

CHINA & US FOCUS DIGEST

A Thaw in Bali



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

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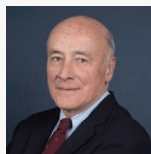


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EDITOR'S NOTE

Hope for New Equilibrium

Zhang Ping

The much-anticipated in-person meeting between Chinese President Xi Jinping and his American counterpart, Joe Biden, on Nov. 14 on the sidelines of the G20 meeting in Bali, Indonesia, created a window of opportunity for the two countries to begin repairing their deeply frayed relationship.

Their clear instruction to officials in their governments to immediately start working cooperatively on a range of issues, from climate change to finance and trade, has already gained traction. The worrisome state of bilateral ties finally has a chance to bottom out and find a new equilibrium.

Our contributors describe the latest developments as a catalyst for normalcy, a critical first step, a thaw or putting a floor under relations. Yet their positive comments come with footnotes of caution, as they also see an arduous road ahead to rebuild trust and confidence.

In this issue, we begin by featuring three scholars — Chen Dongxiao in Shanghai, Joseph Nye in Boston and Jeffrey Sachs in New York — in an interview format, gauging their views on what Xi and Biden managed to achieve in Bali and what it means for competition and cooperation between China and the United States.

The three also offered insights on how the evolving U.S.-China relationship is shaping the world order and how new and emerging trends are shaping the relationship in return.

Our contributor Zhao Minghao says it's imperative for China and the United States to come together amid today's global crises. But he also sees headwinds ahead, especially obstacles stemming from domestic tensions in both countries. David Shambaugh, another regular Focus contributor, views the fact that Xi and Biden met as stabilizing in itself, and he lauds the creation of institutional mechanisms for future working-level meetings. Sun Chenghao and Su Liuqiang, two scholars from Tsinghua University, offer an in-depth discussion on a new strategic framework to undergird bilateral ties.

Other contributors featured in this issue tackle an array of topics, from the U.S. tightening restrictions on China's semiconductor sector to ASEAN in the era of a U.S.-China rivalry and the growing tensions on the Korean Peninsula. We wrap up the issue with a roundup written by Lawrence Lau — a rapid-fire, full-spectrum take on all the major issues defining the current state of China-U.S. relations, with an eye toward the future.



新年快樂



Happy New Year!



■ *Chen Dongxiao, President of the Shanghai Institutes for International Studies*

Steps to U.S.-China Stability

In the interview on Nov 11, 2022, Chen Dongxiao takes an in-depth look at relations between China and the United States and offers suggestions for how to improve them. Chen sees the G20 meeting of presidents Xi Jinping and Joe Biden — and their directives to officials at lower levels for renewed talks — as a catalyst for a return to normalcy.



You can watch the interview by scanning the QR code.

James Chau

Professor Chen when you look back at the G20 and the meeting between the two leaders — President Xi Jinping and President Joe Biden — what would you say is the most significant outcome and the message that they send to a world that is in trouble?

Chen Dongxiao

Well, I think the most important outcome from the Xi-Biden summit on the sidelines of the G20 is the restarting of regular in-person communication, which I hope will lead to more real engagement between the two governments, as well as between the two societies.

Following the two presidents' first in-person meeting in three years — and their commitment to empowering their work teams to keep up the communications — the Chinese and American defense ministers' meeting was carried out in Cambodia on Nov. 22. Beijing is also expecting Anthony Blinken, the U.S. secretary of state, to visit early next year. More regular face-to-face official dialogues between the two countries will follow. And more than that, a wide range of communications, dialogues and engagements will be resumed or revived between two societies, including a more intensive and extensive in-person interaction between the two intellectual communities.

James Chau

Well, they also agreed that a strategic framework is needed to guide future bilateral relations. What would be the guiding principles of such a framework?

Chen Dongxiao

Well, I think, as we have observed, that the leaders of two countries have committed to work out a framework and a shared principle to govern the bilateral relationship, including how to manage differences and competition in a constructive and a non-confrontational way, and how to expand cooperation on global and transnational challenges. I think that the summit also gives a kind of a reassurance to the international community that both governments are willing and able to take the China-U.S. relationship back onto a stable track.

I think at least three sets of principles should be considered in a very serious way. Number one is the mutual respect of each other's core interests, particularly regarding sovereignty and territorial integrity, but also fundamental concerns, including political and economic security. The second principle is the mutual agreement on non-confrontation in dealing with differences and competition, including keeping efficient communication and setting up a workable crisis-avoidance or crisis-management mechanism. Third is the mutual commitment to expand cooperation on global threats and transnational challenges, including climate change, the pandemic, food and energy security and supply chains. If we could apply them to governing our relationship, it will definitely help in making things much more stable and predictable.

I think that the summit also gives a kind of a reassurance to the international community that both governments are willing and able to take the China-U.S. relationship back onto a stable track.

James Chau

Well, such a framework could take time to build, so in the meantime, what are the steps that one can take to slow or perhaps stop the decline of the bilateral relationship?

Chen Dongxiao

Well, I think that it's always easier to say than to do. The first and foremost step both sides should take — and have already begun taking — is to resume the dialogues and engagement across the board between the two sides, from the governmental to nongovernmental domains, and from the political, economic and military domains to cultural connections. The purpose is to dispel the estrangement between the two peoples, to break the echo chamber within each of our societies and mitigate the negative impact of misperceptions and miscalculations on both sides.

I think one of the key takeaways from the Xi-Biden summit is the resumption of dialogue and work on the principles underlying the bilateral relationship. We know that both sides have a huge perception gap on what those principles are, let alone the difficulties in the future about how to apply them on the ground. Nevertheless, the good start itself is encouraging and auspicious.

The second step is to strengthen the resilience of the bilateral cooperation mechanism. By saying the resilience of the cooperation mechanism, I mean that the huge shortage of trust between Beijing and Washington has eroded the momentum and the willingness [to engage in] bilateral cooperation on many transnational global challenges. So both sides should have sensitivity to the other's core national interests. So when we talk about setting up a firewall, or guardrails, or setting a floor to prevent the further deterioration between two sides, both sides need to work hard to

prevent the differences from choking the effort of maintaining the necessary cooperation, particularly on those global challenges. I think that one rule in my mind is not to let the so-called competition cross the red line, which the other side would interpret as an existential threat to its core national interests.

James Chau

But as you and I know, trust and confidence are essential to any good relationship. The same goes, of course, for China and the United States. As we said, Antony Blinken, the U.S. secretary of state, will be in Beijing probably in the next couple of weeks. And then we've also got joint work restarting on climate change. Are these enough? Are these the conditions that are necessary for growing the trust and confidence that we're looking for?

We should target the lowest level of trust, which means helping prevent both sides from miscalculating each other's core interests, as miscalculation corrodes trust.

Chen Dongxiao

It is impossible for us — or it is unrealistic for us — to have only one or two rounds of dialogue. Dialogue at the top level, or senior minister level, would help revive all those kinds of trust. I think the most important approach to trust is not judging how high it is but rather targeting thresholds of trust. We should target the lowest level of trust, which means helping prevent both sides from miscalculating each other's core interests, as miscalculation corrodes trust. So I think that as long as there's a minimum level of trust, which is based upon a basic understanding of the core interests of each other, that is most important today.



James Chau

Professor Chen, let's look at the G20 more generally. What did you make of this meeting? And do you think it was more than just a gathering of national leaders?

Chen Dongxiao

Well, I think that, as we all know, for many years the G20 has been the primary platform of global economic governance. At the same time we also recognize that there are huge headwinds confronting global economic governance, including the G20. Having said that, the 50-plus points of shared concern, as well as the joint commitments by G20 leaders, have shown that international cooperation and collective action — rather than fragmentation or polarization, which we have seen on the rise — are desperately needed to respond to the growing number of global challenges. So this is a sign, as I have observed, of growing resistance to anti-globalization and exclusivity, which is encouraging.

At the G20, President Xi reiterated the International Cooperation Initiative on Global Food Security and also expressed Beijing's support for the African Union joining G20. This proposal by President Xi for international cooperation was very well received in the G20 leaders' declaration.

James Chau

Many of the global headlines were focused on what was unfolding at the G20 in Indonesia. But of course, right after that there was a major gathering of leaders at the APEC meeting in Thailand. When you look at both, was there any difference in the way President Xi Jinping exercised his diplomacy in those two gatherings?

Chen Dongxiao

I don't think there's a significant difference

in President Xi's diplomacy during the two gatherings. Rather, I see more similarities. Number one, on both occasions, President Xi has played a very important role in trying to increase the world's understanding of China, including its national strategies toward building an international community. Number two, President Xi tried very hard to present China's initiatives and proposals to address global and regional development and stability, including many transnational challenges advocating inclusiveness, unity and cooperation. Third, President Xi also spared no effort to try further enhance China's ties with members of these two groups.

James Chau

The global backdrop is very complex — not only Ukraine, but of course the ongoing pandemic, a declining world economy, food shortages and the looming energy crisis. Does APEC have the will, the resources and the mandate to at least try and provide some resolution to problems that we as humanity are facing?

On the other side is the IPEF, which I believe is too much ideology-based and actually serves to disrupt rather than integrate regional economic and supply chain cooperation.

Chen Dongxiao

In particular, I think there are two difficulties or challenges that stand out. One is the tension and conflict that arises from different road maps for international, trans-regional and intraregional cooperation. In my mind, the RCEP and CPTPP are one side, and are supported by China and many Asia-Pacific countries. I think these two road maps have already played a very important role in helping integrate regional

economic cooperation in the Asia-Pacific. On the other side is the IPEF —the Indo-Pacific Economic Framework — initiated by the United States, which I believe is too much ideology-based and actually serves to disrupt rather than integrate regional economic and supply chain cooperation. These different kinds of road maps in the future will see intense competition. But I can't predict the prospects or outcome.

The other challenge is whether those countries in the region have enough capability to deal with these things. I think that for those, particularly for those developing countries that have been repeatedly hit by the pandemic and disruptions in their food supply, there are more challenges than the developed economies have in carrying out their obligations and fulfilling their commitments. Frankly, I think they have a huge problem in their capability. So I think that will make the responsibilities of leading economies, including United States and China, even more important to initiate and to lead by example — making the Asia-Pacific region much more integrated rather than fragmented and polarized.

James Chau

I will finish with a personal question because you've just returned from the APEC region yourself. You were in Indonesia and Australia. What are your takeaways from that experience? And what does that say about what others want from China, the United States and the world they shape?

Chen Dongxiao

Well, in late October and early November I led a small group of SIIS [Shanghai Institutes for International Studies] colleagues to visit Indonesia and Australia. The main takeaway I had after meetings with more than 100 scholars and officials of those two countries is that they all expressed their

strong desire for resuming in-person dialogue and engagement. They also hoped for a wider spectrum of re-engagement. Political, economic, cultural and scholarly exchanges should be revived to enhance the mutual understanding and to mitigate misunderstandings. So this is the No. 1.

The second takeaway is they all expressed concerns about the ongoing geostrategic competition and even head-on confrontation between Washington and Beijing.

All of the scholars and officials I met believe that the rise of China is inevitable and that an effort to contain China will not work.

The third takeaway is that despite the different interests and priorities of the two countries regarding their respective relationships with China, they believe that their relationship with China is very important for economic recovery, as well as prosperity in the long term. While there are many views on how to deal with bilateral relationship of China and the United States, virtually all of the scholars and officials I met believe that the rise of China is inevitable and that an effort to contain China will not work. They also believe that China's role should be and will be increasingly critical and important in shaping the regional and international order.

James Chau

Professor, thank you very much for your time and insights.

[The foregoing interview was lightly edited for clarity.]



■ [File photo] China-US Focus Editor-at-Large James Chau (left) on March 24, 2019 interviewed Joseph Nye, University Distinguished Service Professor of Harvard Kennedy School, in Cambridge, MA.

Where Do We Go From Here?

It's imperative to look at history when considering the current state of the China-U.S. bilateral relationship, or even the state of the world. On November 8, 2022, Joseph Nye sits down with James Chau to discuss how the past is impacting the present, and how it can give us a better understanding of how to approach the long-term global future.

James Chau

Professor Joseph Nye, three years ago at Harvard, in March 2019, I asked you how you felt about the state of the world, and you said that you're not a pessimist about the long-term future. You described the events of the 1930s and the 1960s as being much more of a global challenge compared to where we were in 2019. Three years on, do you still stand by that view?

Joseph Nye

I think that's right. I think I would still hold that we're in a bad spell right now, and we don't know how long it will take. But there have been periods, such as the 1930s and the 1960s, that were worse. That's damning with faint praise. But nonetheless, historically, it's important to keep things in perspective.

James Chau

Do you see any indicators today leading us down that road like the 1930s and the 1960s?

Joseph Nye

Well, I think the dangers to democracy are severe. In the 1930s, Franklin D. Roosevelt was able to preserve democracy. The U.S. system in 2020, rejecting Trump, essentially overcame that challenge. But it's discouraging to see such a large portion of the Republican Party still believe the election was stolen. There are reports that show the election was an honest election. But nonetheless, you have a third or so of the American people who hold to what they call the "big lie" — that the election was stolen.



■ Joseph Nye is University Distinguished Service Professor at Harvard University. He is an American political scientist who co-founded the international relations theory of neoliberalism. He served as U.S. Deputy Secretary of State and as President of the World Bank, among other roles.



You can watch the interview by scanning the QR code.

It's not healthy for democracy. On the other hand, it's not quite as bad as what Roosevelt faced in the 1930s.'

James Chau

So we're really comparing it against the worst, the poorest benchmark, so to speak, by global standards.

Joseph Nye

Yes, that's what I meant when I said it's damning with faint praise, or another way of putting it, it's a low bar to clear. We do have problems now, and we should not be trying to pretend that they're easily surmounted. But we have surmounted even larger problems in the past.

James Chau

We happen to be speaking on a day when America goes to the polls for the midterm elections. What do you think is going to be the longer-term approach for America at a time of national and international complexities?

Joseph Nye

Well, there is always a strong component of the American electorate, which has been called isolationist. If you look at the polls from the Council on Foreign Relations, since the 1970s they have been remarkably consistent that about one-third of Americans say, we don't want to be bothered with the rest of the world. And about two thirds say we should have a strong activist foreign policy. Now those vary, those numbers go up to 70 percent at some times, but roughly there is a strong isolationist strand in American opinion. And it's been there for a long, long time. Right now, the latest poll that the Chicago Council did show that rather than isolationists becoming stronger, the

support for a strong foreign policy — an outward-looking foreign policy — is actually near the high end of that range, the 70 percent range.

James Chau

The National Security Strategy was recently unveiled by the Biden administration, and you've already written extensively about it. That strategy describes China as a "pacing challenge" to the United States. What does that mean?

Joseph Nye

It doesn't just start with Biden and his national security policy — it goes back to Trump — that American foreign policy is going to focus on great power competition. Before that, Bush focused on terrorism and so forth. Now, it's great power competition. And while this national security strategy focuses Russia as a clear and present danger, it also focuses on China as a growing competitor who is possibly going to be a near peer competitor. And so that's why they call that the pacing challenge. The general view is that Russia is a declining state, which is taking greater risks as many declining states do. China is still rising in this view. And it's not going to take risks as large as Russia has with its invasion of Ukraine, but it's going to continue to grow. And that's what they mean when they call it the pacing challenge. And a focus for the long run on China more than Russia.

James Chau

The strategy also describes China as the only competitor to the United States with the intent to reshape the international order. And increasingly, it says, China's toolbox of economic, diplomatic, military and technological power will advance that ambition. Do you think China really is the

threat that this statement appears to describe?

Joseph Nye

I like the word “challenge” more than the word “threat”. China is definitely a challenge. China doesn’t want to upset the table, it wants to continue playing the game. But it wants to tilt the table so that it gains more. And that means “challenge” to my mind more than “threat.” But there definitely is significant competition between the U.S. and China, so the answer is yes. And it’s also worth remembering, when we look at this, that we have to look at the Chinese end of it, and not just the American end. There is a bipartisan view that sees China as this sort of challenge. But if you look at what China has said and done since Xi Jinping came to power in 2012, China has tended to cast the West as a threat. Western ideas are seen as a threat to China. Its policy dropped Deng Xiaoping’s policy of hide and bide for a much more assertive foreign policy. It had told Obama that it would not militarize these artificial islands that it was building in the South China Sea, yet it has done so. And it has a very nationalistic foreign policy, sometimes referred to as wolf warrior diplomacy. And this suggests the problem in the great power competition between the U.S. and China is not just because of the Americans. The Chinese get a good degree of credit or blame for it, too.

China is definitely a challenge. China doesn’t want to upset the table, it wants to continue playing the game. But it wants to tilt the table so that it gains more.

James Chau

Let’s talk about what China thinks. It believes that it’s on the short end of a stick when it comes to America’s primary objective, which it says is to stall and counter its improvement. The assertion that the U.S. is preoccupied with outcompeting China certainly doesn’t help lessen this concern. To help us understand, whether we sit in China, where I am, or whether we sit elsewhere in the world, what are the intentions of people a couple of miles from where you are in Washington when it comes to China?

The problem in the great power competition between the U.S. and China is not just because of the Americans. The Chinese get a good degree of credit or blame for it, too.

Joseph Nye

Well, it’s worth going back for a little history. In the 1990s, it was clear that China was a rising power. And the U.S. could have essentially tried containment of China, as it had with containing the Soviet Union in the Cold War. In fact, the Clinton administration and the George W. Bush administration chose a different approach. Bush supported China as it joined the World Trade Organization and kept American markets open to China. In addition to that, the Obama administration tried to reach agreements with China on issues such as climate change, cybersecurity and so forth. So the argument that Xi Jinping and China have been facing long-standing American hostility is simply not true. What is true is that Xi came to power with a much more

assertive foreign policy, and that has produced fear in Washington and also a feeling that the Chinese have not lived up to their promise. When Robert Zoellick was deputy secretary of state, he coined the phrase, “Our aim is to help China become a responsible stakeholder.” In other words, we should invite China to join international institutions and help provide international order. I think the general feeling in Washington today is that China did not accept that invitation.

So the argument that Xi Jinping and China have been facing long-standing American hostility is simply not true.

James Chau

We all know Joseph Nye as being someone who served in the Clinton administration and someone who’s based at Harvard University. But maybe some people forget that you actually created this phrase, which has become so commonplace today — “soft power.” Where did soft power go wrong on one side, or both sides, of this particular equation in terms of trying to co-opt the other side to come on board to see what it could see in terms of what was good for themselves, and for everybody. What’s gone wrong over here?

Joseph Nye

Well, I think soft power, which is the ability to get what you want through attraction, rather than coercion, is always and has always been only a part of power. And it’s obviously affected by the context

of hard power, often thought of as economic and military power. So as the relationship and hard power soured, the ability of soft power relationships became more diminished. I think it was around 2007 or something like that, I co-authored an article with Wang Jisi of Peking University, Beida. And we argued in that article that soft power could be used in competition between the U.S. and China, and it could also be used for cooperation. And if the U.S. became more attracted to China, that could be a positive in terms of the relationship before 2010 or 2012, where I think it was playing that role. But as the overall relationship hardened and the competition got stronger, the U.S.-China relationship diminished.

James Chau

But there was such a long wind up to this Party Congress, perhaps underlined by the silence around the world, particularly in Asia, with ongoing pandemic-related restrictions. So this really came into the news much more so than usual. ...Well, that’s what it felt like from here. From where you are, Professor Nye, was there any surprise that came out of this Congress? Or was it as you predicted in your mind it would be, and based on the expertise of working with this country for so many years?

