope would be that this could be a period when we were able to substantially fortify and augment international financial institutions. I think we're going to see substantially greater needs for intermediation of capital. And my hope would be that the United States could come over time to a more constructive attitude toward the Asian Infrastructure Bank that China originated a few years ago. And my hope would be that it would be possible to substantially grow and strengthen the World Bank.

James Chau:

If we go back to 2008, you played a huge role in helping the world navigate its way through the financial crisis. At that time also, we saw the United States and China collaborate to try and prevent what could have been a complete collapse in the global economic system. Do you think there are experiences from that time in your life that you would say can be reapplied now, today?

Secretary Summers:

I would hope that the G20 could be reenergized. Frankly, I've been disappoint-

ed in recent years that more has not come out of G20 meetings. I think there's a historic opportunity to invest in a global health infrastructure that can meet the needs of responding to the pandemic, but we're really not getting there very quickly. We're appointing one group after another, but I don't think a huge amount is happening. And so, I would like to see the G20 as a grouping given more impetus, and I think that will require substantial energy from China. I think the United States has been willing. But in recent years, China has been somewhat reluctant to lean into that G20 initiative. I would hope that over time that would change.

James Chau:

Why do you think there is less willingness, shall you say, compared to years past?

And my hope would be that the United States could come over time to a more constructive attitude toward the Asian Infrastructure Bank that China originated a few years ago. And my hope would be that it would be possible to substantially grow and strengthen the World Bank.

Secretary Summers:

I think some of it is a reflection of the growing tension and truculence between the United States and China, and China experiencing some of the things that the United States is saying and doing in the trade arena — for example, with respect to Taiwan — as being provocative. I think that's one portion of it. I think China may prefer to shift action to other fora besides the G20 where it feels that the configuration of who's in and who's out, who's voting, is more favorable to it. I'm not sure I'm in a position to analyze Chinese motives, and certainly I think that in repairing and strengthening any relationship, both partners have a role. It's probably more important to look forward than to look backward.

James Chau:

When you speak about the shift, perhaps in how China interacts with the world beyond its borders, there's also been activity within its borders, in its relationship with big tech companies, for example, among other players in the private sector. While you may not be able to analyze what's in the Chinese mind, what does Larry Summers think about those changes that we've seen in the past year-plus?

I think China may prefer to shift action to other fora besides the G20 where it feels that the configuration of who's in and who's out, who's voting, is more favorable to it.

Secretary Summers:

I think we in the United States and China have common challenges — rising inequality, how one is going to deal with the conse-

quences of information technology. I think all of that is immensely important. At the same time, I do think that China's actions in a number of spheres have seemed to me somewhat precipitous and somewhat arbitrary and unpredictable. And I think an important part of a stable, well-functioning system is predictability. That means respect for property rights. That means rules that are announced in advance, rather than imposed ex-post. I have been concerned about what seemed to me to be rather precipitous actions in the economic arena that have come out of China. To be fair, I'm not living in China and not seeing all that Chinese policymakers are saying, and I'm very much aware of the really remarkable record of Chinese economic progress over the last four years.

James Chau:

Secretary Summers, many people turn to you for a forecast of the future. If there are two or three economic issues that you would want the United States and China to work on to create the stability that you spoke of there, what would they be in the current context?

Secretary Summers:

I think probably the most important issues are the global public goods issues, cooperation with respect to adequate funding for containing the threat of the pandemic, adequate funding for an effort to assure we make the progress we need with respect to climate change, and for development. All of these will be the points that we emphasize.

James Chau:

Let's look at another area here, of course, which is your own self. You come from an extraordinary family, both your mother and father were economists and were economics professors. And both had a brother, your two uncles [Kenneth Arrow and

Paul Samuelson] who went on to win the Nobel Prize in economics. Growing up in that house, but also more deeply growing up with those influences, how did it impact and shape your view of the world as a boy, as a teenager — a view of the world perhaps also including the United States and China?

Secretary Summers:

Frankly, in my youth, China was not something that was very salient to the United States. When I was growing up, it was during the period when we had no diplomatic relations with China. And there was essentially no contact between our nations. So, there was occasional discussion of whether China should be admitted to the UN or not, but it was really not a salient issue. In my youth, certainly, I think I came to believe in economics as a tool for analysis. And more broadly I came to believe in data and believed in empirical analysis as a way of making progress. I was brought to believe in the power of systems analysis. And I suppose that kind of relatively empirical and analytical approach to problems has stayed with me ever since.

James Chau:

Secretary Summers, many people will see you as an economist, as someone who can cast his eye to the future to tell us how we should be living. But if we follow your Twitter, where you share many of your valuable thoughts, you obviously have a deep, deep concern for human suffering and for human dignity. We live in a time, as you said, of global poverty, but more specifically, of widening and entrenched inequity. Where would you tell all of us, be it Chinese or Americans or people of the world, to go forward? How can all of us contribute, whether we happen to be sitting in high levels of leadership or not?

Secretary Summers:

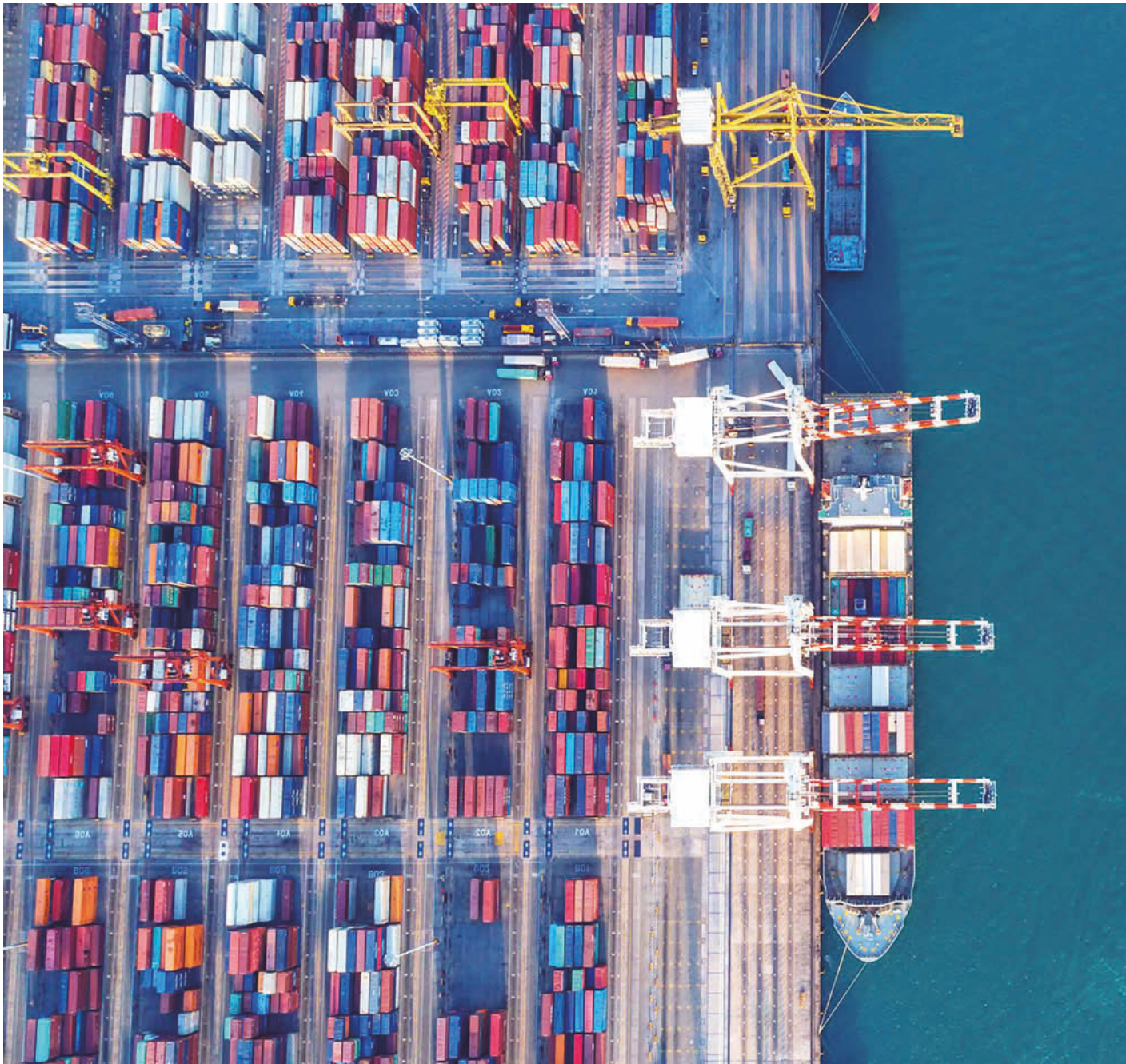
Innovation, cooperation, and communicati-

on are, I think, the keys to making the kinds of contributions that we want. For much of the world, there is great scope for importing the technologies and capacities that exist in the cutting-edge parts of the world. For those who are closer to the cutting edge, the answer lies in innovation. Much of innovation is about science, quantum computing. But by no means is all of innovation based on what we traditionally think of as science. New combinations of flavors make for better foods, new strategies make for more entertaining and more successful sports teams, new styles provide increased pleasure to those who wear them, new modes of producing music or video provide joy and entertainment to millions of people. So, I think, ultimately, the greatest human gift is the ability to innovate, and for all of us to innovate in the ways we can in the hope of bringing satisfaction to others and receiving what may ultimately be the greatest compliment — being emulated. That's how I think we can all make the greatest contribution.

James Chau:

Secretary Summers, thank you very much for your time, and for using your words and your ideas to unleash our human imagination today. Once again, happy New Year and a happy Chinese New Year to you and your family.

Ultimately, the greatest human gift is the ability to innovate, and for all of us to innovate in the ways we can in the hope of bringing satisfaction to others and receiving what may ultimately be the greatest compliment — being emulated.



Prospects for China's Economy



Lawrence J. Lau

*Ralph and Claire Landau Professor of Economics
The Chinese University of Hong Kong*



The future looks bright, but China must maintain economic openness.

At the beginning of 2022, I would like to review both the near- and long-term prospects of the Chinese economy. I will begin by looking at the underlying trends in the Chinese economy. Then I will examine near-term performance, followed by some long-term forecasts. Brief concluding remarks are made at the end.

Underlying trends

What are some of the major underlying trends in the Chinese economy over the next decade? We can identify the following major directions.

The dual-circulation economic development strategy.

As President XI Jinping announced some time ago, China will pursue a dual-circulation development strategy. There is a domestic circulation and an international circulation, but domestic circulation plays the primary role, which is to be expected for large continental economies like China (and also the United States). However, the dual circulations complement one another. The Chinese economy today cannot operate without imports, nor can the rest of the world operate without Chinese exports. The adoption of a dual-circulation strategy by China is evidence of its recognition that total self-sufficiency is not a viable alternative and of its continuing commitment to an open economy and to economic globalization.

The Chinese ratio of international circulation to domestic circulation was below 10 percent before 1981, when it began to rise. It reached a peak of almost 70 percent in 2006 but declined to 35 percent by 2020. The U.S. ratio was around 20 percent between 1980

and 2000 and rose to a peak of 30 percent in 2011, but declined to 23 percent in 2020. It is expected that the ratios for both countries will be declining more over time and will eventually reach similar levels.

The strategic competition between China and the United States is likely to be the norm for the next decade or so.

Peaking of carbon emissions by 2030 and the achievement of carbon neutrality by 2060.

President Xi also committed China to top out its carbon emissions by 2030 and achieve carbon neutrality by 2060. These are challenging but feasible objectives. It is envisioned that they will be met through the growth of electric vehicles; a network of high-speed trains substituting for airplanes in domestic travel; the massive expansion of renewable energy, including hydropower, massive solar and wind power farms (for example, in the Gobi Desert); the introduction of nuclear fusion as sources of electricity generation, replacing traditional fossil fuels; the use of ultra high-voltage transmission lines to deliver electricity inexpensively to wherever it is needed; and large-scale reforestation. China will become as green as it can be.

Common prosperity

The common prosperity promoted by President Xi should not be equated with simple redistribution. It genuinely means giving other people who have not gotten rich yet an opportunity to become so.

