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The Avoidable War

Reflections on U.S.-China Relations and the End of Strategic Engagement

BY THE HONORABLE KEVIN RUDD, President, Asia Society Policy Institute

The Avoidable War:

Reflections on U.S.-China Relations and the End of Strategic Engagement

A COLLECTION OF MAJOR SPEECHES DURING 2018

THE HONORABLE KEVIN RUDD
PRESIDENT, ASIA SOCIETY POLICY INSTITUTE

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With a solution-oriented mandate, the Asia Society Policy Institute (ASPI) tackles major policy challenges confronting the Asia-Pacific in security, prosperity, sustainability, and the development of common norms and values for the region. The Asia Society Policy Institute is a think- and do-tank designed to bring forth policy ideas that incorporate the best thinking from top experts in Asia and to work with policymakers to integrate these ideas and put them into practice.

ABOUT THE AUTHOR

The Honorable Kevin Rudd served as Australia's 26th Prime Minister (2007–10, 2013) and as Foreign Minister (2010–12). He led Australia's response during the Global Financial Crisis—the only major developed economy not to go into recession—and co-founded the G20. Mr. Rudd joined the Asia Society Policy Institute in New York as its inaugural President in January 2015. He serves as Chair of the Board of the International Peace Institute and Chair of Sanitation and Water for All. He is a Senior Fellow at Harvard University's John F. Kennedy School of Government, a Distinguished Fellow at Chatham House in London, a Distinguished Statesman with the Center for Strategic and International Studies in Washington D.C., and a Distinguished Fellow at the Paulson Institute in Chicago. Mr. Rudd is a member of the Comprehensive Nuclear Test-Ban Treaty Organization's Group of Eminent Persons. He serves on the International Advisory Board of the Schwarzman Scholars program at Tsinghua University, and is an Honorary Professor at Peking University. Mr. Rudd is proficient in Mandarin Chinese. He remains actively engaged in indigenous reconciliation.

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CONTENTS

FOREWORD

THE DEFINING ISSUE OF INTERNATIONAL RELATIONS IN THE 21ST CENTURY is the rivalry between a rising China and a ruling United States. The impact of this rivalry is redefining the international order, of which the United States has been the principal architect and guardian. Readers who want an in-depth briefing on this challenge have a treat in store. Within the covers of this publication, longtime China watcher and former Australian Prime Minister Kevin Rudd has provided an analytic snapshot that would normally only be available to the president or prime minister of a major nation. In substance, it would be the envy of the best professional intelligence agency.

Rudd's portrait of today's relationship between the established and emerging superpowers reflects a lifetime of studying China and the United States, informed by ongoing conversations with leaders in Beijing and Washington. Following in the footsteps of Lee Kuan Yew and Henry Kissinger, Rudd has established relationships with leaders in both governments and societies, allowing him to provide insights to each about the other and to offer candid views from an independent third-party perspective.

To this role, Rudd brings unique qualifications. A proud Australian, he is geographically Asian, on the one hand, and culturally Western, on the other. Having mastered Mandarin and English in his youth, he has been able to speak to both Chinese and Americans in the nuance of their native languages. For American policymakers, Australia occupies a special place as one of America's most reliable allies—indeed, it is the only nation that has fought alongside the United States in every one of its wars since World War I. Chinese respect Australia as a big country that is, for all of its Western characteristics, unquestionably anchored in Asia.

As a young Foreign Service Officer, Rudd was posted to China in the 1980s. From there, he rose to become his nation's Foreign Minister, Leader of the Opposition, and, ultimately, Prime Minister from 2007 to 2010 and again in 2013. During his tenure as Prime Minister, Rudd hosted Xi Jinping, then China's Vice President, for a 10-day visit to Australia in 2010. These experiences in "doing" have informed his analysis of international challenges, refining his sense of connections between domestic politics and foreign policy. They have also given him a sense of the special perspective that a head of state brings to that undertaking.

The year 2018 marked a sea change in Washington's conventional wisdom about China. In a major speech in October of that year that will be noted for years to come, Vice President Mike Pence summarized the Donald Trump administration's "emergent strategy" to address the China challenge. As Pence announced, the Trump administration is determined to fight back on all fronts in what it sees as a Cold War that China has been waging against the United States for the past quarter century without any U.S. response.

Previous administrations made a cosmic bet. They wagered that integrating China into the U.S.-led international order would lead it to develop a normal free market economy, democracy, the rule of law guaranteeing human rights, and acceptance of its place as a "responsible stakeholder." As Pence said bluntly, they lost that bet—and the Trump administration has been left to deal with the consequences.

Amid this storm, China's leaders have grimly concluded that their own long-held suspicions have been confirmed: the trade war is seen as merely one instrument in a comprehensive campaign to "contain" China. The sea change in Washington has sent Chinese strategists back to reading the ancient Greek historian Thucydides and his insight about the ways in which Athens's rise and the fear that this instilled in Sparta caused a catastrophic war.

As Thucydides explained, the objective reality of a rising power's impact on a ruling power is problem enough. But in the real world, these objective facts are perceived subjectively—magnifying misperceptions and multiplying miscalculations. When one competitor "knows" what the other's "real motive" is, every action is interpreted in ways that confirm that bias.

As Rudd explains, this dynamic is driving both nations into a competition that can only lead to confrontation—and could even lead to war. The challenge for thinking individuals in both countries is thus: how to escape "Thucydides's Trap"?

In a series of speeches given over the course of 2018, Rudd clarified this challenge. At West Point in March, he identified seven layers of Chinese core interests, beginning with the survival of the regime. In Singapore in June, he explained how early training in Marxism still colors Xi's worldview. In Silicon Valley in September, he shifted our attention to the high-tech sphere as the new battlefront of U.S.-China competition, inviting us to consider the ramifications of a full-blown U.S.-China tech war as a "struggle to secure the commanding heights of the new technologies that will either drive or destroy the economies of the 21st century." At the U.S. Naval Academy in October, he highlighted the stark transition of America's China policy from "strategic engagement" to "strategic competition," outlining 10 key questions that the United States must answer in order to develop a coherent China strategy. In Jakarta in November, he analyzed how the emerging U.S.-China strategic rivalry will affect Southeast Asia. Finally, in New York in December, Rudd delivered a tour de force on the prospects for U.S.-China relations in 2019 amid increasing distrust on both sides.

Among the questions he addresses directly are: How does Xi Jinping see the world, what does he want, and how is China changing under his leadership? How is America changing under Donald Trump? To what extent have the traditional moorings of the U.S.-China relationship constructed over the last 40 years now been severed? Is a new strategic equilibrium possible based on a new common strategic narrative for the relationship—or is a new state of war, cold or otherwise, now inevitable?

As Rudd concludes, "We are dealing with profoundly complex questions. Indeed, it is historically unprecedented to be in the midst of a debate about whether the world's largest economy and oldest continuing democracy can happily coexist with the world's second-largest economy and oldest continuing civilization, given that the latter has never exhibited in its history any attraction to liberal democratic norms. But grapple with the debate we must. And resolve it we must as well. One way or the other."

Dr. Graham Allison
Douglas Dillion Professor of Government and Founding Dean, Harvard Kennedy School

INTRODUCTION

2018 REPRESENTED A FUNDAMENTAL STRATEGIC TURNING POINT in the 40-year history of U.S.-China relations. This is not just an American view; it is also the Chinese view. Just as it is my own analytical view based on 40 years of observation of this relationship, going back to the time when I was an undergraduate student at the Australian National University.

The nature of this change is that the United States, after 40 years of strategic engagement with China following China's decision under Deng Xiaoping to pursue a domestic policy shift toward economic reform and opening, has concluded that China is no longer a trustworthy strategic partner. The analytical underpinnings of the period of engagement were that China, having embarked upon a series of economic, social, and some political reforms, was incrementally integrating itself into the American-led international rules-based order. This, in turn, was based on China's decision in 1978 to abandon its policy of support for communist revolutionary movements around the world. This change followed the abandonment of a decade-plus of political radicalism pursued by Mao during the Cultural Revolution. And it followed, perhaps most significantly, China's decision to embrace one series after another of market-based economic reforms, beginning with the introduction of price-based incentives in agriculture, then light manufacturing, then the services industry before extending across much of the rest of the Chinese economy. On top of this, the normalization of political relations between the United States and China, from Richard Nixon's visit in 1972 to formal diplomatic recognition under Jimmy Carter in 1979, led to a sustained period of fundamental strategic realignment between China and the United States against a common strategic adversary in the form of the Soviet Union.

Despite the ebbs and flows of this relationship over the next 40 years, the underlying American assumption was that China had embarked upon a long-term, irreversible program of economic, political, and foreign policy reform that posed no long-term threat to U.S. national values, interests, and the international order that America had constructed in the postwar period. Indeed, a number of Americans concluded that if China's reform program continued, and if China eventually surpassed the United States first as an economic power and eventually as a military power, this would not itself constitute any fundamental threat to U.S. interests or any real disruption to the stability of the global order.

According to this logic, as China became progressively more capitalist, more "democratic," and more reliant on the integrity of the rules-based system for its own interests as a global power, China would, over time, accept the inherent logic of the system it was inheriting. Under these circumstances, the ultimate logic of the Thucydides Trap, whereby a rising power is ultimately challenged by an established power, would be avoided because a peaceful exchanging of the batons could eventually be accommodated.

This accumulated strategic logic over the last 40 years came crashing down during the course of 2018. It was not simply a product of the particular dynamics of the Donald Trump presidency, although they have had a profound catalytic effect. It's also because of a more far-reaching analysis of the long-term trajectory of Chinese global power, and the strategic intentionalities underpinning it, across the U.S. body politic. The United States, including its political establishment, both Republican and Democrat, its national security establishment, the foreign and intelligence policy communities, as well as American business across most sectors of the economy, have concluded that China is not becoming more internationalist in its

policy direction, but instead is becoming progressively more nationalist and mercantilist. This has been reinforced by parallel analyses that the Chinese economy is becoming less market oriented, in its behaviors both at home and abroad, and that its political system, rather than becoming more liberal over time, is progressively becoming more illiberal.

Internationally, what the United States has observed is a China that is no longer content with the strategic status quo, but rather a China that is seeking to change the strategic reality on the ground, whether through island reclamation in the South China Sea, through the Belt and Road Initiative, or through China's various cyber strategies. For these reasons, during the course of 2018, a remarkable strategic consensus began to emerge in the United States that China was no longer a strategic partner that could be accommodated by long-term strategic engagement. Indeed, it was concluded that China had now become a strategic adversary, and therefore the time had well and truly come for a fundamental adjustment in U.S. national strategy. These strategic conclusions have been reinforced by a widespread feeling among U.S. elites that for many years now, China has deceived the United States, that the United States has been utterly naïve in its response, and that there is now an urgent requirement to adjust in response to an unadorned Chinese strategic realism before it's too late. That's why we saw the U.S. National Security Strategy of December 2017 formally conclude that the period of U.S.-China strategic engagement is over and a new period of strategic competition has begun.

We have, therefore, entered a new and dangerous third phase in the post-1949 history of the U.S.-China relationship. The first phase was characterized by unrelenting strategic hostility and lasted from 1949 until 1972. The second phase of strategic engagement has been running for almost twice as long as the first. We now find ourselves in a new period of strategically uncharted waters. As I say in a number of the speeches contained in this collection, one of the difficulties and dangers arising from this new period of "strategic competition" is that we now find ourselves without any real rules of the road.

However justifiable the criticisms of the period of strategic engagement may be, the reality is that it produced a deep fabric of collaborative behaviors between China and the United States anchored in a series of formal and informal protocols and rules and a general culture of bilateral cooperation. That is now slipping away more rapidly than we think, and thus far it has not been replaced by a new set of strategic understandings capable of managing a relationship that is now replete with strategic tension. In the history of international relations, it is often in these periods of transition between stages of evolution in major bilateral relationships that the greatest disruptions occur and there is a greater risk of crisis, conflict, or even war. It is precisely in such a period that we now find ourselves.

For these reasons, during the last 12 months, I set out to deliver a series of addresses in an attempt to understand what precisely is happening in the U.S.-China relationship. I also explored what, in practical terms, can be done about it. I sought to do this against an overriding strategic objective of recognizing the reality of China's growth and preserving the liberal international rules-based order, while also preserving the peace that has underpinned the Asian economic growth miracle of the last half century.

- In March 2018, I spoke at the United States Military Academy at West Point, seeking to provide a seven-part framework for understanding Xi Jinping's worldview. I sought to define what has long been constant in Chinese strategic approaches and what has changed since Xi Jinping assumed power in 2012–13. It concluded that China is certainly no longer a status quo power.

- In a subsequent address to the Lee Kuan Yew School of Public Policy at the National University of Singapore, I sought to explore further the ideological underpinnings of Xi Jinping's grand strategy. This took me down the somewhat unfashionable road of reexamining the Marxist-Leninist origins of Xi Jinping's thinking. My conclusion was that in Chinese politics and foreign policy, ideology is no longer dead and buried but has reemerged as a significant driving force behind China's national and international behaviors.
- Following Vice President Mike Pence's address to the Hudson Institute, which formally proclaimed the death of strategic engagement and the birth of strategic competition in the U.S.-China relationship, I addressed a conference at the U.S. Naval Academy at Annapolis, posing 10 fundamental questions as to what the United States could, would, and should do within the new strategic framework that the vice president had enunciated.
- The second half of 2018 was dominated by the U.S.-China trade war, beginning with the imposition of a range of U.S. tariffs, provoking retaliatory action by China against U.S. imports. To a large extent, however, the trade war masked a much more fundamental unfolding economic reality in the U.S.-China relationship whose focus was intellectual property protection, Chinese state support for its own high-technology policy, and its determination to secure the commanding heights across the range of new information technologies, including artificial intelligence, under its Made in China 2025 strategy. That's why I sought to explain the underlying "technology war" that was then beginning between the United States and China in a speech to the Asia Society Northern California in Silicon Valley in September.
- The new period of strategic competition between the United States and China has particularly stark ramifications for Southeast Asia. As these countries are increasingly pulled in various directions by competing security and economic forces, the Association of Southeast Asian Nations (ASEAN) has a window of time to find a new strategic equilibrium for common peace and prosperity for the region. This was my core message to the Foreign Policy Community of Indonesia in Jakarta in November.
- Finally, the slowing of the Chinese economy during 2018 has given rise to major debates within the country on its current economic policy direction. The slowdown in the pace of market-based economic reforms, the reemergence of state-owned enterprises, domestic confusion over China's new so-called mixed ownership model, together with a general collapse in private investor confidence within China has created new dilemmas for China's leadership. On the one hand, Xi Jinping's administration must continue to grow the economy in order to prevent China from falling into a middle-income trap. On the other hand, there is a parallel political concern on the part of the Chinese Communist Party to reassert political control across the country, including any medium- to long-term threat to the power of the Party arising from China's growing entrepreneurial class. It is precisely this inherent tension in China's political economy that I sought to address in December at a public lecture at the Asia Society in New York City.

One of the overriding complexities in dealing with U.S.-China relations during 2018 is that the interrelationship of domestic political, economic, foreign policy, and strategic factors has become increasingly inextricable. Therefore, in trying to define China's way ahead, America's way ahead, and the implications for the rest of the world, it's been critical to draw all these threads together to the greatest extent possible in our analyses. This is no easy task, particularly given the opacity of Chinese domestic

politics and the paucity of reliable Chinese economic data. Nonetheless, it's an analysis that must be done if we are to produce a rounded picture of the emerging China, as well as the impact of the new dynamics alive in the U.S.-China relationship. The days of discrete, freestanding analyses by Sinologists, economists, or foreign policy analysts, free of the complexities of other domains of knowledge that may complicate the narrative, are well and truly gone.

In all of this, there is the continued strategic hazard of hearing only "the sound of one hand clapping." The preponderance of international analyses of the many, many questions arising from China's rise are largely based on American and broader Western perceptions of China. Very few of them, outside China, deal with how China perceives the various realities described here. Needless to say, reality as viewed through Beijing's lens is of a different quality altogether. Many in China's national security establishment have long viewed the United States as pursuing a de facto policy of containment against China's rise. During 2018, however, that view became entrenched across the broader Chinese body politic as well, including both liberals and conservatives who populate China's political and foreign policy apparatus.

China also has a deep view that American and wider Western behaviors toward China are driven by a latent racist sentiment that simply cannot abide the possibility that the world's largest economy will soon, for the first time in a quarter of a millennium, be a non-Western economy. China also continues to bridle against the assumption in most Western capitals that liberal democracy is held to be a universal norm that the West seeks to impose on China and other developing countries, notwithstanding the ugly history of the collective West in its colonial occupation of much of Asia and Africa over the previous 500 years. China also sees the attack on its own state industry policies as profoundly hypocritical given the role, for example, of the U.S. military-industrial complex in support of American industry during the postwar period, and the particular role of the U.S. military in incubating U.S. computer and information technology industries in the 1960s and 1970s. Indeed, "Western hypocrisy" are words now heard with increasing frequency across much of China's official commentary, describing the West's efforts to impose norms on China's behavior, which the West has never bothered to impose on itself in the past. For these reasons, the underlying perceptions gap between the United States and China is growing larger and larger.