Joseph Nye

Well, I think I was not surprised. I think what we saw was pretty close to most of the predictions by accurate journalists and experts. So in that sense it wasn’t surprising. I think the long-term effects of the Party Congress remain to be seen. If you look at the underlying trends in the Chinese economy, China faces a demographic decline. The labor force peaked in 2015. And the general way in which

one responds to that, economists tell us, is by increasing productivity, and you increase productivity of the remaining labor by essentially new technologies or the use of technology. But China's productivity has been declining as well. And then you say, well, where would new technology come from? Well, the government is placing a lot of emphasis on State-owned enterprises, but often new technology comes from the private sector and from entrepreneurs. And of course the government or the Party is now clamping down on the private sector. So I think the real test of how successful the Party Congress was will be whether it deals with these underlying problems. And I don't mean just the response to COVID, the zero-COVID policy — I mean these underlying structural problems of demography, productivity and entrepreneurship. And there I think the signs go in the wrong direction. But we won't know the answer to that until the next Party Congress.

James Chau

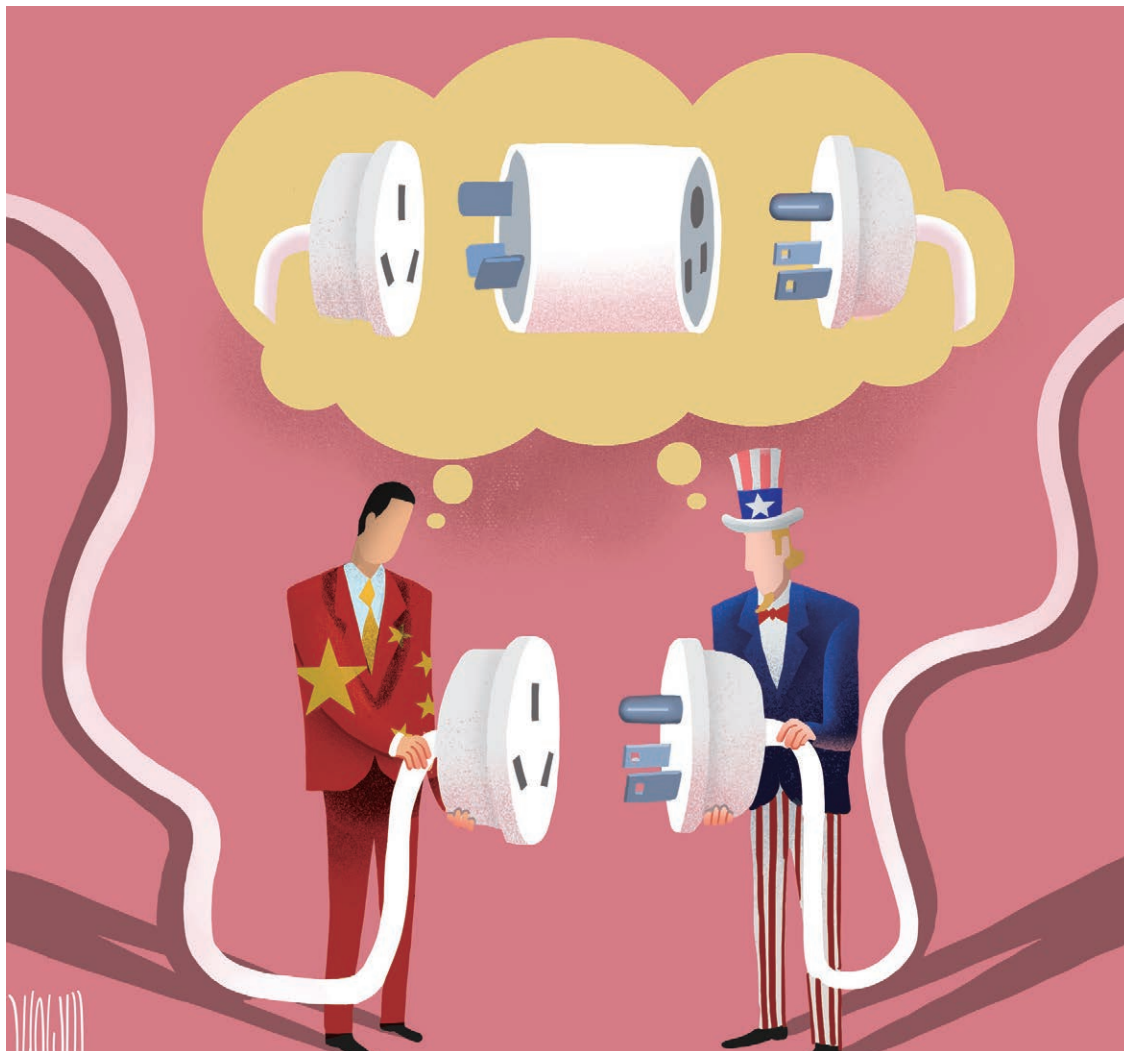
Many China watchers or America watchers are concerned about the relationship and have tried to keep an eye out for areas of shared interests that these two countries can work on together — one example being the partnership of John Kerry and Xie Zhenhua working for a better planet. Now, this has been met with varying degrees of success. But fundamentally, these two countries are very different. China looks more and more to what it calls common prosperity. The rest of the world seems to be looking at economic and GDP growth alone. At its most basic, does that not indicate that there is very little ground for overlapping interests and therefore overlapping partnership?

Joseph Nye

Well, it does suggest that the Chinese are

going to have to accept that Americans are different, and the U.S. is going to have to accept that the Chinese are different. I liked the phrase that former Australian Prime Minister Kevin Rudd has used: We have to accept that there's going to be a managed competition. And that means that we're not trying to destroy the other. It also means we're not trying to convert the other. But we need to manage competition. You can also focus on the managed part — and the managed part includes not only dealing with climate change, which is a threat to both countries, but also to pandemics and new health challenges, and also to the spread of nuclear weapons and proliferation, and also maintaining a degree of stability in the international economy and financial system. So there are many areas where the two countries have an interest in cooperation and managing the competition, even though there is no prospect, as I see it, of transforming each other's domestic societies.

There are many areas where the two countries have an interest in cooperation and managing the competition, even though there is no prospect, as I see it, of transforming each other's domestic societies.



James Chau

Let me ask you the question that increasingly many people are asking, which is what is the likelihood that we're going to see nuclear weapons being deployed? In light, of course, of the Russia-Ukraine conflict but also at a time when the U.S. has been pushing to engage Beijing in talks?

China has been increasing the size of its nuclear arsenal. And the question is at what point China will be willing to discuss nuclear stability with the United States.

Joseph Nye

I think the more acute of these questions is the question of Ukraine, as Putin miscalculated when he invaded, and his troops have done poorly on the conventional battlefield. And many people are speculating that if he has his back against the wall, he may decide to use tactical nuclear weapons. I don't read that as a high probability. But it's enough of a probability that it has to be taken seriously. It would be very bad for the Non-Proliferation Treaty and for the efforts to decrease the role of nuclear weapons in world politics.

The difference with China is, again, more of a long-term problem. China has been

increasing the size of its nuclear arsenal. And the question is at what point China will be willing to discuss nuclear stability with the United States. In the past, China has also often said our numbers are small, we have what's called finite deterrence, we just need enough to be safe on our submarines to be able to damage you severely if you attack us. And that has been sometimes seen as somewhere in the range of 300 or 400, nuclear weapons. Most of the plants that I've seen from satellite imagery seem like it could go up into the thousands of nuclear weapons. If that's true, then you get to a situation where the nature of the deterrent relationship between the U.S. and China changes, and at that point, I think, it is sensible to have discussions. In other words, even when hostility between the U.S. and the Soviet Union was at its peak, we were still able to talk about how to limit nuclear weapons and the prospects of nuclear war. I think China is building itself in a way in which, unlike the past, it often had good reason to tell the Americans they didn't want a nuclear discussion because of the great disparity in the size of the forces. Now it's getting to a point where there are grounds for discussion.

James Chau

Professor Nye, I would love to finish off with one of the themes of this discussion, which is post-Congress, what happens next? I mean, how do you think the outcomes of this once-in-five years gathering is going to shape China's relationship with the world, and particularly with the United States?

Joseph Nye

Well, I think China has been moving — partly because of Xi's policies and partly because of COVID — in the direction of isolating. I think this is not healthy for China or for the rest of the world. I think the Party Congress showed signs that this approach is continuing. And the question for all of us as we watch the situation after the Party Congress is to see whether you have a return of increased contacts between China and the rest of the world. So I said I think that would be healthier for China, and for the world, including the United States.

And the question for all of us as we watch the situation after the Party Congress is to see whether you have a return of increased contacts between China and the rest of the world.

The Mindset America Needs

We need to stop thinking that the United States should run the world. Relations with China have been incredibly constructive for decades. But now it's being recast as some terrible fate. The U.S. should be delighted when the rest of the world achieves progress because that makes a better world.

James Chau

Jeffrey Sachs, thanks very much for your time today. Let's begin with what's been happening in Beijing. The Party Congress made global headlines for a couple of days. But what happens next? How are the Party's priorities for the next five years, as outlined during the recent gathering, going to impact the economy and the country's role as a global tech leader but, more broadly, its role as a foreign policy participant?

Jeffrey Sachs

Well, this was a very big event and there was a very long lead-up to it. So I think the government will now get to work. And there's a lot to do. Now, there's a lot of internal transformation — for example, the ecological transition and the energy transition — and there's a lot of technological change. And it's a very complicated geopolitical environment. So a lot will depend on how China and the United States interact. Now, I hope cooperatively, and that's what I'm really urging in my own country, that the United States change its approach. I think there's a great deal of benefit from a much more cooperative approach between the United States and China to solve a lot of the problems that we're facing. But a lot will depend on the geo-

political dynamics going forward.

James Chau

But what do you think the China watchers in America have taken from this once in every five years gathering?

Jeffrey Sachs

Our media and the China watchers right now are increasingly just anti-China, actually, which is absurd from my point of view, and very dangerous. The conditions and the viewpoints have hardened, and the rhetoric in the U.S. mainstream media, of course, is that China is an enemy, that we can't cooperate, that we need to decouple — things around those sentiments. And the closer you get to the political class, the more you hear such attitudes. The trade regime is increasingly described as being against China. All of this is dangerous, provocative and wrongly oriented, in my view.

James Chau

As time wears on, it's becoming very clear that China intends to chart its own path, rather than follow the examples set before by Western leaders. How do you think it's going to measure its success come 2023 and onward?



■ Jeffrey Sachs is an American economist and former director of The Earth Institute at Columbia University. His work on sustainable development is well-known, as are his contributions in the fields of economic development and poverty alleviation.



You can watch the interview by scanning the QR code.

Jeffrey Sachs

Well, I think that there's something even a little more basic than that. Of course China, given its unique conditions, will chart its own course. But there is a sense in China — and I have to say I share that sense — that the United States is actively trying to impede China's progress right now. And of course the word used in the U.S. by some is containment, which is the old term from the U.S. playbook of the Cold War, vis-a-vis the Soviet Union. I can't imagine anything more wrongheaded than this, but that is actually the view.

And I think the message from the 20th Party Congress and from President Xi was, look, if that's the view, we will carry on and we will find our way.

So what China is mapping out is not only its own distinctive course, which has been true basically for decades. And all of the economic strategy from 1980 onward has been distinctive institutionally: China is part of the world economy, part market, part state and so forth ... Chinese characteristics, as the expression goes. But I think the sense now is that it's more complicated geopolitically because it's a hostile environment. I hope — I really hope and I believe it's possible — that we move beyond that. And I think the message from the 20th Party Congress and from President Xi was, look, if that's the view, we will carry on and we will find our way. If we're stopped from participating in U.S.-linked technologies here and there, we'll find our way. So it's much more about navigating not only with our own characteristics, but navigating an environment that is more hostile to our continued progress. But not to worry, our intention is to continue forward. And a lot of the world is very cooperatively linked to China in trade, finance, projects and diplomacy.

On the international side, I think we need to lower the tensions dramatically — a much more prudent course, much less talk about military alliances, much less talk about arms races and so forth, and much more sense of our common responsibilities and interlinkages.

James Chau

I will move into the economy because we are, as a world, moving into an economic recession. But before that, the speeches that we heard at the Party Congress seem to place more of an emphasis on security and stability rather than economic development in itself —and this big term of “common prosperity.” What do you think of that in terms of unemployment, basic income (which China hopes to reach) and achieving stability by addressing the growing youth unemployment in China, which we’re also seeing mirrored elsewhere in the world? What about the increasing need for pensions for China’s elderly?

Jeffrey Sachs

I think there are two very distinct issues at play. One is security, in the sense of national security, and China’s sense that the global environment is more difficult and less supportive — and certainly the tensions that have arisen across the strait with Taiwan, and U.S. actions in that regard, and so forth — is one set of issues. The other set of issues are the social challenges of high inequality, what kind of society China will be, how to promote common prosperity, and tradeoffs in market-based growth ver-

sus social access and social equality, and so forth. That’s a different set of issues. They’re both very clearly present in the speeches at the 20th Party Congress.

Again, I would say the following: On the international side, I think we need to lower the tensions dramatically — a much more prudent course, much less talk about military alliances, much less talk about arms races and so forth, and much more sense of our common responsibilities and interlinkages. So that’s on the international side.

On the domestic side, China is grappling with the same problems that basically all of countries of high income or upper-middle income are facing right now, which is that there’s a lot of inequality (which is probably even rising). Development is very much skill-based, education-based and technology-based. It’s leaving people behind. It requires a lot of public policy to make our societies more cohesive. And common prosperity, I think, is the term that China is using for this question. In Western Europe, the term traditionally has been social democracy. How do you make a society in which everybody has access to economic standards and basic dignity? The answer is that you need a pretty creative approach to incomes, to public services, to healthcare access, to education, to infrastructure and to training.

China is rapidly aging, like many societies, because life expectancy is increasing and birth rates are very low. So the population is aging, and that puts a lot of social stress on [the government] also for issues like pensions, loneliness, how to organize societies in a way that meets needs when the median age is above 50 years, which is what we’re going to have in the coming decades. And so these are challenges that are being faced by a lot of the world. If we actually would take a deep breath, recog-

nize that we're all in this together and discuss this, we'd come up with more creative approaches.

James Chau

You're very much associated with your role as an economist and with the sustainable development goals. But what people forget is that for many years, you've been a champion and an advocate of good health for everybody. Do you think that public health and the decisions made at the policy level in China are going to reshape China ahead, when you put that together with the outcome of the Party Congress, with the economy as it is, and in the context of a changing world?

Jeffrey Sachs

Generally, one of the main themes is that we need more global cooperation. We need to strengthen the role of the World Health Organization, and we need to be learning best practices from each other. And again, I tried all during the first two years of the pandemic to point out, "Look, in China, the death rates are much lower. And it's not just China, it's also the neighbors in the region." But I couldn't get any traction in the United States because U.S. political leaders have a very hard time learning from anybody else. Unfortunately, it's a country that doesn't pay enough attention or believe that it could learn lessons from abroad. We don't do that enough. But I think that that's one of the things that should come out of this experience.

And more generally, when China is looking for common prosperity, and when we use slightly different language in the United States — to say we have inequality that's much too high and that we need social justice — it means we're grappling with something very similar, and we should be brainstorming together on this. One of the things

that I really liked about President Xi's statement (and it's a theme I've been promoting myself) is when he said that ancient wisdom, Confucian wisdom, ancient traditions and cultural heritage can play a very big role in helping to confront current challenges. And I'm hosting a meeting next year in Greece of Chinese and Western scholars on how Confucian thought, Aristotle's thought and other ancient wisdom can help us to confront current challenges, because our cultural roots are also extremely important.

James Chau

I also want to ask you: We thought that these two great countries, China and America, were going to work together on the greatest threat to humanity in modern peacetime. They didn't. Then we thought at least they'll get together for the good of the planet and our natural world. And in fact, while they did do quite well through some of the disharmony, that's dropped off as well. What's it going to take? Do you think we're going to see a return? We've got two excellent people, John Kerry and Xie Zhenhua, who both understand the value of partnership as individuals, but have not been able to bring these two countries together and to keep them glued together.

Jeffrey Sachs

The basic problem is that the United States' mentality among the political elite for many decades has been that the U.S. is the most powerful country in the world and things should stay that way. And after the end of the Soviet Union, the United States' view was that we were the sole superpower. Therefore, it's a unipolar world. This, of course, was a terrible illusion, just a mistake. The United States is 4.2 percent of the world population. So there's another 95.8 percent of the world that says, "Yeah, we're here, too, by the way." And there is no single country that writes the rules or drives the world sys-

tem. But the mentality of the U.S. is pretty deeply embedded. The problem came with China's success. Because for a while, this was fine. China's a developing country, no problem. But then China started to become a leader in cutting edge technology.

The Chinese economy in the aggregate, not per person, but in total, started to rival or exceed that of the United States, depending on how you count. And so starting around 2014 or 2015, U.S. policy types — not the broad public — would say China's continued rise is a danger to American power, a danger to American leadership and a danger to American hegemony. Even President Obama, a very reasonable person, said we need the Trans-Pacific Partnership so we can write the rules for Asia. Well, how silly is that? How can you write the rules for Asia without China being part of the rules for Asia. But that was the American mentality. It's a wrong idea and we're not past it yet. Then when President Trump ran in 2016, he campaigned that China took your job. He won states in the U.S. Midwest, like Wisconsin, Michigan, Ohio and Indiana, based on this claim: China took your job. Well, it's a very naive approach. He doesn't understand much of economics or international trade. But the Democrats said, "Now we're threatened, we better have the same line." And that's also part of the Biden administration idea — that somehow it's good politics to attack China.

This, of course, was a terrible illusion, just a mistake.

This is all wrongheaded. But we're in the grips of politicians that are piping off right now and that are voicing this kind of anxiety: How dare China be so big and successful? But we want China to be big and successful! That means that it's prosperous and helping to address global problems.

James Chau

Let's return very quickly for one or two questions on the substantive dialogue that you spoke about. Recently, the United States passed a sweeping set of restrictions aimed at shortening advancements in China's semiconductor industry. How do you think this is going to impact the Chinese economy and the global supply chain? And then beyond that, how's it going to shape the semiconductor sector more broadly?

And that's also part of the Biden administration idea — that somehow it's good politics to attack China.

Jeffrey Sachs

Well first, I'm completely against these policies. I think that they are provocative, wrongheaded, disruptive of what should be normal interconnections and I don't believe that technology should be compartmentalized in this way. This is the old Cold War approach. And I think all the attacks by the U.S. against Huawei, ZTE and others were unfair, because these companies have developed technologies that were very good and low cost and deployable to developing countries. They were ahead of the U.S. companies, that's how it was. Interestingly, the U.S. in its new industrial policy is putting on a lot of subsidies for building domestic industry, and the Europeans objected saying this violates the World Trade Organization. But what the Europeans said was pretty funny. Unfortunately, they said either you let us into your practice or we'll complain to the WTO. In other words, if you let us play on your playground, then even though it's discriminatory and against the rules, we'll go along with it. It'll be anti-China. This approach is not what we need. We need rules of the road. And when the U.S. says "rules based system," it can't mean the rules we

make, as the United States. It has to be rules that are negotiated globally through international institutions.

James Chau

Jeffrey Sachs, you wrote very recently about how false question narratives and perceptions about China and Russia, along with some U.S. policies, are stoking tensions within this triangular relationship. What do you think can be done by each of those countries to achieve a more cohesive relationship reset?