The recent establishment of the Beijing Stock Exchange is a concrete indication that the private sector, consisting mostly of small and medium-sized enterprises, will be allowed to continue to grow and prosper.

These private enterprises can use equity financing to substitute for debt financing, resulting in a reduction of the overall level of leverage in the economy and thus ensuring greater macroeconomic and financial stability. Eventually, China can probably use even more stock exchanges in different parts of the country — for example in Chongqing and Tianjin — so that more private entrepreneurs can have access to equity financing and the opportunity to grow and prosper.

China-U.S. competition the norm

The strategic competition between China and the United States is likely to be the norm for the next decade or so. National security is often just a convenient excuse for the U.S. to impose unilateral sanctions on China, while China actually poses no real threat, military or otherwise, to the existence and continued prosperity of the U.S. However, it can potentially cause a problem for the maintenance of global hegemony by the U.S. because, as Professor Noam Chomsky of the Massachusetts Institute of Technology once pointed out, China is one of very few countries that can actually say no to the U.S. As the global hegemon, the U.S. cannot allow any country to say no and get away with it, because this may encourage other countries also to say no, and fairly soon its global hegemony is no more.

China will become as green as it can be.

The (bipartisan) military-industrial complex in the U.S., which was first identified by U.S. President Dwight Eisenhower in 1961, is intent on continuing to be the global hegemon and will use any and all means necessary to prevent China's peaceful rise. It will end either when China's rise is halted, or when the U.S. is finally convin-

ced that the effort is futile and won't incur unacceptably high costs to the U.S. itself. That is why China-U.S. competition is likely to be the norm for the next decade or so and why the trade war is unlikely to end anytime soon. Things will eventually get better, but it will take a while.

However, the competition is not likely to result in a hot war between China and the U.S. because the resulting casualties and losses would be enormous on both sides. There would be no winners, only losers. If the former Soviet Union and the U.S. were able to avoid war in the last century, it is highly unlikely that China and the U.S. will go to war in this century. However, to maintain peace, China must have and maintain an effective deterrent against a first strike.

Decoupling of the two economies to a certain extent is also inevitable, but there has been some experience with partial de-coupling in the past. After the 2008 global financial crisis, China and East Asia continued to grow while the U.S. and the West stagnated. Thus it is possible for the Chinese and East Asian economies to grow without the West. Moreover, while the artificial decoupling of the global supply chains will cause some transitional problems for the Chinese economy, once a second source for a product is developed, export controls by the U.S. and other countries are no longer useful and will likely be discontinued.

Use of the U.S. dollar for worldwide invoicing, clearing and settlement will also decline gradually, with the greater use of own currencies for such purposes — as, for example, between China and Russia, and between China and Indonesia. The purpose of capital control is the regulation of volatile short-term capital inflows and outflows, not long-term flows. Every country welcomes long-term capital inflows, but short-term capital inflows and outflows do not bring any benefit to either the originating or the recipient countries.

Use of the U.S. dollar for worldwide invoicing, clearing and settlement will also decline gradually, with the greater use of own currencies for such purposes — as, for example, between China and Russia, and between China and Indonesia.

The use of digital currency, with its distributed ledger feature at both the retail and wholesale levels, can greatly simplify capital control by distinguishing between short-term and long-term capital flows. Similarly, the trading of China depositary receipts (CDRs) of foreign companies on Chinese stock exchanges, including those from the U.S., can allow a transitional period for the full lifting of capital controls. China will have the largest pool of savings in the world, and raising capital in China is beneficial to foreign companies.

Near-term performance

The rate of growth of Chinese real GDP in the first-three quarters of 2021 was 9.8 percent, even though the quarterly year-on-year rate of growth declined from 18.3 percent in Q1 to 7.9 percent in Q2 and then to 4.9 percent in Q3 (mostly due to the impact of the COVID-19 pandemic). Even if there is zero growth in Q4, the annual rate of growth would still be a very respectable 7.35 percent.

To achieve an annual rate of growth of 8 percent for 2021, the Q4 year-on-year rate of growth need be only 2.6 percent, which should be doable. For 2022, the general expectation is that the non-mandatory target may be set between 5 and 6 percent.

The rate of growth of U.S. real GDP in the first-three quarters of 2021 was 5.0 percent, even though the quarterly year-on-year rate of growth declined from 6.3 percent in Q1 and 6.7 percent in Q2 to 2.1 percent in Q3. Even if there is zero growth in Q4, the annual rate of growth would be a very respectable 3.8 percent. To achieve an annual rate of growth of 4.5 percent, the Q4 year-on-year rate of growth need be only 3.0 percent, which should also prove feasible. For 2022 and beyond, the general expectation is that the U.S. economy will be able to grow at an average annual rate above 3 percent.

There are, of course, some lingering questions, which will be considered below one by one.

First, will the COVID-19 pandemic retard Chinese economic growth? There may be some negative effects, but not hugely significant ones. The maximum damage is no more than 1 percentage point.

Second, can tariffs on Chinese exports hurt the Chinese economy? The evidence from the past few years, during which Chinese exports faced heavy U.S. tariffs, suggests that the negative impact would be small, and in any case the Chinese economy is no longer export-oriented. It maintains an approximate balance in international trade and is mostly driven by internal demand — household consumption, public goods consumption and gross fixed investment.

Third, can export controls on American high-technology products slow the Chinese economy down? Yes, they can, at least to a certain extent. But for really essential national projects, such as the construction of supercomputers, cost per se is not a major consideration. Chi-

nese supercomputers today are built entirely with domestically produced components, including semiconductors.

Fourth, will a financial crisis be triggered by the debt of overextended real estate developers, or those of local government financing vehicles (LGFVs)? The currently available evidence suggests that this problem is entirely manageable. Official central government and provincial government debt combined is less than 50 percent of Chinese GDP. By comparison, U.S. federal government debt alone exceeds 100 percent of GDP. In Japan it's more than 250 percent. The Chinese central government has not provided any loan guarantees for real estate developers or LGFVs and is most unlikely to come to their rescue if any of them fails. A default or two of these debtors can in fact help to rein in shadow banking, which is difficult to regulate.

Will the COVID-19 pandemic retard Chinese economic growth? There may be some negative effects, but not hugely significant ones.

Fifth, the construction sector, including building materials, is a major part of the Chinese economy and is dependent on demand generated by investment in infrastructure and real estate. It may be impacted by the massive failure or insolvency of real estate developers; however, residential investments can be supported not only by owner-occupied housing but also by rental housing. The central government can promote rental housing as a viable alternative to owner-occupied housing, thus maintaining demand in the construction sector. The ultimate total

residential housing demand is of course the same, but there can be a different equilibrium between renting and owning.

Long-term forecasts

Our long-term forecasts suggest that Chinese real GDP will surpass U.S. real GDP in 2030, with \$29.67 trillion compared with \$29.26 trillion in the U.S. (in 2020 prices). They also suggest that Chinese real GDP per capita will remain significantly below the U.S. real GDP per capita in 2030, with \$27,100 compared to \$96,500 in the U.S. (in 2020 prices), or less than 30 percent.

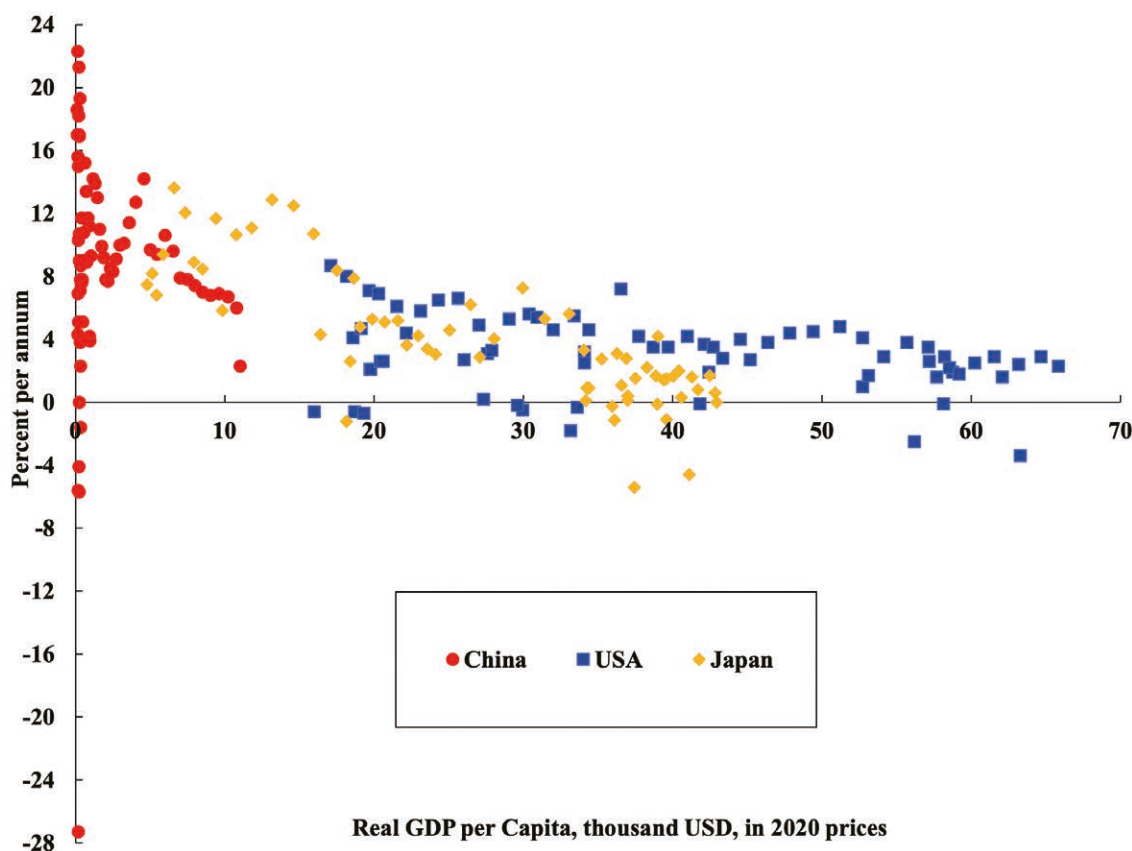
It is true that the Chinese economy cannot continue to grow at close to 10 percent per

year indefinitely, as it did between 1978 and 2018. In fact, it is an empirical regularity that as the real GDP per capita of an economy grows, the real rate of growth of the economy declines. This is demonstrated in accompanying chart in which the real rates of economic growth of China, Japan and the U.S. are plotted against their respective real GDPs per capita. As expected, there is a negative relationship between the real rate of growth and real GDP per capita.

However, we note that the Chinese economy currently operates in a range of real GDP per capita that permitted high rates of growth for both Japan and the U.S. By 2030, the Chinese economy will be able to grow at more than 6 percent annually. Perhaps

Chart : Growth of real GDP vs. real GDP per capita

China, Japan and the U.S.



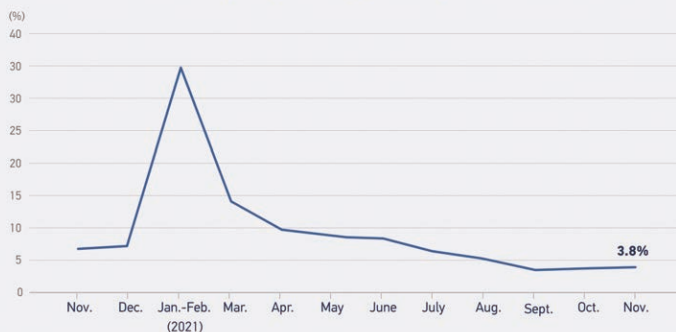
China's GDP growth



China's retail sales up 3.9% year on year in November



China's industrial output up 3.8% year on year in November



Source: China's National Bureau of Statistics

when Chinese real GDP per capita reaches \$35,000 (in 2020 prices), the Chinese real rate of economic growth will decline to below 5 percent.

Conclusion

The long-term prospects for the Chinese economy are very good indeed, even though its average real rate of growth is likely to be around 6 percent rather than 10 percent. Moreover, it will be mainly driven by domestic demand, rather than exports. Technical progress, or growth in total factor productivity, will also become an important source of Chinese economic growth. However, it is essential for China to maintain economic openness. Self-reliance should never be equated with total self-sufficiency. Without economic globalization and China's accession to the World Trade Organization in 2001, the Chinese economy would not be where it is today. We should always remember there must be dual circulation.