WHAT'S AHEAD FOR 2019

As we begin 2019, the obvious question arising for us all is whether the United States and China can peacefully and productively negotiate or navigate their relationship in the midst of the new uncertainties that have been unleashed during the past year. In my judgment,

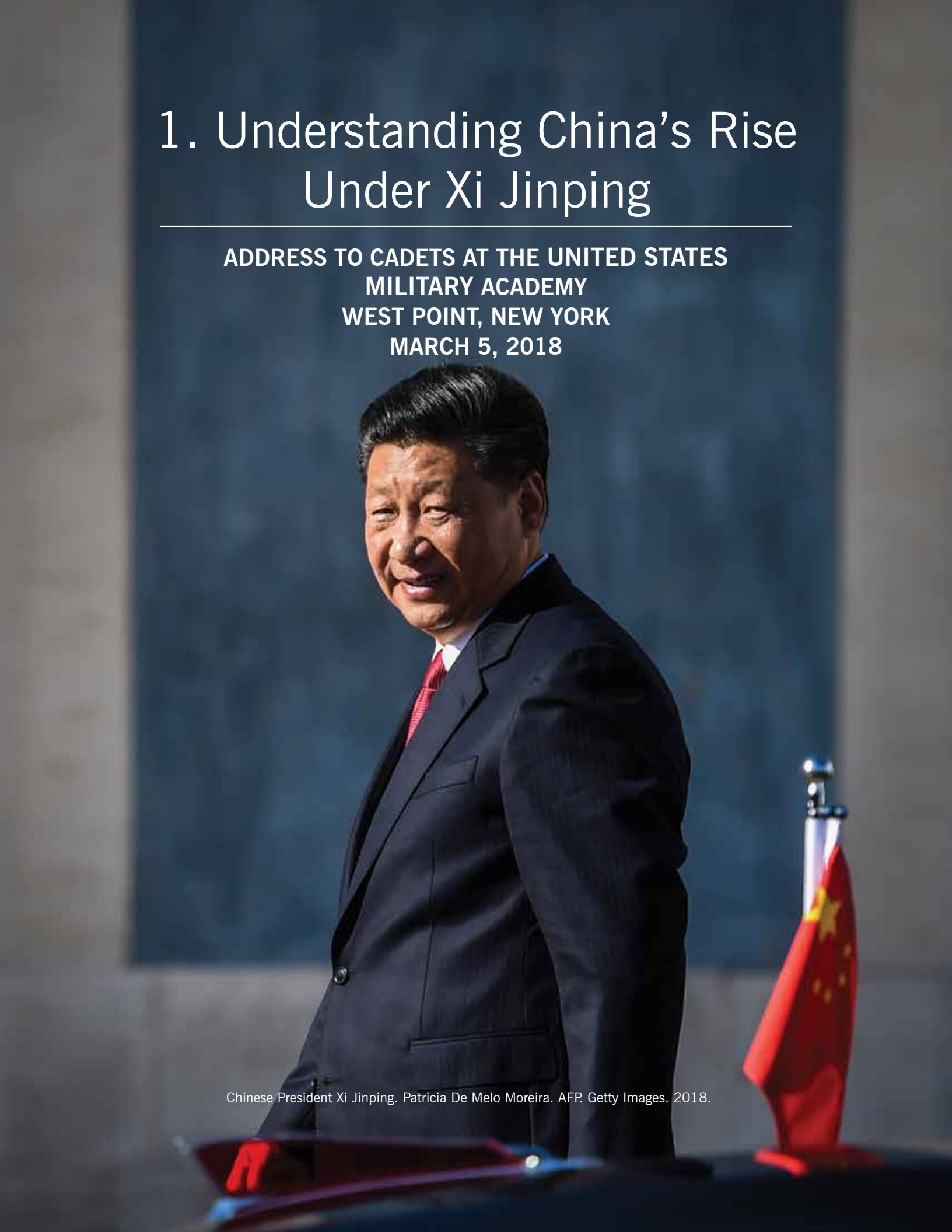
- First, it is likely that there will be some resolution to the U.S.-China trade war. But this will not deal with the main economic game, which is the unfolding economic war in cyber, information technology domination, and global standard setting.
- Second, there is a great danger that if we have an increasingly embattled President Trump (given the cumulative impact of the Russia investigation on his presidency, arising from accusations of collusion with the Russian Federation) that the administration over the next two years may double down on its foreign and security policy strategy toward China in order to demonstrate the toughness of U.S. presidential resolve in asserting and defending U.S. national security.
- Third, if Xi Jinping comes under continuing pressure as a result of declining domestic economic performance, then the probability of a more nationalist China, once again on foreign and

security policy questions, becomes greater. Saber rattling against Taiwan may well intensify. But, more critically in terms of the stability of the U.S.-China relationship, freedom of navigation operations in the South China Sea are likely to become more confrontational. The accumulated risks, therefore, of collision between aircraft or naval craft are also likely to become greater. Crisis management between Beijing and Washington may be tested to the limits.

- Fourth, a temporary resolution of the trade war may be of some assistance in stabilizing the global economy. But we have yet to fully factor in the impact of a significant slowdown of the global economy (arising from non-U.S.-China trade war factors) affecting China's future domestic economic trajectory. Although China has now embarked upon a significant new policy of both fiscal and monetary policy loosening in order to re-stimulate growth, it is an open question whether this will succeed in turning the economy around, particularly if global demand for Chinese exports slows radically as a consequence of a parallel slowing in global growth. The worst-case scenario for Xi Jinping would be a failure of the Chinese domestic economy to pick up in response to the application of domestic growth levers, and for this declining domestic growth performance to be compounded by the prospect of a global economic downturn. Even slower growth in China in 2019, compared with what we saw in 2018, may well make China more nationalist rather than less in handling the overall complexity of its relationship with the United States.
- Finally, there is the sleeper issue of North Korea. Since the Singapore summit between Kim Jong-un and President Trump, and the rolling campaign of normalization between North and South Korea, tensions on the Korean Peninsula have been at an all-time low. Nonetheless, it becomes increasingly clear that Kim Jong-un is unlikely to make any substantive move toward nuclear disarmament in the absence of further strategic concessions by the United States. It is also equally clear that the U.S. administration will be highly reluctant to do so—notwithstanding President Trump's proclamation in Singapore of a new era of peace. The opportunities and the vulnerabilities that the Korean nuclear question presents for the overall dynamics of the U.S.-China relationship will need to be analyzed carefully in the year ahead. Will Xi Jinping be able to arrest any further strategic deterioration in the U.S.-China relationship by taking a more active role in urging a more accommodating approach on the part of Kim Jong-un toward the U.S. administration on the nuclear disarmament question? If so, will Kim Jong-un be at all obliging given his own past problematic relationship with China prior to his bilateral encounters with Xi during 2018? On balance, I fear that the intractable nature of the North Korean nuclear dilemma is more likely to result in further levels of frustration emerging in the U.S.-China relationship than we have seen so far.

1. Understanding China's Rise Under Xi Jinping

ADDRESS TO CADETS AT THE UNITED STATES MILITARY ACADEMY
WEST POINT, NEW YORK
MARCH 5, 2018



Chinese President Xi Jinping. Patricia De Melo Moreira. AFP. Getty Images. 2018.

NEXT WEEK MARKS THE 216TH ANNIVERSARY of the founding of the West Point Military Academy. Its founding came less than 20 years after the defeat of the British at Yorktown in 1781. It followed the decision by President Thomas Jefferson to establish the United States Military Academy just after his inauguration in 1801. Indeed, the United States Continental army first occupied this place on January 27, 1778, two years into the Revolutionary War, when things were not proceeding all that well against the British in that great conflagration. So you have been here at West Point since virtually the first birth-pangs of this great Republic.

Over the span of history, this nation has grown from 13 fissiparous colonies to become the most powerful nation on earth. And while the challenges have been many, you have preserved the flame of liberal democracy throughout the nation's rise.

When this nation was being born, China was at its height. In 1799, the Qianlong emperor died, having reigned for over 60 years. His grandfather, the Kangxi emperor, had reigned for 61 years until 1722. Between their reigns, the territorial expanse of the Chinese Empire virtually doubled, occupying some 10 percent of the world's land area, 30 percent of the world's population, and 32 percent of the world's economy.

Although the United States sought to establish consular relations with China in 1784, it was rebuffed by Qianlong's court, delaying the establishment of diplomatic relations until 1844 with the Treaty of Wangxia. By this stage, China had already suffered its first major defeat at the hands of the British during the First Opium War. The second defeat would follow less than 20 years later at the hands of the British and the French. And so began China's "Century of National Humiliation" until the birth of the People's Republic in 1949.

As for Australia, proudly an ally of the United States since we first fought together in the trenches in 1918, our short history, at least as a settler society, has been considerably more recent than either China or the United States—although our indigenous peoples, Aboriginal Australians, are the oldest continuing cultures on earth, going back 60,000 years. Because Washington's Continental army prevailed at Yorktown in 1781, not only did Britain lose these colonies, it also lost its convict dumping ground at Savannah, Georgia. Back in the British Admiralty, after the Treaty of Paris in 1783, they dusted off the navigation charts of James Cook, taken some 13 years before, and in 1788 established a convict colony and the first European settlement in what we now call Sydney, Australia.

China, because of its proximity and size, has loomed large in the Australian national imagination ever since—just as it now looms large in the global imagination. Not least because China's new leadership, under Xi Jinping, as of the very day he first came to power as General Secretary of the Chinese Communist Party five years ago, claimed that China's national mission was now one of "national renaissance" (*guojia fuxing*).

Xi Jinping, in rallying his party to a future vision for his country, looks deeply into China's history as a source of national inspiration. China's national pride at the historical achievements of the great dynasties of the Qing, Ming, Song, Tang, and the Han is palpable. The Chinese political leadership harness their national past selectively, always carefully using rose-colored glasses, omitting those chapters that may be more problematic for China's current national narrative. But then again, China's leaders are no more guilty of this than other countries.

Nonetheless, for those who are professionally charged with interpreting China's future, as you are in this great military academy, it means that we must also take time to understand China's past. To understand how China perceives the world around it. And to understand how it now perceives its own national destiny in the turbulent world of the 21st century.

It is one of the reasons why, after more than 40 years of studying Chinese language, history, politics, economics, and culture, I have embarked on a fresh research project at Oxford University, seeking to define Xi Jinping's worldview. This is not a static process. This is a dynamic process. China is as much deeply marked by its past as it is now being reshaped by the unprecedented torrent of economic, social, cultural, and technological forces that are washing over its future.

Over the last 40 years, I have engaged China as a student, bureaucrat, diplomat, member of parliament, foreign minister, and prime minister. And now as the president of an American think tank, part of a venerable institution, the Asia Society, which has been engaging China since the earliest days of the People's Republic in 1956. Understanding China is a lifelong journey.

China is as much deeply marked by its past as it is now being reshaped by the unprecedented torrent of economic, social, cultural, and technological forces that are washing over its future.

For those of you who would become the next generation of American military leaders, it must be your lifelong journey as well. I argue that there will be no more important part of your professional skill craft than to understand how Chinese leaders think, how they perceive the world, and how the world should most productively engage them. That applies also to your country's future political leadership, corporate leadership, and every branch of its military. So I encourage you in your mission.

DEFINING XI JINPING'S CHINA

Xi's Political Authority

The beginning of wisdom in understanding China's view of the world is to understand China's view of the future of its own country—its politics, its economics, its society. Xi Jinping sits at the apex of the Chinese political system. But his influence now permeates every level. Five years ago, I wrote that Xi would be China's most powerful leader since Deng. I was wrong. He's now China's most powerful leader since Mao. We see this at multiple levels. The anti-corruption campaign he's wielded across the Party has not only helped him "clean up" the country's almost industrial levels of corruption. It has also afforded the additional benefit of "cleaning up" all of Xi Jinping's political opponents on the way through. It's a formidable list:

- Bo Xilai, Politburo member and Party Secretary of Chongqing
- Zhou Yongkang, Politburo Standing Committee member and head of the internal security apparatus
- Xu Caihou, Vice Chairman of the Central Military Commission
- Guo Boxiong, Vice Chairman of the Central Military Commission
- Ling Jihua, former Chief of the General Office of the Communist Party of China and Chief of Staff to Hu Jintao

- Sun Zhengcai, Politburo member and (another) Party Secretary from Chongqing
- Just prior to the 19th Party Congress, General Fang Fenghui, Chief of the Joint Staffs, and General Zhang Yang, Director of the People's Liberation Army Political Work Department, who recently committed suicide

None of this is for the fainthearted. It says much about the inherent nature of a Chinese political system that has rarely managed leadership transitions smoothly. But it also points to the political skill craft of Xi Jinping himself.

Xi Jinping is no political neophyte. He has grown up in Chinese Party politics as conducted at the highest levels. Through his father, Xi Zhongxun, he has been on both the winning side and the losing side of the many bloody battles that have been fought within the Chinese Communist Party since the days of the Cultural Revolution half a century ago.

There is little that Xi Jinping hasn't seen with his own eyes on the deepest internal workings of the Party. He has been through a "masterclass" of not only how to survive it, but also on how to prevail within it. For these reasons, he has proved himself to be the most formidable politician of his age. He has succeeded in pre-empting, outflanking, outmaneuvering, and then removing each of his political adversaries. The polite term for this is power consolidation. In that, he has certainly succeeded.

The external manifestations of this are seen in the decision, now endorsed by the 19th Party Congress and the 13th National People's Congress, to formally enshrine "Xi Jinping Thought" as part of the Chinese constitution. For Xi Jinping's predecessors—Deng, Jiang, and Hu—this privilege was only accorded to them after they had formally left the political stage. In Xi Jinping's case, it occurs near the beginning of what is likely to be a long political career.

Five years ago, I wrote that Xi would be China's most powerful leader since Deng. I was wrong. He's now China's most powerful leader since Mao.

A further manifestation of Xi Jinping's extraordinary political power has been the concentration of the policy machinery of the Chinese Communist Party. Xi now chairs six top-level "leading small groups" as well as a number of central committees and commissions covering every major area of policy.

A third expression of Xi's power has been the selection of candidates for the seven-man Standing Committee of the Politburo, the 20-person wider Politburo, and the 209-member Central Committee. There's been some debate among China analysts as to the degree to which these ranks are now filled with Xi loyalists. My argument is simple: it is a much more accommodating and comfortable set of appointments from Xi Jinping's personal perspective than what he inherited from the 18th Party Congress.

Furthermore, his ability to prevail on critical personnel selection is underlined by the impending appointment of his close friend and colleague Wang Qishan as Chinese Vice President. Wang Qishan himself has passed the retirement age, but this has proved to be no obstacle to retaining him as an ex-officio member of the Politburo Standing Committee, as reflected in the footage carried yesterday by the Chinese media of the

opening sessions of the National People's Congress. And it is Wang Qishan who will be entrusted by Xi with working-level responsibility for the vast complexity that is now the U.S.-China relationship.

A fifth manifestation of Xi Jinping's accumulation of unchallenged personal power has been the decision to remove the provision of the 1982 Chinese State Constitution, which imposed a limit of two five-year terms on those appointed to the Chinese presidency. Xi Jinping is now 64 years old. He will be 69 by the expiration of his second term as President, General Secretary of the Party, and Chairman of the Central Military Commission. Given his own family's longevity (his father lived to 88, and his mother is still alive at 91), as well as the general longevity of China's most senior political leaders, it is prudent for us to assume that Xi Jinping, in one form or another, will remain China's paramount leader through the 2020s and into the following decade.

He therefore begins to loom large as a dominant figure not just in Chinese history, but in world history, in the 21st century. It will be on his watch that China finally becomes the largest economy in the world, or is at least returned to that status, which it last held during the Qing dynasty.

Finally, there is the personality of Xi Jinping himself as a source of political authority. For those who have met him and had conversations with him, he has a strong intellect, a deep sense of his country's and the world's history, and a deeply defined worldview of where he wants to lead his country. Xi Jinping is no accidental president. It's as if he has been planning for this all his life.

It has been a lifetime's accumulation of the intellectual software, combined with the political hardware of raw politics, that forms the essential qualities of high political leadership in countries such as China. For the rest of the world, Xi Jinping represents a formidable partner, competitor, or adversary, depending on the paths that are chosen in the future.

There are those within the Chinese political system who have opposed this large-scale accumulation of personal power in the hands of Xi Jinping alone, mindful of the lessons from Mao. In particular, the decision to alter the term limits concerning the Chinese presidency has been of great symbolic significance within the Chinese domestic debate. State censorship was immediately applied to any discussion of the subject across China's often unruly social media. The *People's Daily*, in a surprisingly defensive editorial last week, was at pains to point out that the changes to term limits for the Chinese presidency simply brought China's state constitution into line with the Party constitution, which imposed no term limits on the positions of General Secretary and Chairman of the Central Military Commission. Even more defensively, the *People's Daily* was at equal pains to point out that these constitutional changes did not signify "leadership for life."

For Xi's continuing opponents within the system, what we might describe as "a silent minority," this has created a central, symbolic target for any resentments they may hold against Xi Jinping's leadership. It would be deeply analytically flawed to conclude that these individuals have any real prospect of pushing back against the Xi Jinping political juggernaut in the foreseeable future. But what these constitutional changes have done is make Xi potentially vulnerable to any single, large-scale adverse event in the future. If you have become, in effect, "Chairman of Everything," then it is easy for your political opponents to hold you responsible for anything and everything that could go wrong, whether you happen to be responsible for it or not.