Jeffrey Sachs

I think the U.S. and Russia need to sit down and end the war in Ukraine in a way that respects Ukraine's sovereignty but respects Russia's national security as well. The key, I have always believed, is clarity that NATO will not expand to Ukraine and to Georgia, which is on the eastern end of the Black Sea. Russia said that is a red line for our national security, and I think the United States should have listened to that. And if the United States would heed that, we could resolve this war, which is extremely dangerous and absolutely destructive of Ukraine. We could save Ukraine from a proxy war between the U.S. and Russia, give Ukraine security and give the world more security.

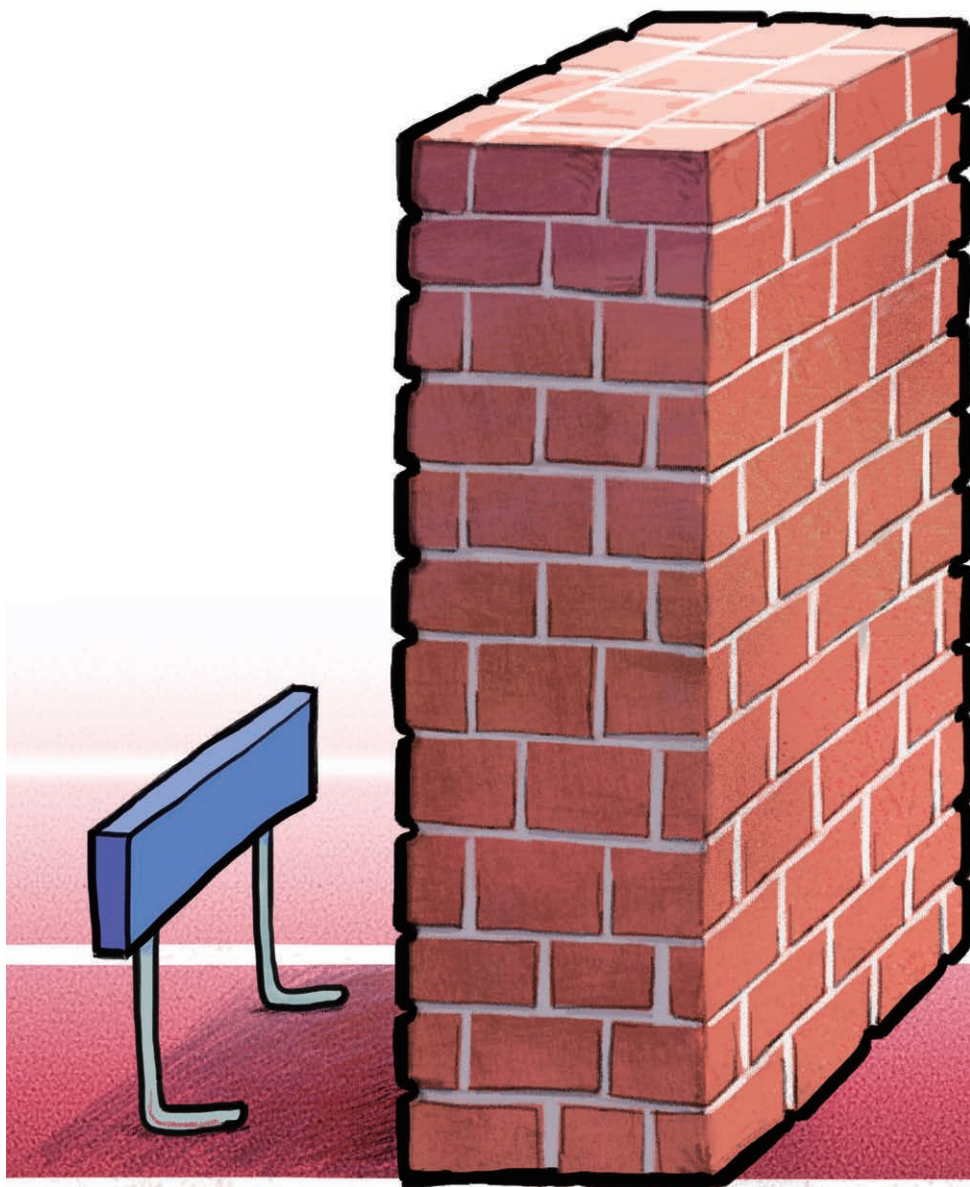
James Chau

I'd like to finish off with this. China, in your country, has become public enemy No. 1 because it dares to improve opportunities for 1.4 billion people. And in doing so, it dares to challenge the world's superpower, the United States. But in the spirit of openness, because you will tell us what China does well and what the world can learn from China, what should we learn from America, from the country that you call home?

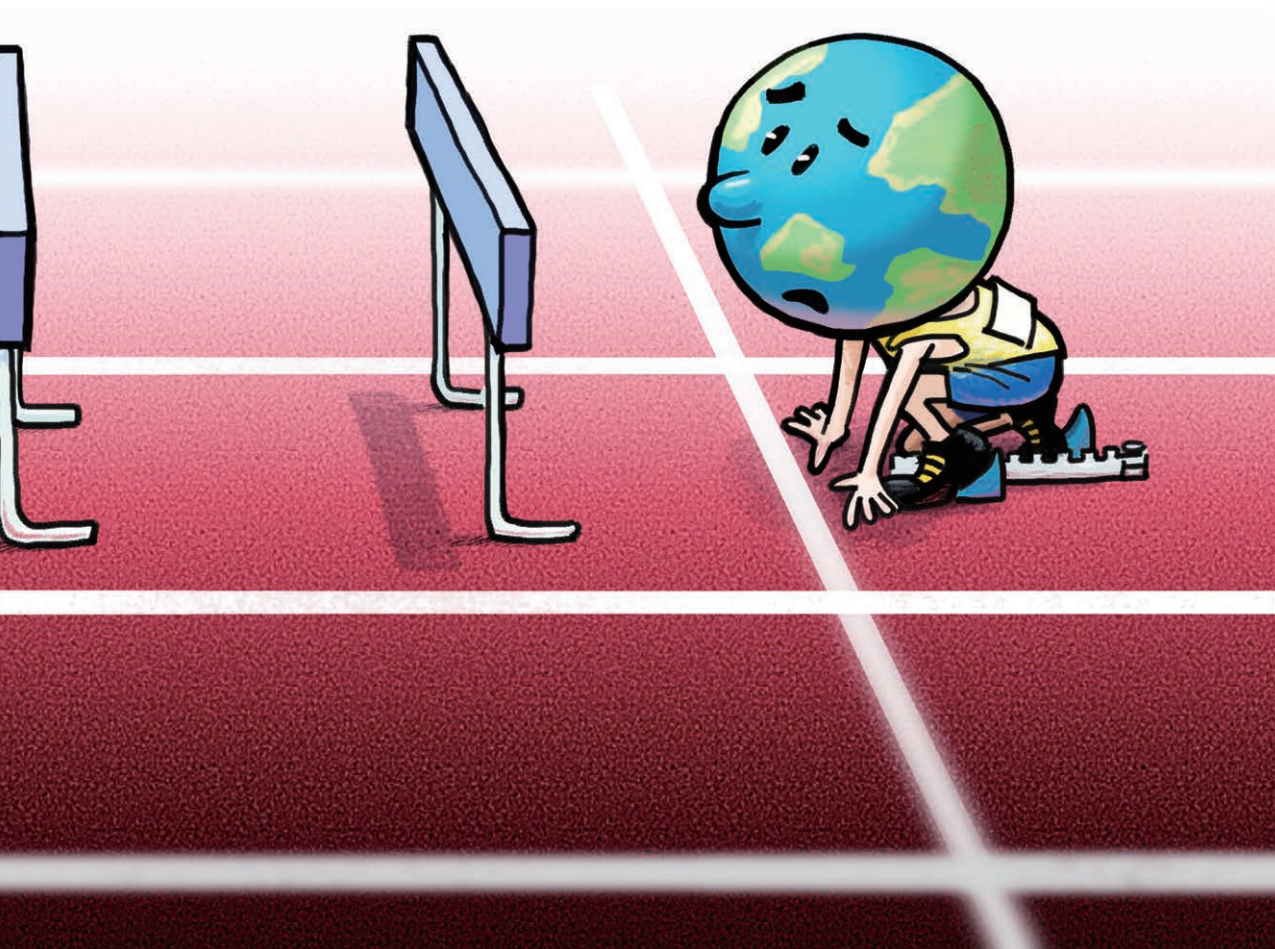
Jeffrey Sachs

America is, to its plus, a country of incredible diversity. We often don't manage it all that well, but it's an incredibly multiethnic, diverse society, with all the tensions that go along with that — and the tensions are very high. My city, my hometown, New York City, is incredible because it's got to have at least 200 languages spoken daily. And I think that is its great strength. Parts of the U.S. work in that wonderful way and I want us to keep that idea. And for that, we need to just get out of the mindset of unipolarity and running the world — which is a huge mistake for the United States — and actually build on what should be our biggest strength, which is our diversity. The relationship between the U.S. and China has been incredibly constructive for decades. My first trip to China was in 1981. I've been going back basically every year since then with friends, colleagues, students and counterparts. And I think this period has been a time of great progress, and it's being recast as some terrible fate for the United States. As you say, it's a matter of arithmetic. China's a big place, so if China succeeds at improving living standards, well, that's a big number. And the United States has to understand that as just 4.2 percent of the world, it should be delighted when the rest of the world achieves progress as well. That's a better world. That's the mindset that we need.

*And when the U.S. says
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international institutions.*



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A Global Time of Crisis



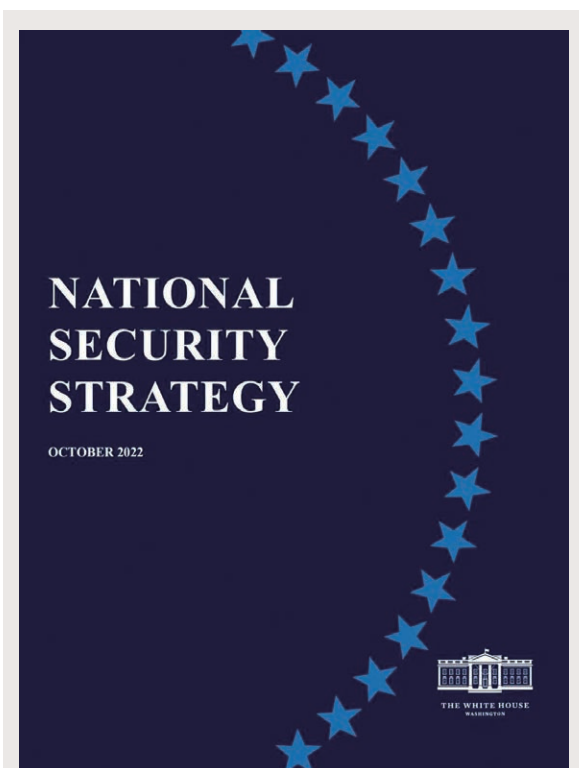
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The meeting of presidents Xi Jinping and Joe Biden in Bali may be the first step toward restoring normal bilateral ties between China and the United States. The leaders discussed their respective red lines and agreed to resume talks on several topics. But a trust deficit remains.



Chinese President Xi Jinping and his U.S. counterpart, Joe Biden, met recently in Bali, Indonesia, and signaled that both sides are committed to managing disputes. The world is now in a time of crisis because of multiple entangled factors, notably the economic recession and geopolitical conflicts. A stable China-U.S. relationship, and any improvements that are made, serve the interests of both the Chinese and American people and fulfill the expectations of the international community.

The meeting took place on the sidelines of the G20 summit, where leaders of the world's major economies gathered to seek ways to "recover together, recover stronger." There is no doubt that the U.S., China and other major global powers are facing massive economic challenges. Economist Nouriel Roubini, who correctly predicted the 2008 financial crisis, sees a "long and ugly" recession ahead and says that new systemic risks in the global economy cannot be avoided.



▲ On Oct. 12, the Biden administration released its first full National Security Strategy (NSS). Not surprisingly, China is a central subject in it.

The International Monetary Fund warned in October: “The worst is yet to come, and for many people 2023 will feel like a recession.”

According to the IMF, the economies of countries accounting for one-third of the global economy are expected to contract this year or next, and global economic growth will slow to 2.7 percent in 2023. Business tycoons such as Amazon founder Jeff Bezos cautioned that consumers and businesses should make preparations for an economic winter.

The two powers should not waste time amid crises.

In particular, many developing countries and emerging economies are blighted by severe economic and fiscal difficulties, and the U.S. Federal Reserve’s interest rate hikes add more fuel to the fire. According to the Institute of International Finance, debt in 31 emerging economies totaled \$98.8 trillion as of June 2022, 2.5 times their collective GDP. Last year, global debt soared to a record \$303 trillion. The debt crisis is dragging down Pakistan, Sri Lanka and several other developing nations, which will bring more challenges in food and energy security and even give rise to political and social turmoil, along with humanitarian crises.

The crisis with which the world economy is currently confronted is closely knit with current geopolitical conflicts. The Ukraine crisis, which broke out earlier this year and has yet to show any sign of peaceful settlement, has further strained the global security situation. In its ripple effects, arms races and nuclear conflicts

are casting a shadow on human society, with fluctuations rolling across the markets of food, energy and other commodities. Further, strategic trust between major powers is significantly impaired. A slate of international governance mechanisms, such as the UN and the G20, are at risk of being riven and crippled. The global effort to construct international rules on the weaponization of artificial intelligence, space security, cybersecurity and other thorny issues is stalled. Meanwhile, more loopholes are appearing in the nuclear non-proliferation regime.

As the global population now exceeds 8 billion, human society is facing unprecedented challenges and stands at a crossroads. Under these circumstances, it is indispensable that the U.S. and China, the world's largest and second-largest economies, get their relations back onto a healthy and stable trajectory. The two powers should not waste time amid crises. They should draw wisdom from major diplomatic cases in history, take a more responsible attitude to avoid falling into direct conflict and work together to tackle transnational challenges.

China is caught in a dilemma: It has to deal with multiple Americas.

Nonetheless, both nations have multiple hurdles standing in the way of this goal. As Washington escalates strategic competition with Beijing, both sides will face considerable downward pressure in their future ties. Just before China's 20th Communist Party Congress, the Biden administration published its first formal Na-

tional Security Strategy, which underlines China as America's "most consequential geopolitical challenge." The White House has reiterated on various occasions that the U.S. is entering a "decisive decade" in its rivalry with China. All this seems to say that the worst moment in China-U.S. ties has yet to come. Washington is likely to up its pressure on Beijing in the economic, technological and military realms and enter a more vehement feud with Beijing over the Taiwan question.

Besides the "America of the White House" and the "America of the Congress," there is another — that is, the American society.

China is caught in a dilemma: It has to deal with multiple Americas. The Biden administration is only an America of the White House. Republicans in Congress, represented by the likes of Kevin McCarthy, are rattling their sabers. They are expected to enact a series of legislative measures against China, including further investigation of the origins of the COVID-19 pandemic, intensifying the "tech cold war" and beefing up military assistance to Taiwan. A number of Democrats in Congress are calling for tougher China policies, too.

It can be seen from the recently concluded midterm elections that local U.S. governments are more adept at playing with the so-called China threat. China appeared in hundreds of political campaign ads, and some candidates used their competitors' connections with China as a strategy to get elected.

This global time of crisis provides a rare window of opportunity for the two countries to remedy their frayed ties, but the key is that they should learn to handle their internal tensions.

Besides the “America of the White House” and the “America of the Congress,” there is another — that is, the American society. China-bashing politicians in the U.S. have affected American public opinion. In turn, negative opinions of China offer a kind of incentive or motivation for these politicians to formulate more hawkish China policies. In this way, a vicious cycle has taken shape. The number of Americans who have unfavorable views of China increased six points over 2021 to 82 percent, hitting a new high, according to a poll released by the Pew Research Center in April. It was just 47 percent back in 2017.

All in all, the Xi-Biden meeting in Bali may be seen as the first step in restoring bilateral ties. Both sides came to a better understanding of each other’s red lines with respect to Taiwan, which is crucial in avoiding a military conflict. In the meantime, Beijing and Washington will resume dialogues on the economy, finance and climate change, in addition to working out guiding principles aimed at maintaining long-term, stable bilateral relations.

However, China-U.S. strategic competition is gradually “internalizing,” with obstacles for both sides and huge trust deficits. This global time of crisis provides a rare window of opportunity for the two countries to remedy their frayed ties, but the key is that they should learn to handle their internal tensions.

A Thaw in the Tropics?



David Shambaugh

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Presidents Xi Jinping and Joseph Biden met for over three hours in Bali in advance of the G20 Summit. The discussion was another frank exchange that aired the differences between the two sides. It also succeeded in establishing some more regularized working-level exchanges between the two governments.

On Nov. 14, on the sidelines of the G20 summit on the tropical island of Bali, Indonesia, Presidents Joe Biden and Xi Jinping met in person for the first time during Biden's presidency. While none of the many contentious problems and issues between the two sides were resolved, at least they were discussed in depth and with candor. This in itself is stabilizing, and the world is a slightly safer place as a result. The meeting also established more institutionalized mechanisms for future working-level meetings between the two governments.

While the two presidents have had five phone calls and two virtual video meetings since Biden became president of the United States, this was the

first time the two leaders have been able to meet in person. This is largely due to the fact that the Chinese leader has only recently begun to travel abroad again following three-years of self-imposed isolation in China. But Xi is now "back on the road" again, and participating in the G20 summit hosted by Indonesia was the perfect "coming out" for his rebooted diplomacy. For both presidents, the G20 offered the perfect "one-stop shop" for their multilateral and bilateral diplomacy, as well as engaging with leaders from other important countries that are central in the U.S.-China global competition.

Presidents Biden and Xi met for more than three hours. The summit was also



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On the sidelines of the G20 Summit on Nov. 14 in Bali, Indonesia, U.S. President Joe Biden and Chinese President Xi Jinping met in person for the first time during Biden's presidency.

the first direct interaction between the two sides since Beijing broke them off following a controversial visit to Taiwan by Nancy Pelosi, speaker of the U.S. House of Representatives, in August. (The visit prompted outrage from the Chinese government and two weeks of military exercises around the island.)

Not surprisingly, the Taiwan issue was apparently front-and-center in the leaders' discussions. The White House readout claimed that Biden "raised U.S. objections" to the PRC's "coercive and increasingly aggressive actions toward Taiwan, which undermine peace and stability across the Taiwan Strait and in the broader region and jeopardize global prosperity." President Bi-

den also "laid out in detail that our one-China policy has not changed and the United States opposes any unilateral changes to the status quo by either side." For its part, the Chinese side also reiterated its longstanding positions. In his post-meeting press conference, Foreign Minister Wang Yi said that "President Xi stressed that the Taiwan question is 'the core of the core interests of China' and the red line that the United States must not and should not cross in China-U.S. relations." For his part, when asked at the post-meeting press conference if he expected a Chinese attack on Taiwan, Biden responded: "I do not think there's any imminent attempt on the part of China to invade Taiwan."

The other principal agenda item that appropriately took up considerable time was the effort to establish "guiding principles, or a strategic framework" to "prevent China-U.S. relations from getting derailed or out of control," in the words of Foreign Minister Wang. The American side went into the meeting seeking the same. The official White House debrief reiterated the desire that "competition should not veer into conflict ... that the United States and China must manage their competition responsibly and maintain open lines of communication." Both sides seemed to sense that this was both a turning point and an important opportunity to lower the heat and ease the broad frictions that have characterized the relationship over the past months and years — to place a "floor" under the strained relationship.