By 2030, the Chinese economy will be able to grow at more than 6 percent annually.

That said, China-U.S. strategic competition is likely to be the norm, possibly for the rest of this decade. I remain optimistic that rationality will prevail and there will not be a hot war, just as the former Soviet Union and the U.S. did not go to war in the last century.



NEW TOMORROW

INTERVIEWS WITH THE CHINA CURRENT

Conversations by James Chau of hope and purpose
with Tung Chee-hwa, Thomas Bach, Margaret Chan, Helen Clark,
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Peter Piot, Mary Robinson, Jeffrey Sachs, Erna Solberg, Rajiv Shah,
Tedros Adhanom Ghebreyesus, Muhammad Yunus, **and more.**



Avoiding War, But Always Worried



Yan Xuetong
*Distinguished Professor
Tsinghua University*

Shooting is not likely to break out, but the two countries will remain in dread of each other in the coming decade.

During Barack Obama's second term as president of the United States, some scholars began to argue that the China-U.S. rivalry would soon trigger a new cold war. Since then, the U.S. has had two more presidents, and yet a new cold war has not occurred.

Still, despite the assurances of the countries' leaders that they intend to avoid such a war, many people insist that it's coming soon. Since the Chinese and American governments cannot seem to reach a consensus on the nature of bilateral relations, it is worth discussing whether Sino-U.S. competition is now a de facto new cold war or an uneasy peace.

Ideological expansion, proxy wars and the implied threat of nuclear weapons are what characterized the Cold War. Nuclear deterrence, which prevented war between the United States and the

Soviet Union, is having the same impact in the Sino-U.S. rivalry. Meanwhile, Chinese ideology hinders its global expansion, as political populism in the U.S. prevents the American government from advancing liberalism in the world.

Thus, the current U.S. administration under President Joe Biden finds itself trying to prevent the shrinkage of Western democracy rather than expanding it globally. That is why Sino-U.S. ideological conflicts are unlikely to escalate into war. As long as China adheres to the principle of peaceful reunification with Taiwan, there may be a slight chance that China and the U.S. could fall into a proxy war. But when the two giants do not pursue ideological expansion through such wars, their competition can hardly be called a cold war.

A cold war is a type of war — a proxy war for ideological expansion — rather than a type of peace. This is why the relatively peaceful period between the two world wars was never categorized as a cold war. The U.S.-Soviet Cold War was a particular rivalry between superpowers. It did not happen before World War II and it has not been repeated. It is more akin to the Spring and Autumn and Warring States periods in Chinese history, which show two different types of strategic competition between major powers. The former was for hegemony and the latter for annexation. That's why the Warring States period has never been categorized as new, or as a second Spring and Autumn. All major power competitions are the same in nature: They are struggles for power. But the features are different in each historical period.

Because Sino-U.S. competition is taking place in the digital age, it differs

substantially from the Cold War of the past between the U.S. and Soviet Union. The differences include space, content, strategy and the decisive factors of competition. It would be more accurate to define it as uneasy peace rather than hot war or a cold war. Their competition will be carried out in both natural spaces and cyberspace, though competition in cyberspace is more confined.

Competition will intensify, but there is only a slight chance of war between China and the U.S. Uncertainty is the main feature of their competition, which covers the whole world with strategic fear.

In the digital age, mutual nuclear deterrence is able to prevent China and the U.S. from falling into war in the natural space, as it did in the case of the earlier U.S.-Soviet rivalry. Meanwhile, competition in cyberspace will not cause large-scale casualties, as traditional war does. Although cyberattacks may bring substantial economic damage, war in the natural space is unlikely.

Because Sino-U.S. competition is taking place in the digital age, it differs substantially from the Cold War of the past between the U.S. and Soviet Union.

In this age, the digital economy accounts for a major part of national wealth. Broadly defined, the digital economy accounts for more than half the GDP of the U.S. and nearly 40 percent of China's. Neither ideological expansion nor proxy war can help China or the U.S. increase, let alone create, national wealth more than digital technology innovation. It is true that major powers

in history have initiated many wars for occupying territory or seizing natural resources for the sake of obtaining economic wealth. Nevertheless, data has become the major economic resource in the digital age. Digital innovation turns data into wealth, and it generates wealth faster and to a greater degree than any other approach.

In the digital age, the core of national security is cybersecurity rather than territorial security.

More important is the fact that, as an economic resource, the character of data is opposite that of natural resources. The former accumulates through consumption, while the latter is reduced. This implies that economic competition will not drive China and the U.S. to war, including a proxy war. In the digital age, the core of national security is cybersecurity rather than territorial security. No war, including a proxy war, can improve cybersecurity.

In 2021, Sino-U.S. tension over the Taiwan issue worsened. Many people believe that an accidental exchange of fire in the Taiwan Strait will trigger a war. However, the virtual summit of the two presidents in November effectively lowered that risk, illustrating that the summit hotline can prevent a proxy war from adding to the geopolitical competition between China and the U.S. That result also implies that it is easier for China and the U.S. to prevent a proxy war than to manage mutual cyberattacks. In any event, cyberattacks will not bring about a new cold war.

Uncertainty is the most prominent feature of international politics in the digital age. The digital economy, cyberattacks and social media jointly form that feature. The digital economy accelerates the pace of social polarization, increasing ordinary people's discontent with their governments. Cyberattacks enlarge domestic political divisions and confrontation. Social media based on digital technology is able to shape anti-government public opinion instantly.

Thus, when the three digital factors dramatically increase the uncertainty of threats to regime security, foreign policymaking is more often driven by regime security than by national security. Because of the fact that regime security is less certain than national security, the age of uneasy peace comes to be dominated by uncertainty.

In short, Sino-U.S. strategic competition is more accurately characterized as an uneasy peace, rather than a new cold war. It is less possible for a shooting war to occur between China and the U.S., but the two countries will remain in dread of each other in the coming decade.

Thus, when the three digital factors dramatically increase the uncertainty of threats to regime security, foreign policymaking is more often driven by regime security than by national security.



THE FUTURE OF POSSIBLE

Turning the Page in 2022



He Weiwen

Senior Fellow

Chongyang Institute for Financial Studies

Despite a meeting of presidents and intensive talks at lower levels, the United States has not fundamentally altered its position. This needs to change. Next year should be characterized by reasonable, constructive efforts — followed by action — to ease the current tensions.

A year ago, on Dec. 21, 2020, I wrote an article titled “Time to Turn the Page,” in anticipation of improved China-U.S. trade relations following Joe Biden’s election. A full year has elapsed and, disappointingly, this has not happened.

Biden and Chinese President Xi Jinping spoke in a key video summit in mid-November that set a framework and guidelines for bilateral relations. Intensive talks at the ministerial level also took place during the year, all of which were con-

structive. However, in action, there has been little change by the United States and hence little substantive easing of the current tensions.

Biden’s containment policy

The Biden administration has kept the high tariffs on \$370 billion in Chinese goods, despite demand by China and people inside America for their removal. Janet Yellen, the U.S. treasury secretary, said explicitly that the tariffs were not

the right solution and only hurt the American economy. Strong appeals from the U.S. business community for scrapping the tariffs are also mounting. Yet the U.S. trade representative has not revoked them but has only accelerated the tariff exclusion process.

The unilateral sanctions and high-tech restrictions only intensified in the second half of last year. U.S. lawmakers enacted the Telecommunication Equipment Safety Act to tighten restrictions on Huawei and ZTE on Oct. 29. The Federal Communications Commission published a list of equipment and services that it said pose a threat to national security and terminated China Telecom America's authority to provide services. On Nov. 24 and Dec. 16, the U.S. Commerce Department announced sanctions first on 12 and ultimately on 34 Chinese high-tech companies in the fields of artificial intelligence, big data, semiconductor chips and quantum computing.

Trade has been increasingly hijacked by politics and ideology.

President Biden has been most skillful in aligning U.S. allies to contain China. The administration launched the Quad Summit and AUKUS in the Indo-Pacific, and the TTC with the European Union. The G7 Summit in Cornwall, UK, in late June announced the Build Back Better World Initiative to counter China's Belt and Road Initiative, and the subsequent EU-U.S. Summit launched the TTC to line up supply chains of semiconductor chips and other leading technologies with countries "sharing the same values" so as to "deny China." Just recently, Gina Raimondo, the U.S. secretary of commerce, toured Southeast Asia to create an Indo-Pacific economic framework that would deplete China.

Trade has been increasingly hijacked by politics and ideology. The U.S. Senate passed an act to ban imports from Xinjiang, China, on the false ground of forced labor. The senators seemed to love the lies, which created a new arsenal for demonizing China and blocking Xinjiang from external trade relations.

President Biden has been most skillful in aligning U.S. allies to contain China.

All those developments have only aggravated the China-U.S. bilateral relationship, including trade. They demonstrate two distinguishing features of the Biden administration's China trade policy, starting with a values orientation. The whole trade policy is guided by America's stated core values of "democracy" and "human rights." It sees that China, as a socialist country led by the CPC, has completely different core values, and defines it as a grave threat to U.S. national security that must be doused.

The second feature is an orientation toward hegemony. There is clear intolerance for China's economic growth edging closer to that of the U.S. (China's GDP in 2021 will be roughly 75 percent of the U.S., the closest in more than a century.) And China's high-tech growth is challenging American dominance. Anti-China positions have become politically correct in the domestic political ecology of the U.S.

It's not working

Anti-China policies, however, have failed to check bilateral trade, which, ironically, has been booming. Chinese Customs data show that two-way trade volume in the first 11 months was 30.2 percent higher than a year ago, and 7.7 percent higher than the whole

year of 2018 (the previous record), before the effects of the trade war were felt. The whole year of 2021 may see trade volume reaching \$750 billion, compared with \$633.5 billion in 2018. Chinese exports to the U.S. are up more than \$90 billion. Imports are up \$25 billion.

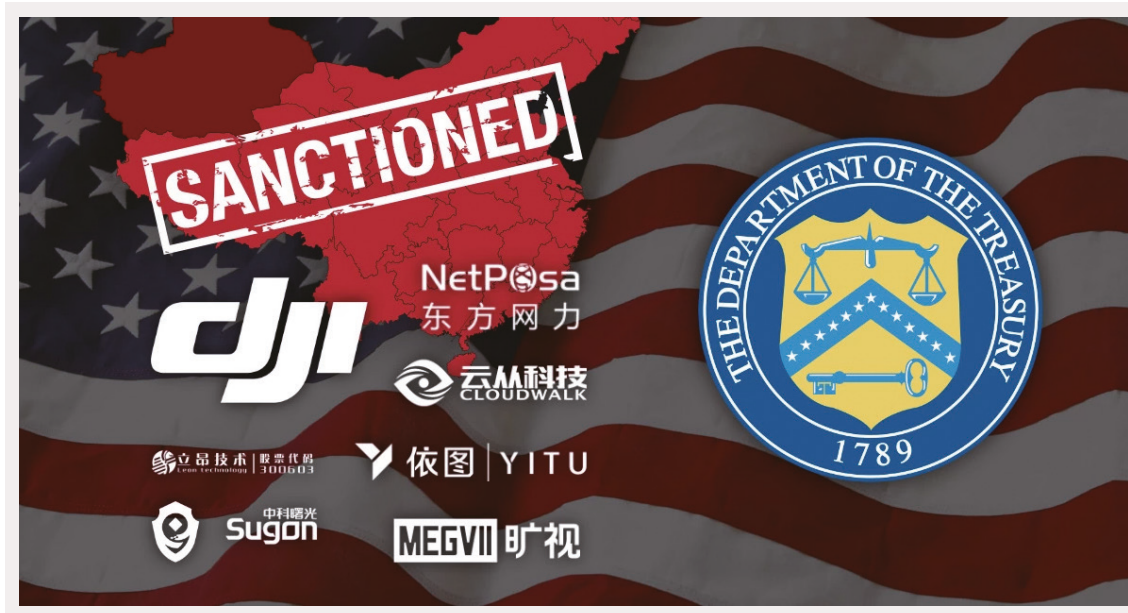
The first 11 months of this year have also witnessed an increase in China's foreign direct investment inflows — up 21.4 percent from a year ago and hitting \$157.2 billion.