This could include any profound miscalculation, or unintended consequence, arising from contingencies on the Korean Peninsula, Taiwan, the South China Sea, the Chinese debt crisis, or large-scale social disruption arising from unmanageable air pollution or a collapse in employment through a loss of competitiveness, large-scale automation, or artificial intelligence.

However, militating against any of the above, and the "tipping points" that each could represent, is Xi Jinping's seemingly absolute command of the security and intelligence apparatus of the Chinese Communist Party and the state. Xi Jinping loyalists have been placed in command of all sensitive positions across the security establishment. The People's Armed Police have now been placed firmly under Party control rather than under the control of the state. And then there is the new technological sophistication of the domestic security apparatus right across the country—an apparatus that now employs more people than the People's Liberation Army.

We should never forget that the Chinese Communist Party is a revolutionary party that makes no bones about the fact that it obtained power through the barrel of a gun, and will sustain power through the barrel of a gun if necessary. We should not have any dewy-eyed sentimentality about any of this. It's a simple fact that this is what the Chinese system is like.

Xi Jinping's View of the Party

Apart from the sheer construction of personal power within the Chinese political system, how does Xi Jinping see the future evolution of China's political structure? Here again, we've reached something of a tipping point in the evolution of Chinese politics since the return of Deng Xiaoping at the 3rd Plenum of the 11th Central Committee in November 1978.

There has been a tacit assumption, at least across much of the collective West over the last 40 years, that China, step by step, was embracing the global liberal capitalist project. Certainly, there was a view that Deng Xiaoping's program of "reform and opening" would liberalize the Chinese economy with a greater role for market principles and a lesser role for the Chinese state in the economy.

A parallel assumption has been that over time, this would produce liberal democratic forces across the country that would gradually reduce the authoritarian powers of the Chinese Communist Party, create a greater plurality of political voices within the country, and in time involve something not dissimilar to a Singaporean-style "guided democracy," albeit it on a grand scale. Despite the global wake-up call that was Tiananmen in 1989, by and large this continued to be the underlying view across the West, always misguided in my view, that China, through many twists and turns, was still broadly on track to create a more liberal political system, if not to create any form of classical Western liberal democracy.

Many scholars failed to pay attention to the internal debates within the Party in the late 1990s, when internal consideration was indeed given to the long-term transformation of the Communist Party into a Western-style Social Democratic Party as part of a more pluralist political system. The Chinese were mindful of what happened with the collapse of the Soviet Union. They also saw the political transformations that unfolded across Eastern and Central Europe. Study groups were commissioned; intense discussions were held. They even included certain trusted foreigners at the time. I remember participating in some of them myself. Just as I remember my Chinese colleagues telling me in 2001–02

that China had concluded this debate, there would be no systemic change, and China would continue to be a one-party state. It would certainly be a less authoritarian state than the sort of totalitarianism we had seen during the rule of Mao Zedong. But the Revolutionary Party would remain.

The reasons were simple. The Party's own institutional interests are in its long-term survival: after all, they had won the revolution, so in their own Leninist worldview, why on earth should they voluntarily yield power to others? But there was a second view as well. They also believed that China could never become a global great power in the absence of the Party's strong central leadership. And that in the absence of such leadership, China would simply dissipate into the divided bickering camps that had often plagued the country throughout its history. The Communist Party would continue, therefore, as an unapologetically Leninist Party for the future.

To be fair to Xi Jinping, it should be noted for the historical record that these internal debates were concluded a decade before Xi's rise to power. The rise of Xi Jinping should not be interpreted simplistically as the sudden triumph of authoritarianism over democracy for the future of China's domestic political system. That debate was already over. Rather, it should be seen as a definition of the particular form of authoritarianism that China's new leadership now seeks to entrench.

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I see this emerging political system as having three defining characteristics. First, the unapologetic assertion of the power, prestige, and prerogatives of the Party apparatus over the administrative machinery of the state. In previous decades, the role of the Party apparatus had shrunk to a more narrowly defined, ideological role. The powers of detailed policy decision-making had gradually migrated to the institutions of the State Council. This indeed had been a signature reform under Premier Zhu Rongji.

That is no longer the case. Xi Jinping has realized that if you remove the Party as an institution from continued structural relevance to the country's real policy decision-making process, the Party over time will literally fade away. As a person who believes deeply not just in the Party's history, but also the Party's future, Xi has not been prepared to stand idly by while that happened. Xi has now intervened decisively to reverse this trend.

A second defining feature of this "new authoritarian" period is the role of political ideology over pragmatic policy. For the previous 40 years, we've been told that China's governing ideology was "socialism with Chinese characteristics." As the decades rolled by, at least in the economy, there was much less "socialism" than there were "Chinese characteristics." In this sense, "Chinese characteristics" became the accepted domestic political euphemism for good old capitalism.

Few people seem to have understood that a core part of Xi Jinping's intellectual make-up is that he is a Marxist dialectician. This derives from the Hegelian principles of "thesis, antithesis, and synthesis,"

or, in Chinese Maoist terms, "contradictions among the people." This forms a deep part of Xi Jinping's intellectual software. Indeed, the importance that Xi attaches to this as an intellectual methodology led him to conduct two formal Politburo study sessions on both "historical materialism" and "dialectical materialism" in 2013 and 2015, respectively. As a dialectician, Xi Jinping is acutely conscious of the new social, economic, and political forces being created by China's "neo-liberal" economic transformation. He also understands intuitively the challenges that these new forces will, over time, represent to the Party's continuing Leninist hold on power.

Both he and the rest of the central leadership have read development economics. They are not deaf and dumb. They know what the international literature says: that demands for political liberalization almost universally arise once per capita income passes a certain threshold. They are therefore deeply aware of the profound "contradiction" that exists between China's national development priority of escaping the "middle-income trap" on the one hand, and unleashing parallel demands for political liberalization once incomes continue to rise on the other.

Xi Jinping's response to this dilemma has been a reassertion of ideology. This has meant a reassertion of Marxist-Leninist ideology and a new prominence accorded to ideological education across the entire Chinese system. But it's more sophisticated than a simple unidimensional ideological response. At least since the 2008 Olympics, which predated Xi's ascendancy, Chinese nationalism has also become a parallel mainstay in China's broader ideological formation. This has continued and expanded under Xi Jinping. And it has been augmented by an infinitely more sophisticated propaganda apparatus across the country, which now fuses the imagery of the Chinese Communist Party and the Chinese nation into a combined Chinese contemporary political consciousness.

On top of this, we've also seen a rehabilitation of Chinese Confucianism as part of the restoration of Chinese historical narratives about, and the continuing resonance of, China's "unique" national political forms. According to the official line, this historical, authoritarian, hierarchical continuity is what has differentiated China from the rest of the world. This Chinese "neo-Confucianism" is regarded by the Party as a comfortable historical accompaniment to the current imperatives for a strong, modern Chinese state, necessary to manage the complex processes of the "Great Chinese Renaissance" of the future.

The shorthand form of the political narrative is simple: China's historical greatness, across its dynastic histories, lay in a strong, authoritarian hierarchical Confucian state. By corollary, China's historical greatness has never been a product of Western liberal democracy. By further corollary, China's future national greatness will lie not in any adaptation of Western political forms, but instead in the modern adaptation of its own indigenous political legacy in the form of a Confucian, Communist state.

Xi Jinping's View of the Economy

A third characteristic of China's "new authoritarianism," although less clear than the first and second, is what is now emerging in the future direction of China's economic program. We are all familiar with Deng Xiaoping's famous axiom that "it doesn't matter whether a cat is white or black, so long as it catches mice." Just as we are familiar with his other exhortation, "it is indeed glorious to be rich." These were followed by later exhortations by China's apparatchik class to leave government service (*xia hai*) and go out into the world (*zou chu qu*). These simple axioms, as opposed to complex statements of ideology, provided the underlying guidance for the subsequent two generations of Chinese entrepreneurs, both at home and abroad.

In policy terms, China's first phase of economic reform (1978–2012) was characterized by small-scale, local family enterprises involved in light industry; low-wage, labor-intensive manufacturing for export; combined with high-level state investment in public infrastructure, including telecommunications, broadband, road, rail, port, and power generation, transmission, and distribution.

In early 2013, at the 3rd plenum of the 18th Central Committee, Xi Jinping released a new blueprint for the second phase of China's economic reform program, or what was ominously called "The Decision" or, more elegantly, China's "New Economic Model." Its defining characteristics were a new emphasis on the domestic consumption market rather than exports as the principal driver of future economic growth; the explosion of China's private sector at the expense of the overall market share of China's state-owned enterprises (SOEs), which were to be constrained to certain, critical strategic industry sectors; the flourishing of the services sector, particularly through the agency of digital commerce; "leapfrogging" the West in critical new technology sectors, including biotechnology and artificial intelligence; and all within the new framework of environmentally sustainable development, particularly air pollution and climate change.

It's important to track over the last five years what progress and regress has occurred across the 60 specific reform measures articulated in the decision of March 2013. The core organizing principle across the reform program was that "the market would play the decisive role" across China's economic system. The Asia Society Policy Institute, of which I am President, in collaboration with the Rhodium Group, has been producing over the last six months the "China Economic Dashboard,"which looks in detail at the 10 core barometers of economic change.[1] What we have concluded is that China has made progress in two of these. First, in innovation policy, where China has made measurable strides, both in policy direction but more critically, in defiance of the usual skepticism about China's capacity to innovate, in actual economic performance.

Second, we also measured progress in Chinese environmental reforms, in particular the reduction in the particulate matter measures of air pollution across China's major cities over the last two years. However, in five of ten areas, we've seen China at best marking time: investment, trade, finance, state-owned enterprises, and land reform. And finally, in fiscal policy, competition policy, and labor reform, we see evidence of China sliding backward against the reform direction it set for itself five years ago. Each of these are the subject of considerable debate across the Chinese economic analytical community, particularly given the perennial problems we all face with data. Nonetheless, only the bravest official commentators in China could now point to 2013–18 as a pathbreaking period of economic reform. It has at best been slow.

This brings into sharp relief the content of the government work report on the economy delivered at the National People's Congress in Beijing in March 2018. Once again, precisely five years down the track from the original documents, the analytical community will pore over the entrails to analyze whether the spirit of market-based reforms continues to flourish for the future. Or whether it has begun to fade amid a more general Chinese political and ideological redirection to the left. Or, just as problematically, for economic reform to die at the implementation level because of confusing political and policy signals from the center, meaning that it is much safer to just keep your head down. Or because there are limited local incentives,

[1] For more information, see "The China Dashboard: Tracking China's Economic Reform Program," Asia Society Policy Institute and Rhodium Group, https://chinadashboard.asiasociety.org.

either personal or institutional, to actively prosecute reform that inevitably generates local conflict with deeply entrenched vested interests. Or, more likely, an unholy cocktail of the above, collectively reinforcing a natural predisposition toward bureaucratic inertia.

Certainly those at the center of China's economic reform team, including Wang Qishan, Liu He, and Wang Yang, understand the absolute imperatives of implementing this next round of economic reform. They know from bitter experience that to stand still is in fact to go backward. And they understand in particular that the only source of employment growth in China's economy over the last five years has come from the private sector, not SOEs, as China each year is required to absorb 20 million new workers into its labor force.

Nonetheless, there have been worrying signs. First, the role of Party secretaries within private firms now seems to have been enhanced. Second, there is now an open debate in China as to whether the state should acquire equity within China's most successful private firms in order to secure broad representation and greater political influence over these companies' future direction. And third, in the wake of the anticorruption campaign and other compliance irregularities, we now see a number of prominent Chinese private firms in real political difficulty, and in one case, Anbang, the temporary "assumption of state control" of the company's assets after its Chairman and CEO was taken into custody.

Compounding all of the above is a continuing lack of truly independent commercial courts and arbitration mechanisms. The complication this creates is whether this leads, over time, to a private capital strike, or a flight of private capital of the type we have seen over the last several years, resulting in a reimposition of formal capital controls by the state.

So on the future direction of China's economy, the jury is still out. Have we also reached a new "tipping point," as we appear to have done in Chinese politics? Or will this be a more sophisticated Chinese play, consistent with one of the deeper aphorisms of Chinese politics, that "in order to go right on the economy, you must go left on politics" in order to sustain internal "balance" of the system? The next 12 months with China's new economic team will be critical.

CHINA'S "WORLDVIEW" UNDER XI JINPING

Seven Core Priorities

There is always a danger facing foreign policy and security policy specialists when they seek to understand and define the capabilities, strategy, and worldview of other states. There is always a temptation, given the analytical disciplines we represent, to see these "external" manifestations of state behavior in the international realm as independent phenomena. The reality is that any country's worldview is as much the product of its domestic politics, economics, culture, and historiography as it is the product of the number of guns, tanks, and bullets held by ourselves, and by those around us.

That's why I've sought to emphasize in this presentation so far the domestic drivers that underpin China's emerging worldview. It's important to bear in mind that those who ultimately shape Chinese strategy, like American strategy, are those who are equally engaged in the domestic affairs of their nations. There is no longer a clinical distinction between the foreign and domestic, the international and the national. Therefore, understanding the domestic imperatives of China's leadership is the beginning of wisdom in understanding the emerging patterns of China's foreign and security policy behavior.

The Party

China's emerging worldview, in my own estimation, is best understood as a set of seven concentric circles. The first concentric circle is the Chinese Communist Party itself and its overriding interest to remain in power. This Leninist reality should never be forgotten. It is radically different from the worldview of Western political parties, which while always determined to remain in electoral power while they possibly can, also understand there is a natural ebb and flow in our national political discourse, intermediated by the electoral process.

National Unity

The second concentric circle, in terms of the core interests of the Chinese leadership, is the unity of the motherland. This may seem a hackneyed phrase in the West. But it remains of vital concern in Beijing, both as a question of national security, on the one hand, and as a question of enduring political legitimacy on the other. From Beijing's perspective, Tibet, Xinjiang, Inner Mongolia, and Taiwan represent a core set of security interests. Each within itself represents a confluence of external and internal security factors. Tibet is a central factor in Chinese perceptions of its strategic relationship with India. Xinjiang represents China's gateway to what it perceives to be an increasingly hostile Islamic world, reinforced by concerns about its own home-grown Islamic separatist movement. Inner Mongolia, despite the resolution of the common border with Russia decades ago, represents a continuing source of strategic anxiety between China and Russia. Taiwan, long seen as an American aircraft carrier in the Pacific, represents in the Chinese strategic mind a grand blocking device against China's national aspirations for a more controlled, and therefore more secure maritime frontier, as well as an impediment to the ultimate political holy grail of national re-unification. These "internal" security challenges will always remain China's core security challenges, apart, of course, from the security of the Party itself.

The Economy and Environmental Sustainability

The third in this series of concentric circles is the economy, together with its strategic counterfoil, environmental sustainability. I've already referred at some length to the current dilemmas in Chinese economic policy. Parallel dilemmas also confront the leadership over the litany of stories that permeate its own media on water, land, and air pollution and the inadequacy of food quality standards. The tragedy of China's rapid economic development over the first 35 years was the relegation of the environment. Indeed, the systematic treatment of the environment as simply an "economic externality" to the Chinese development process led to wholesale environmental destruction. China is now paying the price.

Of course, these are not just domestic concerns for the Chinese people themselves. The quantum of China's greenhouse gas emissions is of fundamental relevance to the future of global climate security, and therefore of the planet itself. Indeed, if China fails to deliver on its future commitments on greenhouse gas reductions, as America and my own country, Australia are now failing to do, by the time you students of the Academy are taking your grandchildren to school during the last quarter of this century, the climate will represent the single greatest security threat to us all. But within the framework of China's current and emerging worldview, both a strong economy and a clean environment represent core determinants of the Party's future political legitimacy.

These existential questions, therefore, of clean water, useable land, uncontaminated fish stocks, and clean air to breathe, as well as continued jobs growth, increased living standards, and all within the constraints of an ageing population, represent the daunting, day-to-day challenges of China's Communist Party leadership.

China's Neighboring States—Securing China's Continental Periphery across Eurasia

The fourth in this widening series of concentric circles relates to China's 14 neighboring states. Neighboring states occupy a particular place in China's strategic memory. Historically, they've been the avenue through which China's national security has been threatened, resulting in successive foreign invasions—from the Mongols in the north in the 12th century, to the Manchurians in the northeast in the mid-17th century, to the British, French, the Western imperial powers including the United States, and then the absolute brutality of the Japanese occupation from the east.

In Chinese traditional strategic thought, this has entrenched a deeply defensive view of how to maintain China's national security. But Chinese historiography also teaches that purely defensive measures have not always succeeded. The failure of the Great Wall of China to provide security from foreign invasion is a classic case in point.

For these reasons, modern Chinese strategic thinking has explored different approaches. First and foremost, through political and economic diplomacy, China wishes to secure positive, accommodating, and, wherever possible, compliant relationships with all its neighboring states.

But beyond that, China is also in search of its own form of strategic depth. We see this in China's political, economic, and military diplomacy across its vast continental flank from Northeast, through Central to Southeast Asia. We see this thinking alive in the Shanghai Cooperation Organization. We see it alive in the Conference on International Confidence Building in Asia. We see it also with the Continental Silk Road, and the Maritime Silk Road initiative which charts its course across the Indian Ocean to the Red Sea and now the Mediterranean. And beyond that, we see the Belt and Road Initiative, or BRI. The strategic imperative is clear: to consolidate China's relationships with its neighboring states. And by and large, this means enhancing its strategic position across the Eurasian continent, thereby consolidating China's continental periphery.