While both sides spoke of the need to construct a framework to arrest the deterioration and downward trajectory, it was equally clear that the road ahead remains complex and filled with contentious issues. Biden said: "We're not going to be able to work everything out. I'm not suggesting this is Kumbaya." Biden said his goal is to "compe-

te vigorously, but I'm not looking for conflict. I'm looking to manage this competition responsibly." Biden further observed: "I absolutely believe there need not be a new cold war." Xi told Biden, "As the leaders of China and the United States we must take the helm and steer the bilateral relationship in the right direction." Foreign Minister Wang similarly observed afterward, "The U.S. and China should show the world that they are able to manage and control their differences."

Clearly, both sides were looking to establish a foundation under the strained relationship — but also to reconstruct some bilateral modalities in order to steady it. To this end, the two leaders "agreed to strengthen communication and exchanges, and advance practical cooperation," according to the Chinese side.

Afterward, Biden announced that he had authorized Secretary of State Antony Blinken to visit Beijing for follow-up discussions (this visit will apparently not take place until early in 2023), and it was announced that climate change envoys Xie Zhenhua and John Kerry will resume formal negotiations (which were broken off by the Chinese side following the Pelosi visit to Taiwan). State Department and Chinese Foreign Ministry officials Dan Krittenbrink and Xie Feng also recently restarted a dialogue, while ambassadors Nicholas Burns and Qin Gang have begun to enjoy slightly improved access to officials in both capitals (after previously having been effectively frozen out). Other cabinet and ministerial level exchanges are also expected to commence, but on a limited and ad hoc basis. There will be no resuscitation of the former gargantuan Strategic and Economic Dialogue (SAED), which was terminated by the Trump administration.

Both sides seemed to sense that this was both a turning point and an important opportunity to lower the heat and ease the broad frictions that have characterized the relationship over the past months and years — to place a “floor” under the strained relationship.

Only time will tell if this was a turning point toward an improved relationship between the United States and China.

Both sides know well the many deep and real differences that divide them, and there are no expectations that these can be bridged or resolved through restarted bilateral discussions. But resuming such normal diplomatic interactions are, in themselves, stabilizing. As a senior American official put it: “The only thing worse than having contentious conversation is having no conversation at all.”

But resuming such normal diplomatic interactions are, in themselves, stabilizing.

The two leaders also discussed the war in Ukraine, North Korea’s recent barrage of provocative missile launches and transnational challenges such as climate change, food security, and public health security. Both leaders raised human rights concerns with the other, and both leaders spoke of their respective “democratic” systems — and in these regards the Chinese side has decided to try and turn the tables on the Americans. Mutual steps toward economic and technological decoupling were also discussed, with each side accusing the other of discriminatory behavior.

The face-to-face summitry between the two heads of state allowed much to be covered in “very candid and frank” discussions. As a result, a floor seems to have been placed under the strained superpower relationship, and some bureaucratic mechanisms and dialogue channels have been established — but only time will tell if this was a turning point toward an improved relationship between the United States and China. Unrealistic expectations should be tempered. Nonetheless, both Biden and Xi asserted their agency and acted as responsible leaders should.

Devil in the Details



Brian Wong

Doctor of Philosophy in Politics Candidate and Rhodes Scholar at Balliol College Oxford

Although the first face-to-face meeting of Biden and Xi since Biden's presidential term began came with offers of civility and friendship, there remains much work to be done if the U.S.-China rivalry is to be toned down within Biden's first term.

On Nov. 14, Presidents Joe Biden and Xi Jinping had a historic meeting — the first in-person dialogue of the two presidents in their capacities as the No. 1 leaders of their respective countries. They last spoke in person more than five years ago.

There have been extensive analyses of the meeting — its foreground, lead-up and undergirding implications for bilateral relations. Independent of one's stance on the Sino-American relationship, most people agreed that the meeting had provided a much-needed floor to the “vigorous competition” through maintaining “open lines of communication.”

While the Americans had repeatedly framed the summit and its consequent pledges as vital to restoring the guardrails between Beijing and Washington, China saw it as a more fundamental recalibration and restatement of its worldview — a multipolar world order where China and America nevertheless remain the primary players and pillars for global security.

While the Americans had repeatedly framed the summit and its consequent pledges as vital to restoring the guardrails between Beijing and Washington, China saw it as a more fundamental recalibration and restatement of its worldview — a multipolar world order where China and America nevertheless remain the primary players and pillars for global security.



◀ At the Climate Summit in Egypt, U.S. President Biden apologized for President Trump’s decision to pull out of the agreement to limit catastrophic global warming.

The question, of course, is how? How could this multipolar yet concurrently bi-leader worldview be realized, given the substantial mistrust and vitriol in Washington toward China and the precipitous triumphalism exhibited by some in China toward their international counterparts.

Issues including Taiwan, the South China Sea, China’s chip production and industrial policy, the U.S. tariffs and its economic strategy vis-a-vis China, it is clear that there exists much divergence between the two parties. Some of these fault lines were aired and took central stage at the conversation in Bali — e.g. Taiwan; others were contextually deprioritized, though they remain high up on the list of public-facing agendas, especially in the rhetoric adopted by some aligned with an increasingly hawkish consensus in the United States about China.

All of this is to say that the Bali meeting signaled a preliminary willingness to explore how relations could be improved, but neither it alone, nor, indeed, the se-

ries of meetings in the run-up, including Blinken/Wang and Burns/Qin, can suffice. These meetings alone have helpfully put a halt to the rapidly deteriorating relationship, cleared some degree of debris and misunderstandings and enabled the two powers to agree that Ukraine should be kept nuke-free. Yet if relations were to genuinely improve and shift in the direction of the pre-2016 default — prospects about which I remain broadly pessimistic — the following changes must happen:

First, guardrails are key: There needs to be an active, concerted and coordinated effort by both parties to restore robust “limits” on bilateral interactions that cut across military, economic, industrial and technological spheres. Much of this may come across as over-ambitious, yet the specter of overreach could be avoided provided that both Beijing and Washington are realistic and selective about what they want to guard against, and maximalist when identifying the fundamental threats against which they must push back. An all-out hot or nuclear war that precipitates irreversible escalation in

force deployed appears to top the list here — and we have already seen in the expansive devastation wrought upon Ukraine how proxy conflicts between two nuclear powers in the 21st century could culminate.

To move the notion of guardrails beyond mere talk, however, a fundamental requirement is the creation of regular, open communication channels across all departments, as well as the senior decision-making levels of both governments. Heads of bureaus and departments should be able to identify and develop working relationships with their counterparts across the Pacific. If nothing else, this would prove to be essential should tensions arise and cla-

rification be vital to prevent spillover and undue overreaction. Resuming talks between the military and defense ministries would be a welcome and vital first step to managing the potential fallout from skirmishes and near-misses in disputed waters, for instance.

Second, China and America alike must proactively explore the prospects for meaningful collaboration beyond lip-service. The assertion that “Beijing and Washington must cooperate to tackle pressing challenges” is a well-worn adage and epithet. If it is rare to hear it spoken, this is not because it’s a complex concept to grasp, it’s just that given the increasingly truculent atmosphere, politicians on both sides are finding it



- ▲ In October, the International Monetary Fund’s latest World Economic Outlook suggested that more than a third of the global economy would shrink in 2022 or 2023.

harder to pitch for the pro-engagement stance.

Yet the devil lies in the details: Where should, or can, the two parties meaningfully benefit from each other through cooperation? The first and perhaps most obvious candidate is climate change — streamlining solar panel supply chains, pooling decarbonization and afforestation efforts and technologies and coordinating to reduce emissions and facilitate green transitions that do not come at a grave cost to both parties. These would be a sensible start to the efforts. The second, is on strengthening peacekeeping missions in regions ranging from the Horn of Africa to Haiti, and on finding common ground on conflicts such as the ongoing Russian invasion of Ukraine. Recent statements by Beijing have been most encouraging. The third, and final question, concerns establishing neutral, depoliticized spaces once again for medical and public health research. It would be naive to think that across most sensitive industries, trust can be resumed, but at least scientists and doctors could once again be empowered to focus on the science, as opposed to shielding themselves from politics.

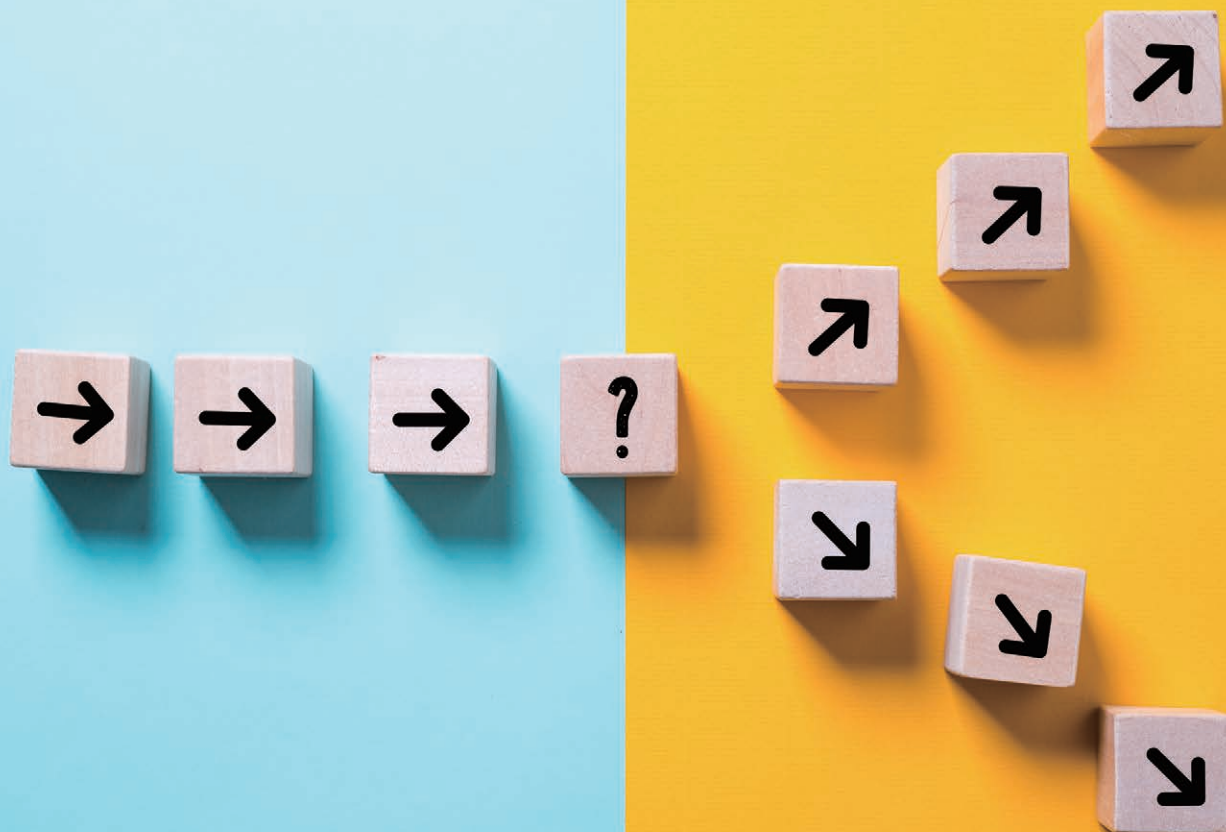
Yet the devil lies in the details: Where should, or can, the two parties meaningfully benefit from each other through cooperation?

Both of the above will take time. They are equally demanding in terms of political capital and resolve. Hence the

question arises, what could be done in the interim to ensure a few quick wins in succession after the Bali meeting? Here are a few suggestions that would be welcome: the lifting of travel and visa restrictions on journalists and academics from both sides, the resumption of academic and educational exchanges between universities and the hosting of genuinely meaningful and unfiltered Track II dialogue discussions across the Pacific. A more proactive affirmation that the McCarthyist rhetoric employed to witch-hunt and harass ethnic Chinese-Americans should be followed up with action.

It remains to be seen if the meeting of Biden and Xi will be followed by a period of detente and rapprochement between the two countries.

On the other hand, it behooves all parties to reflect upon the limits and dangers of excessive nationalism. Leaning too heavily into claims of national pride and solidarity not only undermine international trust and credibility but also do injustice to those who have dedicated their careers to bridging the divide between the two countries. It remains to be seen if the meeting of Biden and Xi will be followed by a period of detente and rapprochement between the two countries. Optimists may find this view worthy of holding, but I, for one, remain skeptical. With that said, more can and should be done until the tides turn once again.



A Framework for the Future



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Since the 1970s, China and the United States have been able to carve out a strategic framework for collaboration, competition and cooperation. The result is that stability and growth have generally been guaranteed despite periodic ups and downs. This needs to happen again.

On the afternoon of Nov. 14, President Xi Jinping met with U.S. President Joe Biden in Bali, Indonesia. The two leaders agreed to work together to develop the guiding principles, or strategic framework, for China-U.S. relations, and they tasked their staffs to continue discussions on the subject following the meeting with the goal of quickly achieving an understanding. This became one of the meeting's highlights and is crucial for the future development of the bilateral relationship.

Need for strategic framework

China and the United States, as two major countries, ought to have some significant common ground on principles, as President Xi noted. Principles provide direction, and with direction disagreements may be effectively resolved and collaboration can be increased.

China, on the other hand, has been very patient with the American side and is certain that the interactions will help to put the bilateral relationship back on track.

First, the previous strategic framework for China-U.S. relations has been shaken. After the two countries established diplomatic ties in the 1970s, they were able to develop, after many adjustments, a strategic framework of collaboration plus competition — with cooperation as the main focus. Because of this framework, stability and growth have generally been guaranteed despite periodic ups and downs in relations. Unfortunately, the U.S. revised its China policy during the Donald Trump administration, diverging from the original strategic framework. The change seriously harmed the bilateral relationship.

Second, China-U.S. ties have drifted as a result of the lack of strategic consensus. In the past, the fluctuations always had an upper limit because of the presence of an engagement-oriented strategic consensus. Without such a consensus, the relationship between the two countries may continue to worsen and potentially veer into a new cold war and hostile conflict. This is not in line with their fundamental interests.

Third, the prerequisites for a preliminary consensus between China and the U.S. are currently in place. The two countries have identified each other's vital interests and acknowledged each other's views after rounds of interaction. The U.S. side has progressively come to the realization that pressuring China will not only fail to bring about China's submission but will also be destructive for both countries and the entire globe. As a result, it must responsibly handle disputes. China, on the other hand, has been very patient with the American side and is certain that the interactions will help to put the bilateral relationship back on track.

Building on consensus

Both presidents agreed that the two sides will engage in constructive consultations and work to reach an agreement as soon as possible, building on the consensus achieved so far. As a result, the principles guiding China-U.S. relations represent the broadest consensus, given the perspectives of the two countries.

China has offered "mutual respect, peaceful coexistence, cooperation and win-win cooperation," as well as "non-conflict, non-confrontation, mutual respect and win-win cooperation as the basic principles for China-U.S. relations. A "competition, cooperation, and conflict" approach, as well as the "four nos" (and then "five nos") to China, have also been

suggested by the Biden administration. The future strategic framework of China-U.S. relations may have the following implications based on a comparison of China's and America's respective pronouncements:

First, the framework's central tenet is "non-conflict, non-confrontation and peaceful coexistence." This is a bipartisan agreement on U.S. policy toward China. The core spirit of the bilateral relationship is the same despite the fact that China and the U.S. have slightly different expectations and the U.S. frequently uses terminology such as "managing competition," "setting guardrails" and "building a floor for China relations." In other words, the relationship between the two countries should not involve confrontation, military conflict or attempts to alter the political or social systems of the other side.

First, the framework's central tenet is "non-conflict, non-confrontation and peaceful coexistence."

Second, the framework should include "win-win cooperation." The goal of non-conflict, non-confrontation and peaceful coexistence is to establish the minimum threshold for any future bilateral ties. So the idea of win-win cooperation must be given a strong thrust in order for China-U.S. ties to remain stable. On one hand, maintaining strong economic, trade and people-to-people ties and opposing widespread decoupling are examples of win-win cooperation; on the other hand, constructive cooperation on significant international and regional issues of shared interest, as well as assuming the roles of great powers and taking the initiative, are also important.

Third, the format of joint communiques between China and the U.S. might be viewed

as a framework carrier. Three joint communiques served as guides for the long-term stability of China-U.S. ties after the establishment of diplomatic relations. Given the unique political significance of those joint communiques in bilateral relations, a fourth communique, along with the first three, might serve as a long-term guiding text for China-U.S. relations once the new guiding principles have been established.

The idea of win-win cooperation must be given a strong thrust in order for China-U.S. ties to remain stable.

Opportunities and obstacles

Establishing guiding principles or a strategic framework for China-U.S. relations faces both opportunities and obstacles.

First, opportunities are consistent with both countries' shared interests. The genuine need for China and the United States to manage competition, prevent tensions from rising and maintain regional stability has increased.

Second, the two countries' resolve has grown. China has taken a leading role in directing bilateral relations, urging the American side to proceed in the same direction. After the U.S. midterm elections, the Republican Party took control the House of Representatives in Congress, and so Biden may be more motivated to seek a breakthrough at the diplomatic level as his domestic agenda is obstructed. Stabilizing China-U.S. relations may become a major achievement during his tenure.

Third, China and the U.S. are expected to work together. The bilateral relationship is important on a global scale, and the international community generally does not



want disputes between China and the U.S. to worsen. They are also less willing to choose sides. They anticipate that China and the U.S. will uphold their obligations as major countries and cooperate to resolve regional and global issues.

Three aspects underlie the primary challenges. First, there is limited time for consultations between the two sides. China and U.S. need to move quickly if they want to make the most of the remaining two years of Biden's term. As time passes, more opposition may be encountered.

Second, it remains unclear whether the U.S. can implement its policies. On several China matters there have previously been discrepancies between the U.S. side's words and deeds. Additionally, the characteristics of strategic thinking differ in the two countries, with the American side favoring a micro, bottom-up method of thinking and the Chinese side favoring a macro, top-down method. It remains to be seen whether or not the two sides can overcome these obstacles and quickly

and successfully build guiding principles, or a strategic framework, for China-U.S. relations.

Finally, it is impossible to disregard the Republicans' potential influence. Now that they have gained control of the House, they may intensify their criticism of the Biden administration's China stance, undercut its China policy agenda through the legislative and appropriation powers at their disposal and even pressure the administration to backtrack.

Biden may be more motivated to seek a breakthrough at the diplomatic level as his domestic agenda is obstructed. Stabilizing China-U.S. relations may become a major achievement during his tenure.

Chip Wars: Industrial Policy a la USA



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Impacts of the United States' ban on semiconductor exports to China have yet to be fully understood. Beijing must scramble to discover new ways to access this most critical supply chain.

The just-concluded 20th National Party Congress is justifiably drawing the attention of journalists and foreign affairs analysts. Xi Jinping's consolidation of power seems almost complete and will shape Chinese politics and economics profoundly. However, a similarly important development has received far less attention: massive escalation in the U.S.-China chip wars.

The Biden administration's prohibition on the export of American technology to China amounts to a rapid throttling of Chinese ambitions for making semiconductors.

Semiconductors, or chips, are the lifeblood of all modern electronics, and thereby the industrial economy. They are key to everything, from smartphones to airplanes to space exploration. Without modern advanced chips, a na-

tion will rapidly regress technologically, economically and, ultimately, militarily. This is the fate that Russia's defense technology sector is now confronting.

While not as absolute as the bans on exports to Russia, the Biden administration's prohibition on the export of American technology to China amounts to a rapid throttling of Chinese ambitions for making semiconductors.