The stern restrictions on high-tech trade (semiconductor chips, in particular) have also made little difference. During the first 10 months of this year, Chinese domestic output of chips rose by 22.2 percent year-on-year. And the first 11 months saw chip exports rise by 34 percent, with imports up 23.4 percent. China's global share continues to rise rapidly.

A recent study by the Belfer Center of the Kennedy School at Harvard University found that China has overtaken the

U.S. in AI, 5G and quantum computing. China has six times the number of papers on AI than the U.S., along with 87 percent of world's 5G stations and two of the world's top five suppliers in 5G technology. The U.S. has zero. The Semiconductor Industry Association (U.S.) estimates that China will become the world's largest chip supplier, accounting for 40 percent of the global market, by 2030.

The alignment of the United States and its allies in containing China has had lackluster results. In the first three quarters of 2021, China-ASEAN trade reached \$630.54 billion, while U.S.-ASEAN trade volume was only \$278.81 billion. In the past three years, China-ASEAN trade volume rose by 45.3 percent, while that of U.S.-ASEAN trade rose by 34.1 percent. China-ASEAN trade was 2.26 times that of U.S.-ASEAN trade during the first three quarters of the year, compared with 2.15 times three years ago. Meanwhile, China-EU trade expanded by 33.8 percent, while U.S.-EU trade grew by a relatively paltry 8.2 percent. The RCEP,



- ▲ In Nov and Dec 2021, the U.S. Treasury Department sanctioned 34 PRC high-tech companies by adding them to its U.S. investment blacklist, including DJI and four PRC video surveillance companies. DJI's products account for more than 50 per cent of drone sales in the U.S.

which took effect on Jan. 1, accounts for 30 percent of world trade and encompasses China, ASEAN, Japan, South Korea, Australia and New Zealand — but not the U.S.

By almost any reckoning, Washington's containment policy is not working. What's wrong?

America's first mistake is that it has the wrong strategic goal. It sees China as the largest threat to its geopolitical, economic and military dominance when, in fact, China is none of that. The starting point — U.S. hegemony — is a big problem. The world order is based on multilateralism with the UN and its charter at the core, not on the dominance of a single country.

China wants to grow its economy solely

to improve the livelihoods of its 1.4 billion people, not to displace the U.S. When China's per capita GDP reaches \$20,000, its total GDP will be \$28 trillion, one-third larger than the U.S. currently. Even then, its per capita GDP will be lower than the threshold of OECD member economies and only 30 percent of the U.S. So, what's the threat?

America's second mistake is its total neglect of global economic laws. Both the Chinese and U.S. economies are operating on the basis of global supply chains (GSC), which follow the most effective allocation of various resources, capital, technology, markets and talent worldwide. The GSCs follow only economic laws, not the will of governments.

The way forward

U.S.-CHINA TRADE WAR

President Donald J. Trump



Both China and the United States need the clarity of hindsight first to learn key lessons before looking forward to realistic, feasible ways to manage differences and promote cooperation.

First, both governments need to set concrete guidelines for peaceful coexistence, as agreed by presidents Xi and Biden in their November video summit. Peaceful coexistence is based on five principles: mutual respect for sovereignty and territorial integrity; non-aggression; non-interference in internal affairs; equality and mutual benefits; and peaceful coexistence. Thus, the U.S. should not try to dampen China's success but instead cooperate for the prosperity of both. The U.S. should no longer challenge China over Taiwan, as the island is Chinese territory. Nor should

it challenge China over Xinjiang, which is an internal Chinese matter. By seeking equality and mutual benefits, trade issues can be unlinked from political factors.

Second, the trade teams of both governments should start serious, substantive consultations identifying strategic and practical issues. Various ad hoc study groups of experts should be set up for a thorough study of the major problems and concerns and try to stake out common ground, with feasible proposals for both governments. During the process, the U.S. tariffs on Chinese goods should be dropped.

Third, industry associations and chambers of commerce in both countries should set up joint working groups covering AI, 5G, semiconductors, quantum computing and cybersecurity to develop feasible proposals to solve issues of cooperation and security. The purpose of the mechanism is to build up an open, equal, mutually beneficial China-U.S. supply chain.

***By almost any reckoning,
Washington's containment policy
is not working.***

Fourth, subnational cooperation, especially between U.S. states and Chinese provinces, should be energetically encouraged. This should cover climate change, alternate energy, AI, cross-border e-commerce, 5G, agriculture, biotechnology and capital markets, to name just a few sectors.

Reasonable, constructive efforts by both governments and business communities in 2022 should seek new ways to ease the current tensions and build a stable relationship between the world's two largest economies in the years ahead.

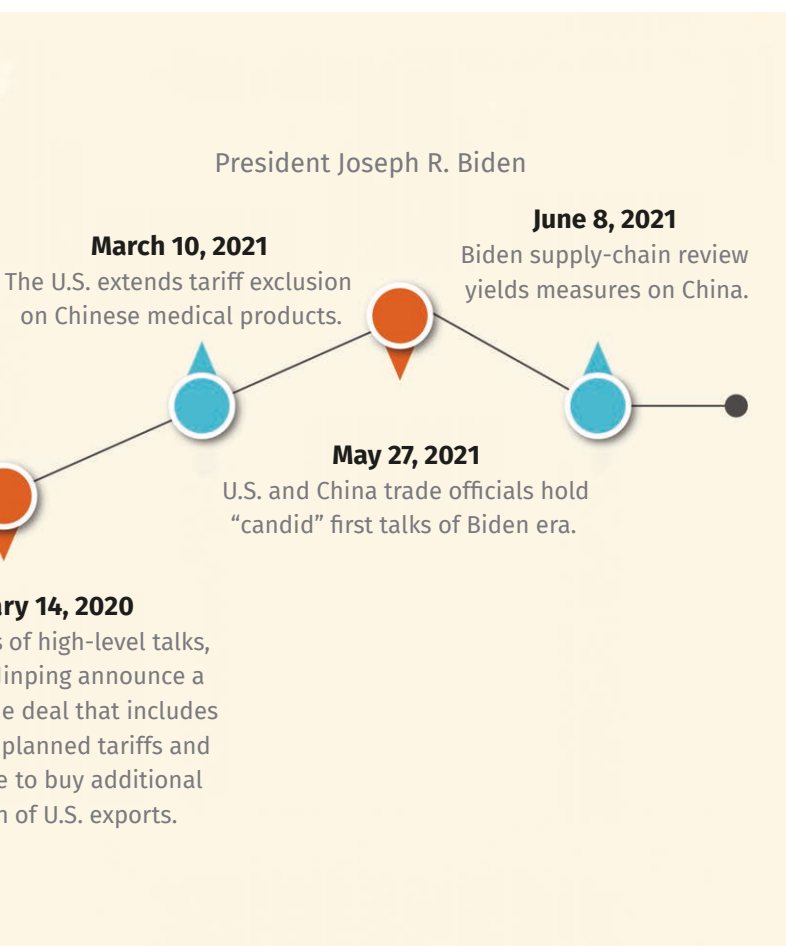
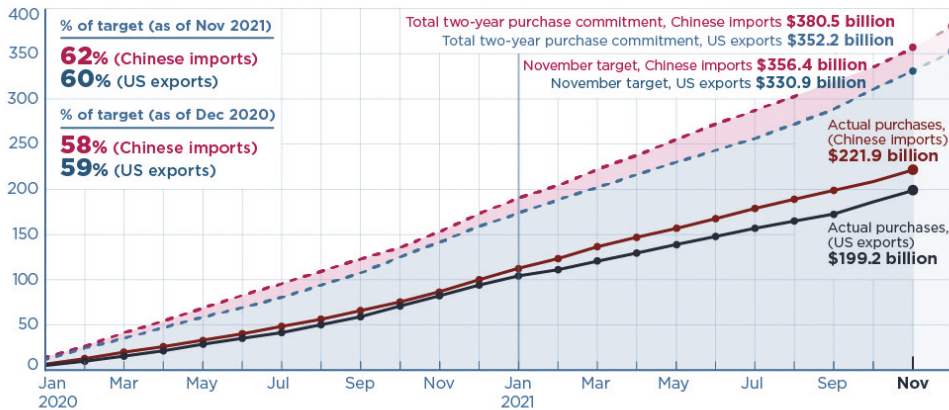


Figure 1

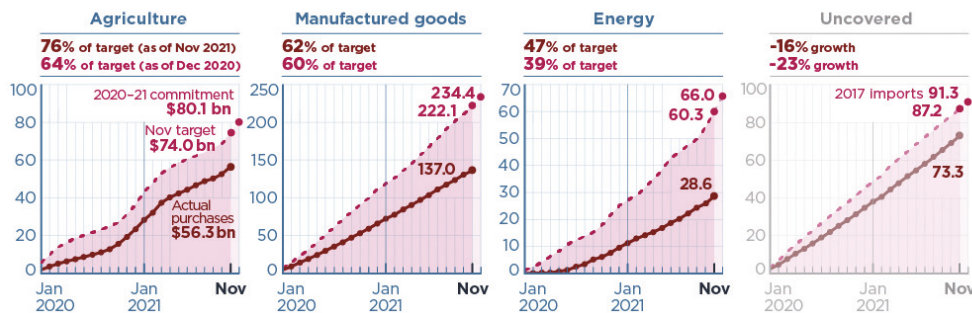
US-China phase one tracker: China's purchases of US goods in 2020 and 2021

US exports and China's imports of all goods covered by the phase one deal,
January 2020 through November 2021

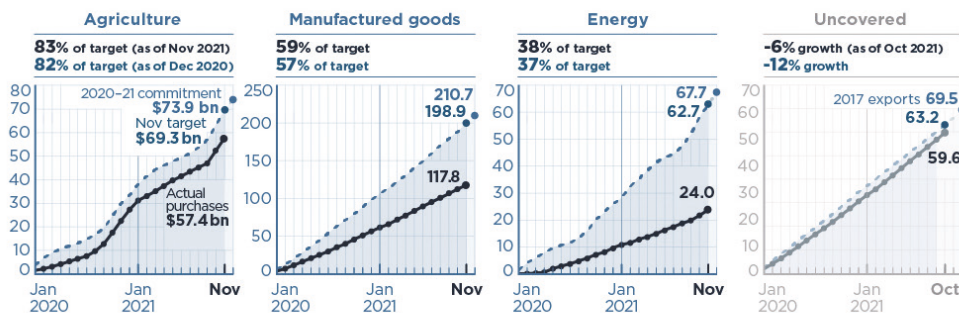
a. US exports and China's imports of all covered goods, billions USD



b. China's imports by product type, billions USD



c. US exports by product type, billions USD



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Note: Data refer to end of month cumulative totals. Numbers may not sum to total due to rounding. "Uncovered" products refer to China's imports from the United States not addressed by Annex 6.1. Data for the "2017 actual purchases" series is repeated for comparison purposes. Prorating the 2020 and 2021 year-end targets to a monthly basis is for illustrative purposes only. Nothing in the text of the agreement indicates China must meet anything other than the year-end target. Monthly purchase commitments are seasonally adjusted based on 2017 data. The November data for US exports to China of uncovered products are not yet available.

Sources: Constructed by Chad P. Bown with US export data from US Bureau of the Census, Chinese import data from International Trade Centre (Trademap) for 2017 and from Chinese customs for 2021, and product categories set out in Annex 6.1 of Economic and Trade Agreement between the United States of America and the People's Republic of China.

Source: The Peterson Institute for International Economics (PIIE)

Figure 2

US-China phase one tracker: China's purchases of US goods in 2021

US exports and China's imports of all goods covered by the phase one deal,
January 2021 through November 2021

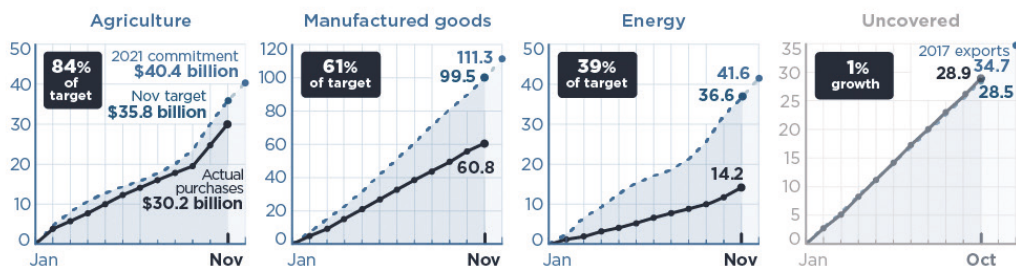
a. US exports and China's imports of all covered goods as of November 2021, billions USD



b. China's imports by product type, billions USD



c. US exports by product type, billions USD



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Source: The Peterson Institute for International Economics (PIIE)

Establishing a New Strategic Framework



An Gang

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China and the United States must take the opportunity to move relations forward following the Xi-Biden virtual meeting in November. A healthy future will be discovered through frank dialogue, sincere exchanges and taking advantage of every small but concrete commitment.