China's Maritime Periphery—East Asia and the West Pacific

The fifth concentric circle, or arguably its coequal fourth, lies on China's maritime periphery, across East Asia and the West Pacific. Unlike its continental periphery, China sees its maritime periphery as deeply hostile. It sees its traditional territorial claims in the East and South China Seas as under threat, and it now routinely refers to these as China's "core national interests," placing them in a similar category to Taiwan. China also sees the region as strategically allied against it—with a ring of U.S. allies from South Korea to Japan to Taiwan to the Philippines and onto Australia. Beyond this ring of U.S. allies, the Chinese are fundamentally fixated on the formidable array of U.S. military assets deployed by U.S. Pacific Command (PACOM) across the entire region.

China's strategy in response to this is clear. It seeks to fracture U.S. alliances and has said as much repeatedly in its declaratory statements. Its position is that these alliances are relics of the Cold War. China's deepest strategic concern about the peaceful reunification of North Korea lies in potentially having a unified Korean Peninsula, as a U.S. ally, positioned on its immediate land border. China's deeper response to its strategic circumstances is to enhance the capability of its navy and air force. Under Xi Jinping, the change in China's military organization, doctrine, and force structure has been profound. The army continues to shrink. The navy and air force continue to expand.

Chinese naval and air capabilities now extend to reclaimed islands in the South China Sea. China's naval and air expansion has also been enhanced by the rapid development of its land-based missile force targeted at both Taiwan and wider U.S. naval operations in the western Pacific. The strategic rationale is clear: a strategy of air-sea denial against U.S. forces seeking to sustain large-scale U.S. military operations in support of Taiwan, its partners in the South China Sea, and ultimately in the East China Sea as well. China's overall political-military strategy is clear: to cause sufficient doubt in the minds of PACOM, and therefore any future U.S. administration as to the "winnability" of any armed conflict against Chinese forces within the first island chain. And that includes American doubts over its ability to defend Taiwan.

China has already become a more important economic partner than the United States to practically every country in East Asia...from economic power proceeds political power; from political power proceeds foreign policy power; and from foreign policy power proceeds strategic power. That is China's strategy.

The softer edge of China's strategy in East Asia and the western Pacific is economic engagement through trade, investment, capital flows, and development aid. China's strategy in this region, as elsewhere in the world, is to turn itself into the indispensable economic power. In many countries and regions in the world, it has made great progress on this score. This, in many respects, is a simple projection of the scale of the Chinese economy as economic growth continues and China remains on track to pass the United States as the world's largest economy over the course of the next decade.

The bottom line is this: in both reality and in perception, China has already become a more important economic partner than the United States to practically every country in East Asia. We all know where the wider strategic logic takes us: from economic power proceeds political power; from political power proceeds foreign policy power; and from foreign policy power proceeds strategic power. That is China's strategy.

China and the Developing World

The sixth in my attempted visual image of China's order of strategic priorities is China's particular relationship with the developing world. This has long historical roots going back to Mao and Zhou Enlai's role in the Non-Aligned Movement. It applies particularly in Africa. But we also see it in countries like Pakistan, Sri Lanka, and Bangladesh. China's relationship with the developing world has long been seen as

a pillar in the prosecution of its global interests and values. In the current period, this has has continued with large-scale public and private Chinese trade and investment across Africa, Asia, and Latin America.

Across Africa, China has laid out large slabs of the continent's emerging infrastructure. Each of these projects is generating its own local controversies. But the remarkable thing about China's strategy is its persistence and its ability to adapt and adjust over time. Multiple field studies have now been conducted by Western academics on Chinese investment projects in the developing world. Some have not been good. But what is remarkable is how many positive stories are also emerging, on balance. So when China looks for local voices to support its interests, either in the United Nations (UN) or across the labyrinth of the global multilateral system, its ability to pull in political and diplomatic support is unprecedented.

China and the Global Rules-Based Order

The seventh and final concentric circle concerns the future of the global rules-based order. The United States, combined with its allies, as the victors of World War II, constructed the underlying architecture of the post-war liberal international rules-based order. We saw this at Bretton Woods in 1944, with the emergence of the International Monetary Fund, the World Bank, the General Agreement on Tariffs and Trade, and, later, the World Trade Organization (WTO). We saw it in 1945 with the UN Charter. We saw it in 1948 with the Universal Declaration of Human Rights.

The United States also sought to defend the order it had created with a global network of alliances: the North Atlantic Treaty Organization in Europe, and bilateral security alliances across East Asia. Across all this, even during the Cold War, the United States remained the dominant superpower—dominant politically, economically, and militarily. Now we find ourselves in a period of great change and challenge.

Our Western political systems are under challenge in terms of their own domestic legitimacy. China will soon replace the United States as the world's largest economy. China will begin to challenge U.S. regional but not global military dominance. China is also creating its own new multilateral institutions outside the UN framework, such as the Asian Infrastructure Investment Bank. China also continues to expand its strategic and economic reach across Europe and Asia. And Xi Jinping has made plain he does not see China's role as simply replicating the current U.S.-led liberal international order for the future.

The desirability of having a form of rules-based system, rather than simple chaos, lies deep within Chinese political consciousness. Chaos is utterly alien to China's preferred political approach.

China has consistently said that this was an order created by the Western, victorious, and by and large colonial powers after World War II. But China leaves open what future changes it may make to the international rules-based system in the future. The desirability of having a form of rules-based system, rather than simple chaos, lies deep within Chinese political consciousness. Chaos is utterly alien to China's preferred political approach. But it is important to remember that "order," the alternative to "chaos," will not necessarily be an American order, or for that matter a liberal international order of America's making, where Chinese co-leadership of that order may now be expected or desired.

China's expectation of the future of the order will be one that is more suited to China's own national interests and values. This means China will want to change things. At this stage, it is not clear how much China wants to change things, and whether the rest of the international community will agree. This will have implications, for example, for the current international order on human rights, anchored in the three current international treaties and the human rights council in Geneva. It will also have implications for the future international economic order, including the WTO, particularly in the aftermath of any unfolding trade war with the United States. As for the future international security order, we now find ourselves in completely uncertain terrain for reasons increasingly shaped by the future contours of both American and Chinese domestic politics.

There is much public debate about the Thucydides Trap, on the probability of conflict between China and the United States. Just as there is now debate about the Kindleberger Trap, drawn from the experience of the 1920s and 1930s, when we saw the emergence of a strategic vacuum through the global retrenchment of the United Kingdom and an unwillingness of the United States to fill that vacuum in the provision of global public goods. The result was global anarchy of a different sort. My deepest belief is that we must avoid both these traps. Our deepest wisdom must be harnessed in defining another path.

CONCLUSION

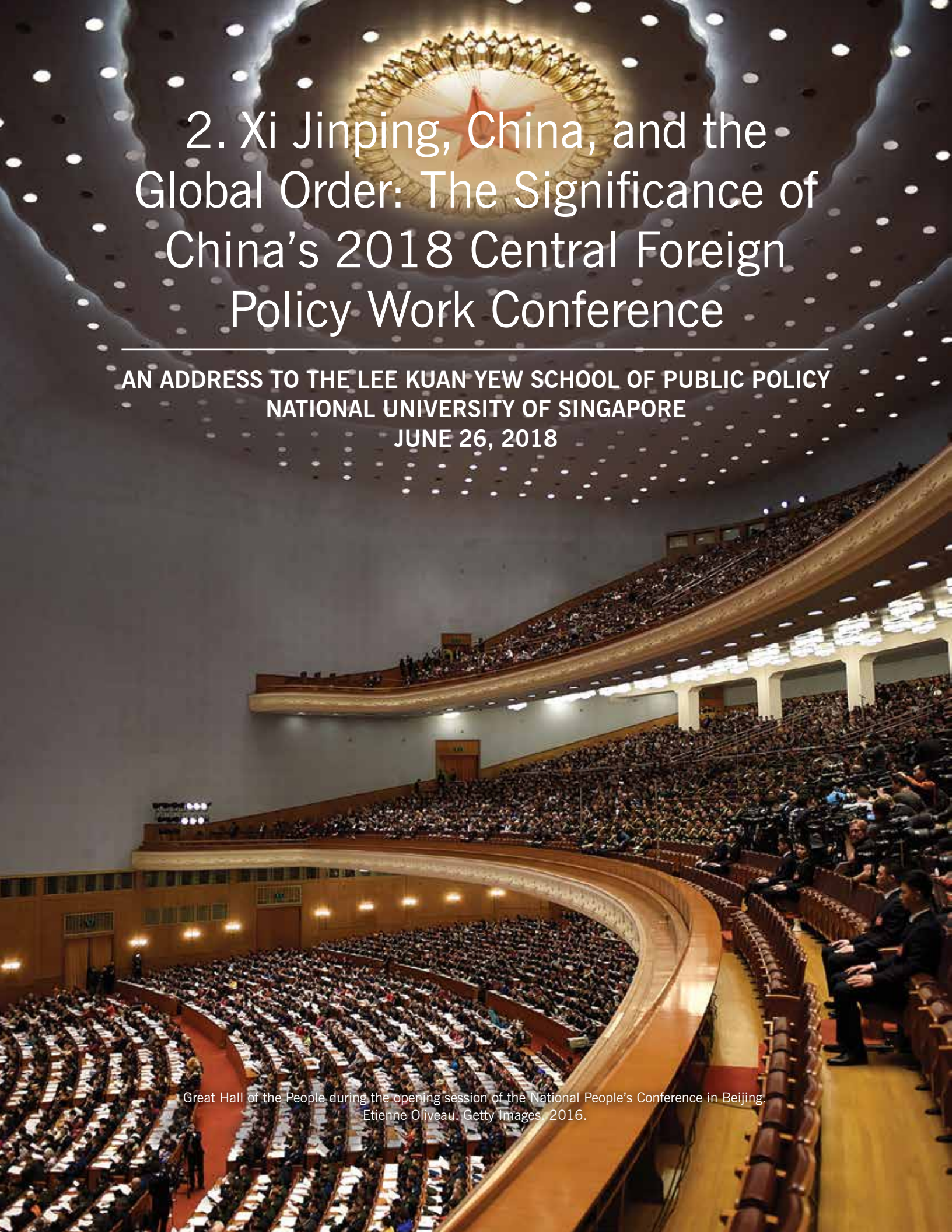
There are many reasons to study China. It is an extraordinary civiliazation in its own right. It contains deep wisdom, generated over more than 4,000 years of recorded history. China's aesthetic tradition is also rich beyond all measure. It is easy to become lost in the world of Sinology. But the rise of China demands of us all a New Sinology for the 21st century. One that is familiar with the Chinese tradition. One that is clear in its analysis of contemporary Chinese politics, economics, and society and China's unfolding role in the region and the world; as well as a New Sinology that is capable of synthesizing the above.

We will need a generation of leaders who understand this integrated Chinese reality, in order to make sense of and engage with the China of the future with our eyes wide open, and with our minds wide open as well. Open to new challenges. Open to new threats. Open to new possibilities. Open to new areas of cooperation and collaboration.

And above all, open to finding creative paths about how we preserve peace, preserve stability, avoid conflict and the scourge of war between these two great nations, while preserving the universal values, anchored in our international covenants, for which we all still stand.

2. Xi Jinping, China, and the Global Order: The Significance of China's 2018 Central Foreign Policy Work Conference

AN ADDRESS TO THE LEE KUAN YEW SCHOOL OF PUBLIC POLICY
NATIONAL UNIVERSITY OF SINGAPORE
JUNE 26, 2018



Great Hall of the People during the opening session of the National People's Conference in Beijing.
Etienne Oliveau. Getty Images. 2016.

ON JUNE 22–23 2018, THE CHINESE COMMUNIST PARTY concluded its Central Conference on Work Relating to Foreign Affairs, the second since Xi Jinping became General Secretary of the Party and Chairman of the Central Military Commission in November 2012. The last one was held in November 2014. These are not everyday affairs in the Party's deliberations on the great questions of China's unfolding global engagement.

These conferences are major, authoritative gatherings of the entire leadership, designed to synthesize China's official analysis of international trends and assess how China should anticipate and respond to them in the prosecution of its own national interests. This one, like the last one, was presided over by Xi Jinping and attended by all seven members of the Politburo Standing Committee, plus ex officio member Vice President Wang Qishan, together with all other 18 members of the regular Politburo, in addition to everybody who is anybody in the entire Chinese foreign, security, military, economic, trade, finance, cyber, and intelligence communities, as well as the central think tank community.

It's a meeting that's meant to be noticed by the entire Chinese international policy establishment, because if there is to be any new directive concerning China's place in the world, it's likely to be found somewhere in Xi Jinping's 3,000-character report to this conference.

Of course, the entire deliberations of the conference are not made public. Three and a half years ago, only a selected part of it was broadcast and reported in the central media. The same was true this time as well. And, unlike in Washington, the Chinese system doesn't leak every 12 hours. There is, therefore, an often hazardous reading of the tea leaves in interpreting what it all means, discerning what is new, what is newish, and what is not.

WHAT IS NEW?

How does the 2018 Work Conference compare with the one in 2014? The 2014 iteration represented the formal, official funeral of Deng Xiaoping's international policy dictum of the previous 30 years: "hide your strength, bide your time, never take the lead." It also heralded the beginning of a new period of confident, independent, international policy activism by Beijing. In part, this change reflected Xi Jinping's greater centralization of political power in the Chinese system. In part, it reflected the Chinese system's deep conclusion that American global power was in relative decline and that the United States would not confront China militarily if China sought to expand its regional military presence. In part, it reflected a Chinese institutional conclusion that China had finally become an indispensable global economic power to most countries in the world, thereby enabling China to begin to project its economic influence bilaterally, regionally, and also multilaterally. It also was an expression of Xi Jinping's personal leadership temperament, which is impatient with the incremental bureaucratism endemic to the Chinese system, and with which the international community had become relaxed, comfortable, and thoroughly accustomed.

For those who follow these events closely and have written on the importance of this significant departure from China's traditional strategic framework dating from the 2014 conference, a number of developments since then have been illustrative of this overall change in the style, content, and direction of China's international policy approach. China worked overtime in 2014–16 to expand its military position in the South China Sea with a rapid program of island reclamation. China took the idea of the New Silk Road and turned it into a multitrillion-dollar trade, investment, infrastructure, and wider geopolitical and geo-economic initiative, engaging 73 different countries across much of Eurasia, Africa, and beyond.

China signed up most of the developed world in the first large-scale, non-Bretton Woods multilateral development bank called the Asian Infrastructure Investment Bank, capitalized it, and launched it so that it now has a balance sheet already approaching the size of the Asian Development Bank.

China has also become, for the first time, a multilateral diplomatic activist, launching diplomatic initiatives of its own beyond its own immediate sphere of strategic interest here in the East Asian sphere, as well as actively participating in other initiatives such as the Joint Comprehensive Plan of Action (JCPOA) on Iran, rather than declining to reach beyond its own narrowly defined core national interests as we have often seen in the past. China has also developed naval bases in Sri Lanka, Pakistan, and now Djibouti (the last with some 5,000 troops based there), as well as participated in naval exercises with the Russians in the Sea of Japan, the Mediterranean, and even the Baltic.

And now, in the most recent National People's Conference in March 2018, we have the decision to establish China's first-ever International Development Cooperation Agency to manage China's burgeoning aid programs across the developing world. Of course, these leave to one side the activities of Chinese state financial institutions, other Chinese state-owned enterprises, as well as Chinese mixed investment funds operating on every continent and in every region of the world.

It would be wrong, analytically, to say that all these suddenly began after the 2014 Central Conference on Work Relating to Foreign Affairs. Some began in the two years before then, after Xi first became General Secretary in late 2012. And some have their antecedents in the late Hu Jintao period. But my point is that they all either began, were intensified, or else were formally publicly legitimized by the conclusions of the last Central Conference. In short, the system was given the mandate to contest, assert, and, where possible, lead in the various councils of the world. And this was new.

Furthermore, anyone who continues to entertain the fanciful idea, which I still sometimes see in Western commentary, that these changes are not the product of a well-considered Chinese grand strategy is simply choosing to ignore the clear evidence of clearly defined policy purpose systematically at work in the field. Our Chinese friends think things through carefully. They observe carefully. Not just what is happening in the headlines, which is the permanent obsession of the Western political establishment, but what is happening in what Xi Jinping would describe as "the underlying historical trends" in international relations. And then, after a period of detailed internal reflection, consideration, and, where necessary, consensus building within the system, a new direction is set.

That, indeed, is what these Central Foreign Policy Work Conferences are all about. They sum up where the system has gotten to in its analysis. And then what the system intends to do about it. It's part of the rolling system of policy analysis, implementation, and review that characterizes the entire Chinese public policy system, both foreign and domestic. It is both one of the great strengths of the Chinese system. But also one of its great weaknesses if the conclusions reached prove it be analytically flawed or unsustainable in practice. It takes a lot to turn the Chinese ship of state around once that course has been set at the top.

So what changes with the 2018 Central Conference? Is it more of the same? Or simply an intensification of the trajectory? Or a change in content and tone? The answer is all of the above—a blend of continuity and change.

A NEW ROLE FOR PARTY IDEOLOGY IN FOREIGN POLICY

First, the press reporting of the conference asserts the absolute centrality of the Party to the country's foreign policy mission. This is not entirely new. But the emphasis on the role of the Party is much stronger than before. In the recent past, the country's international policy establishment, like its econocrats, have seen themselves, and have been seen by the Chinese political establishment, as a technocratic elite. That is now changing in foreign policy as much as it has already changed in economic policy.