Chips are extremely intricate tools that are born of a far-flung global supply chain. Yet, despite its geographic sprawl in general, this chain turns out to be extremely concentrated when it comes to the highly sophisticated and expensive machines required to actually make chips. Such precise machinery, which can etch, deposit and measure layers of materials at nanoscale, are produced by only a few global companies: three in the United States, one in Japan, and one in the Netherlands. The Dutch company ASML is perhaps the crown jewel

of this ecosystem, crafting lithographic chip-building machines that take years to construct and cost hundreds of millions of dollars per unit.

Following in the Trump administration's footsteps, the Biden administration has been looking into ways to curtail Chinese efforts to build an indigenous chip sector.

Admittedly, these efforts have not been going very well to begin with. Earlier in 2022 a massive corruption scandal put a cloud over the central funding vehicle for Chinese chipmaking innovation.

Naturally, the restrictions will also have a serious impact on American corporations exporting chip manufacturing equipment to China.

The new American policy is highly consequential. It is imaginative, targeted and aggressive, using a variety of tools in the U.S. Commerce Department's kit to stop American corporations and individuals from working with a growing list of Chinese companies involved in chip manufacturing. They also bar the transfer to China of the best American chips and machines to build them.

One example of how consequential these moves are can be found in the memory chip segment, an area in which China truly had an opportunity to catch up. Aided by state subsidies, Yangtze Memory Technologies has been aggressively expanding production capacity and R&D. The company was coming very close to a breakthrough in producing 232 layers of memory cells and catching up with ri-

vals Micron and SK Hynix, the industry leaders based in Idaho and Icheon, South Korea, respectively. But now aspirations of putting such advanced chips into mass production are unlikely to be realized.

The chip manufacturing supply chain is thus facing a massive American stick, offset by quite a few juicy carrots.

Naturally, the restrictions will also have a serious impact on American corporations exporting chip manufacturing equipment to China. Already Lam Research and Applied Materials have issued profit warnings. And while the loss of the Chinese market is likely to stifle available funds for R&D in the short term for these companies, in the longer term the Biden administration can counter this with the new bipartisan CHIPS and Science Act of 2022.

This act invests nearly \$250 billion and represents the largest publicly funded R&D program in recent memory. It is intended to boost American semiconductor research, development, and production, ensuring U.S. leadership in the technologies and industries of the future, such as nanotechnology, clean energy, quantum computing and artificial intelligence. The federal funds contained in the bill are intended to spur private sector investment across the country, creating a multiplier effect over time.

The chip manufacturing supply chain is thus facing a massive American stick, offset by quite a few juicy carrots. As many analysts point out, the rules barring Chinese chip manufacturers from importing

American equipment could potentially set them back decades. Nonetheless, much will depend on implementation.

The new rules face two challenges in particular. First, to be successful, U.S. rules must also apply in full to foreign corporations, especially in the Netherlands (namely ASML), and in Japan. In other words, they will have to be multilaterally enforced to be truly effective. Since these corporations themselves tend to be reliant on American inputs, it is likely that an accord can be forged, such as with the ongoing negotiations under the “Chip 4” initiative including South Korea, Japan, and Taiwan.

After all, China still depends on the rest of the world for microchips, costing it more each year than it spends on oil.

In addition, foreign governments are likely to issue their own rules, sometimes paralleling American ones, though likely with a bit more leeway. Here, Taiwan could play an especially crucial role. If its government follows American precedent and bars its citizens from working with a list of Chinese entities involved in the chipmaking sector, the resulting setback could rival that of American actions.

The second challenge facing American rules is leakage, such as smuggling, diversion of exports and illicit technology transfers. Chips are very small, and the most advanced ones now restricted from export to China — such as Nvidia’s H-100 processor — could become the

target of smuggling operations. Again, a multilateral approach involving all allies and like-minded governments will be crucial for American efforts to work.

Despite these challenges, the Biden administration’s new rules are a game changer. They have escalated the U.S.-China chip war to a level far beyond the more scattershot sanctions of the Trump administration. Mincing no words, they represent an active policy to strangle large segments of Chinese high-tech innovation. After all, China still depends on the rest of the world for microchips, costing it more each year than it spends on oil.

Now, there is the possibility that the billions of dollars invested to domestically “secure” the industry could pay off for Beijing, perhaps via a breakthrough technology that goes beyond silicon as the main raw material for chips. But even such a breakthrough would take years, if not more than a decade, to translate into mass production.

For the time being, Beijing policymakers must have the uncomfortable feeling of being at the receiving end of American industrial policy. They are facing a massive American stick, and the potential of most crucial nodes in the global chip manufacturing supply chain following the American lead. Even more ominously, American policymakers have taken a page out of the Chinese playbook. They are offsetting the considerable pain the sanctions will create with a juicy carrot: America’s largest investment in technology for at least the past five decades. Welcome to industrial policy a la USA!

ASEAN Steers Clear of China-U.S. Rivalry



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ASEAN is performing a delicate balancing act between China and the United States, and its latest summit demonstrates the complexities involved as it tries to steer clear of unnecessary tensions.

Southeast Asia, much of it in the shape of the 10-nation Association of Southeast Asian Nations, one of the world's fastest growing economies, is drawing increasing attention as competition heats up between China and the United States. The diverse region, because of its location and its economic potential, is becoming a key geopolitical and economic battleground for these two powers. The grouping is now the third-largest economy in Asia and the fifth-largest in the world. Its 700 million people and dynamic economic policies give the area tremendous growth potential.

ASEAN faces a dilemma on how to engage with the two big powers. Its claim of “centrality” necessitates equidistance from the two giants.

It is no coincidence that important summits — ASEAN (plus its two partner summits), the G20, and the 21-member Asia-Pacific Economic Community

(APEC) were all held in November in Southeast Asia and within 10 days of one another.

ASEAN faces a dilemma on how to engage with the two big powers. Its claim of “centrality” necessitates equidistance from the two giants. It continues to benefit from China's economic rise while letting the U.S. provide stability. ASEAN does not want to be a part of a military alliance system and does not want to be forced into a situation where it needs to take sides between the two big powers.

ASEAN summits are consistently confronted with disagreements that thwart consensus. For example, 10 years back, when Cambodia chaired the organization, the summit was unable to agree on the Chairman's Statement due to differences over the South China Sea formulation. Though the statement noted concerns “expressed by some Member States” over various alleged actions in the SCS, the statement only “reaffirmed the need to pursue peaceful resolution of disputes in accordance with the uni-



▲ On Nov 11, Hun Sen, Prime Minister of Cambodia and Chair of ASEAN 2022, co-chaired the 25th ASEAN-China Summit with Li Keqiang, Premier of China's State Council in Phnom Penh.

versally recognized principles of international law, including the 1982 UNCLOS.” During this year’s summit, ASEAN walked a fine line on Ukraine, only calling for cessation of hostilities, dialogue for peaceful resolution and respect for sovereignty. ASEAN also emphasized the importance of the Southeast Asia Nuclear Weapon-Free Zone Treaty (Bangkok Treaty) and the ASEAN Charter to keep it free of nuclear weapons.

All ASEAN members support the “one-China policy” and yet almost all maintain fairly normal economic relations with Taiwan.

Outside of ASEAN’s intraregional workings, China also exerts a quiet but creeping influence over the region. In 2021, trade between China and ASEAN reached \$878.2 billion, about twice the value of trade between the U.S. and ASEAN. China has been the bloc’s largest trading partner since 2009, and in 2020 ASEAN surpassed the European Union to become China’s top trading partner. Chinese direct investment in ASEAN has also surged but still trails behind the U.S. and EU.

With growing China-U.S. tensions over Taiwan, China is eager to line up diplomatic support from its Asian neighbors. All ASEAN members support the “one-China policy” and yet almost all maintain fairly normal economic relations with Taiwan. Several of them provide manpower to Taiwan, including 669,922 migrant workers from Indonesia, Vietnam, the Philippines and Thailand as of the end of 2021.

China has both the advantages and disadvantages of neighborhood with respect to ASEAN. But it is China’s claim over much of South China Sea that puts it in direct conflict with the Philippines, Vietnam, Brunei, Indonesia, Malaysia and Taiwan. Playing big-power politics, China has for years attempted to engage with individual ASEAN members to deal with their disputed claims bilaterally, but with little success. While some states that do not have conflicting claims with China may be soft on the issue, ASEAN has stood united to deal with China as an alliance. This demonstration of numbers has often caused China to remain cautious. Negotiations between ASEAN and China on the Code of Conduct for the South China Sea have dragged on for years, to ASEAN’s chagrin. Seeing an opportunity, America understandably supports ASEAN’s position to earn brownie points with some states.

The U.S. made an early entry into ASEAN during the times when China was itself a developing economy. Today, U.S. FDI in the region still remains above China's. Nonetheless, Washington's actions in the region demonstrate American leaders' worries about China as a rising power. As Professor Graham Allison of Harvard University observes in his book "Destined for War," "both China's rising power and the fear it instills in the dominant power are driving the [American] strategic and foreign policy narrative." Trade is missing in the American policy platform. This is an element on which China owes its rise, according to Professor Allison, hence the close relations with ASEAN.

Under these conditions the IPEF will do little to change the balance between China and the U.S. in Southeast Asia.

The U.S.-sponsored Indo-Pacific Economic Framework for Prosperity (IPEF) is of dubious value, as it does not involve lowering of tariff barriers or provide market access. By contrast the 15-member Regional Comprehensive Economic Partnership (RCEP), the world's biggest trade deal, of which China is a member, promises tariff cuts on 90 percent of trade in goods, to be reduced to zero in 10 years for its member states. China has also applied to join Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which comprises of 10 Asia-Pacific states. It is the successor to the Trans-Pacific Partnership (TPP), from which the U.S. walked away under President Donald Trump.

Under these conditions the IPEF will do little to change the balance between China and the U.S. in Southeast Asia. Constraining

ed by domestic politics, the U.S. is unable to offer more.

ASEAN has no appetite for alliances with military undertones, such as the "Quad," especially when America's three partners — Japan, Australia and India — look askance at of China's rise and are in military alliances with the U.S. ASEAN's main focus remains peace and stability, which has made it into one of the world's most dynamic regions.

ASEAN's mood is well reflected in the closing statement of Cambodian Prime Minister Hun Sen, who said, "We must maintain ASEAN unity regardless of circumstances for the best interests of the whole region." This unity is the strength of ASEAN against pressure from both the U.S. and China to take sides in the power game. Hun's sentiments were reinforced by the incoming chairman of ASEAN, Indonesian President Joko Widodo, who vowed not to let Southeast Asia become the front line of a new cold war amid increasing tensions between the U.S. and China. He said the group would not become "a proxy for any powers."

The incoming chairman of ASEAN, Indonesian President Joko Widodo vowed not to let Southeast Asia become the front line of a new cold war amid increasing tensions between the U.S. and China. He said the group would not become "a proxy for any powers."

A New Chapter for ASEAN Ties



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China and ASEAN are rapidly becoming a community with a shared future of interdependence.

On Nov. 11, the 25th China-ASEAN Summit was held in Phnom Penh, Cambodia. It was another important meeting following the establishment of the China-ASEAN comprehensive strategic partnership. Chinese Premier Li Keqiang said at the meeting that “China-ASEAN relations have come to a new historical starting point. A new and promising chapter of China-ASEAN friendship and cooperation has been opened.”

China and ASEAN have been each other's largest trading partners, with two-way trade hitting new highs and reaching \$798.4 billion in the first 10 months of this year, up by 13.8 percent year-on-year.

China and ASEAN have been cooperating with each other and making mutual achievements for decades, becoming a model of good neighborliness, win-win cooperation and common development

in the region. Since the formal establishment of their comprehensive strategic partnership last year, relations have entered the fast lane.

Politically, there have been some close high-level contacts. President Joko Widodo of Indonesia visited China in July, the first foreign head of state to visit after the Beijing Winter Olympics; and General Secretary of the Communist Party of Vietnam Nguyen Phu Trong led a delegation in late October. He was the first foreign dignitary to visit China after the 20th National Congress of the Communist Party of China.

Economically, China and ASEAN have been each other's largest trading partners, with two-way trade hitting new highs and reaching \$798.4 billion in the first 10 months of this year, up by 13.8 percent year-on-year. High-quality Belt and Road cooperation has made iconic progress, with the China-Laos Railway opening to traffic and the Jakarta-Bandung Railway set for completion soon.

In terms of security, China has been deepening defense and security cooperation with ASEAN through regional dialogue and cooperation mechanisms. China and ASEAN held two joint maritime exercises, in 2018 and 2019. Their first large-scale live military exercise was held in China in 2019.

In health cooperation, China had provided nearly 600 million doses of vaccines to ASEAN countries as of December 2021. In addition, cooperation in science, technology, environmental protection, disaster prevention/mitigation, poverty reduction and cultural exchanges have all made great progress.

There are at least three reasons for these achievements in China-ASEAN relations:

- **Regional consensus on protecting peace and pursuing development**

Both China and ASEAN countries are developing and regard national development — especially economic development — as a top priority. Historical experience shows that East Asian countries have striven to maintain and promote regional peace and stability for the sake of development and have achieved faster and better economic development as a result. Countries in the region have been dedicated to peace and development rather than the “hegemonic stability” exemplified by the U.S. and the rest of the West, resulting in decades of peace and prosperity in the Asia-Pacific.

At present, China is working to build a great modern socialist country and achieve



▲ A view of the 19th China-ASEAN Expo exhibition in Nanning, south China's Guangxi Zhuang Autonomous Region, held from Sept 16-19, 2022.

its Second Centenary Goal. It emphasizes that high-quality development is the primary task of building such a country and has reaffirmed its commitment to building a human community with a shared future. For their part, the ASEAN countries are committed to realizing the ASEAN Community Vision 2025 and formulating the ASEAN vision beyond. Achieving modernization and a better life for all remain the common goals of both China and ASEAN.

• **China's policy of good faith and good neighborliness**

China implements the principles of amity, sincerity, mutual benefit and inclusiveness in our relations with neighboring countries and is committed to promoting friendship and partnership with its neighbors and fostering an amicable, secure and prosperous neighborhood environment. China does not resist the idea that ASEAN countries intend to regulate China through institutions but has also taken the initiative to integrate into regional mechanisms. It firmly supports ASEAN's regional centrality.

China refused to devalue the RMB at great risk to itself during the Asian financial crisis to prevent Southeast Asian countries from being hit harder. In the new century, China proposed the establishment of a China-ASEAN Free Trade Area, which brought China-ASEAN relations to a higher level.

Since the 18th National Congress of the Communist Party of China in 2012, the CPC Central Committee has held special meetings on peripheral diplomacy, proposing to "treat our neighboring countries sincerely," "let our neighboring countries benefit from our development" and "provide more help to other developing countries within our capacity." It earned the high praise of neighboring countries.

• **The wisdom of leaders' resolve to settle disputes and differences**

Although the South China Sea dispute is not a conflict between China and ASEAN, nor is it the entirety of the relationship between the disputants, it is the main uncertainty affecting China-ASEAN relations. Over the past decade, China and ASEAN countries have proposed an innovative dual-track approach to the South China Sea issue, fully and effectively implemented the Code of Conduct for Parties in the South China Sea, accelerated negotiations on the Code of Conduct for the South China Sea, resolutely excluded foreign interference and maintained the overall stability of the area. In the future, the two sides should further innovate ideas to make the South China Sea a sea of peace, friendship and cooperation.

At present, historic global changes are unfolding in an unprecedented manner. The Asia-Pacific is facing increasingly complex security challenges, with an increase in various uncertainties, instabilities and unpredictable factors. At the same time, China's economic and people-to-people exchanges with ASEAN are becoming more frequent. The two sides are increasingly integrating their interests, improving their emotional ties and becoming a community with a shared future of interdependence.

Now at a new historical starting point, China and ASEAN should be committed to building a common home of "peace, tranquility, prosperity, beauty and friendship," strengthening cooperation to address various security challenges, building a new security pattern and ensuring that the China-ASEAN comprehensive strategic partnership makes long-term steady progress.

Korean Conundrum: Is Cooperation Possible?



Doug Bandow
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The Democratic People's Republic of Korea is putting Northeast Asia at risk, and its current military trajectory could pose problems not only for China but for the United States and its allies.



Washington-Beijing relations ticked slightly up with the Biden-Xi meeting in Bali. Reestablishing high-level communication between the two governments was the first stabilizing step. However, significant differences remain on many key issues.

One of the greatest geopolitical challenges is posed by North Korea. Supreme Leader Kim Jong-un has rejected negotiations with the U.S. and South Korea. At the same time, he has moved ahead with missile development, staging more than 60 launches so far this year. The most recent one was an ICBM capable of reaching the United States. A seventh nuclear test is warily anticipated by observers.

***Chinese diplomats with whom
I have spoken, asked why
their government should aid
Washington when it is seeking to
contain the People's Republic of
China.***

Kim continues to dismiss any overtures from Washington or Seoul. His sister, Kim Yo-jon, recently delivered another insulting diatribe: “We warn the impudent and stupid once again that the desperate sanctions and pressure of the U.S. and its South Korean stooges against [North Korea] will add fuel to the latter’s hostility and anger and they will serve as a noose for them.”

The U.S. seeks Beijing’s support for denuclearizing the Korean peninsula. However, Xi sees little reason to oblige. Chinese diplomats with whom I have spoken, asked why their government should aid Washington when it is seeking to contain the People’s Republic of China.

The best answer is that it is in Beijing's interest to promote stability in Northeast Asia, and the DPRK's current military trajectory could pose problems for the PRC as well as the U.S. and its allies. Indeed, through 2017, China was broadly supportive of efforts to prevent the DPRK from becoming a nuclear power. Relations had long been bad between the two states, and when I visited the DPRK that year, my North Korean interlocutors stated their government's desire to end dependence on any state. There was little doubt at whom their comment was directed.

However, the possibility of Washington and Pyongyang reaching a modus vivendi, given the 2018 summit between President Donald Trump and Supreme Leader Kim Jong-un, caused Xi to change course. The latter two began meeting, holding five summits in quick succession. Since then, Beijing has blocked any new UN sanctions, instead encouraging negotiations.

Xi's position on another DPRK nuclear test is unknown, or at least unknown to the public. The North may be delaying another test out of fear of the PRC's reaction. However, the U.S. and its partners would be foolish to expect China to cut off the energy and food shipments that keep the DPRK afloat.

Beijing is balancing two interests: One is denuclearization. Despite skepticism among some American analysts — generally hawks who view the PRC as an enemy — China does not control North Korean policy. However, the Chinese see the DPRK's behavior as destabilizing and raising the risks of aggressive North Korean military action.

Moreover, Washington's efforts to deter the North encourage larger permanent garrisons, more frequent temporary deployments, well-publicized military flyovers and ship patrols and closer military cooperation with the Republic of Korea and Japan. The U.S. also has considered preventive war to decapitate the North Korean regime, destroying its nuclear capabilities and/or killing its leaders. That could trigger full-scale war on the peninsula, which obviously would not be in Beijing's interest.

Frankly, after America's president declared economic war on China, even a less belligerent communist party leader would not be inclined to aid Washington.

However, the PRC also rejects joining the U.S.-led campaign against Pyongyang. The means desired by Washington — increased sanctions on the North — could result in the end that China fears: a North Korean collapse. The consequences could include factional conflict/civil war, a humanitarian crisis, mass refugee flows and, worst of all from China's viewpoint, reunification, which would yield a larger, more powerful ROK, on allied with America and hosting additional U.S. bases.

Hence the diplomat's query to me: With Washington working assiduously to contain the PRC, why should the latter help the U.S.? Frankly, after America's president declared economic war on China, even a less belligerent communist party leader would not be inclined to aid Washington.