As the United States continues to review and adjust its China policy, the focus of China-U.S. interactions is circumventing or transcending whether “competition” will define the future. The critical question has turned to how the two sides will compete.

The virtual meeting between Chinese President Xi Jinping and U.S. President Joe Biden on Nov. 16 highlighted several areas where the two sides could reach a consensus:

1. Both sides recognized that they should prioritize running their own domestic affairs and that the competition between the two countries lies ultimately in sub-

stantial results in their domestic governance.

2. Both agreed to pursue “coexistence.” Biden used the term “durable coexistence” and Xi said China and the U.S. should “coexist in peace.”

3. Both emphasized “responsibility,” although in different contexts. For the U.S., China being responsible means responding to the U.S. policy adjustments in a professional, restrained, rational and calm manner. China expects both countries to shoulder their share of international responsibility and lead the global response to unprecedented challenges.

4.The two sides acknowledged that a complete decoupling of China and the U.S. is impossible.

5.Both agreed that it's vital to maintain communication, manage differences and cooperate on global issues.

Driven by the positive effects of the Xi-Biden virtual meeting, China-U.S. relations entered a period of “dynamic stability” temporarily. Both sides tried to create space for coordination and cooperation to ease the tension. For example, talks have been arranged to allow the free departure and return of journalists from both countries, to reopen previously shuttered consulates and to resume commercial operations with the Boeing 737 MAX. However, such “dynamic stability” will be built on a weak foundation if ties are unstable.

The “negative list” that will drive China-U.S. relations into the abyss of cutthroat competition is extending.

After years of friction, the “positive list” facilitating the stable development of bilateral ties has become too short. Topics including nuclear nonproliferation, nuclear security, the fight against infectious diseases, the crackdown on transnational crimes, people-to-people exchanges and cooperation in international and regional hot spot issues that used to be highly praised by governments and media of both sides have vanished from open discussion. Enterprises, professional institutions and individuals on both sides have maintained the functional parts quietly. Coordination on climate change, barely a highlight, is also endangered as the U.S. shifts its focus on pressing China to implement its goals

of peaking carbon emissions and achieving carbon neutrality. As senior officials of the U.S. tend to use energy security issues to suppress China's development, bilateral coordination has given way to competition. China-U.S. cooperation is losing momentum.

Correspondingly, the “negative list” that will drive China-U.S. relations into the abyss of cutthroat competition is extending. Despite high-level communication and dialogue, the U.S. administration is implementing hard-core measures to contain China. Manipulated by the Biden administration, science and technology have become the core of China-U.S. competition. The U.S. censorship regime regarding supply chains and the so-called democratic alliance on supply chains are about to set detailed programs, rules, implementations and inspections. Practical steps to exclude China from the global supply chain are just around the corner. At the end of 2021, the U.S. convened the first Summit for Democracy, and a second is already approaching. As the U.S. seeks to defend democracy against authoritarianism, fight corruption and promote respect for human rights, there will be new troubles in the future development of China-U.S. relations. The World Health Organization and the Western world are making every effort to end the COVID-19 pandemic in 2022, but this will not necessarily ease tensions between China and the U.S. in terms of anti-pandemic approaches and narratives. On the contrary, it implies additional fierce confrontations over the mutual recognition of vaccines, distribution of drugs, the opening of borders, biosecurity and other related issues. The Biden administration's diplomatic boycott of the 2022 Winter Olympics in Beijing is well underway, signaling further decoupling of the two countries in sports and culture.

Disturbances in domestic politics stand out even more. Rather than cooling down the tensions inherent in the Biden administration's China policy, the U.S. Congress is about to pour fuel on the fire. The House of Representatives and Senate passed the Uyghur Forced Labor Prevention Act, which forces U.S. enterprises investing in China to choose between U.S. laws and the Chinese market. Consumers now have to choose between the two countries. The decoupling is widened to cover broader areas. As the 2022 U.S. midterm election and the 20th CPC National Congress draw closer, the Biden administration lacks the courage, motivation, time and space to deliver material changes to improve bilateral relations.

China supported the U.S. on issues such as promoting the minimum global corporate income tax and the release of crude oil from strategic petroleum reserves. The two countries share the same direction in developing a green economy. Nevertheless, signs have been clearer since the second half of 2021 that China and U.S. capital markets are drifting apart amid increasingly irrelevant fiscal policies. Considering the uncontrolled printing of money, an escalating budgetary crisis and prolonged inflation in the U.S., close attention should be paid to any exacerbated decoupling between the two countries and China's significant adjustments to its foreign exchange and debt policies, if any.

As the 2022 U.S. midterm election and the 20th CPC National Congress draw closer, the Biden administration lacks the courage, motivation, time and space to deliver material changes to improve bilateral relations.

Taiwan has become the most prominent powder keg in the China-U.S. relationship. The U.S. uses salami-slicing tactics to interfere in Taiwan, hollowing out its commitment to the one-China policy. Moreover, China-U.S. interactions on Taiwan are now carried out against a background of military readiness, which means the risks and consequences of a head-on collision are increasingly hard to estimate and control.

The Indo-Pacific has become the main wrestling arena for China and the U.S. In this region, China's Belt and Road Initiative and America's Build Back Better World (B3W) initiative are zero-sum rather than complementary. Both countries are going their own way. Biden's Indo-Pacific strategy is more systematic, comprehensive and practical than Donald Trump's. After making substantial progress in building several small task-oriented security alliances, the Biden administration has started to build an Indo-Pacific economic architecture. It will serve as a regional alliance for a supply chain that uses trade facilitation, the digital economy, supply chain resilience, clean energy, infrastructure and labor standards to sign wordless economic and trade agreements. China is likely to be excluded.

Competition over third parties will further escalate. In Eastern Europe, the U.S. has been inciting several small countries to take actions that test China's bottom lines in Taiwan, Xinjiang and other matters. If China takes any countermeasure, the U.S. will advocate the so-called "threat" of Chinese values and drive a wedge between China and the EU. In ASEAN, the U.S. has been searching for and fostering strategic pivots, stirring up maritime confrontations and enhancing U.S.-led military-security cooperation. It is also trying to undermine ASEAN's centrality, obstructing China's efforts to rewrite regional rules

and enlarge influence in the Western Pacific region. The U.S. is still working in these two directions, and the effects are yet to be evaluated. But the sure thing is that China and the U.S. will have more evident and divided friends in these two regions.

Confrontations on specific issues have been driving public opinion battles domestically. Hatred and stigmatization have become the leading tone of media coverage and the attitude underlying people's perception of the other country. The blowback of initial decisions and policies that gave birth to such hatred and stigmatization has forced the two countries to maintain their paths, thus restricting the space for readjustments.

Essential elements of a strategic framework include “strategic foundation,” “strategic principles,” “strategic mechanisms” and “strategic assurance.”

To sum up, the confrontational nature of China-U.S. relations is increasingly evident and unlikely to be eased in the short term. Long-term games, in a real sense, have just begun. Competition is unavoidable, and gaming will deepen problems. The future of China-U.S. relations lies in the new strategic framework the two sides are willing to and able to establish and the reasonable approach to achieving “competitive coexistence.” Based on the speech given by State Councilor and Foreign Minister Wang Yi on Dec. 20, China has recognized this and intentionally put a “new strategic framework of China-U.S. relations” on the agenda. Essential elements of a strategic framework include “strategic foundation,” “strategic principles,” “strategic mechanisms” and “strategic assurance.” However, these

elements are scarce in actual China-U.S. relations, and some don't exist.

Regarding a strategic foundation, the consensus reached in the videoconference between heads of states is necessary, yet insufficient. Intentional intersects must be translated into written confirmation and a well-organized common narrative into mutually acceptable positioning, targets and directions for China-U.S. relations. The key is that the U.S. has no intent to redefine its China policy as “competition,” and the two sides are standing at different levels of mutual judgment. The U.S., in its communications, appears to believe that China aims to exclude and replace the U.S. to claim the international throne. In contrast, China believes the U.S. is determined to suppress its potential competitiveness and alter its political ideology. China goes to great lengths to explain its intentions, while the U.S. is only eager to learn about China's “ability” enhancement. From the U.S. perspective, intent is built on capabilities, which will give birth to uncontrollable intent once the capabilities grow to a certain level. This vast difference in the strategic culture and mindset has restricted the effects of the dialogue.

In terms of strategic principles, China's leaders have proposed three principles to be observed by both sides in the new era — mutual respect, peaceful coexistence and win-win cooperation. This proposal has provided a starting point for discussions, but it would be challenging to expect the U.S. to accept it. To begin with, the U.S. is unable to understand the true meaning of mutual respect in the context of the Chinese language. The two sides need to continue discussions on strategic principles, trying to use language that both sides understand and refrain from using a threatening tone.

In terms of strategic mechanisms, previous high-level dialogues with strategic attributes have been discarded or suspended by the U.S. New strategic mechanisms need new designs based on new situations and the changing nature of bilateral relations. This is difficult to negotiate. But given the current tensions, no matter what new arrangements are implemented, it is urgent to restore strategic dialogue. In the military aspect, hotline arrangements, rules for air and maritime encounters and exchanges of military colleagues are not working well in practice. While reserving existing channels, the two militaries should aim to update and extend — adapting to China's military reform's new conditions and concerns and upgrading the U.S. Indo-Pacific strategy.

Strategic assurance is the most challenging element. In the five decades since U.S. President Richard Nixon's historic visit to China, if the three China-U.S. joint communiques served as the mutual strategic assurance under those historical conditions, are they not still effective under new conditions? What new assurances must be made by the two countries? Discussions have yet to begin on this topic, which should cover things such as the common challenges we face, the common rules we observe, "The bottom line of interactive behaviors, the commitments to mutual non-aggression, the measures for mutual respect and the areas in which the two sides must cooperate with each other. They include hot spot issues, such as the Taiwan question and DPRK nuclear issues; strategic security issues, such as nuclear weapons; international military control; space militarization; cybersecurity; risk control and crisis management on bilateral and military-to-military relations.

Making mutual strategic assurances is the necessary path to a new strategic framework. Discussions in this regard must up-

hold the spirit of the Shanghai Communique, but topics will be much broader, complex, multi-dimensional and sharp. China and the U.S. are the two major powers of the world. When their leaders can confirm that peaceful coexistence is their mutual goal in the international system, even if it is a competitive coexistence, efforts should be made to make specific arrangements at different levels and in various aspects. China and the U.S. must achieve collective understanding and agreement through professional negotiations and communication, ensuring mutual strategic assurance. This requires effort from all sectors and areas under direct, high-level leadership. It will take years and will encounter numerous difficulties.

A new year, 2022, has dawned. I hope this article may inspire material discussions regarding the establishment of a new strategic framework for China-U.S. relations. The future of relations should not be found in the debris of a major crisis or times of confrontation. It should be started from frank dialogue, sincere exchanges and every small but concrete commitment and arrangement.

In the five decades since U.S. President Richard Nixon's historic visit to China, if the three China-U.S. joint communiques served as the mutual strategic assurance under those historical conditions, are they not still effective under new conditions?



Making Sense of the Buzz: What Does “U.S.-China Climate Cooperation” Actually Mean?



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Climate cooperation has been touted as an area of common interest for the United States and China — and the scientific work being done on the ground by scientists offers much to be shared between the two nations.