This is part of a broader trend in Xi Jinping's China, where the focus is on rehabilitating the Party from moral death from corruption, on the one hand, and practical death from policy irrelevance, on the other.

Xi has been concerned that the Party has become marginal to the country's major policy debates given the technocratic complexity inherent in most of the country's contemporary challenges. That is why, for example, we now see a revitalization of theory over practice, a reassertion of the power of the major institutions of the Party over the major departments of state and, once again, of political ideology over mere technocratic policy.

Nor does Xi Jinping intend to preside over the Party's "death by a thousand cuts" as it contends with a range of unfolding political forces unleashed by a combination of the market economy, social liberalization, and foreign influence.

No—Xi Jinping intends for the Party to defy the trend line of Western history, to see off Francis Fukuyama's "end of history" with the inevitable triumph of Western liberal democratic capitalism, and to preserve a Leninist state for the long term as the most effective means of ensuring that China prevails in its domestic and international challenges. That is why there is lengthy treatment in this conference on, to use the language of the *Xinhua* report, "Upholding the authority of the CPC [Communist Party of China] Central Committee as the overarching principle and strengthening the centralized, unified leadership of the Party on external work."

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In case we missed the emphasis, Xi Jinping also states that "diplomacy represents the will of the state, and diplomatic power must stay with the CPC Central Committee, while external work is a systematic project." Xi calls "for implementing reform of the institutions and mechanisms concerning foreign affairs under the decision of the Central Party leadership and enhancing party-building in institutions abroad so as to form a management mechanism catering to the requirements of the new era."

The conference also emphasized that China's diplomacy would now be a "diplomacy of socialism with Chinese characteristics" and, as such, would take "Xi Jinping Thought" from the domestic into the foreign policy domain. In the past, this language of "socialism with Chinese characteristics" applied to the

overall Chinese ideological system, usually interpreted as China's own form of state capitalism. But now it is applied to diplomacy, and it implies something else.

It seems to mean conforming diplomacy with a wider ideological worldview that lies beyond the simple policy pragmatism we have seen for decades guiding most elements of Chinese foreign policy in the prosecution of China's national interests. There now seems to be a new national and/or global vision that sits above the simple maximization of national interests. This seems more than the routine incantations of the China Dream, the Party's centenary objectives for 2021, and the national centenary mission for 2049, with which we have become familiar since Xi came to power. At this stage, this new overarching ideological mission may be inchoate, but the fact that it is not yet fully formed does not mean that it does not exist.

Lest there be any doubt on this count, the ranking foreign policy technocrat attending the Work Conference, former Foreign Minister and State Councillor Yang Jiechi, and now Director of the Foreign Policy Office of the Party Central Committee, refers explicitly to the ideological significance of this conference. It is worth quoting Yang's remarks at the conference at some length. He states that the most important outcome of this conference is that:

> "It established the guiding position of Xi Jinping thought on diplomacy. Xi Jinping thought on diplomacy is an important part of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era...It is a major theoretical achievement in the thoughts on state governance in the area of diplomacy by the CPC Central Committee with Comrade Xi Jinping at the core, and a fundamental guideline for China's external work in the new era....We should integrate our thoughts and actions into General Secretary Xi Jinping's important address and Xi Jinping thought on diplomacy, and make new advances in China's external work."

To an international foreign policy audience, this may all seem a little arcane. That's because in the internal ideological deliberations of a one-party state, it is arcane. But we would be blind not to see that there is something new at play here. It is unclear whether this means Chinese foreign policy is likely to be more Marxist in its conceptualization, or even its execution? Whether it is likely to be more nationalist? Whether it will seek to more actively promote the Chinese development model of "authoritarian capitalism" as a model for the world, in competition with the "liberal democratic capitalism" of the West? Whether it is a much more unformed worldview that will ultimately take shape around Xi Jinping's as yet deliberately vague concept of "a global community of common destiny," which is now the subject of intense work within China's think tank community, and within the international academic community?

Or whether it is something more mechanistic than that altogether, involving a desire to fire up China's current diplomatic establishment into a more invigorated, imaginative, creative, even forceful effort to shape the future global rules-based order more in China's image, rather than China being the permanent "price taker" for rules already determined elsewhere by others—particularly where elements of the existing order are seen to represent a continuing and unwelcome challenge to the legitimacy of China's domestic political order, for example, in areas such as the rule of law, human rights, and democracy.

A NEW IDEOLOGICAL CONFIDENCE THAT HISTORY FAVORS CHINA

There is a second element to the June 2018 Conference that grows out of the first. It is Xi's deeply Marxist, dialectical-materialist view of history based on permanently evolving "contradictions" between what dialecticians call thesis, antithesis, and synthesis. In Xi's view, this, in turn, gives rise to defined "laws" of historical development that are both prescriptive and predictive.

This may sound like old-fashioned Marxism. That's because it is. The intellectual software of generations of Chinese leaders has been shaped by this conceptual framework for interpreting and responding to what they define as scientific, objective reality. And Xi Jinping belongs to that tradition. Remember, he has already convened special study sessions of the Politburo on understanding both dialectical and historical materialism in the past.

According to the conference report, "Xi suggested to not only observe the current international situation, but also review the past, summarize historical laws, and look toward the future to better understand the trend of history." Furthermore, according to the same report by *Xinhua*, to obtain "an accurate understanding of the overall situation, Xi underlined not only the observation of detailed phenomena, but also a deep appreciation of the essence of the overall situation in order not to get lost in complexity and the changing international situation." Xi concludes on this count by stating that "throughout human history, the development of the world has always been the result of contradictions intertwining and interacting with each other."

Once again, all this will seem more than a little arcane. But in the ideological dialect of the Communist Party, it seems to mean several things. First, there is nothing random about what is unfolding in the world today. Second, this reflects certain immutable laws of political and economic development. Third, the business of Chinese foreign policy is to use this dialectal prism to understand precisely what is happening in the world today, why it is happening, and what to do about it. And fourth, applying these disciplines to the current period, it means that the global order is at a turning point, with the relative decline of the United States and the West coinciding with the fortuitous national and international circumstances currently enabling China's rise.

To use Xi's own language, this "has been in the best period of development since modern times, while the world is undergoing the most profound and unprecedented changes in a century" adding that "the two aspects are intertwined and interact with each other." Xi refers to the current period as a period of unprecedented strategic opportunity for China and the current mission of the Party. Although this is not itself a new term, Xi says the Party's mission is to extend this period. To do this, he calls for the Party to engage in "in-depth analysis of the law of how the international situation changes as the world comes into this transitional period, as well as developing an accurate grasp of the basic characteristics of the external environment China is facing at this historical juncture in order to better plan and facilitate the country's work on foreign affairs."

In other words, what is being said here is that China now has the wind at its back. Of course, there are formidable obstacles ahead. But a dialectical analysis of history causes China to conclude that the forces of reaction facing the United States and the West are greater. Just as the contradictions operating domestically within the United States and the West (in their particular political systems) are greater as well. Which, in

turn, renders China's overall domestic and international circumstances much better by comparison in the emerging contest between the two. All of which, again in this view, pushes toward a new historical synthesis more in China's (and Chinese socialism's) favor.

You will all be forgiven if you think this all sounds more like medieval theology than modern international relations. And it's anyone's guess what any of this actually will have to do with concrete foreign policy reality. But we often forget that the way one-party states, and in particular Marxist states, choose to "ideate" reality actually matters. It's how the system speaks to itself. It's the political lingua franca among political and policy elites.

The important thing here is that the message from Xi Jinping to his international policy elite is one of great confidence. Not just because China wills it to be so, but because from a Marxist theoretical perspective, which in their view articulates certain immutable "laws" of political and economic development, the forces of history are now with China. Furthermore, this is a call to greater international policy activism, rather than retrenchment in response to the rise of Donald Trump. In other words, the conclusion is that the great trends of history—or, to use an old Soviet term, the "correlation of forces"—are moving China's way.

TOWARD A SHARPER CHINESE DIPLOMACY

A third element of the 2018 Work Conference is its injunction to the country's international policy institutions and personnel to get with the Xi Jinping project. Xi seems to have the Foreign Ministry in his sights when he says that "the reform of the institutions and mechanisms concerning foreign affairs is the internal demand of advancing modernization in the state governance system and governance capabilities." It will be recalled from above that "Party building" within the country's foreign policy institutions will be a core part of that.

On personnel, Xi Jinping reminds the nation's diplomats that they are first and foremost "Party cadres." This has a certain ideological retro feel to it. Indeed, it's been a long time since I've heard Chinese diplomats refer to their seniors as cadres. In fact, I'm not sure that over the last 35 years that I can remember hearing that term. To quote the *Xinhua* report, "Stressing that cadres are the decisive factor after setting the political course, Xi called for a strong contingent of foreign affairs personnel that are loyal to the CPC, the country, and the people, and are politically solid, professionally competent, and strongly disciplined in their conduct. He called on foreign affairs cadres to enhance their ideals and their training so as to upgrade their competency and overall quality."

Does this presage a new type of Chinese foreign ministry diplomat abroad? Perhaps. It's long been reported that Xi has been frustrated by the performance of parts of his foreign policy establishment. He sees them proceeding at a glacial pace, whereas China's strategic challenges and opportunities are urgent. Once again, this tends to point in the direction of greater foreign policy activism in the future in a system that is struggling to keep up with the political and policy vision of its leader.

CHINA LEADING THE REFORM OF GLOBAL GOVERNANCE

Fourth, the sharpest substantive new development to emerge from the 2018 Foreign Policy Work Conference is what is says about global governance.

At the 2014 Work Conference, Xi referred to an impending struggle for the future structure of the international order. He did not elaborate on this back then. But much work has gone on within the Chinese system since on three interrelated concepts: the international order (*guoji zhixu*), the international system (*guoji xitong*), and global governance (*quanqiu zhili*).

Of course, these mean different but overlapping things in English, too. Broadly speaking, in Chinese, the term "international" or "global" order refers to a combination of the United Nations (UN), the Bretton Woods Institutions, the G20, and other global, plurilateral, or multilateral institutions, on the one hand, and the U.S. system of global alliances to enforce the U.S. definition of international security, on the other. The term "international system" tends to refer to the first half of this international order—namely, the complex web of multilateral institutions that operate under international treaty law and seek to govern the global commons on the basis of the principle of shared sovereignty. As for "global governance," it tends to refer to the actual performance, for good or for ill, be it effective or ineffective, of the "international system" so defined.

It is deeply significant that at the 2018 Work Conference, Xi Jinping stated boldly that a core component of his new ideology of a "diplomacy of socialism with Chinese characteristics" would be for China to "lead the reform of the global governance system with the concepts of fairness and justice." This is by far the most direct, unqualified, and expansive statement on China's intentions on this important question that we have seen.

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China, like the rest of the international community, is acutely conscious of the dysfunctionality of much of the current multilateral system. It also sees the United States walking away from much of the system as well: the JCPOA, which was agreed to by the UN Security Council; the UN's Paris Agreement on Climate Change; its withdrawal from the UN Human Rights Commission; its open defiance of the Refugees Convention; and its challenging of the underlying fabric of the World Trade Organization.

Nature, as we know, abhors a vacuum. International relations even more so. And we all saw Xi Jinping's riposte to President Trump on climate change and trade at Davos 18 months ago, just after President Trump's election. If China is indeed serious about leading the reform of global governance, its attitude toward these multilateral institutions will be radically different from the historical posture of the United States. Take, for example, the Human Rights Council in Geneva, which China would like to see emasculated. Mind you, so too, apparently, does the current U.S. administration.

The reference to "China leading the reform of global governance" in this conference is not an accident. It also reflects a growing Chinese diplomatic activism in a number of UN and Bretton Woods

institutions around the world as China begins to seek to recast these institutions, their cultures, their work practices, and their personnel in a direction more compatible with China's core national interests. As I have written before, rather than China having to consistently resist the pressures of "Westernization" inherent in the existing laws, institutions, and culture of the current international system, particularly when these prove to be incompatible with the retention of a Marxist-Leninist Chinese state, the resolve of China's leadership now seems to be to use its newfound global power to refashion those institutions within the international system that may be most problematic for China on the home front.

What we are seeing is the slow, steady emergence of a more integrated Chinese worldview that links China's domestic vision with its international vision—a vision which very much reflects the deep views of China's paramount leader, Xi Jinping.

As for the principles of fairness and justice that Xi refers to as the core principles that will guide China's reform of global governance, these terms have historically implied China's preference for a more "multipolar" international system in which the unilateral voice of the United States is reduced. China has already developed a strong constituency in Africa, parts of Asia, and Latin America in support of this. "Multipolarity" in Chinese strategic parlance is code for the dilution of American power in the postwar international system.

THE CENTRALITY OF CHINESE NATIONAL INTERESTS

Lest anyone gets too starry-eyed about China's intentions for reforming global governance, in Xi Jinping's description of the core principles of its new "diplomacy of socialism with Chinese characteristics," Xi concludes his list of 10 governing principles with the following: that China must take its "core national interests as the bottom line to safeguard China's sovereignty, security, and development interests."

Xi makes plain that China's foreign policy is unapologetically nationalist. Xi assumes that all other countries' foreign policies are nationalist as well.

Of course, China's definition of its core national interests has evolved over time. As have other nations'. It now includes, for example, the South China Sea. A decade ago, that was not a feature of Chinese official statements defining China's core interests. Now it is. As for any state, therefore, the concept of "core national interests" varies over time and will be defined by the government of the day.

CONCLUSION

We will soon see how the 2018 Central Foreign Policy Conference translates into different Chinese foreign policy behaviors on the ground. If the 2014 Conference is an effective guide, we will see a heightened period of Chinese foreign policy activism. However, the precise content of that activism remains to be seen. But what we are seeing is the slow, steady emergence of a more integrated Chinese worldview that links China's domestic vision with its international vision—a vision that very much reflects the deep views of China's paramount leader, Xi Jinping.

The first policy terrain where we are likely to see this is the existing institutions of global governance. But it will not be restricted to this area. The text of the report of the 2018 Central Conference on Work Relating to Foreign Affairs suggests that we will also see this across China's bilateral relations, its engagement with regional institutions, as well as its approach to major power relations as well—all of which are likely to be met with an increasingly forthright Chinese diplomacy.

The challenge for the rest of the international community is to define what type of future international order, system, and governance it wants. And to take China's invitation seriously to engage the Middle Kingdom in a frank and forthright discourse on what the region and the world precisely want in any future "global community of common destiny."

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What does the European Union want? What does ASEAN want? What does the East Asia Summit want? What does the African Union want? What does the Organization of American States want? What does the Gulf Cooperation Council want? What exactly does America want, with or without Trump?

And in this dialogue, how will the values already entrenched in the UN Charter, Bretton Woods, and the Universal Declaration of Human Rights, as well as the founding instruments of various regional organizations, be preserved for the future?

The future of the global order is now in a state of some flux, in part induced by the recent posture of the United States and in part induced by the rise of China. China, it seems, has a clear script for the future. It's time for the rest of the international community to do the same.

3. The United States and China—A Relationship Adrift: The New War in Trade, Investment, and High Technology

ADDRESS TO THE ASIA SOCIETY NORTHERN CALIFORNIA
COLLEGE OF SAN MATEO, CALIFORNIA
SEPTEMBER 13, 2018

Smart City Shanghai. Dong Wenjie. Getty Images.

HISTORY TEACHES US THAT PICKING WHEN ONE AGE ENDS AND ANOTHER BEGINS is a tricky business. None of us has the powers of reflection, perception, or anticipation to identify when certain tipping points of historical significance are reached. And when we reach such conclusions, it's usually with the full benefit of 20/20 hindsight, which for those of us working in the rarefied world of contemporary public policy is not particularly useful.

In a little more than a month, we will mark the centenary of the end of the "war to end all wars" in 1918—a military conflagration fought between the great powers that dominated the world of the 19th century, which then radically changed the face of the history of the 20th century.

A century later, in 2018, we seem to be walking into another war, albeit gradually, step by step, but this time it is a war of an entirely different nature—an economic war being fought between the great powers that now dominate the world of the 21st century, namely, China and the United States. Beginning with a trade war, and developing into an investment war, before metastasizing into a new "technology war" as China and the United States now struggle to secure the commanding heights of the new technologies that will either drive or destroy the economies of the 21st century.

It is an open question if, and when, this will begin to fuse into another "Cold War," let alone if, and when, the unpredictable forces now being unleashed by this rapidly unfolding new economic war will erupt into one form or other of military confrontation in the future. The problem is, until relatively recently, this sort of language was almost unthinkable in mainstream public policy. The problem now is that it has entered the realm of the thinkable. Not probable. Not inevitable. But now certainly thinkable.

Nobody is any longer confident where all this will land. We indeed appear to be passing from one age to another. From the certainties of a postwar order of the last three-quarters of a century dominated by the United States, to a less predictable, more complex, and certainly more contested global order for the future. Of course, at the absolute fulcrum of this change lies the rapidly changing dynamics of the U.S.-China relationship.

We indeed appear to be passing from one age to another. From the certainties of a postwar order of the last three quarters of a century...to a less predictable, more complex, and certainly more contested global order for the future. Of course, at the absolute fulcrum of this change lies the rapidly changing dynamics of the U.S.-China relationship.