Nevertheless, the Biden-Xi meeting and commitment to restart diplomatic working groups offers an opportunity to seek areas of agreement on North Korea. First, are there shared policies that might discourage Pyongyang's missile and nuclear developments without increasing the chances of a failed North Korean state? Second, are there allied policies and commitments that could reduce the economic and security costs to the PRC of a DPRK collapse? Third, what kind of end state on the peninsula would simultaneously reflect Korean desires, satisfy Chinese security, and respect U.S. interests?

Nevertheless, the Biden-Xi meeting and commitment to restart diplomatic working groups offers an opportunity to seek areas of agreement on North Korea.

Seoul, Beijing, and Washington also should establish communication channels for use should the Kim regime falter. The North is approaching three years of almost complete isolation in response to the COVID pandemic. The political system appears stable, but the internal pressure may be greater than is evident outside. Kim's attempt to prevent access to South Korean culture suggests an elevated level of paranoia and fear. The sudden collapse of Romania's Ceausescu dictatorship in 1989 remains a model of potential brittleness in even the most brutal autocracies.

Should the DPRK falter, China, South Korea and the U.S. all likely would con-

sider intervening militarily to prevent a humanitarian catastrophe, loose nukes and civil strife and to secure geographic and political objectives. In fact, there is good reason for Washington to stay out of such an imbroglio, but restraint seems unlikely, especially if the ROK goes in. A military free-for-all, even if only between China and South Korea, would be extremely dangerous. Some process of notice, separation and "de-escalation," like that between the U.S. and Russia in Syria, would be desperately needed.

Also worthy of discussion is what kind of policy package the PRC would support for North Korea. The objective is not to turn the issue over to Beijing, which obviously would not have America's best interests at heart. Rather, Washington needs to learn what China would back in negotiations with the DPRK. The best course would seem to be a serious offer for arms control, with verifiable restrictions on its nuclear program, in exchange for meaningful sanctions relief with snap-back provisions should any accord be violated.

Reaching agreement won't be easy. However, the professed willingness of both governments to restart serious dialogue over problematic issues offers an opportunity to address North Korea's ongoing missile and nuclear programs. Despite their obvious differences, Washington and Beijing both desire stability in Northeast Asia, which the DPRK is today placing at risk.

Critical Moment on Korean Peninsula



Zhang Tuosheng

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Regional strategic stability depends upon sincere outreach to the DPRK by the major powers. Think tanks from China, the United States and the Republic of Korea have already reached many useful common understandings. They should explore a road map for denuclearization and a peace mechanism and invite the DPRK to participate.

The situation on the Korean Peninsula has been worsening since 2020 and has reached a new critical point. Strategic stability in Northeast Asia is once again severely challenged.

First, a new nuclear crisis could emerge. After several years of relatively low-key developments, the Democratic People's Republic of Korea this year conducted nearly 20 rounds of missile test launches, including intercontinental ballistic missiles. There are also signs of a new nuclear test brewing. On the other hand, the United States and the Republic of Korea conducted various military exercises and resumed, after a four-year pause, the massive Ulchi Freedom Shield combined exercises, which were immediately described by the North as "playing with fire on the brink of nuclear war." The so-called double suspension, the only fruit of relaxed tension in 2018, ceased to exist. Under these circumstances, there are louder voices in Japan and the ROK for strengthened

extended deterrence from the U.S. It is foreseeable that if the DPRK conducts another nuclear test, a new nuclear crisis will explode instantly.

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Second, the likelihood of contingencies between the North and the South is rising. After the outbreak of the Russia-Ukraine war, both the DPRK and ROK quickly took sides, leading to a further deterioration of their own relations. Since conservative Yoon Suk-yeol took office in May, the ROK has become tougher toward the DPRK and further strengthened its alliance with the U.S. As a result, North-South dialogue and communication have been cut off.

The 2010 Cheonan warship incident and the Yeonpyeong Island incident led to major military crises between North and South. Fortunately, these were gradually eased, but if a similar incident were to happen again, will the two sides be able to mitigate it and avoid a military conflict? The answer is uncertain.

Third, the new DPRK declaration of its nuclear policy has increased the risk of a crisis, escalation or even losing control on the Korean Peninsula. Over the years, in the face of external threats, the DPRK repeatedly talked about the possibility of preemptive nuclear strikes against the U.S. and South Korea. But at the seventh and eighth congresses of the Korean Workers' Party in 2016 and 2021, supreme leader Kim Jong-un announced a nuclear policy change. He said the DPRK would not be the first to use nuclear weapons as long as nuclear weapons are not used by hostile forces to violate its sovereignty.

However, at a military parade on April 26 this year, marking the 90th anniversary of the Korean People's Army, Kim mentioned the possibility of first use, drawing a strong reaction from the U.S., the ROK and Japan. In fact, the U.S. has long considered conducting a surgical first strike against North Korea. The ROK has been developing its three-axis countermeasure system against the DPRK for many years, and Japan is stepping up discussions to develop its own attack capabilities against "enemy" bases. In this situation, once a crisis emerges on the peninsula, the risk of drastic escalation — and even a loss of control — will be very high.

Fourth, with the serious deterioration of China-U.S. and Russia-U.S. relations, it

has become more difficult to prevent and control a crisis on the Korean Peninsula, and regional strategic stability may face more severe challenges. China-U.S. relations continued to deteriorate after Joe Biden took office in 2021, carrying over Donald Trump's China policy of strategic competition. Meanwhile, the U.S. and Russia have fallen into all-out confrontation since the outbreak of the Russia-Ukraine war. At present, not only do the three countries no longer prioritize the denuclearization of the Korean Peninsula but China's differences with Russia and the U.S. have widened. For example, China and Russia vetoed the new sanctions proposal in the UN Security Council in July.

In this situation, if the DPRK continues to advance its nuclear program and the U.S. and its allies ramp up their deterrence, regional strategic stability will be seriously disrupted. The peninsula and Northeast Asia at large may well see a standoff between two triangles like the one in the early Cold War years.

With the serious deterioration of China-U.S. and Russia-U.S. relations, it has become more difficult to prevent and control a crisis on the Korean Peninsula, and regional strategic stability may face more severe challenges.

In the face of the current tensions on the Korean Peninsula, no country can afford a casual attitude. Instead, major efforts to safeguard peace and stability on the peninsula and across the region should be accelerated.

First, the top priority should be crisis management and an effort to prevent another nuclear standoff or other emergency. If a crisis does occur, there must be an effort to prevent its escalation into a military conflict. Only by doing this first can we open a window of hope for the resumption of the denuclearization dialogue as the next step.

To this end, the U.S. and ROK should stop demanding an unconditional resumption of dialogue and should take positive measures to encourage the DPRK to return to talks. Before resuming formal dialogue, moreover, the U.S. should clear the New York channel of communication with the DPRK, and the North and South should resume the military confidence-building measures begun in 2018. In the engagement process — a top priority for the U.S. — the ROK and the DPRK should strive to reach an agreement or tacit understanding to resume the so-called double suspension.

The U.S. and South Korea, as the much stronger party, should also provide clear security assurances that they will not be the first to carry out military attacks against the DPRK, even in a major military crisis. It will be of great significance in preventing the North from taking risks and using nuclear weapons first.

At the same time, China should resume bilateral dialogue on the peninsula question with the other three parties. The DPRK and ROK are the masters of the peninsula, and China and the U.S. are the two most influential countries. Therefore, it is

most important for them to resume dialogue first. The four countries should make it clear that they will jointly make major efforts to prevent a new crisis or military conflict.

In the near future, the UN Security Council should consider providing humanitarian assistance to the DPRK by lifting some sanctions and making clear that if the DPRK wishes to restart the denuclearization process, a gradual reduction of sanctions under the relevant reversible provisions will be considered.

Second, maintaining strategic stability in Northeast Asia must be put on the agenda as soon as possible. In 2017, the DPRK crossed the nuclear threshold and initially came into possession of nuclear weapons. The U.S. consequently strengthened its military deterrence and regional missile defense deployments. This, in turn, had a major impact on strategic stability in Northeast Asia.

In the future, if the DPRK continues to expand its nuclear arsenal and develop various nuclear combat capabilities according to the plan announced at the eighth KWP congress, and if the U.S. responds with increased nuclear, missile-defense and offensive missile deployments, as well as expanded extended deterrence for allies, regional strategic stability will suffer even greater damage. Then there will be no sense of security at all by the U.S., Japan and South Korea with regard to the DPRK. China and Russia will have to take strong countermeasures to maintain the strategic balance, and there will be an increasingly tense arms race and nuclear security dilemma in the region.

To avoid this dangerous scenario, and with a view toward dissuading the DPRK from resuming nuclear tests, the U.S. should state clearly to the DPRK that it will not ad-



- ▲ From August 22 to September 1, 2022, South Korea and the United States launched their largest joint military drills in years -- Ulchi Freedom Shield (UFS). North Korea's state media published a statement denouncing the exercises.

just its tactical nuclear weapons deployments or land-based intermediate-range missiles in Northeast Asia — let alone share nuclear capabilities with Japan or the ROK — and that it will be cautious about the return of its strategic weapons platforms to the peninsula for military exercises.

The ROK's new administration should give up any thought of increased THAAD deployments. The system is unable to effectively respond to the DPRK's intermediate- and short-range missile threat, but in the hands of the U.S. it can weaken China's secondary nuclear strike capability, forcing China to prepare military countermeasures. Maintaining and strengthening military and security confidence remains an effective means for China and the ROK to manage their serious differences over THAAD.

Maintaining and strengthening military and security confidence remains an effective means for China and the ROK to manage their serious differences over THAAD.

The ultimate goal on the Korean Peninsula should remain achieving denuclearization and establishing a lasting peace mechanism. There should be no change or wavering by any country in this regard.

For a long time, the United States has rejected China's no-first-use proposal on grounds of opposition by allies. But in fact such an agreement, if concluded as a nuclear confidence-building measure, will not only contribute to strategic stability between the two countries but will also be conducive to the security of South Korea, Japan and the whole region. The U.S. should take it up seriously.

Third, the ultimate goal on the Korean Peninsula should remain achieving denuclearization and establishing a lasting peace mechanism. There should be no change or wavering by any country in this regard. Only by finally achieving the dual goals listed above can long-term peace and stability on the peninsula be fundamentally guaranteed and the strategic stability of Northeast Asia be effectively maintained.

At present, restarting the denuclearization dialogue is unrealistic, but all countries involved should unequivocally declare their pursuit of this ultimate goal.

Think tanks should start exploring a road map for denuclearization and a peace mechanism. Last year, three think tanks — from China, the U.S. and the ROK — conducted several rounds of dialogue and reached many useful common understandings. With the next step, they should try to bring in a DPRK counterpart. Efforts in this regard may be useful preparation for progress in future dialogues.



China's Responsibility and Opportunity



Nabil Fahmy

Former Foreign Minister of Egypt

Visiting Senior Fellow at Institute for Global Cooperation and Understanding

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Amid global tensions humanity is “just one misunderstanding, one miscalculation away from nuclear annihilation.”

In the late 1970s I was appointed as a committee member in the Egyptian delegation to the United Nations in Geneva to deal with international security issues and disarmament. As a young Egyptian diplomat, I was startled when I witnessed both the Soviet and American delegations vehemently arguing and promoting the strategic logic, sustainability and intrinsic value of nuclear deterrence — particularly that of “Mutually Assured Destruction.” China had not yet joined the committee as a functioning member.

These concepts sounded odd, more relevant to Hollywood Dr. Strangelove movies and a dangerous game of Russian roulette, neither of which lent themselves to rational thinking or definitively calculable outcomes.

To my satisfaction and that of many others, wise leaders in the United States and Russia soon realized the fallacy of those theories and concepts as well the severe potential dangers of strategic military miscalculation or even inadvertent nuclear engagement because of human or system error. The '80s and '90s saw serious and sustained engagement of these two powers to curtail the growth of stockpiles, de-target nuclear weapons and create crisis management systems.

The Strategic Arms Reduction Treaty (START), Strategic Offensive Reductions Treaty (SORT), The Intermediate-Range Nuclear Forces Treaty (INF) and the Partial Test Ban Treaty (PTBT) were negotiated and took force as an expression of the joint realization that flaunting and threatening the use of nuclear weapons was not sound and was in fact dangerous policy. Regrettably,

however, the two powers with the largest military arsenals could not agree to eliminate or comprehensively reduce nuclear weapons from their respective arsenals or prohibit their use.

It's noteworthy that U.S. President Ronald Reagan and his counterpart, Mikhail Gorbachev, general secretary of the Communist Party in the Soviet Union, actually agreed to these ambitious objectives at their summit in Reykjavik in October 1986, before their respective institutions walked them back, promoting instead what was to become the Intermediate-Range Forces Treaty (INF) concluded in 1987.

***We have witnessed a recurrence
of reciprocal nuclear
saber-rattling by Russia and
the United States.***

For decades the two major powers essentially adopted a policy of global nuclear containment, insisting on their right to preserve their nuclear weapons, while only accepting grudgingly the acquisitions of other permanent members of the United Nations Security Council — France, Britain and China.

Yet, after decades of refraining from doing so, in recent months we have witnessed a recurrence of reciprocal nuclear saber-rattling by Russia and the United States. In an interview in front of the Russian nation, President Putin said his country had “various weapons of mass destruction” and would “use all the means available to us,” adding, “I am not bluffing.” The EU's Joseph Borrell said the Ukraine war had reached

a “dangerous moment ... and (Putin) threatening the use of nuclear arms is very bad.” Russian authorities repeatedly denied that Putin or any of them had explicitly made such threats. Nevertheless we are in ominous times. In fact, U.S. President Joe Biden described Putin’s nuclear threats as “a reckless disregard for the nuclear nonproliferation regime.” When asked about the United States response if Russia used a nuclear weapon he affirmed it would be “consequential.”

UN Secretary-General Antonio Guterres said that amid global tensions humanity was “just one misunderstanding, one miscalculation away from nuclear annihilation.”

The International Community must act now to roll back the dangerously heightened and tenuous spiraling of nuclear posturing, which is truly a threat to international peace and security. Equally significant is the overwhelmingly negative mood in the General Assembly with respect to the state of the world, as well as to the relevance and compatibility of the current world order.

On Nov. 4 President Xi Jinping met with German Chancellor Olaf Scholz at the great Hall of the People in Beijing. After extensive discussions the two leaders, declared, among other things, that they oppose the threat or use of nuclear weapons and advocate that a nuclear war cannot be won and must never be fought. Less than two weeks later at the G20 summit, Presidents Xi and Biden reiterated the same statement and underscored their opposition to the use or threat of use of nuclear weapons in Ukraine.

The International Community must act now to roll back the dangerously heightened and tenuous spiraling of nuclear posturing, which is truly a threat to international peace and security.

I commend China for being a common partner in both these statements. As a permanent member of the Security Council, the primary organ responsible for the preservation of international peace and security, it carries a particular responsibility. These circumstances also provide an opportunity for China to carry out its role more visibly in the eyes of an international community that's in disarray and looking for wise leadership committed to multilateralism and collective engagement. A complementary benefit is that leadership in these circumstances would go a long way in countering the exaggerated and frequently false concerns raised about the real motivations behind major projects such as the Belt and Road Initiative.

Chinese State Councilor and Foreign Minister Wang Yi said that amid this “new phase of turbulence and transformation” there are reasons for hope in the economic domain. He went further, affirming that “Peace and development remain the underlying trends of our time.” He quoted Chinese President Xi Jinping, who had said that “War only opens Pandora’s Box. ... We must address differences through peaceful means.”

On the war in Ukraine, the Foreign Minister affirmed that “China supports all efforts conducive to the peaceful resolution of the crisis ... and the fundamental solution is to address the legitimate security concerns of all parties and build a balanced, effective and sustainable security architecture.”

There are two paramount but not mutually exclusive issues here. One is to end the crisis in Ukraine and the other is to create a sustainable security architecture. One step in this regard would be the United Nations secretary-general — assisted ex-officio by the president of the council — convening the conflicting parties in

Ukraine with a view toward establishing a cease-fire and a conflict resolution negotiating process. Needless to say, presidents from states associated with the said conflict would recuse themselves.

Another step would be for the United Nations, through different brainstorming, expert-level sessions, to propose “balanced, effective and sustainable security architectures” that are commensurate with the 21st century realities and reflective of a commitment to collective security in international relations. These would ultimately be the prerogative of the organization and its member states to adopt or decline.

The United Nations, and particularly the Security Council, is duty bound to take the lead here. Realistically speaking, given tensions between the Western permanent members and Russia, I do not believe that consensual Security Council decisions on these matters can be envisaged soon. Consequently, principled leadership is paramount in enabling the organization to rise to the challenges of our times. This is a most opportune time for wise leadership and support from China in this regard.

These circumstances also provide an opportunity for China to carry out its role more visibly in the eyes of an international community that's in disarray and looking for wise leadership committed to multilateralism and collective engagement.

Scanning the Big Picture



Lawrence Lau

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

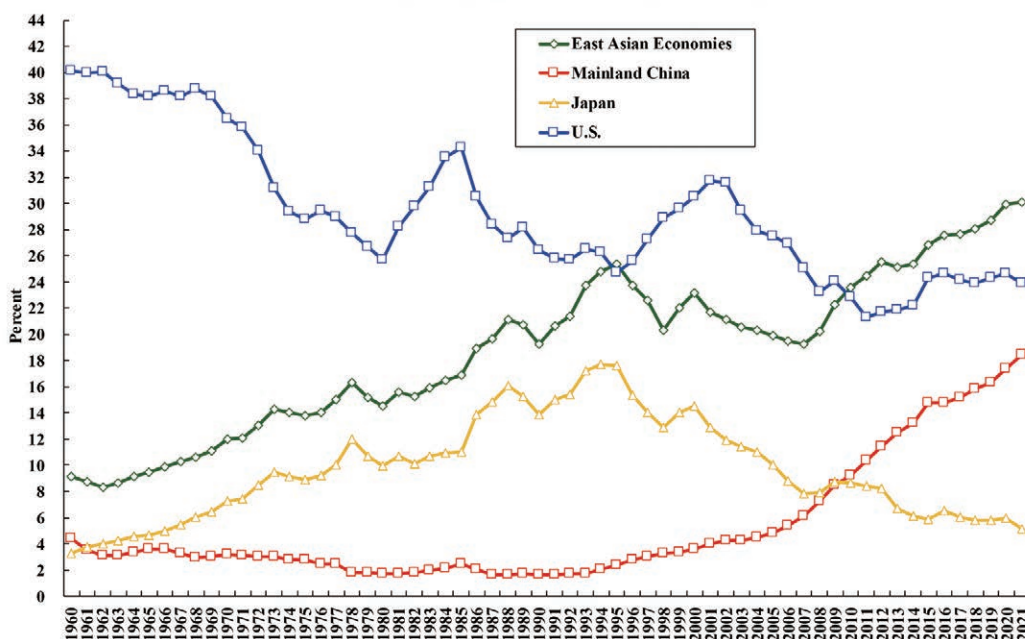
The strategic competition between the United States and China and other major geopolitical developments will fundamentally shape the future.

We live in a different world than we've known before, with shifting macroeconomic trends having significant implications for the global economy. The strategic competition between the United States and China and other major geopolitical developments will fundamentally shape the future, starting in East Asia.