On Nov. 10, 2021, the U.S. and Chinese governments supposedly surprised the world by releasing the U.S.-China Joint Glasgow Declaration on Enhancing Climate Action in the 2020s. Even before this, however, since the inauguration of Joe Biden, the phrase “U.S.-China cooperation on climate change” had been tossed around ad nauseam in both countries by academics, government officials and pundits as the primary area where the U.S.-China relationship could improve. This buzzphrase is intended, at least in part, to evoke a sense of hope that China and the U.S., the world’s two largest national greenhouse gas emitters, are actively doing something to mitigate the impacts of climate change together. What is often left unanswered are the two most important parts: defining the “something” and the “together.” China and the U.S. owe it to the public to better define these two areas to be held accountable by their citizens.

With the release of the U.S.-China joint statement last month, for the first time in the Biden era, some clarifications have been made on where the two governments are willing to pursue some level of cooperation, or at least continued discussion, on various issues. The short document manages to repeat the word seven times, as if to really drive the point home to those who only skim its contents. However, the culmination of several months of negotiations between John Kerry and Xie Zhenhua once again led to a somewhat uninspiring set of agreements that do little to clarify specifics, save for some low-hanging fruit, such as an agreement to cooperate on low-risk (and largely unproven at scale) “deployment and application technology such as CCUS and direct air capture.”

However, one potentially tangible development of note is included at the end of the joint statement, which describes the

intended establishment of a “Working Group on Enhancing Climate Action in the 2020s.” According to an interview with Xie Zhenhua last month, the working group’s purpose is to institutionalize bilateral cooperation mechanisms on climate change and make joint actions more practical. Xie also provided a timetable for its establishment, indicating a plan for the first meeting in the first half of next year that would potentially allow for the participation of both governmental and non-governmental experts on either side.

There is a lack of consensus in a number of areas where lines should be drawn, where the joint societal gains of cooperation are outweighed by perceived or actual political risk.

But again, this does not really answer the question of what U.S.-China cooperation will really look like on the ground in the year ahead. There is a lack of consensus in a number of areas where lines should be drawn, where the joint societal gains of cooperation are outweighed by perceived or actual political risk. Right off the bat, collaboration on certain technologies are off the table, such as on products that would be in direct global economic competition with one another, as with competing international development initiatives, or that have potential dual-use capabilities, such as energy storage and electric vehicle technology. There are, however, areas where congruencies should lead to some fruitful dialogue and agreements that also hopefully lead to actionable plans.

- A critical first area would be to develop consensus on what constitutes a carbon

How can China and U.S. cooperate on climate change?



Carbon emission targets

China	2030 2060	Carbon emissions peak Carbon neutrality
US	2035 2050	Zero carbon emissions from the electric sector Carbon neutrality

Previous China-US climate cooperation

China and the US played a constructive role in signing and entry into the **Paris Agreement**

China and the US had cooperation including three **joint statements** signed from 2014 to 2016

Potential areas of cooperation



Graphic: Feng Qingyin, GT

emission and what constitutes a carbon sink. A broadly held understanding of the calculus for national carbon emissions and savings, in addition to greater transparency and verification on reporting, would put the two countries on much firmer ground for approaching innovative solutions.

- The second critical area should be a commitment from both countries for a global database of emissions that allows for monitoring and verification from either government or an agreed-upon third party to assess each other's data submissions. Although third-parties should certainly be a part of the process, and the proposed working group could provide the necessary forum to achieve this, there should be consensus and verification that submissions are indeed accurate. More important, transparency would better allow citizens to hold their own governments accountable.

- The third critical area would be a recognition that climate cooperation and climate competition are not by definition mutually exclusive. This implies that applying pressure on one country to keep up with its commitments, or noting its lack thereof, should not be viewed as pure disrespect of the other. Even further, however, is the idea that competition, particularly from private-sector innovators in either country, should be viewed as a net climate positive. Where possible, education of best practices on creating a policy environment that allows for these net gains in areas of low political risk would create net benefits to local communities and the nation as a whole in both countries.

One area of overlap where low-risk cooperation could be built out is the emerging Blue Carbon Inventory Project announced by the U.S. National Oceanic and Atmospheric Administration at COP26.

Blue carbon is a relatively new concept that has gained prominence over the last several years that, according to NOAA's definition, refers to carbon captured by the world's ocean and coastal ecosystems. Sea grasses, mangroves, salt marshes and other coastal ecosystems are able to sequester carbon at a much more efficient rate than the world's forest systems are able to, making their protection a critical piece in addressing climate change.

There have been historic areas of collaboration in recent years both bilaterally and multilaterally in this area. In fact, scientific collaboration efforts with China have already led the country to incorporate pilot projects in some of its coastal communities and established a national five-year action plan as part of a growing recognition that blue carbon ecosystems are essential carbon sinks that require conservation and economic planning efforts. Yes, there is evidence that blue carbon sinks are being highly disrupted by seabed mining exploration and extraction, which absolutely needs to be addressed. But it should also be noted that past collaboration has led to novel ideas from the Chinese side that may be worth exploring, such as establishing blue carbon fisheries.

Blue carbon is a relatively new concept that refers to carbon captured by the world's ocean and coastal ecosystems.

As the United States and China develop their own separate programs to mitigate the impacts of climate change within their own borders, it is essential to share best practices on measurement techniques and environmental impact assessment methodologies, in addition to pushing for global

standardization. The working group proposed by John Kerry and Xie Zhenhua is one potentially useful forum to establish these cooperative mechanisms bilaterally, not just for blue carbon but for other non-sensitive areas of collaboration. China's participation in the newly launched International Partnership on MPAs, Biodiversity and Climate Change, led by United States, United Kingdom, Chile, Costa Rica and France, for example, could encourage the country to develop novel restoration approaches in MPAs and greater accuracy in greenhouse gas emissions.

For the time being, it is clear that the state of the bilateral relationship will only allow for selective cooperation on non-contentious research and technology.

Cooperation on climate change between any nation, not just between the U.S. and China, is not a joint statement or joint declaration. It is the day-to-day, little-noticed boots on the ground that move forward quietly behind the scenes through dialogue between government agencies and third parties, such as NGOs. Sweeping and sensational headlines can often make one forget this truth, as the newsreels tend to focus on the more negative, albeit highly important, aspects of the relationship. For the time being, it is clear that the state of the bilateral relationship will only allow for selective cooperation on non-contentious research and technology.

As the United States and China develop their own separate programs to mitigate the impacts of climate change within their own borders, it is essential to share best practices on measurement techniques and environmental impact assessment methodologies, in addition to pushing for global standardization.



Omicron's Global Supply Chain Impact



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The new COVID-19 variant, Omicron, is throwing a wrench into the recovery of an already strained global supply chain.

Tensions between the world's two largest economic powers and the ongoing pandemic, which took a turn for the worse with the new COVID-19 variant, Omicron, is concerning governments and multinational corporations and further complicating what was already a strained global supply chain. For most governments and companies alike, there is not much that can be done aside from enhancing their guarding strategies, such as restricting border access and encouraging vaccines. Omicron and the global pandemic also led to workers quitting their jobs at unprecedented rates in November, while job openings stayed close to their highest-ever levels, signaling that the U.S. labor market remained tight last year. It also indicates that the U.S. economy is fairly healthy in that people left jobs but found employment in other sectors. On Jan. 4, the U.S. Labor Department reported 10.6 million job openings at the end of November, and December saw that number jump to 12 million. More important, several industries are being critically impacted by staff shortages, including retail, leisure and hospitality, professional and business services and healthcare and social assistance.

A critical byproduct of COVID-19, coupled with Delta and now Omicron variants, is rising inflationary pressure. The U.S. Federal Reserve has finally acknowledged this will no longer be transitory by the recent announcement that there could be as many as three rate hikes in 2022. And the new variant further exacerbates the economic ecosystem,

impacting oil prices and other factors. In a survey of 35 economists and analysts Brent crude was forecast to average \$73.57 a barrel in 2022, about 2 percent lower than the \$75.33 consensus in November.

A critical byproduct of COVID-19, coupled with Delta and now Omicron variants, is rising inflationary pressure.

Even though the Biden administration has tried to strike a hopeful tone, China remains more conservative with the Omicron variant. Clamping down on any localized surge of infections and outbreaks, China's "zero-tolerance" policy means some ports are overloaded and understaffed. Because of the recent outbreak around the globe, China is expected to double down on "zero-tolerance," which in the past has included mass lockdowns of entire cities, forced quarantines and strict checks at the ports. This includes monitoring ships and cargo to prevent cases from coming into the country. Although aimed at reducing transmission of the virus, the tactic has negative implications for trade between the U.S. and China. The government of China has shown no indication that it will relax anytime soon.

On the global supply chain front, if Omicron throws a wrench into the works of worldwide recovery, how will the U.S. re-

act? The Biden administration worked out a deal with the Port of Los Angeles to move to a full 24-hour work cycle. The administration also released oil from the strategic petroleum reserve in a globally coordinated effort. Altogether, its measures serve to ease supply chain constraints and hold down oil prices. Since then, oil prices have been reduced and wait times at the ports were down as much as 30 percent before the holiday season. However, the positive impact is not adequate. This year, sales over the 2021 holiday season grew at the fastest pace in 17 years and increased by 8.5 percent since 2020 worldwide. Additionally, holiday sales were up 10.7 percent from the 2019 holiday season, causing the transport industry to brace for another roller-coaster year of supply-chain disruptions. The spending measure, which tracked consumer spending from Nov. 1 to Dec. 24, saw the largest increases in clothing (47 percent) and jewelry (32 percent). There is a high chance those gifts to family and friends will be delivered after the holiday season.

Currently, America has a truck driver shortage of around 48,000, with some sources indicating a shortage of 80,000. The driver shortage affects the entire economy, as more than 68 percent of all freight was moved on U.S. highways in the pre-pandemic period. The trucking industry's woes continue to paint an increasingly bleak picture for the supply chain.

When will Omicron cases peak in U.S.?

Based on several models we have analyzed, there is a high probability that Omicron cases in the U.S. will peak by the end January. However, the broader implications are that it is just a matter of time when, not if, new variants arrive in the U.S. and the global community. For example, if new variants arise roughly twice per year, then we could expect to see multiple

outbreaks each year, including in the summer. If such variants occur less frequently, then outbreaks might occur annually or even less frequently. The severity of these outbreaks will depend on the specific characteristics of those new variants and whether prior infections, vaccinations or new drugs can keep people at a lower risk of severe disease.

China+1 model for corporations

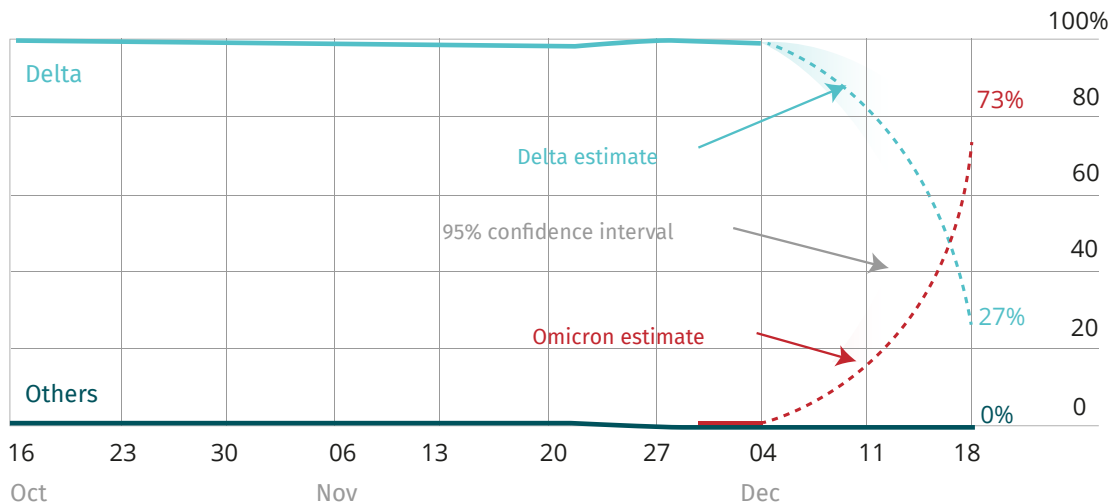
One of the lessons learned from the pandemic as it pertains to global supply chains is that global firms have learned that they can't place all of their eggs in one basket. Thus there is a global supply chain shift from China to Southeast Asian countries, particularly Vietnam, to counter China's dominant position in the global supply chain, and such supply shift has been halted. Vietnam lacks the infrastructure and power to contain the new variant. On Dec. 27, Vietnam reported its first Omicron variant infection. A person arriving in Hanoi from the UK was confirmed as Vietnam's first COVID-19 case involving the Omicron variant. The person arrived nine days earlier at Hanoi's Noi Bai airport and was quarantined. Given that the Omicron variant is 4.2 times more contagious in the early stages than the Delta variant, it is critically important for those supply chain shift beneficiaries to guard their populated areas strictly through vaccinations and testing.