History, of course, rarely repeats itself. But to paraphrase Mark Twain, we do see the reemergence of its rhymes, its rhythms, and its cadences over time. Nobody is therefore predicting a return to the primitive activism of 1914 and the carnage it produced. But we would be foolish not to recognize the forces of profound change—geopolitical, geo-economic, and now geo-technological—that are afoot. Just as we would be equally foolish not to identify what can be done to manage these changing power dynamics—preserving our common peace and prosperity while also upholding the values of open politics, open societies, and open economies that have characterized much of the international order since 1945.

NOT A U.S.-CHINA COLD WAR—YET

The defining characteristics of the last Cold War between the United States and the Soviet Union were a nuclear standoff, proxy conventional wars in third countries, negligible economic engagement, and close to zero people-to-people contact, all encased within the framework of a fundamental ideological cleavage between the Marxism-Leninism of the Soviet state and the liberal democratic capitalism of the American-led order.

Very few of these conditions currently characterize the state of U.S.-China relations, however fraught they may now be. There are still many ties that bind, but we would be foolish not to see that the cords are now becoming increasingly frayed.

Cyberwarfare between the [United States and China]—political, diplomatic, military, and economic—has increased sharply, although its precise dimensions remain largely opaque to the wider public.

The U.S.-China trade remains the largest trading relationship in the world, despite the unfolding trade war. The United States and China have collaborated, at least to some degree, on efforts to rein in the North Korean nuclear weapons program, although the Donald Trump administration is publicly skeptical about the level of this collaboration.

China and the United States are not fighting proxy wars in third countries, although the level of competition for political, diplomatic, and economic influence is growing rapidly. And the United States is still host to the largest number by far of Chinese students and researchers studying abroad, although the U.S. Congress and U.S. intelligence agencies are now signaling their concerns about the future impact of this on long-term U.S. technological supremacy. Cyberwarfare between the two—political, diplomatic, military, and economic—has increased sharply, although its precise dimensions remain largely opaque to the wider public.

Yet of all the factors that characterized the last Cold War between Moscow and Washington, the emerging ideological cleavage between Beijing and Washington is perhaps the most salient of all. China does not accept the values that underpin the current liberal international order. They are not compatible with China's domestic political order. And rather than allow China to incrementally reform its domestic arrangements to conform with the principles of liberal internationalism, China's leadership has instead resolved to double down on the entrenchment of its existing system of authoritarian state capitalism. Beyond that, China's leadership now seeks to reform, shape, and, where possible, lead the reform of the current international order in a manner more compatible with its domestic arrangements.

Yet for the various reasons outlined above, we should be cautious about sliding into the easy language of a new Cold War between China and the United States. It doesn't meet the definitional characteristics of the U.S.-Soviet Cold War—at least not yet. But if there is such a new Cold War in "high technology," we may already be there.

THE DISAPPEARING BALLAST OF THE U.S.-CHINA RELATIONSHIP

The important question for us now is, where are these increasingly negative dynamics in trade, investment, and technology going to take us over time? And how rapidly could they do so? Particularly when these

factors are encased within the scaffolding of growing ideological hostility, long-standing mutual political noncomprehension, and ever-widening strategic mistrust.

The lessons of history, including those of a century ago, tell us that when political relationships begin to fracture and when distrust between capitals becomes rife, we become much more vulnerable to the incendiary potential of individual events. What we're seeing now in the U.S.-China relationship is the slow but steady erosion of the protective covering of the relationship laid down by one generation after another over the last 40 years—since diplomatic normalization back in 1979.

The historical ballast of this relationship during the first decade of the U.S.-China relationship was their combined strategic mistrust of the Soviet Union. Following the events of 1991, which saw the collapse of the Soviet empire, this ballast was in large part replaced by the growing breadth, depth, and texture of bilateral economic engagement between China and the United States.

A decade later, as China entered the global economic community at scale through its World Trade Organization (WTO) accession in 2002, American, and to some extent Chinese, policymakers embraced China's wider enmeshment within the global economic order. American policymakers, supported by most of their international counterparts, believed this policy of bilateral, regional, and global economic engagement would eventually cause China to cross the ideological Rubicon—departing from classical Confucian and more recent communist axioms of authoritarian state capitalism to become a full-throated "stakeholder" in the liberal international rules-based order. Indeed as we look back, those were the high days and the holy days of the U.S.-China relationship.

Yet another decade on, in 2012, we saw the rise of Xi Jinping and what the Chinese now routinely describe as the "New Era." By 2014, Xi Jinping had made it plain that China, rather than embracing the American-led global order, either at home or abroad, was now in the business of changing it. Indeed by 2018, Chinese official formulations had evolved again so that in their own language, China would now "lead the reform of the global system." In the intervening five years, we have also seen the successful launch of the Asian Infrastructure Investment Bank, the New Development Bank, and the Belt and Road Initiative as the flag bearers of China's new approach to global leadership.

The last 40 years, therefore, have been a long, long journey in U.S.-China relations. China has achieved great national success over this time. When this process began, China's economy was the same size as Australia's, whereas by the time we reach the 50th anniversary of U.S.-China relations, China may well have passed the United States as the world's largest economy. Yet while the economic change has been profound, driven by a Chinese hybrid model of authoritarian capitalism, China's political model has not changed, and it remains led by a one-party Leninist state. And to be fair to our Chinese friends, they have been consistent about their determination to retain this political system, and the values on which it has been premised, throughout.

The West, instead, chose to look at China through political rose-colored glasses over the decades, despite the dramatic wake-up call that was Tiananmen. Indeed, over the last half decade or so, we've seen something of the final "loss of innocence" in the relationship. The traditional supporters of the relationship, particularly in the American business community, have now fallen silent. As have most other long-standing supporters as well.

Instead, we are left with an unprecedented coalition against China of the administration, the Congress (both Republican and Democrat), the Pentagon, the State Department, the intelligence agencies, the business community (now across multiple sectors), organized labor, and nongovernmental organizations. Indeed the raw, strategic fundamentals of the relationship are now being laid bare. The romance has now gone. The marriage is now uncomfortable for both parties. Indeed, separation has begun. And on technology at least, divorce proceedings have commenced. The question for us all is where this will now go.

STRATEGIC DRIFT—THE END OF DECADES OF "STRATEGIC ENGAGEMENT" AND THE BEGINNING OF A NEW PERIOD OF "STRATEGIC COMPETITION"

As of 2018, we find ourselves in a period of profound strategic drift in U.S.-China relations. The three layers of protective covering over the relationship have now been stripped away. China and the United States, rather than sharing a sense of strategic condominium against the Soviet Union, now find themselves in opposing strategic camps, as the level of political, military, and diplomatic coordination between Beijing and Moscow deepens every month.

The uncomfortable reality is that the United States and China, the two most powerful countries in the world, are now in a relationship adrift. The bulk of the common assumptions that have underpinned the mutual interests and, to some extent, the shared values of this relationship, have now disappeared.

The business constituency in both countries, for a long time constituting a deep ballast in the U.S.-China relationship, is now deeply fractured in its support for the relationship, with corporate America now exhibiting unprecedented collective hostility to the impact of Chinese economic policy on American business access to the Chinese market, as well as the terms imposed on foreign investors. And while China and the United States may still choose to cooperate across elements of the G20 agenda, we are well past the halcyon days of 2009, when American, Chinese, and other Western policymakers were as one in staring down the global financial crisis, and steering the global economy to recovery.

The uncomfortable reality is that the United States and China, the two most powerful countries in the world, are now in a relationship adrift. The bulk of the common assumptions that have underpinned the mutual interests and, to some extent, the shared values of this relationship have now disappeared. Just as the generation of older custodians of the relationship—when its guiding strategic axiom was the overwhelming mutual advantage of comprehensive engagement—has also passed from the scene. As a result, the U.S.-China relationship now critically lacks a common strategic purpose. It also lacks a common strategic narrative, given that a "narrative" ultimately cannot lie about the fundamentals of the relationship. This, in turn, raises the question of whether a common, shared narrative is any longer possible between China and the United States, as each retreats to its strategic corner, in order to contemplate how best to best the other.

For decades, that shared narrative was "engagement," albeit always an engagement based on some degree or other of strategic hedging, in case everything went wrong. Strategic engagement as a unifying

narrative for the relationship is now officially and effectively dead. Instead, we have now landed in a new age of strategic competition, conditional on one level or another of cooperation on a defined set of issues of the day—but with competition being the relationship's "steady state," and with cooperation now being the exception rather than the rule.

As a result, I fear we may now also find ourselves on the pathway to medium-term strategic confrontation, as each side competes for ascendancy in what is seen increasingly on both sides as a zero-sum game. It's a relationship, therefore, that no longer has anybody at the rudder. As a result, strategic drift has set in. And once strategic drift sets in, and once the traditional ballast of the relationship has been cast overboard, we also know from history it's far easier to be taken by the tide, and to be buffeted by events.

SO WHO IS TO BLAME?

At times like these, there is a tendency to point the finger to identify who is "to blame" for the state of the relationship. Americans will point to a number of factors, including the new nationalism under Xi Jinping; Chinese mercantilist strategy, such as "Made in China 2025"; China's use of the Belt and Road Initiative to effectively rewrite a number of the rules of the liberal international rules-based order in a profoundly illiberal direction; China's global cyberoffensive, including its recent successful attack on U.S. government personnel records; and China's rapid acquisition of offensive military capabilities, its increasing military collaboration with the Russian Federation, as well as Chinese land reclamation activity in the South China Sea.

For decades, that shared narrative was "engagement," albeit always an engagement based on some degree or other of strategic hedging, in case everything went wrong. Strategic engagement as a unifying narrative for the relationship is now officially and effectively dead.

China, by contrast, will point to the history of the United States violating the rules of its own order when it has suited, from Latin American interventionism under the Monroe Doctrine to more recent Middle East interventions, including the unilateral invasion of Iraq; continued daily U.S. provocation of China through reconnaissance flights along the Chinese coast; President Trump's unilateral declaration of an anti-Chinese trade war; more broadly, the U.S. assault on the global free trading system, including the WTO; America walking away from the Paris Agreement on Climate Change; together with the unfolding technology war symbolized by U.S. decisions to freeze out Huawei from the future 5G network in the United States.

While finger-pointing may be satisfying for a certain number of the belligerents, unfortunately it doesn't really get us anywhere. My argument, by contrast, is simple: the current deterioration in the U.S.-China relationship is a structural phenomenon. It has arisen because China is now of sufficient economic, military, and technological "mass" that it represents a structural challenge to long-term American dominance of the global and regional order. This is reinforced by the fact that these countries represent radically different political, cultural, and ideological systems.

Furthermore, the national political leaderships of both countries, albeit through radically different processes, have now reached similar conclusions about one another. Whereas once the idea of China representing a challenge to the U.S.-led order was the subject of animated debate and discussion among academics, think tanks, and policy planners, the uncomfortable truth is that this has now become a reality.

The American conclusion on this score is clearly evidenced by the December 2017 National Security Strategy of the United States. It states,

> "China and Russia want to shape a world antithetical to U.S. values and interests. China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor. Russia seeks to restore its great power status and establish spheres of influence near its borders. The intentions of both nations are not necessarily fixed. The United States stands ready to cooperate across areas of mutual interest with both countries.
>
> For decades, U.S. policy was rooted in the belief that support for China's rise and for its integration into the post-war international order would liberalize China. Contrary to our hopes, China expanded its power at the expense of the sovereignty of others. China gathers and exploits data on an unrivalled scale and spreads features of its authoritarian system, including corruption and the use of surveillance. It is building the most capable and well-funded military in the world, after our own. Its nuclear arsenal is growing and diversifying. Part of China's military modernization and economic expansion is due to its access to the U.S. innovation economy, including America's world-class universities."

Following the annual Chinese leadership retreat to Beidaihe in August of this year, it also appears that China has reached the same strategic conclusions about this deep shift in the official American view of China.

In an authoritative editorial published in late August, Long Guoqiang stated that,

> "In order to maintain its world hegemony, the United States has been guarding against any possible catch up. In the past, the Soviet Union and Japan had been hampered by the United States. But with the rapid development of China's economy, and China's increasing comprehensive national power, the United States has fully turned its consciousness and sentiment towards China, redefining Sino-U.S. relations…defining China as a long-term strategic competitor of the United States…therefore the trade war is not only a means for the United States to obtain more economic benefits, but also an important means for the United States to contain China."[2]

There has indeed been a structural shift in the U.S.-China relationship. The key conceptual insight here, I believe, is Graham Allison's work on the application of the "Thucydides Trap" to the current state of U.S.-China relations.[3] In Allison's analysis, China, as the rising power, is now causing sufficient

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[2] For more information, see Long Guoqiang, "Understanding the Current Sino-U.S. Trade Frictions," translated from the original Chinese article in *People's Daily*, August 29, 2018, http://opinion.people.com.cn/n1/2018/0829/c1003-30257035.html.

[3] For more of Graham Allison's analysis, see his book *Destined for War: Can America and China Escape Thucydides's Trap?* (Boston: Houghton Mifflin, 2017).

anxiety in the United States, the established power, to cause the latter to begin to take substantive corrective measures. In Allison's (albeit selective) survey of diplomatic history over the last 500 years, he identifies 12 out of 16 historical cases where similar circumstances have arisen and where military conflict has ultimately resulted.

It is a profound misreading of Allison's work, however, to conclude that he argues that the Thucydides Trap inescapably leads to war. Allison rightly points to the significant possibility it might—unless corrective political, economic, and military measures are taken to prevent such a conflict from occurring. So in the eternal debate between "structure" and "agency" in both political and international relations theory, the reality is that we can both observe the "structural" factors currently at work in the growing great-power rivalry between China and the United States, as well as identify the parallel reality that the "agency" of political leadership and diplomatic intervention can still avert catastrophe.

We are not, therefore, a bunch of international "zombies" marching relentlessly toward the cliff of international catastrophe, conflict, and war. This is John Mearsheimer's world of "offensive realism," which holds that for a range of immutable structural factors, only war or abject capitulation between great powers can be the result, and that politics and diplomacy have no role.

Chinese and American leaders may at some point in the future choose armed conflict. But it will be an active political choice.... In other words, structure and agency are both relevant to the dilemmas we now face in U.S.-China relations.

On this, I profoundly disagree. Chinese and American leaders may at some point in the future choose armed conflict. But it will be an active political choice. It will not be forced on them, either by the heavens above, or by the unalterable laws of human nature, social relations, or the behavior of states below. In other words, structure and agency are both relevant to the dilemmas we now face in U.S.-China relations.

The radical change in the relationship we have observed in recent years, as we have moved from strategic engagement to strategic competition, is indeed structural. But the role of "agency," through the political leadership of both countries, is to identify what rules of the road may now be possible, within the framework of what is now a deeply competitive relationship, to avoid conflagration.

I am not a sufficient Kantian idealist to believe that any new set of shared norms that might be developed to govern this increasingly fractious, strategic competition between the United States and China will somehow be a substitute for separate national strategies that seek to advantage one side over the other. That is inevitable. Indeed, it has also long been the case.

My simple argument here, however, is that there is room for both shared norms and hard-edged competition—even in the deeply troubling circumstances in which we now find ourselves in this, the single most important relationship in the world.

DEFINING THE RULES FOR STRATEGIC COMPETITION

This is important for us all, because the open question is this: what are the prospects of strategic competition between China and the United States remaining peaceful for the medium to long term? Or do we already find ourselves on a slippery slope where strategic competitors soon become strategic adversaries—and where, step by step, we slide into a Cold War with the ever-present danger that one day this might erupt into a hot war? These are deeply sobering thoughts that should give us all collective pause.

Is it still possible, for example, to fashion a common strategic narrative capable of effectively embracing both sharp competition and identified areas of continued strategic collaboration, and doing so across the ever-widening ideological divide between the two countries? Or are we now in a brave new world where the new rules of the game have yet to be determined—one in which rules, to the extent that they can exist, can only be shaped by exclusively national strategies rubbing up against each other, at times colliding with each other, until some new great-power modus vivendi emerges from the mayhem. Or not, as the case may be.

This is the question that many of us who care about the future of this relationship, and who see ourselves as friends of both countries, are now trying to think our way through. It's become the hardest question of all in international relations today. There is no easy fix. The gaps are now huge. And the danger faced by anyone now trying to bridge them is that they, too, will be accused of appeasing one side or the other.

History, or at least engineers, tell us that bridges, when subjected to too much pressure, sooner or later buckle before they collapse. Trying to bridge, however modestly, the current chasm in U.S.-China relations, is therefore not for the fainthearted. It's a far easier road at present to barrack for one or the other of the opposing teams from the stands. It's certainly safer there. Definitely more comfortable. But it's also useless if you're in the business of trying to find a way through. This is very much a work in progress for many of us.

DEEPER THAN A TRADE WAR—TECHNOLOGY AS THE NEW TERRAIN

Much of the commentary on these questions focuses on the current trade war between China and the United States. Although, as noted above, the reality is that the trade war is the manifestation of a much deeper structural cleavage in the relationship that has been evolving over many years. We see this at work in bilateral investment as well where Chinese flows into the United States have now slowed to a trickle. But the significant new terrain in which this new strategic competition between China and the United States is being fought out is in high technology, information technology, and now artificial intelligence. Here, the lines of battle are in the process of being drawn.