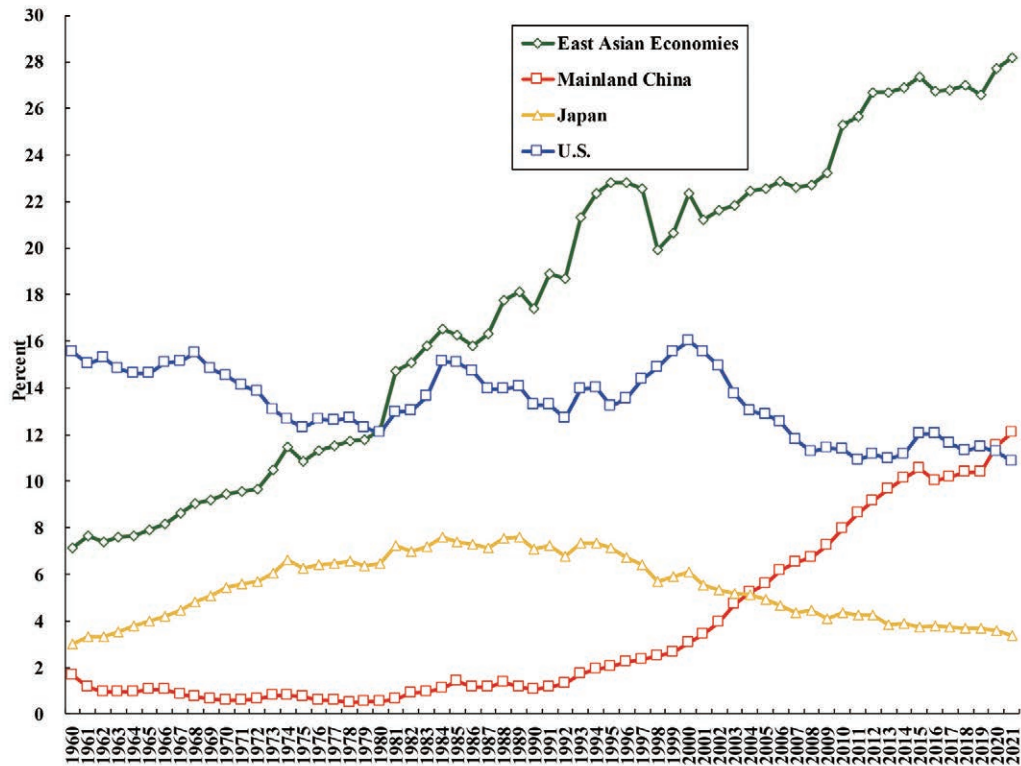
Global Economic Trends

The center of gravity of the world economy has been shifting from North America and Europe to East Asia since 1960, and within East Asia from Japan to China beginning in the mid-1990s. This has been happening in real GDP, internatio-

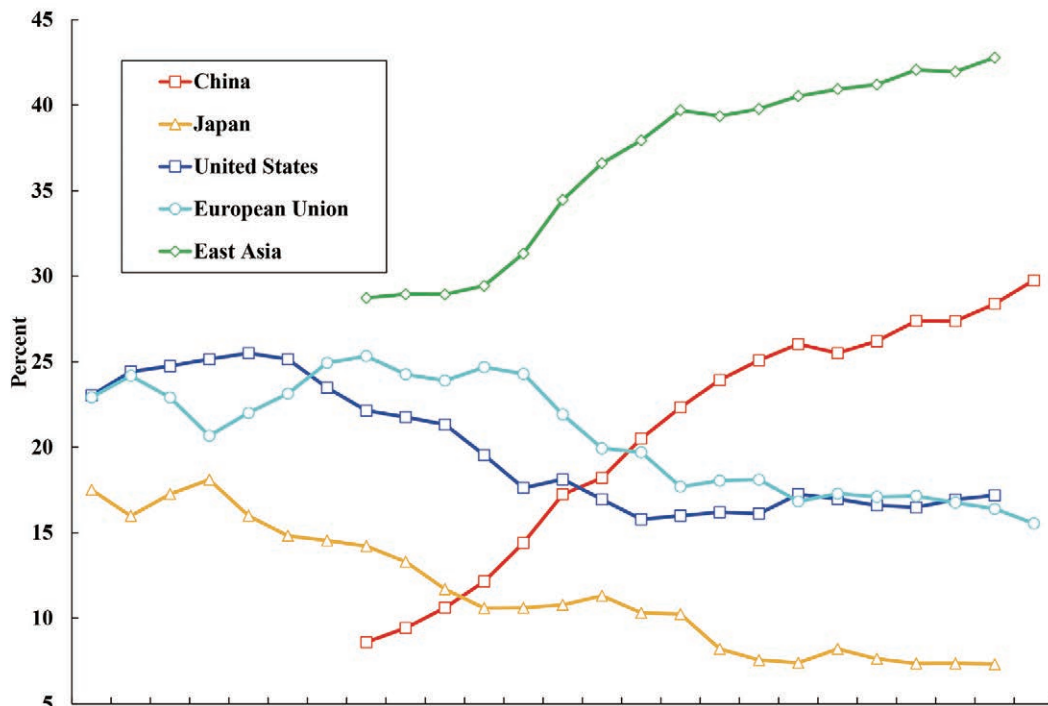
The Shares of East Asia, China, Japan and U.S. in World GDP, 1960-present



The Shares of East Asia, China, Japan and U.S. in World Trade, 1960-present



Distribution of the Value-added in Manufacturing in the World



nal trade, wealth, manufacturing and innovation.

First, wealth. From various reported surveys, there are supposedly more than 600 known billionaires (in U.S. dollars) in China, possibly more than in the United States. There may be many more unknown ones in China. The counts vary across different surveys but the order of magnitude in both countries is the same. The aggregate wealth of Chinese households has also been rising rapidly.

China is considered a manufacturing powerhouse. Over the past decades, many successful Chinese enterprises, both State-owned and private, have emerged. The 2022 Fortune Global 500 list includes 145 Chinese enterprises, compared with 124 U.S. enterprises. Many of the Chinese enterprises are engaged in manufacturing. Collectively, the revenue of the Chinese enterprises on the list has surpassed the revenue of the U.S. enterprises for the first time.

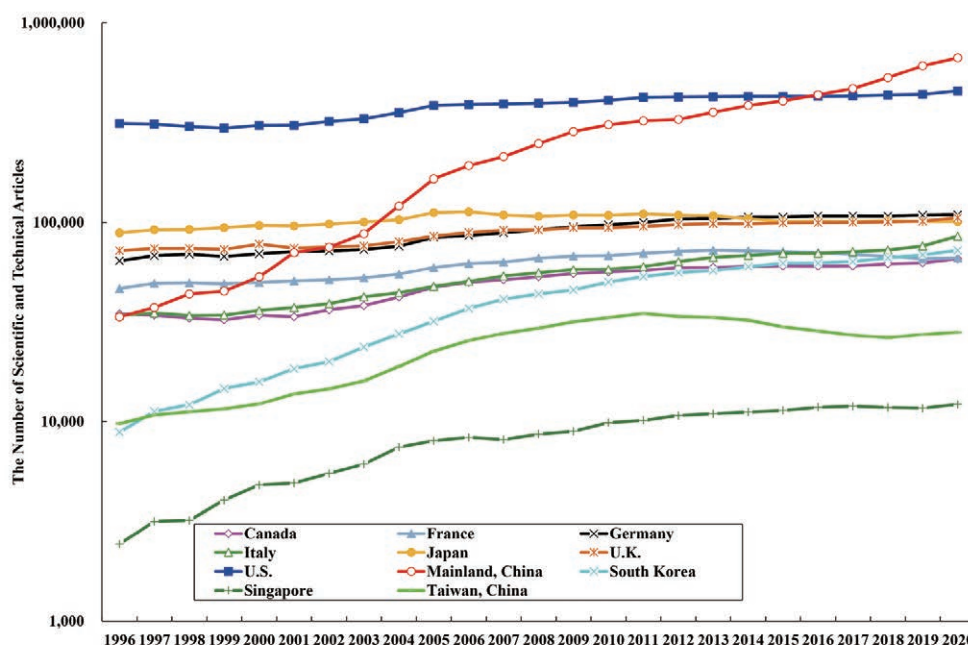
Innovation, technology breakthroughs

In terms of innovation, China has greatly strengthened its intellectual property protection since 2014. It has also been increasing its investment in research and development, which reached 2.44 percent of GDP in 2021. China has recently become the top country in terms of the total scientific and engineering articles published in international professional journals by its nationals. Its lead is the total number of citations falls in the top 1 percent of most frequently cited articles.

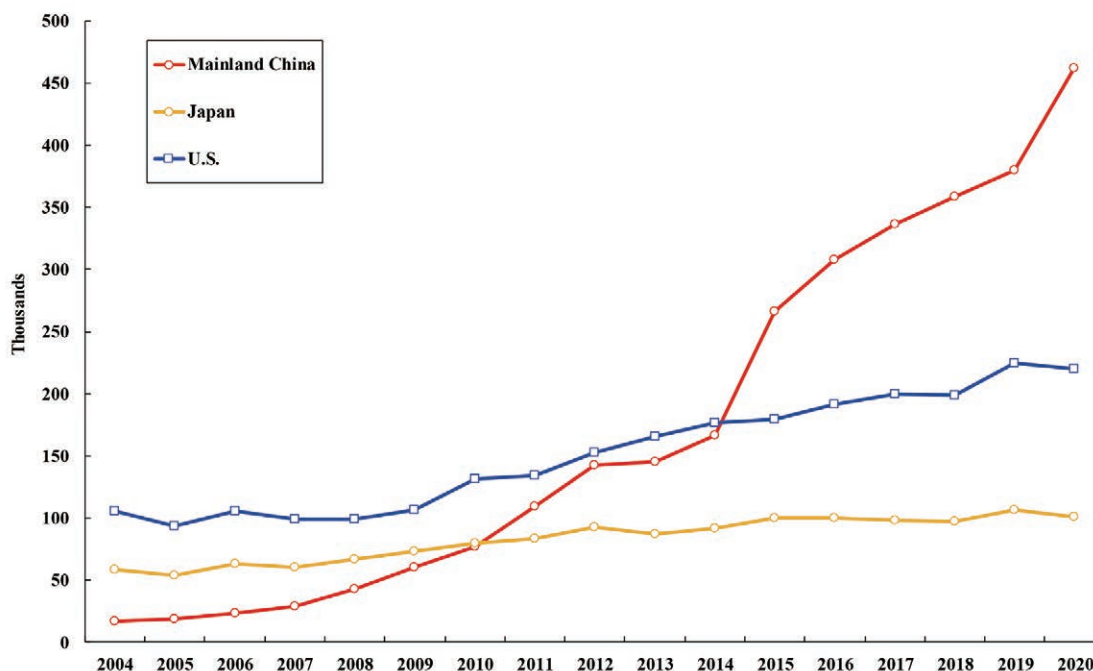
Furthermore, China was awarded the largest number of patents in 2021 by the U.S. Patent and Trademark Office, the European Patent Office and the China National Intellectual Property Administration combined, followed by the U.S. and Japan.

According to the Top 500 list (published in June 2022) of super-computers in the world, ranked by speed, 173 were in China, 127 were in the U.S. and 34 were

The Number of Scientific and Engineering Articles by Authors of Countries



Patent Grants Awarded by USPTO, EPO and CNIPA Combined: China, Japan and the U.S.



in Japan. The fastest supercomputer is currently the Frontier, located in the United States at Oak Ridge, Tennessee.

However, it was acknowledged that a couple of Chinese supercomputers — Sunway Ocean Light and Tianhe III, which did not participate in the ranking exercise — may be even faster. These two Chinese device are said to have been built solely with Chinese components and parts.

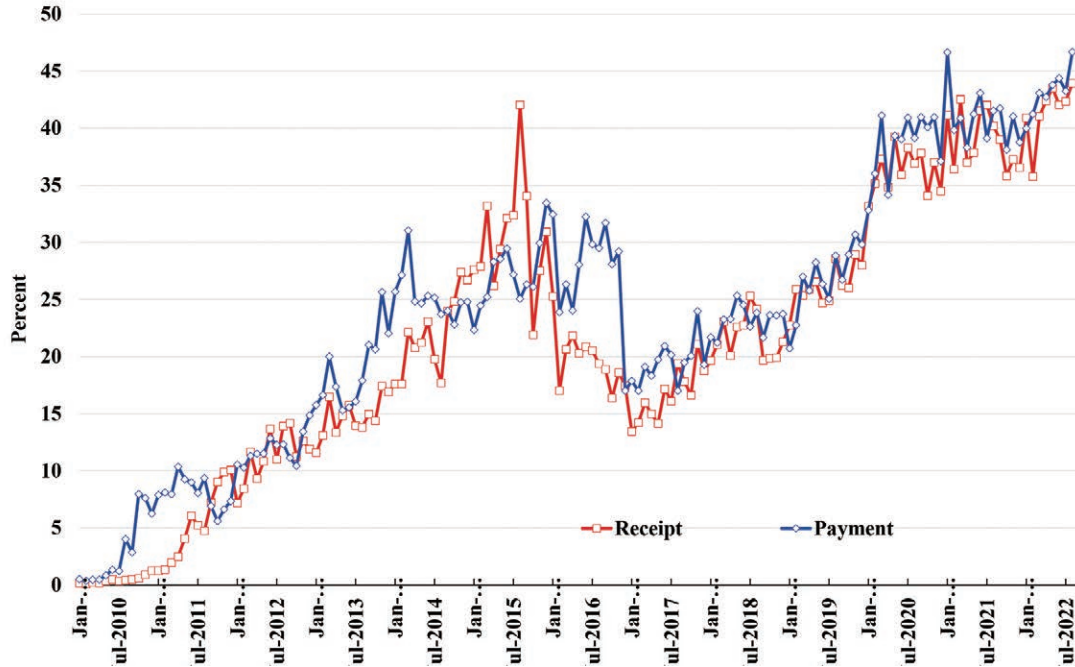
China is on the verge of a breakthrough in innovation and technology. Indigenous innovation has been occurring in many areas — for example, 5G communication, the BeiDou Navigation Satellite System, high-speed trains, quantum communication, supercomputers and ultra-high-voltage transmission of elec-

tricity. The vast Chinese market attracts entrepreneurs, innovators and venture capitalists because of its economies of scale. There will be many startups in China and many failures resulting therefrom, but a small number will manage to become unicorns.

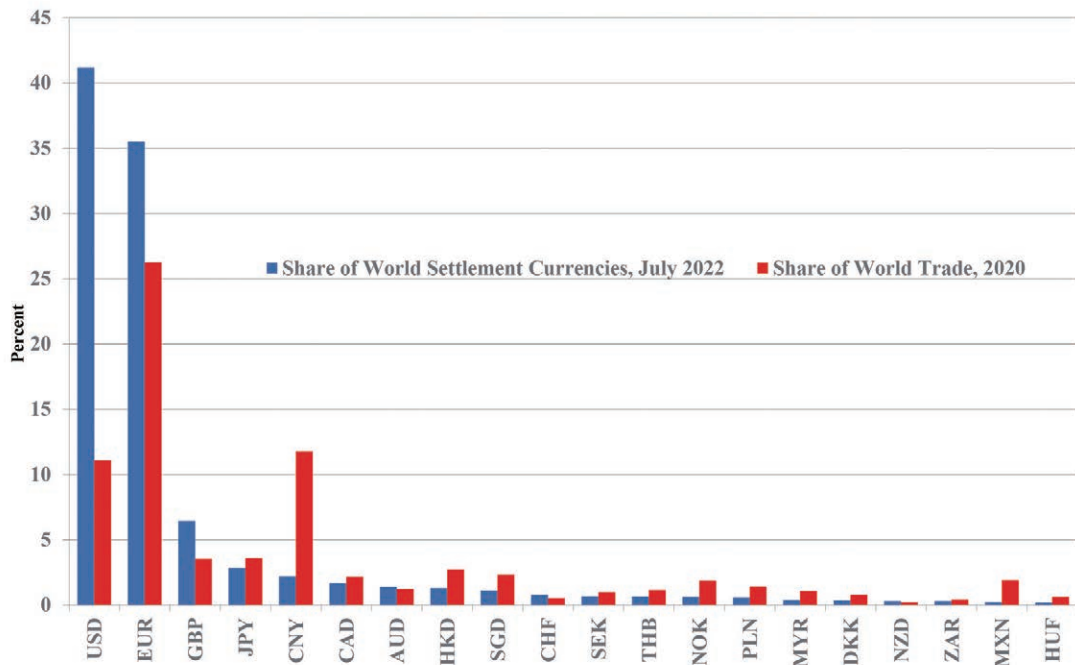
Internationalization of yuan

Another notable macroeconomic trend is the internationalization of the renminbi, or yuan. The yuan has been current-account convertible since 1994. Its value rests on the purchasing power of the yuan for Chinese goods, services and assets. For all practical purposes, the offshore RMB is completely convertible in Hong Kong. Capital control applies only to certain capital flows into and out of the Chinese mainland.

Share of Renminbi Settlement in China's Foreign Related Transactions



Share of World Settlement Currencies, July 2022



Own-currency settlement of bilateral transactions between two countries, as opposed to settlement in a third-country currency, actually reduces both transaction costs and exchange rate risks for both countries. It requires only one currency exchange, and incurs only one exchange rate risk, and can hence benefit both countries. If a third-country currency is used for settlement, it will require two currency exchanges, doubling the transaction costs, and be subject to two exchange rate risks. More countries have entered into own-currency settlement agreements with China — for example, Indonesia and Russia — settling their international economic transactions with China in yuan and their own currencies, the rupiah and the ruble.

The weaponization of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system for international payments in U.S. dollars has forced countries to seek alternatives. The use of USD as an international medium of exchange and store of value will be undergoing a gradual decline.

Instead, China should promote the settlement of bilateral trade transactions in the currencies of the trading-partner countries, which was the practice under the old Bretton-Woods arrangement.

If China can achieve the same share of world settlement in yuan as Japan does with its yen relative to its share of world trade, the share of the yuan in world settlement will rise from its current 2.2 percent to 9.2 percent and will become the third-most widely used settlement curren-

cy in the world. Initially, this will be driven by own-currency settlement of Chinese international trade transactions with its trading-partner countries.

The weaponization of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system for international payments in U.S. dollars has forced countries to seek alternatives.

Even at 9.2 percent, the yuan will still be dwarfed by the more than 40 percent share of the U.S. dollar in world settlements. However, it is probably not in the national interest of China to aspire to replace the U.S. dollar with yuan as the international medium of exchange. Instead, China should promote the settlement of bilateral trade transactions in the currencies of the trading-partner countries, which was the practice under the old Bretton-Woods arrangement.

The world continues to witness deglobalization and decoupling. Just as economic globalization increases the welfare of all countries in the world, economic deglobalization decreases the welfare of all countries. Economic deglobalization and decoupling reduce the choice sets facing every economy, result in a decline in welfare for everyone and slow global economic growth.

Decoupling of economies is likely to result in temporary disruptions of existing supply chains, affecting production around the world. Multiple, parallel, independent trading blocs and supply chains will emerge. There will be a resurgence of protectionism worldwide, in the forms of import barriers and export controls.

The most likely long-term outcome of economic de-coupling is the emergence of two or more efficient supply chains for every product and service in the world.

Decoupling of the Chinese and U.S. economies in some form appears inevitable, not only because of the COVID-19 epidemic and the possibility of the emergence of other viruses in the future but also because of increasing strategic competition.

Diversification

Both the COVID-19 pandemic and the Russia-Ukraine conflict demonstrate the potential benefits of diversification as insurance against the disruption of supply chains. For example, some European economies should probably have had more diverse sources of oil and natural gas. Some of them have been relying predominantly on Russia. China, which imports the bulk of its oil and natural gas, has appropriately diverse sources (for example, Angola, Russia, Saudi Arabia and the United States) and transportation routes.