Companies need to be adaptable

Morgan Stanley CEO James Gorman's previous tough statements in September 2021 pressuring employees to return to the office resulted in a backlash and ultimately an embarrassment when he had to backtrack and admit he took the wrong approach. Additionally, decisions made by NYU, Cornell, Princeton, and other universities to switch classes to fully remote learning

Omicron is likely the most common variant in the U.S.

Variant proportions including CDC Nowcast estimates



Source: STAT

once again demonstrate that companies and institutions do not drive the pandemic. On the contrary, it is the pandemic that drives the behavior of institutions and global supply chains. Thus, companies and governments must calibrate a more flexible and adaptable framework for the transfer of people, capital and manufacturing ecosystems.

On the whole, all evidence indicates that there are still too many unknowns regarding the latest Omicron variant. However, there is one thing for sure: The current global supply chain is not adequately equipped to face these unprecedented challenges.

Furthermore, in our assessment, when China will open its borders will largely be dictated by how well Chinese authorities manage COVID-19 cases both before and throughout the upcoming Winter Olympics. Should Beijing complete the Winter Olympics with a relatively small number of cases, we believe that the government

will then move toward a phased approach to opening China's border to other countries.

However, there is one thing for sure: The current global supply chain is not adequately equipped to face these unprecedented challenges.

Last, as the world becomes accustomed to another COVID-19 variant and begins to treat this as the norm, purchasing behavior will shift back to physical service-based, rather than goods-based online, though this will likely not happen until the summer of 2022. The psychological impact on purchasing behavior will also likely compel consumers to shift back to online purchasing and postpone recreational travel, at least until mid-2022.

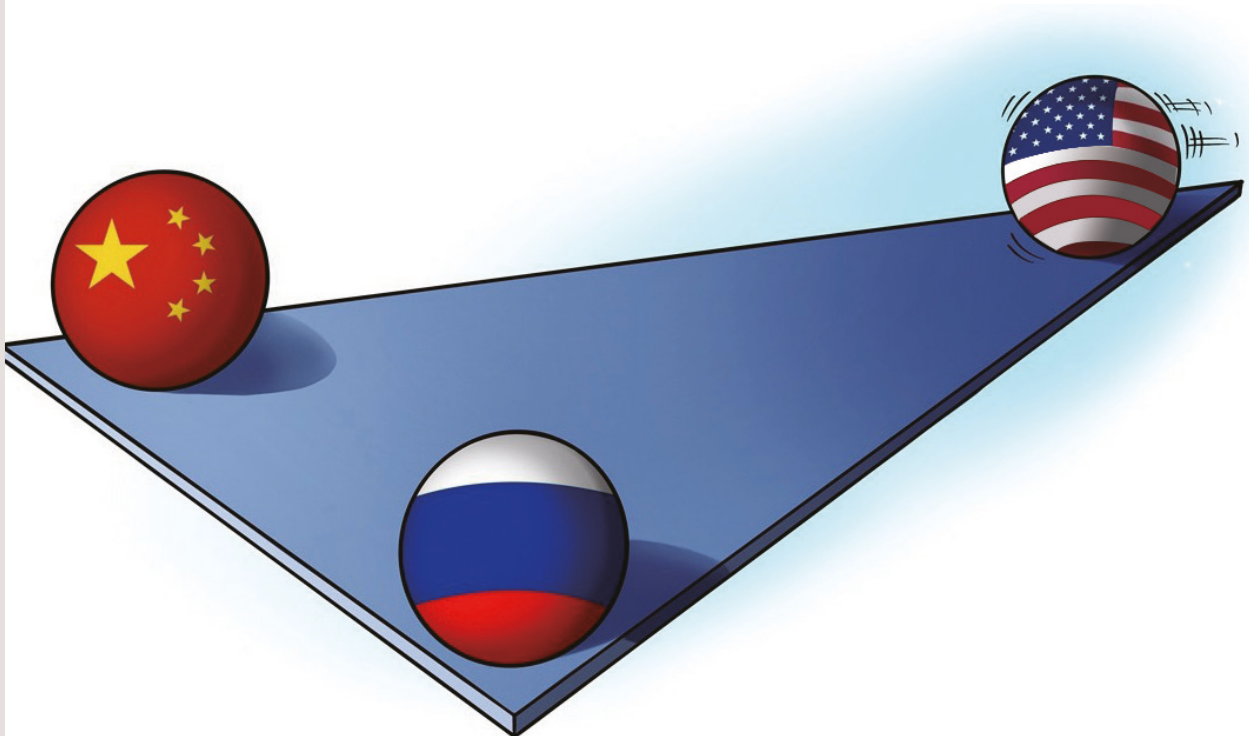
Reshaping the International System



Xiao Bin

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Studies*

China and Russia may be forced to seek a new equilibrium, with the result being two international camps. This could lead to a new cold war and subject other nations to unpredictable security costs.



In the international political system, the behavior patterns of sovereign states naturally involve diplomacy, but under certain conditions diplomatic interactions can generate feedback that is not necessarily positive. It may be more negative in cases when strategic interests cannot be reconciled. Therefore, if the states in the international system fail to find a new balance of interests through interaction, the current international system will likely be rebuilt by returning to some form of parity.

The year 2021 was a year of instability in the international system, and China, Russia and the United States have opened various diplomatic channels in an attempt to restore strategic stability — but to little avail. Regional military conflicts will likely replace diplomatic efforts.

Putinism meets Bidenism

In the first telephone conversation between U.S. President Joe Biden and Russian President Vladimir Putin since Biden's inauguration, the two sides agreed to extend the New Strategic Arms Reduction Treaty. This appeared to be a good start in improving Russia-U.S. relations.

The year 2021 was a year of instability in the international system, and China, Russia and the United States have opened various diplomatic channels in an attempt to restore strategic stability — but to little avail.

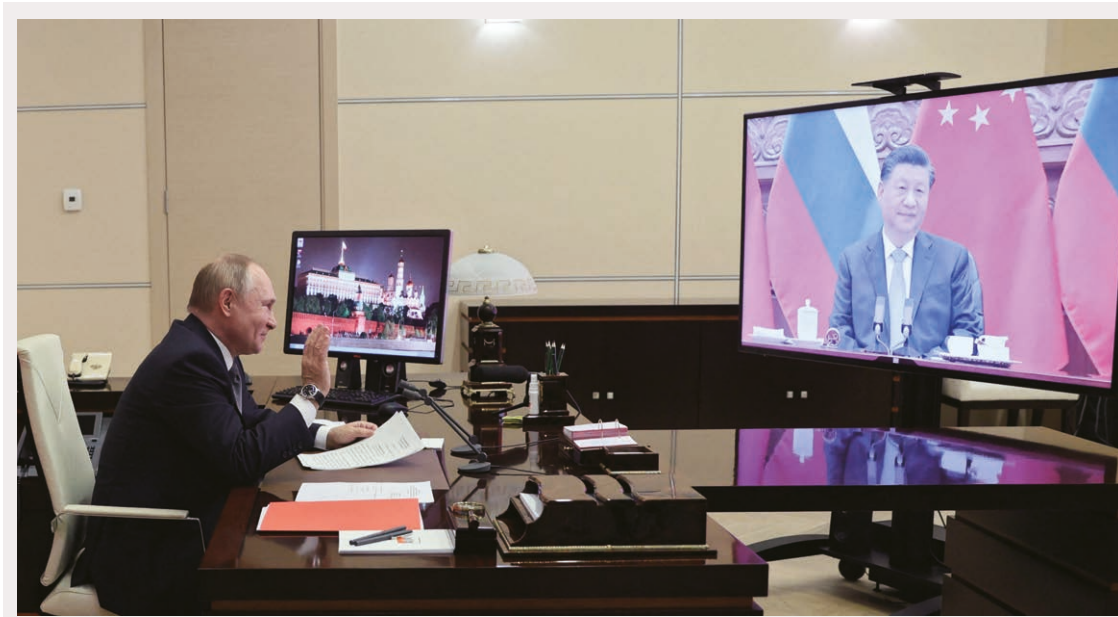
Shortly after the call, eastern Ukraine once again became the focus of a confrontation between Russia and the U.S. In light of NATO's eastward expansion, Russia sees the conflict in eastern Ukraine as a direct contest with the West. Putinism has played a decisive role in Russia's diplomatic and national security strategy.

Bidenism — which aims to restore America's global leadership, reinvigorate alliances and lay a new strategy in the Asia-Pacific region — has clashed with Putinism.

Putinism is neo-conservative in its political philosophy. In its relations with the world, it does not cooperate with the West, it opposes NATO's expansion, it seeks to revise the current international order and it adopts an offensive policy toward the post-Soviet space. During the Trump era, U.S. isolationism and Putinism got along, and Russia-U.S. relations were closer. This state of affairs has reversed under the Biden administration. Bidenism — which aims to restore America's global leadership, reinvigorate alliances and lay a new strategy in the Asia-Pacific region — has clashed with Putinism.

Putinism continues to be reinforced in Russia's new National Security Strategy, which points a finger at NATO. Russia and the United States held a summit in Geneva in June, but this did little to ease relations. Instead, the U.S. and its NATO allies are engaged in a military standoff with Russia in eastern Ukraine, the Black Sea and the Baltic Sea region, with conflict seemingly imminent.

In December, Putin and Biden met online and delineated their red lines. After the meeting, Russia released details of



▲ Russian President Vladimir Putin holds talks with Chinese President Xi Jinping via a video link at his residence outside Moscow, Russia December 15, 2021.

its security draft to NATO and formally withdrew from the Treaty on Open Skies, expressing dissatisfaction with the current international system.

All-out competition

Biden has essentially continued the Trump administration's policy toward China, but it has not refused to engage. In March the two countries held a high-level meeting in Anchorage, Alaska, where talks began with a heated exchange of words that revealed to the international community the tension between the two countries. Since then, U.S. lawmakers have targeted China with a series of bills to compete on three levels — global, regional and national — and in the political, economic, military and technological fields comprehensively.

In terms of action, the U.S. has encouraged NATO and persuaded the G7 to counter China. It created the new AU-

KUS agreement on security in the Indo-Pacific region and upgraded the Quadrilateral Security Dialogue of the United States, Japan, India and Australia (Quad) under the framework of the U.S. Indo-Pacific Strategy.

Biden has essentially continued the Trump administration's policy toward China, but it has not refused to engage.

In November, the U.S. and China held a summit that produced some easily achievable outcomes, but the two sides exchanged tit-for-tat on China's internal affairs. On the 80th anniversary of the Pearl Harbor attack, the U.S. announced a diplomatic boycott of the Beijing Winter Olympics, with the U.K., Canada, Australia and Japan joining in.

Although China-U.S. relations are in a downward spiral, socioeconomic relations between the two sides have remained basically stable. According to U.S. figures, the total value of China-U.S. trade from January to October was \$530 billion, up 16.3 percent over the same period last year, which also shows, to some extent, that the China-U.S. relationship is extremely resilient. This resilience is inextricably linked to China's open policy of active integration into the international order and the efforts of many Chinese living abroad.

Seeking equilibrium

If the international system does not guarantee the identity, unity, independence and mutual security of sovereign states, then individual states are bound to form close collaborative relationships to counteract systemic pressures. Such relationships, in pursuit of what are perceived as legitimate strategic interests, will always be seen by competitors in the international system as attempts to change it. On Dec. 21, U.S. Secretary of State Antony Blinken spoke at a White House news conference about alleged attempts by China and Russia to undermine the international system built and led by the United States. And Russian President Vladimir Putin said at his annual news conference on Dec. 22 that he will consider options if the West fails to meet Moscow's security requirements.