The U.S.-China Economic and Security Review Commission in March of this year released a report on what it described as "China's techno-nationalism tool box."[4] According to the Commission, China's mission is to build internationally competitive domestic firms, not only to replace foreign technology and products domestically, but also to supplant them internationally. This is reflected most acutely in

[4] For more, see Katherine Koleski and Nargiz Salidjanova, "China's Technonationalism Toolbox: A Primer" (Issue Brief, U.S.-China Economic and Security Review Commission, March 28, 2018), https://www.uscc.gov/sites/default/files/Research/China%27s%20Technonationalism.pdf.

the "Made in China 2025" strategy, released in 2015, which identifies specific Chinese targets, per each industrial and technological sector, that China proposes to dominate.

According to the Commission, China is doing so through 10 specific policy strategies:

- Localization targets (for example, achieving 70 percent of the domestic industrial robot market by 2025 for Chinese suppliers)
- State funding for industry development (for example, large-scale subsidies for solar enterprises, although these have reportedly now been reduced)
- Dedicated government research and development funding, which in total has now reached 75 percent of the total U.S. research and development outlays as of 2015
- Government procurement (for example, mandating central government purchases of Chinese automobile brands)
- New "China-defined" technology standards (for example, through the People's Bank of China announcing new technical encryption standards for credit cards, which are incompatible with existing international standards and only used by state-owned cards such as Union Pay, not shared by Visa or MasterCard)
- Regulatory thresholds (for example, requiring the formation of joint ventures as a condition for Chinese market entry)
- Foreign investment restrictions and import guidance (for example, through its Catalogue on Guiding Foreign Investment, and its Catalogue on Encouraged Imported Technology Products, which identify industry sectors as either "encouraged, permitted, or restricted" to foreign investment)
- State-driven acquisition of foreign talent (for example, through state-funded projects such as the 1,000 Talents Program and Project 111, which specifically target some 5,000 foreign scientists from the world's top 100 universities and research institutes with incentive packages in excess of what can be had in the normal academic market)
- A state-directed foreign technology acquisition program, whereby the Chinese government funds the acquisition by Chinese firms of foreign tech firms—such as in 2015–16, when China acquired some 21 U.S. semiconductor firms
- Industrial espionage

According to the U.S. Chamber of Commerce, the Made in China 2025 program is a "10-year comprehensive blueprint aimed at transforming China into an advanced manufacturing leader across 10 strategic industry sectors including next generation information technology, aviation, high-speed rail, new energy vehicles, and agricultural machinery." Both the U.S. Chamber of Commerce and the U.S. government's principal complaint against Made in China 2025 is that it is both state-directed and, most critically, state-funded, thereby creating an unfair global playing field for international firms seeking to compete in their own right. Indeed, the U.S. Chamber assessed in 2017 that declared Chinese government funding related to Made in China 2025 alone was about $632 billion.

Made in China 2025 is not the only Chinese strategic industry plan aimed at pole-vaulting China from being a labor-intensive, low-tech manufacturer 20 years ago, to becoming a global high-tech powerhouse within the space of a generation.

There are many other policy vehicles as well, including:

- China's 13th Five-Year Plan (2016–20)
- China's Medium- to Long-Term Plan for Science and Technology Development (2006–20)
- China's Strategic Emerging Industries Initiative of 2010
- China's Next Generation Artificial Intelligence Development Plan of 2017, with the objective of making China the world's premier artificial intelligence innovation center by 2030—targeting specific technologies such as intelligent connected vehicles, intelligent service vehicles, intelligent unmanned aerial vehicles, computer-aided medical imaging, video image recognition, artificial audio intelligence, and computer translation.

Again, the U.S. complaint about each of these policy initiatives is that they seek to realize Chinese global technological supremacy through the massive allocation of resources by the Chinese state, which again has the effect of disrupting the normal operation of competitive global markets.

A further stated U.S. concern is the clear interrelationship between state-driven high-technology development in China in the civilian economy with integrated military applications—including the rapid development of robotic warfare technology. As for China, it has argued that it is in its national interests to prosecute this vast array of state-driven strategies because it has concluded that U.S. national interests will preclude China from being able to acquire these capabilities through an open and competitive market.

Managing the technology dimension of this new strategic competition between China and the United States will be fundamental for the future—not just a single compelling feature. Policymakers will therefore have to become comprehensively literate in a field where very few have any significant experience.

For example, China's plan for science and technology development specifically concludes that "facts tell us that China cannot buy true core technologies in key fields that infect the lifeblood of the national economy and national security." As a result, as the plan concludes, in order to deal with this core vulnerability, China must resort to indigenous, independent innovation by improving the "absorption and re-innovation of foreign technology."

The same sentiment is reflected in Xi Jinping's recent statements on China's national artificial intelligence strategy, which conclude that in the absence of national innovation, adaptation, and self-reliance, China's long-term economic and national security will be under fundamental threat. For those wishing to understand the breadth and depth of Xi Jinping's national policy commitment in these areas, they should read his late April 2018 address to the National Work Conference on Cyber Security and Information Technology. It is a sobering reflection on the emerging terrain of the U.S.-China technology war.

The reality is that those seeking to work on the overall dimensions of the future of the U.S.-China relationship will have to deal with an emerging Cold War on high technology up front. Managing the

technology dimension of this new strategic competition between China and the United States will be fundamental for the future—not just a single compelling feature. Policymakers will therefore have to become comprehensively literate in a field where very few have any significant experience.

A RELATIONSHIP ADRIFT

Here in San Francisco, the Bay Area, and the home of Silicon Valley, you now find yourselves on the front line of this great competitive race that has now been launched between China and the United States to secure national competitive dominance in the new technology industries of the future. If you thought things were already becoming sharp for the sector because of the deteriorating dynamic of the U.S.-China relationship, my prediction is this: you ain't seen nothing yet.

It's only going to get much sharper. The race is on. The starter's gun was fired some time ago. But to return to my overall theme for this address: the key challenge for policymakers both in Washington and Beijing is whether they allow this level of strategic competition for the commanding heights of new technologies to fundamentally destabilize the overall relationship.

Which brings us back to the strategic question of what framework is now possible for the long-term development of U.S.-China relations that is capable of both managing acute competition and cooperation in specific areas all at the same time. Much creative effort must now be injected into this exercise—unless we are prepared to sit back and allow the relationship to career completely out of control. As I said at the outset, when we look back at the year 2018, I believe we will identify it as the year we saw the turning point in strategic competition between the United States and China begin to decisively outweigh the remaining areas of strategic cooperation.

The key challenge for policymakers both in Washington and Beijing is whether they allow this level of strategic competition for the commanding heights of new technologies to fundamentally destabilize the overall relationship.

In the same week that Governor Jerry Brown is convening the Global Climate Action Summit here in California, there's at least some hope that climate change collaboration between China and the United States, as the world's two largest greenhouse gas emitters, is at least capable of being sustained into the future—notwithstanding the vast array of geopolitical, geo-economic, and geostrategic factors now bearing down on the relationship overall. Let us hope at least that we can salvage this element of cooperation from a relationship that now seems to be progressively heading south.

I entitled this address "A Relationship Adrift." As the global climate change crisis intensifies, and as we begin to see the accelerated impact of climate change around the world, let us hope that this last remaining ballast in the relationship can be salvaged for the future of us all. The planet demands nothing less.

The idealist in me also suggests that maybe, just maybe, despite the hostility of the current U.S. administration to climate change science, policy, and action, this area of the U.S.-China relationship may not only survive but, because of the importance of non-national government actors on climate

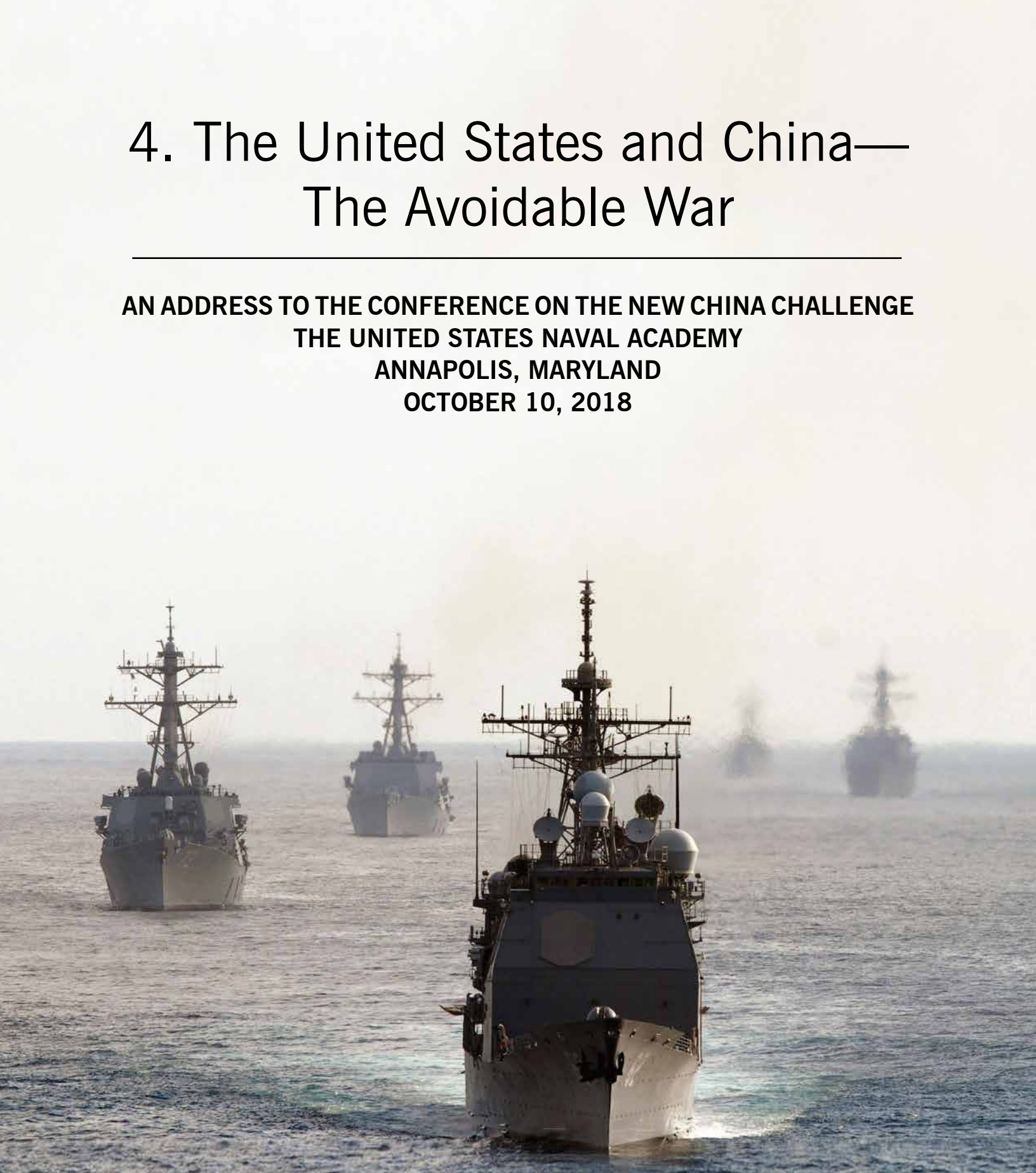
change in the United States, it may continue to flourish. Just as it is beginning to flourish in China—although in China, the national government remains fully engaged as China goes through a sea change in its own response to climate change.

Because the global stakes are now so high on climate change, as weather events become more frequent and extreme, as ocean temperatures increase more rapidly than previously thought, and as fresh scientific reports emerge on "hothouse earth" predicting earlier and higher land temperature changes as well, it may be that continuing climate cooperation between China and the United States becomes the remaining ballast in the bilateral relationship for the foreseeable future.

The challenge, however, of how to build new rules around the U.S.-China relationship in this new era of strategic competition for the future remains. If, that is, it can be done.

4. The United States and China—The Avoidable War

AN ADDRESS TO THE CONFERENCE ON THE NEW CHINA CHALLENGE
THE UNITED STATES NAVAL ACADEMY
ANNAPOLIS, MARYLAND
OCTOBER 10, 2018



PACIFIC OCEAN (Dec. 14, 2007) The Ticonderoga-class guided-missile cruiser USS *Chancellorsville* (CG 62), the Arleigh Burke-class guided-missile destroyer USS *Decatur* (DDG 73) and the other ships of Destroyer Squadron (DESRON) 7 steam through the Pacific Ocean during a submarine familiarization with the Nimitz-class nuclear-powered aircraft carrier USS *Ronald Reagan* (CVN 76). U.S. Navy photo by Mass Communication Specialist 2nd Class Christopher D. Blachly (Released).

SIX MONTHS AGO IT WAS MY PRIVILEGE TO ADDRESS CADETS at the United States Military Academy at West Point. Six months later, it is my privilege to address this conference, jointly hosted by the U.S. Naval Institute and U.S. Naval Academy at Annapolis. The subject is similar—understanding the rise of China, how China sees its future in the region and beyond, and what that means for the United States and its friends and allies around the world.

I must confess that during my stay at West Point, when the discussion there focused on how to deal with future adversaries, I was perplexed to see the military academy bedecked with banners urging America's future army officer class not to "beat China," but to "beat Navy"—who West Pointers assured me were in fact the real enemy. Indeed, the fine house we were accommodated in on the base at West Point was itself called "Beat Navy." But now I see the same spirit here in Annapolis, where midshipmen are also enjoined to "beat Army." It's good to see we are all on the same side. May the best team win when next you meet on the field of battle on December 8, where I understand Navy may have a score or two to settle after your most recent encounters.

This is my first time to the U.S. Naval Academy in Annapolis, although several years ago I addressed the U.S. Naval War College in Rhode Island. I understand that the U.S. Naval Academy was established in 1845 by then Navy Secretary George Bancroft, who apparently recommended "the healthy and secluded" location of Annapolis in order to rescue midshipmen from "the temptations and distractions that necessarily connect with a large and populous city."

I'm not sure how that has worked for U.S. naval recruits, but if we had tried that routine on the Royal Australian Navy, it would have been mutiny. In fact, when I sought to move Australian Fleet Base East from Sydney to Townsville in northern Australia, there was mutiny. Sydney certainly has powerful temptations and distractions. The result—the move never went ahead.

Australia has enjoyed a century-long alliance with the United States since we first went into combat together in the Battle of Hamel on the Western Front on Independence Day, July 4, 1918—indeed, the first military action against Germany by U.S. forces under allied command in World War I.

It was also from Hampton Heads, at the mouth of this very same Chesapeake Bay, that Teddy Roosevelt's Great White Fleet embarked on its global demonstration of American naval power in 1907. America had read his Alfred Thayer Mahan. And now, so too, has China. The fleet visited Sydney and Melbourne in 1908. In fact, as prime minister I had contemporary photographs of the USS *Connecticut* in Sydney Harbor that year placed on the walls of my prime ministerial office in Canberra. In Australia, to the disquiet of the Admiralty in London back then, the spectacle of the Great White Fleet lent political impetus to the establishment of the Royal Australian Navy in 1913, which then-Australian Labor Prime Minster Andrew Fisher determined would be an independent navy and not subsumed as part of the British Far East Squadron. A century later, I sought modestly to return the favor by sending a naval squadron here to the East Coast of the United States to celebrate the centenary of the Great White Fleet's visit to our shores.

Our naval forces have fought together in major engagements against Japan in World War II, which saw many ships lost and thousands of seamen killed who paid the ultimate price in the name of our shared freedom. Our navies have also engaged in combined operations in multiple war zones since, including Korea, Vietnam, and the Gulf.

As prime minister, through the Australian Defense White Paper of 2009, I was proud to commission the largest peace time expansion of the Australian Navy in history—confirming the acquisition of two helicopter carriers, enhancing their capability to take fixed-wing aircraft in the future should that become necessary, the increase of our surface fleet by a third, and the doubling of the submarine fleet. These ships and boats have now either been completed or their construction is now in process. That naval expansion had a strategic purpose in mind—namely, the change in the economic and military balance of power between China and the United States. Ten years ago, the Australian Defense White Paper, after multiple meetings of the National Security Committee of the Cabinet that I chaired, concluded,

> "Barring major setbacks, China by 2030 will become a major driver of economic activity both in the region and globally, and will have strategic influence beyond East Asia...
>
> The crucial relationship in the region, but also globally, will be that between the United States and China. The management of the relationship between Washington and Beijing will be of paramount importance for strategic stability in the Asia-Pacific region...
>
> China will also be the strongest Asian military power, by a considerable margin. Its military modernization will be increasingly characterized by the development of power projection capabilities....But the pace, scope and structure of China's military modernization have the potential to give its neighbors cause for concern if not carefully explained, and if China does not reach out to others to build confidence regarding its military plans...
>
> If it does not, there is likely to be a question in the minds of regional states about the long-term strategic purpose of its force development plans, particularly as its military modernization appears potentially to be beyond the scope of what would be required for a conflict over Taiwan."

This was several years before there was any evidence of Chinese land reclamation in the South China Sea. Indeed, when we briefed the Japanese government back then before public release, Tokyo was horrified that we could be so direct. When we briefed the Chinese government, they, too, were horrified (as recorded by the Australian media at the time) and asked that the offending paragraphs be removed. We declined.