The most likely long-term outcome of economic de-coupling is the emergence of two or more efficient supply chains for every product and service in the world.

A prerequisite for diversification is the availability of at least a sustainable second source of supply. Second-sourcing means finding an alternate source for the long-

term supply of a product or a service, either domestically or through imports from a third country. Second-sourcing is a natural response to the potential disruption of a supply chain. With a second source of supply, the economy is basically protected from disturbances resulting from unexpected events such as various kinds of natural disasters — earthquakes, tornadoes, tsunamis and volcanic eruptions, as well as epidemics such as COVID-19, wars, revolutions, and other geopolitical conflicts. Second-sourcing is like purchasing insurance that is durable.

It is probably beneficial for the world to have one or more viable alternative cross-border payment systems in addition to SWIFT so that they will not be weaponized.

Multiple supply chains

The most likely long-term outcome of economic de-coupling is the emergence of two or more efficient supply chains for every product and service in the world. The world market is large enough to accommodate more than one or even two efficient global supply chains for any product or service.

The existence of multiple supply chains is potentially a positive development for the world economy because it reduces monopoly power, enhances competition and protects the world from the risks of catastrophic system failures. It should also eventually result in lower prices and higher quality for the product or service.

The world economy will be better off in the long run because of the increase in res-

ilience and stability. For example, it is probably beneficial for the world to have one or more viable alternative cross-border payment systems in addition to SWIFT so that they will not be weaponized.

The COVID-19 pandemic

The COVID-19 pandemic, which broke out in Hubei, China, in late 2019, is unfortunately still ongoing. However, the Chinese mainland has done very well in containing the virus. It is estimated that if the mainland were to have the same death rate as the U.S., the cumulative total deaths at the end of September 2022 would have increased from 5,226 to 4.5 million.

As a result of the COVID-19 pandemic, the cumulative rate of growth of real GDP

over the 10 quarters since 2020 on the mainland has been reduced by 7.5 percent, from 16.3 percent to 8.8 percent, compared with the 10 quarters before. For the U.S., the reduction has been only 4.2 percent, from 6.7 percent to 2.5 percent. There appears to be a tradeoff between the reduction in the growth of GDP and the COVID-19 cumulative death rate. A lower reduction in the GDP growth rate is associated with a higher cumulative death rate.

Economic picture

The latest published forecasts of annual rates of growth of real GDP by international organizations indicate that the whole world economy is slowing, except for India.

| | Mainland China | World ex China | The U.S. | Hong Kong |
|--|----------------|------------------|------------------|----------------|
| Cumulative COVID-19 Infections per Million Population (30/9/22) | 159 | 95,221 | 286,011 | 235,558 |
| Cumulative COVID-19 Deaths per Million Population (30/9/22) | 3.7 | 1,009 | 3,144 | 1,356 |
| Cumulative Total COVID-19 Deaths (30/9/22) | 5,226 | 6,540,226 | 1,059,579 | 10,161 |

| | The World | The Mainland | Germany | India | Japan | The U. S. |
|---|------------|--------------|-------------|-------------|------------|-------------|
| IMF Forecast (2022), % | 3.2 | 3.2 | 1.5 | 6.8 | 1.7 | 1.6 |
| IMF Forecast (2023), % | 2.7 | 4.4 | -0.3 | 6.1 | 1.6 | 1.0 |
| World Bank Forecast (2022), % | 2.9 | 4.3 | | 7.5 | 1.7 | 2.5 |
| World Bank Forecast (2023), % | 3 | 5.2 | | 7.1 | 1.3 | 2.4 |
| Average Annual Rates of Growth, 2011-21, % | 2.6 | 6.68 | 0.97 | 5.39 | 0.5 | 2.03 |



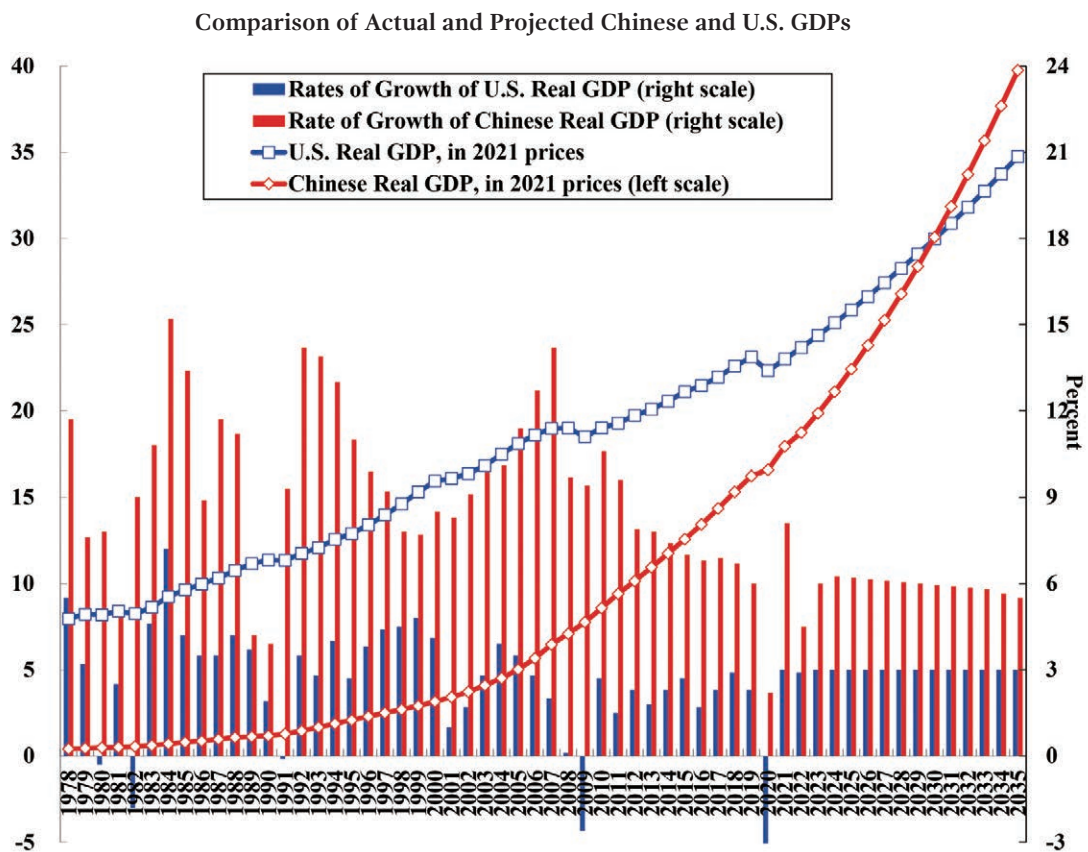
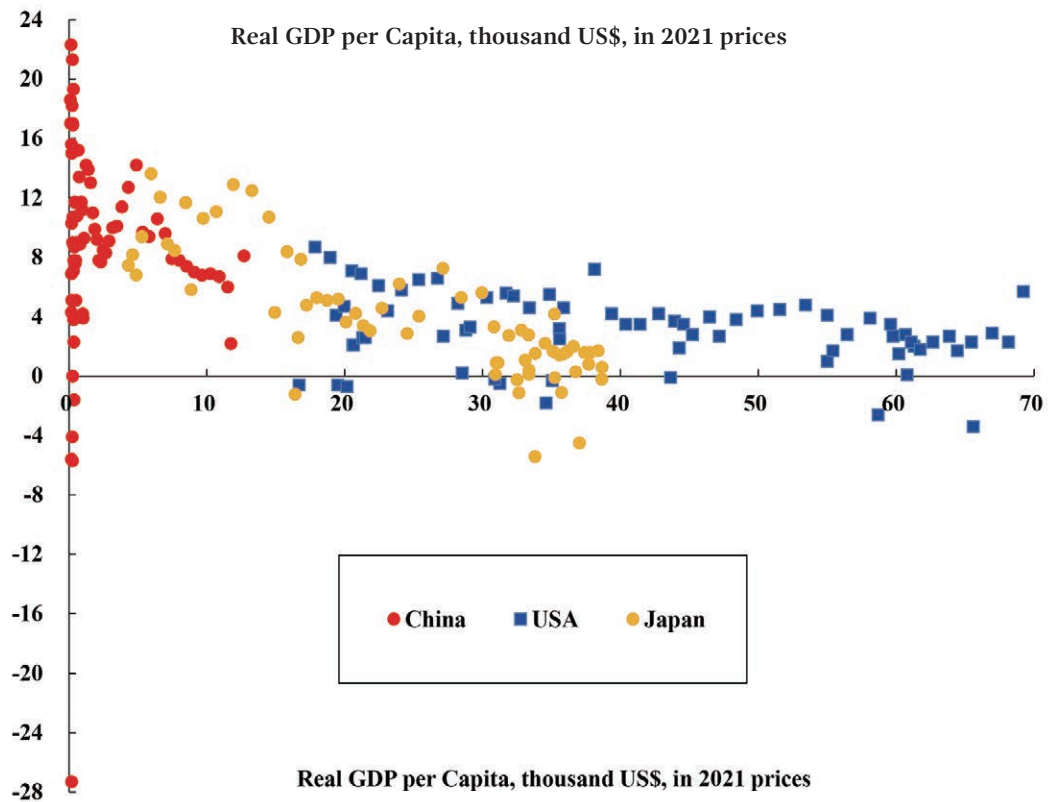
- ▲ Customers enter a reopened shopping mall in Beijing, Dec 6, 2022. China has been gradually easing its Covid rules, in significant step toward reopening.

The Chinese economy will be growing faster than those of North America and Europe in the next decade as all of them slow down.

There is an empirical regularity at play: As the real GDP per capita of an economy rises, its real rate of growth falls. The Chinese economy cannot continue to grow at a real rate of 9 to 10 percent per annum as it did between 1978 and 2018, but its real GDP per capita is still in a range that would allow its economy to grow at an average annual real rate of approximately 6 percent. My forecast is that by 2030, the real GDP of the Chinese mainland at market prices will reach parity with that of the U.S. — approximately \$30 trillion in 2021 prices.

With an annual rate of growth in real GDP of 6 percent on average and a national savings rate of more than 40 percent, the wealth of Chinese households and institutions will also grow by leaps and bounds. It is this wealth

The Chinese economy cannot continue to grow at a real rate of 9 to 10 percent per annum as it did between 1978 and 2018, but its real GDP per capita is still in a range that would allow its economy to grow at an average annual real rate of approximately 6 percent.



that will drive Chinese demand for physical and financial assets, domestically, as well as abroad, because of the need for diversification.

China-U.S. strategic competition

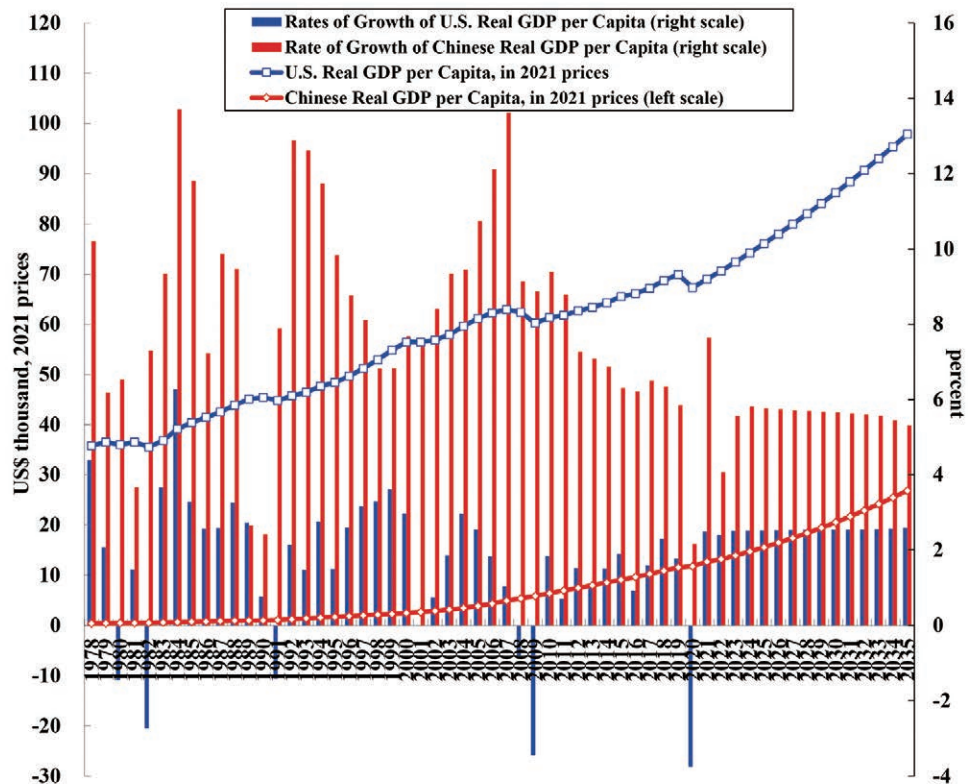
The U. S. ruling elite, including the military-industrial complex, wants to maintain its global hegemony, or primacy, in the name of preserving a rules-based international order. It wants to perpetuate the so-called “Pax Americana” (or American Peace). The objective of the U.S. ruling elite is to prevent the rise of a country that can potentially say no to the U.S., using all means available. If any country is allowed to get away with saying no to the U.S., others may be tempted to follow

suit and U.S. global hegemony may soon be no more.

China is not really a threat to the existence and continued prosperity of the U.S. and will never be one. However, China may be a threat to the continued global hegemony of the U.S. because China can say no, just as the former Soviet Union could.

If the U.S. loses its global hegemony, the predominance of the U.S. dollar as an international medium of exchange and store of value may also be threatened. This will be a seriously negative development for the U.S. economy as it will no longer be able to run large trade deficits indefinitely by simply printing and selling U.S.

Comparison of Actual and Projected Chinese and U.S. GDPs per Capita







government bonds. The U.S. will therefore try to do all it can to maintain its global hegemonic position. Thus, China-U.S. strategic competition will likely be the new normal in the coming decade.

The U.S. strategy is essentially one of containment — pivot to Asia, TPP the Quad (Australia, India, Japan, and the United States) and the AUKUS, consisting of Australian, the UK and the U.S. The United States uses a trade, technology and currency war — tariff and non-tariff barriers, restrictions on high-tech trade and possible restrictions on the use of the USD payment system — as well as a propaganda war to demonize China about Hong Kong, Tibet and Xinjiang.

It is tempted to provoke China to fire the first shot across the Taiwan Strait to create a pretext for organizing international sanctions against China. If there is going to be a war between China and the U.S., sooner is probably better for the U.S. However, even better for the U.S. is a proxy war between the Chinese mainland and Taiwan, without involving U.S. boots on the ground.

China's objectives and strategy

The Chinese objectives stand in sharp contrast. For China, it is all about peaceful development. Chinese real GDP per capita is still at a relatively low level by world standards. China needs to raise its real GDP per capita, which is currently less than one-quarter of that of the U.S. China did not initiate

the strategic competition or the trade and technology wars with the U.S. Its intention is to ensure its survival and continual development and growth, with a stated goal of rejuvenating the Chinese nation. To achieve its objectives, China intends to build new-type of relationship with other major powers based on the principles of mutual respect, trust, non-interference, peaceful coexistence and win-win cooperation. Its focus is on building a global community with a shared future, which means seeking cooperative solutions to global problems such as climate change and the pandemic.

China maintains a credible nuclear weapons second-strike deterrent capability with a “no first use” policy. To counter efforts to contain China, the Chinese government is preparing for possible decoupling by developing self-reliant survival-critical systems (such as the BeiDou Navigation Satellite System), promoting indigenous innovation and creating alternative cross-border payment systems such as the Cross-Border Interbank Payment System (CIPS). In addition, China maintains an open economy for trade and investment to all friendly countries.

Potential flash points

There are a few potential flash points, including the South China Sea, the East China Sea and the Taiwan Strait, as well as an all-out rivalry that could drag China and the U.S. into the so-called Thucydides trap.

It is likely that China will be able to reach an accommodation with most members of ASEAN, being the most important trading-partner for almost all of them. Joint economic development with shared benefits can be a viable long-term solution. China has little or no incentive to interrupt the freedom of navigation on one of its most important sea routes. On the contrary, it is concerned about potential interruption by outside naval powers.

The conflict in the East China Sea is mostly focused on the Diaoyu Islands, which historically were administered by Yilan Xian, Taiwan. It is unlikely to trigger a full-scale war. As long as Japan is unable to become a “normal” country — that is, to have its own independent national defense — it will have to continue as a protectorate of the U.S. and take orders from it. Japan can have an independent foreign policy only when it is able to defend itself independently.

In 1989, Shintaro Ishihara, a former governor of Tokyo, and Akio Morita, the co-founder and former chairman of SONY, co-authored “The Japan That Can Say No: Why Japan Will Be First Among Equals.” However, the truth is that Japan is still unwilling and unable to say no to the U.S., even today. Japan is probably the most sensitive about the reunification of the Chinese mainland with Taiwan, as this will make the Taiwan Straits a Chinese inland sea. At present, most Japanese trade with Southeast Asia, South Asia, the Middle East, and Europe is routed through the Taiwan Strait. In princi-

ple, the Northern Passage to Europe is potentially possible, but Russia will have control over that route. As long as peace prevails, there is little incentive for anyone to interrupt any of this maritime traffic.

The reunification of Taiwan with the Mainland is, like the reversion to Chinese sovereignty of Hong Kong and Macau, a matter of Chinese national honor. Taiwan to China is like Alsace-Lorraine to France, Goa and Pondicherry to India and the four Northern Islands to Japan. Reunification will be pursued by any Chinese central government with the ability to do so, regardless of its ideology or whether it is popularly elected. People on both sides of the Taiwan Strait will benefit enormously from a peaceful reunification and should therefore work hard to achieve it. The rest of the world will benefit greatly too. With peaceful reunification, a large number of lives will be saved, enormous destruction will be avoided and huge peace dividends will be available to be shared by all. The use of force is only a very last resort.

The Thucydides’ Trap

Despite tense relations, China-U.S. strategic competition is unlikely to result in a hot war between the two countries because such a war would have no winners, only losers. The leaders on both sides know that. If the U.S. and the former Soviet Union did not go to war in the last century, there is even less reason for China and the U.S. to go to war in this century, not-

*Taiwan to China
is like Alsace-
Lorraine to
France, Goa and
Pondicherry to
India and the
four Northern
Islands to Japan.*

withstanding the so-called Thucydides trap. For both countries, mutually assured destruction remains the foundation of peace.

The ongoing Russia-Ukraine conflict is one of the greatest geopolitical challenges we are witnessing. Can the war be contained? Can it be sustained? Is a cease-fire possible? These questions remain unanswered.

To sum up, the world economy will probably go into recession. It is unlikely to resume its robust growth until the Russia-Ukraine conflict is resolved, even though the setbacks caused by the COVID-19 pandemic and the inevitable decoupling of the economies are temporary. The decoupling and the emergence of alternative supply chains and second sources should reduce the market power of monopolies and enhance the economic and financial stability and resilience of the world. It will also make weaponization of economic instruments meaningless. With two or more sources for each product, service and supply chain, the world is also protected from the possibility of a catastrophic total system failure arising from either natural or man-made disasters. China-U.S. strategic competition may not end with a clear outcome. At some point, the U.S. may realize that it is futile to try to prevent China's rise and that China is not an existential threat. Then the two countries may be able to reach detente.

About China-US Focus

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

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