If the existing international system cannot coordinate the strategic interests of China and Russia, I believe China and Russia will choose to seek systemic equilibrium on their own, and the international landscape may form two camps. This may lead to a new cold war, in which case most sovereign states in the international system will face unpredictable security costs in response. The history of international conflicts tells us that in a world of total confrontation there are no real winners.

If the existing international system cannot coordinate the strategic interests of China and Russia, I believe China and Russia will choose to seek systemic equilibrium on their own, and the international landscape may form two camps.

It's All About Ideology



Li Yan

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The recent Summit for Democracy organized by U.S. President Joe Biden, indicates a new long-term focus on ideology in the U.S.-China rivalry. This can be destructive. Whether the two countries can coexist without catastrophe is at the top of the agenda.

Throughout the Cold War, ideology was a core bone of contention between the two superpowers — the United States and the Soviet Union. It was also the catalyst that divided the world into two blocs.

Resorting to a full ideological confrontation is the last straw after all efforts by the U.S. to curtail China have been exhausted, short of war.

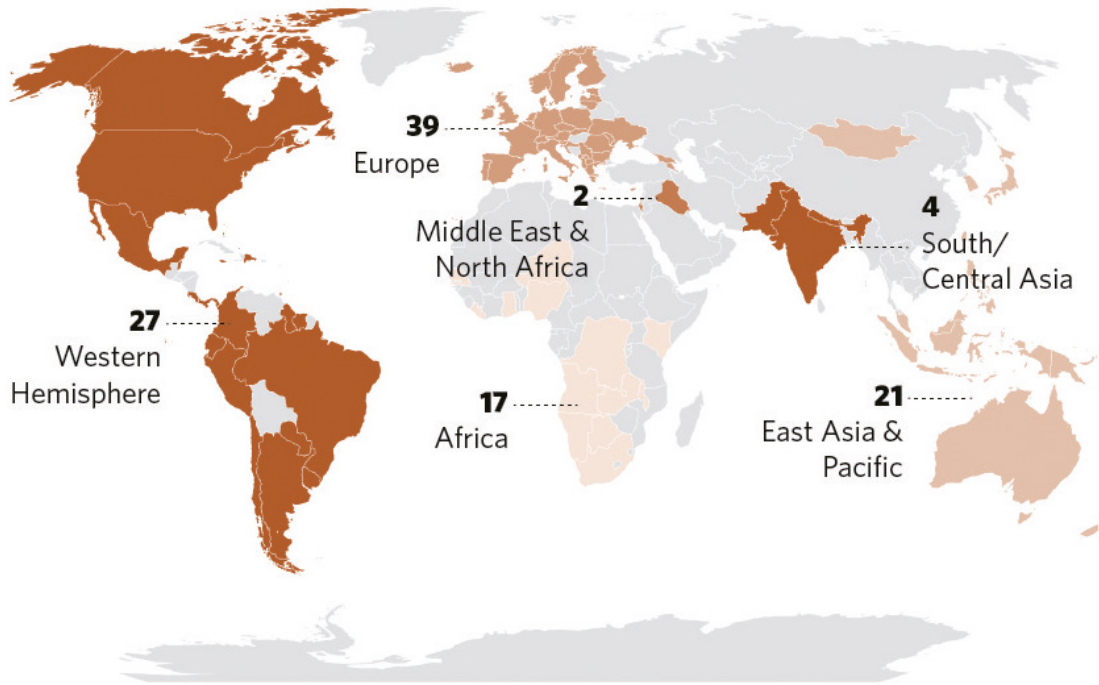
In today's world, a resurgence of great power competition is again threatening to create an ideological divide. U.S. President Joe Biden recently convened the two-day Summit for Democracy, which brought together governments, private sector leaders and members of civil society from 110 countries. China and Russia were not invited. As an effort to demonstrate that, in Biden's words,

"America is back," the summit aspired to start a new phase of Beijing-Washington competition centered on ideology, which will probably define the momentum of China-U.S. ties for a long time to come.

Resorting to a full ideological confrontation is the last straw after all efforts by the U.S. to curtail China have been exhausted, short of war. Since the Donald Trump administration, Washington has formulated a barrage of policy measures to counter China's rise, including the trade war, a looming technology decoupling, judicial bullying, financial sanctions and military action. But its whole-of-government approach has proved ineffective. What's more, it has triggered countermeasures by China.

With America debilitated by the ongoing pandemic, its elites are pressing to reemploy the tricks used against the Soviet Union during the Cold War

Summit Invites by Region



SOURCE: Nahal Toosi, "An 'Illustrative Menu of Options': Biden's Big Democracy Summit Is a Grab Bag of Vague Ideas," *Politico*, November 4, 2021, <https://www.politico.com/news/2021/11/04/biden-democracy-summit-technology-519530>; and author calculations.

▲ (Source: Carnegie Endowment for International Peace)

The Economist published an article on Dec 6, 2021 carrying the headline: "Joe Biden's Summit for Democracy is not all that democratic. Which countries were invited reflects American politics more than democratic values."

— this time to launch a deadly strike against China. The Summit for Democracy, which brought U.S. allies together, was undoubtedly a part of that effort. As the global financial crisis, political extremism and radicalism have added to the number of conundrums blighting the U.S. over the past decade, the country's persuasive power has been crippled. The myths of the American system are collapsing.

As bilateral tensions continue in a seesaw of power, an ideological face-off is likely to dominate Beijing-Washington relations in the next decade or two. Amid a downward-spiraling relationship over the years, both sides have figured out their own bottom lines and coping strategies. For now, at least, both are trying their best not to go to war.

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A complete decoupling between the world's two largest economies is next to impossible. They are close-knit in global trade despite Biden's embrace of Trump's China trade policy. Financial sanctions cost both sides too much. A tech decoupling looms but it could be restricted to a few key technologies. It seems that China and the U.S. will continue competing in these areas, but within a constrained scope, one in which rivalry won't deal a crushing blow to bilateral ties.

Only in the realm of ideology is the confrontation between the two countries likely to become more prominent. The Summit for Democracy is no one-off event. More maneuvers can be expected.

Responding to the summit, China released a white paper — China: Democracy That Works — which details the country's whole-process people's democracy. Another report, The State of Democracy in the United States, reveals America's deficiencies and the loopholes in its democratic system. These moves demonstrated China's determination to confront the U.S. as the latter's behavior becomes more blatant; hence the inevitability of more fierce ideological confrontation.

As ideology becomes a new focus area, how to properly manage the confrontation poses a grave challenge. On one hand, an ideological confrontation, which at the moment consists mainly of words, risks spilling over into other fields. For example, when the U.S. links its "democratic" ideology to the Taiwan question and other issues touching China's sovereignty, tensions may quickly spiral out of control. On the other hand,

an ideological confrontation will probably reshape the existing global landscape and consequently create ideology-based blocs, as in the Cold War.

The U.S. is seeking to counter China's rise and isolate the Asian powerhouse by roping in its Western allies with so-called democracy. Obviously, this spillover of ideological competition can be destructive, and whether the two countries can coexist in stiff competition without catastrophe is at the top of the agenda.

On the other hand, an ideological confrontation will probably reshape the existing global landscape and consequently create ideology-based blocs, as in the Cold War.

China, which is committed to its domestic development, has no intention of setting off an ideological confrontation; neither will it export its own democratic values to other countries, as the U.S. has long worked to do. The U.S. should learn the bitter lessons from history and be cautious as it attempts to use ideology as a tool to gain global supremacy.

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The Pacific Dialogue

A graphic of stylized waves in light blue and red, positioned below the title.

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 Pacific Dialogue in 2021



Roll Up Our Sleeves and Do Something Real



In its first episode of 2021, The Pacific Dialogue features David Firestein, CEO and President of the George H.W. Bush Foundation for U.S.-China Relations in Austin, Texas, and Da Wei, a professor in the Department of International Relations and senior fellow at the Center of International Strategy and Security at Tsinghua University in Beijing.

Their conversation focuses on what it might take for China and the United States to stop the erosion of their relationship. Da Wei calls attention to a window of opportunity up to mid-2022 during which China will hold its key 20th Party Congress and the U.S. will go through midterm elections, cautioning against a dangerous infection point in 2024 if the two sides fail to “fix the problem.” David Firestein laments the failure of the two nations’ coming together to fight the coronavirus that has caused devastation worldwide, calling it a “missed opportunity.”

The two guests speak on the battle of rhetoric on the diplomatic front and how former U.S. president Trump has contributed to division between the two nations. Both take delight in the change of tone after President Joe Biden took office, with Da Wei asserting that he hopes both governments can “roll up our sleeves and do something real.”

The guests share their takes on the prospect of a return of U.S.-China collaboration on climate change and the importance of personal dialogue between the top leaders in stabilizing the relationship.



(www.chinausfocus.com/videos/roll-up-our-sleeves-and-do-something-real)



Growing Need for a Pacific Community



Former U.S. Secretary of State Henry Kissinger's vision for a Pacific community that would safeguard the world has inspired the work of a special initiative co-led by Professor Wang Jisi of Peking University and Professor David Lampton of Johns Hopkins University.



In this episode of The Pacific Dialogue, the two prominent scholars of international relations explore the role of other countries impacted by the shifting U.S.-China dynamics and tackle the question whether regions like Asia are the scapegoat for two global powers — or are they playing the role of marriage counselor to both?

This episode was recorded after senior diplomats from Beijing and Washington met in Anchorage, Alaska, in March for talks that turned out to be contentious and at times confrontational, raising new questions about the state of the U.S.-China relationship. Harsh rhetoric, different approaches and the absence of a joint closing statement may be an indication of a new style of diplomacy. Professors Wang and Lampton address tough questions about what a partly competitive, partly cooperative relationship for the U.S. and China means for the two countries and the world.



(www.chinausfocus.com/videos/the-growing-need-for-a-pacific-community)



Understanding China

As a young child, Charles Ray's imagination was captured by the National Geographic magazines he read in a relative's home. As an adult, he joined the U.S. foreign service, moving to China in the early 1980s and subsequently serving in Guangzhou and Shenyang — two cities in the south and northeast that were largely unknown to the world.



In this episode of The Pacific Dialogue, host James Chau speaks to Charles Ray about his story, and how it began in a small town in Texas. It is a conversation about culture and identity, and the challenges for two nations shaping the world.



(www.chinausfocus.com/videos/understanding-china-charles-ray)



We Live in the Same World



Tensions between the world's two leading economies show no signs of easing, despite a change in U.S. administration and a promise to return to multilateral thinking. In this interview for The Pacific Dialogue, Professor Chen Dongxiao, president of the Shanghai Institutes of International Studies, calls on the young generation of China and America to step up to the plate and work together to deal with the challenges facing the world, to see the connection between each other in a world changed through technology and the growing gap between the developed and less-developed more vulnerable nations.

In this episode, Chen urges both the Chinese and U.S. governments to quickly resume their strategic dialogue, focus on their domestic priorities and rebuild the fundamental framework governing the bilateral relationship.

Commenting on the effort by the Biden administration to rally support from like-minded democracies in countering “autocracy,” Chen says this is “us vs. them” rhetoric — either you are with the U.S. or you are with China, but it is difficult for the United States to forge a coalition against China.



(www.chinausfocus.com/videos/we-live-in-the-same-world-the-pacific-dialogue)



Xi-Biden Phone Call



The U.S. withdrawal from Afghanistan during the summer of 2021 triggered a new wave of soul-searching, as chaotic scenes broke out in and around Kabul's international airport. The “forever war” may have ended, but what future is there for the people left behind? Zhou Bo, a retired senior colonel in China's People's Liberation Army, draws on his visit to Afghanistan in the early 2000s and describes the scale of human suffering he found on his arrival in this episode of The Pacific Dialogue.

Zhou, who is a senior fellow at Tsinghua University's Center for International Security and Strategy, offers his analysis of the phone call between President Joe Biden and President Xi Jinping on Sept. 10, as well as what he calls a “provocation” in China's backyard — close-in reconnaissance operations along Chinese coastlines and the so-called freedom of navigation operations by the U.S. military in the South China Sea.

He agrees that because a broken military communications system can heighten the risk of confrontation, or even war, crisis management is becoming critical.



(www.chinausfocus.com/videos/xi-biden-phone-call-zhou-bo)



An exciting journey to
see and **hear** China
first-hand.

About China-US Focus

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

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

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ABOUT JAMES CHAU

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