For your allies, therefore, dealing with the complexities of the changing East Asian security environment over the years has had its own challenges, most of them invisible to the Washington policy establishment. In the midst of all this, we sought to prosecute a balanced relationship with Beijing: deeply mindful of our differences in our security interests and underlying values while prosecuting an economic relationship to our mutual advantage. At various times, my government incurred Beijing's wrath on human rights (whether it be on Tibet, Xinjiang, or Australian-Chinese citizens); on trade, as when we refused to allow Huawei access to the Australian telecom and broadband network; or in rejecting certain strategic foreign investment proposals, such as when the Chinese state-owned enterprise Chinalco sought to take over the Australian mining giant Rio Tinto. Meanwhile, we expanded our security dialogue with Beijing, our trade volumes doubled, we approved the vast bulk of Chinese foreign investment proposals in nonsensitive areas of the economy, we ended up with more Chinese students in Australian universities than in any other country in the world after the United States, and we worked intimately with Beijing through the G20 during the Global Financial Crisis to help stabilize financial markets and return growth to the global economy.

I make these remarks at the outset today to underline the fact that some of us have been dealing with the challenges of China's rise while in office over many years—while others have been content to offer their critique from the safe confines and comfortable armchairs of the fourth estate, the academy, and think tanks. There is nothing quite like dealing with the Chinese state firsthand to focus the mind on what is strategically important—and what is mere political ephemera.

Against that background, and mindful of the topic I have been set, my purpose today is to reflect on the following:

- First, how does China under Xi Jinping see its own future?
- Second, how is Xi's strategy going so far?
- Third, within the framework of a profound change in U.S. strategy, I want to pose a number of questions for U.S. and other policymakers to consider in the prosecution of this new strategy into the future.
- Finally, I will offer some remarks about the tone, tenor, and conduct of the new "great China debate" now underway in this country and other democracies around the world.

THE RISE OF CHINA

One month from tomorrow, we will commemorate the 100th anniversary of the "war to end all wars" in November 1918 between the great powers of the 20th century. Except it didn't end all wars. The rest is history. And the geopolitical map of the world has been redrawn three times since then.

I believe that when we look back at 2018, history will mark this year as a profound turning point in the relations between the two great powers of the 21st century—the United States and China. Although none of us can confidently predict what the long-term geopolitical trajectory will be.

To be clear, China's rise as global power did not begin in 2018. That began 40 years before. And it has continued under multiple Chinese administrations, albeit under single-party rule and a continuing strategic culture, focused on China's acquisition of national wealth and power. But while Chinese aggregate national power (what China internally refers to as "comprehensive national power") has increased steadily under Deng, Jiang, and Hu, what has changed under Xi Jinping has been the clarity of articulation of China's strategic intentions, reflected also in the increased operational tempo of China's policy actions around the world—militarily, diplomatically, and in its global economic reach. If the three pillars of strategic analysis are capabilities, intentions, and actions, it is clear from all three that China is no longer a status quo power.

It's important, however, to be clear about where this increased national wealth and power fits within the wider worldview of Xi Jinping and his own particular set of national priorities. Here, my views have altered little since my remarks at West Point in March of this year, in which I argued that Xi Jinping's approach can be best understood as a set of seven concentric circles of national interests:

- The centrality of the Party, keeping the Party in power for the long term, as well as Xi's power within the Party
- Consolidating the internal unity of the country

- Maintaining sustainable economic growth to ensure a continued increase in Chinese living standards, breaking though the "middle-income trap," while balancing against a parallel requirement for environmental protection now demanded by China's urban elites
- Keeping China's 14 bordering countries in a benign, and preferably supine, state
- On China's maritime periphery, projecting its regional naval and air power, politically fracturing U.S. alliances in Asia, and ultimately removing the United States from the immediate region militarily
- Leveraging its economic power across China's vast continental periphery, causing Eurasia, and in time the Middle East and Africa, to become accommodating to China's economic, foreign policy, and security interests
- Reforming parts, but by no means all, of the postwar international rules-based order over time to better suit its interests, and to better reflect China's domestic values rather than those of the postwar consensus

Of course, a strategic road map of where China would like to be is a little different from where China is likely to land in each of these. China's leadership faces a complex brew of domestic and international challenges that would cause most of us to go gray prematurely. But that does not mean that China will not necessarily prevail. It may well do so. Let's take each of these in turn:

On internal politics, while Xi Jinping has consolidated power by purging those who opposed his appointment, the ruthless use of the anti-corruption campaign to that end (as well as cleaning up the Party) and multiple changes to the command structures of the military, security, and intelligence apparatus, there is nonetheless grumbling in Party ranks about the cult of personality, the abolition of presidential term limits, and China's strategic overreach in relation to the United States. Still it's impossible to readily identify either a replacement leader, or even a successor. It's prudent for policy planners, therefore, to assume that Xi will be with us for another decade, health permitting.

On national unity, the crackdown in Xinjiang is beginning to generate a new human rights agenda focused against Beijing—this time not just from the West, but from parts of the Muslim world as well. Taiwan represents an even greater problem given the resilience of its democracy and its growing sense of local national identity separate from the mainland, reinforced by total generational change for whom pre-1949 realities mean little. Tibet also remains problematic.

What has changed under Xi Jinping has been the clarity of articulation of China's strategic intentions, reflected also in the increased operational tempo of China's policy actions around the world—militarily, diplomatically, and in its global economic reach.

As for the economy, real growth has been slowing since early this year as a result of a slowdown in further market-based economic reforms, a "from-the-top" deleveraging campaign to reduce the indebtedness of second-tier banks and financial institutions, combined with the impact on business confidence of the trade war with the United States. This has resulted in a rapid fiscal and monetary policy easing by the Chinese authorities, with the effect of slowing actions to deal with China's 266 percent of GDP debt overhang.

And that's before you factor in the Chinese public's demand for the Party to act rapidly and radically on air pollution and climate change. In short, the economy could well turn into a liability, rather than the strength it has been in enhancing Party legitimacy for the last 40 years.

China's neighboring state relationships, from Beijing's perspective, are nonetheless in a reasonable state of repair. The relationship with Russia is being strengthened given their growing community of strategic interests against the United States. Beijing, given its newfound difficulties with America, is also taking the temperature down in its normally problematic relations with both Tokyo and Delhi, where both Japan and India have been happy to oblige, at least for the foreseeable future for their own domestic needs, but also because they are uncertain where the United States is headed in the long term. For China, Vietnam is now less problematic than it was given leadership changes in Hanoi and given that there is now less solidarity from the rest of the Association of Southeast Asian Nations (ASEAN) than before on the South China Sea. The Philippines, despite Rodrigo Duterte's unpredictable behavior, is seen by Beijing as a net gain. While Burma, seen several years ago as a loss with the election of Aung San Suu Kyi, has now improved remarkably for China with a resuscitation of ties between the People's Liberation Army and the Burmese military. Furthermore, the rapprochement between the United States and North Korea, and the much deeper one between North and South Korea, has removed long-standing impediments to the structural improvement of China-North Korea relations that had been in the ice box since 2011.

On China's maritime periphery, China now faces more assertive American behavior in challenging China's maritime territorial claims in the South China Sea. But across wider Southeast Asia, China sees a region gradually drifting in its direction. Whereas not long ago, Cambodia was seen as China's only reliable partner in ASEAN, that is no longer the case. ASEAN is in strategic hedging mode, in part because of the enormousness of the Chinese economic footprint over the region relative to the United States, Europe, or even intra-ASEAN trade, reinforced by the investment dynamics of China's Maritime Silk Road. The election of Mahathir Mohamad in Malaysia, however, represents a fresh problem, as major Chinese infrastructure construction contracts with the Malaysian government have been suspended. But based on China's experience elsewhere, this is likely to be seen as a tactical rather than a strategic setback. The central strategic factor working in China's favor in the "New Great Game" that is Southeast Asia is the absence of an American or European alternative to Chinese markets, foreign direct investment, and, over time, capital flows. China's objectives in this respect were enhanced when the United States decided to withdraw from the Trans-Pacific Partnership. This has decoupled the United States from much of the future trade growth of Asia, thereby delivering a further win for Beijing.

China's continental periphery has not been plain sailing. Nonetheless, for every country where there is some pushback against China's Belt and Road Initiative (BRI), there is another queuing up. Where resistance is encountered, either on debt, labor standards, environmental standards, or loss of local sovereignty, many in Washington seem to think that is the end of the matter. However, China usually changes tactics to deal with the particular problem it has encountered and works it through to a new pragmatic outcome, as we have seen in countries as diverse as Pakistan, Sri Lanka, and Zambia. With more than 70 countries signed up to the BRI, again the strategic factor working for China is the absence of an American alternative. China's biggest impediment in fully delivering on its BRI vision is less likely to be foreign resistance, but rather the long-term drain on the financial resources of the Chinese state from investments in too many financially nonperforming projects.

Finally, on the future of the global rules-based order, and the critical international institutions that give effect to it, China would be reasonably content with its progress. The U.S. withdrawal from the United Nations (UN) Human Rights Commission is a godsend for Beijing, which has long found this to be the single most problematic multilateral institution because of its capacity, through its country reports, to attack the domestic legitimacy of the Chinese state. Similarly, the U.S. attack on the World Trade Organization has enhanced China's standing in that institution despite China's general reluctance to embrace fundamental global trade liberalization that would fully open its own markets. The U.S. attacks on the UN itself have similarly enabled China to look like a responsible global stakeholder in the UN multilateral system, enhanced by China's increasing aid budgets, greater contribution to UN peacekeeping, and the greater number of appointments of Chinese personnel across UN agencies. China's main problem in the UN Security Council is its close voting relationship with Russia on resolutions that are sensitive to non-Western states, such as on Syria, where its voting behavior alienates the European Union and the Gulf states. Nonetheless, China's global economic diplomacy across Africa, Asia, Latin America, and the island states of the world, through its formidable and still growing global diplomatic network, means that China is able to marshal formidable political support for its position in multiple UN forums. Whether this sort of support for China's tactical interests on the issues of the day will ultimately translate into more fundamental structural support for a formal rewrite of the rules and practices of the current international system is a much more open question. China's historical diplomacy has usually been more gradualist than that—to bring about de facto changes over time, rather than necessarily proclaim a de jure "reform." Time will tell as China's national self-confidence rises and its global influence grows.

China's biggest impediment in fully delivering on its BRI vision is less likely to be foreign resistance, but rather the long-term drain on the financial resources of the Chinese state from investments in too many financially non-performing projects.

Therefore, from Beijing's perspective, the country, the region, and the world represent a complex picture. What is clear, however, is that China under Xi Jinping has a worldview. It also has a grand strategy to give effect to that worldview. And it would be prudent for the rest of us to assume that absent major and enduring policy change, either in Beijing or Washington, China has at least some chance of success. It's one of the reasons I have consistently argued against the proposition that the Chinese Communist system will simply one day collapse under the weight of its own internal contradictions. Xi Jinping and his comrades are determined to defeat a liberal capitalist "end of history" with a different political, economic, and perhaps international model. Aided by the new technologies of political and social control, grafting these onto the traditions, culture, and ideology of a 100-year-old Communist Party and combining them with a successful authoritarian-capitalist model so far, Xi has some prospects of success. And it will take more than a speech at the Hudson Institute to turn all that on its head.

THE END OF STRATEGIC ENGAGEMENT—ENTER THE NEW ERA OF STRATEGIC COMPETITION

If China's operational strategy toward the United States has been largely constant over the last 40 years, albeit with a newly defined declaratory clarity as well as operational intensity under Xi Jinping, what now

seems to have changed fundamentally is the U.S. response to this Chinese strategy.[5] We see this clearly articulated in the December 2017 National Security Strategy of the United States. We see it stated plainly in the U.S. National Defense Strategy of January 2018. We see it in the launching of the trade war in June 2018 and its intensification during the summer. We see it in the release of the Department of Defense's report in September 2018 on the future needs of U.S. defense manufacturing, industry, and technology. And we have seen it in October 2018 with Vice President Mike Pence's address to the Hudson Institute.

If we were to distill the essence of these various statements of changing U.S. declaratory intent, it seems to boil down to the following:

- First, that the period of "strategic engagement" between China and the United States in the post-1978 period failed to produce sufficient domestic market opening in the Chinese economy for American firms for export and investment; that China, rather than becoming a "responsible stakeholder" in the global rules-based order, is instead now constructing an alternative order with "Chinese characteristics"; and that China, rather than becoming more democratic in its domestic politics, has now decided to double down as a Leninist state.
- Second, in addition to the above, that China now intends to push the United States out of East Asia and the Western Pacific and, in time, surpass the United States as the dominant global economic power.
- Third, that China seeks to achieve its national and international dominance over the United States through the hollowing out of U.S. domestic manufacturing and technology by China's state-directed industry, export, and foreign investment strategies; through a range of economic incentives and financial inducements to American partners, friends, and allies around the world; as well as through the rapid expansion of China's military and naval presence from the East China Sea, the South China Sea, across the littoral states of the Indian Ocean, and Djibouti in the Red Sea.
- Fourth, that these factors combined, together with Russia, represent *the* central strategic challenge to American security and prosperity for the future, therefore warranting an urgent change in American strategic course, from strategic engagement with China to a new period formally characterized as "strategic competition."
- Fifth, that this new American analysis of China's national capabilities, intentions, and actions will now be translated into a multidimensional, operational strategy aimed at rolling back Chinese diplomatic, military, economic, aid, and ideological advances abroad.

If this new direction in U.S. declaratory strategy toward China is reflected in future U.S. operational policy, 2018 will indeed represent a fundamental disjuncture in the U.S.-China relationship.

CONSIDERATIONS FOR THE FUTURE OF U.S. STRATEGY

In this address, I have not been asked to reflect on the wisdom or otherwise of the new direction of U.S. strategy toward China. And I don't intend to. Ultimately, that is a matter for the United States. I am not an American citizen. Although all your allies in Asia will be profoundly affected by the decisions you and

[5] See remarks by U.S. Vice President Mike Pence at the Hudson Institute on October 4, 2018, https://www.hudson.org/events/1610-vice-president-mike-pence-s-remarks-on-the-administration-s-policy-towards-china102018.

your Chinese counterparts take in the months and years ahead. There are, however, a number of factors that the administration will in all probability be considering as it contemplates the operationalization of its new strategy of strategic competition with Beijing. And your friends and allies around the world will be considering them as well.

First, what is the desired end-point of U.S. strategy? What does Washington do if China does not acquiesce to American demands, as outlined in the Vice President's speech, but instead explicitly rejects them? If strategy, a term derived from the Greek term for generalship, is defined as "a plan of action designed to achieve a long-term, desired objective," then what happens if it not only fails to produce the desired objective but instead produces the reverse—namely, an increasingly mercantilist, nationalist, and combative China? There are two broad possibilities here: either China will concede to the changes the United States wants, or else it will double down. Although there are, of course, many shades of gray in between. Presumably the United States has war-gamed the diplomatic, economic, and military scenarios that can proceed from escalation, crisis management, and, ultimately, conflict and is prepared for each of these contingencies. Your allies would need to think these through as well.

Second, if we are now in a period of strategic competition, what are the new "rules of the game"? How is a common understanding to be reached with Beijing as to what these new rules might be? Or are there now to be no rules, other than those that will now be fashioned over time by the dynamics of this new competitive process? The reality is that after 40 years of bilateral strategic engagement, the culture, habits, norms, and, in some cases, rules that have evolved to govern the parameters of the bilateral relationship have become second nature to several generations of political, diplomatic, military, and business practitioners. If we are indeed now in a brave new world, what rules will govern the avoidance of incidents at sea (such as recently occurred with the USS *Decatur*), incidents in the air, cyberattacks, nuclear proliferation, strategic competition in third countries, the purchase and sale of U.S. Treasury Notes, the future of the exchange rate, and other major policy domains? Or has the United States concluded that China is already in such fundamental violation of preexisting bilateral norms that there is nothing to be lost by moving into a strategic "terra nova" where there are no longer any norms governing the relationship? This is an important question to settle in the administration's mind.

China under Xi Jinping has a worldview. It also has a grand strategy to give effect to that worldview. It would be prudent for the rest of us to assume that absent major and enduring policy change, that China has at least some chance of success.

Third, and closely related to these first two factors, is whether or not any common strategic narrative between China and the United States is now possible to set the conceptual parameters for the future of the bilateral relationship. Strategic engagement as a concept implies a set of mutual obligations, which the United States now argues China has fundamentally breached. But in the absence of new rules to govern the parameters and content of the relationship, or a common conceptual framework, how can we readily arrest any rapid slide between strategic competition (having, it seems, already skipped through a short-lived concept of strategic coexistence), to decoupling, to containment, to confrontation, to conflict, and even war? If history is any guide, these changes can unfold more rapidly than many postmodern politicians might expect. The escalation from a single incident during the summer of 1914

is a sobering point, while readily conceding that the age of nuclear weapons has deeply changed the traditional strategic calculus since then.

Fourth, if some U.S. strategic planners are indeed considering the possible evolution of strategic competition with China into full-blooded containment, comprehensive economic decoupling, and even a second Cold War, then this would require a deep analysis of the underlying logic of George Kennan's famous "Long Telegram" of 1946 and his subsequent "X" article on "The Sources of Soviet Conduct" published the following year. Kennan argued that if properly "contained," the Soviet Union would ultimately be likely to break up under the weight of its internal pressures. It would, however, be a heroic assumption to assume that the Chinese system would ultimately collapse under the weight of its internal contradictions should a similar policy be applied. It may. But it probably won't, given the resilience of the Chinese domestic economy, its capacity to secure its energy needs from other U.S. adversaries, and the fresh potentialities offered by the various new technologies of political and social control now available to Beijing. On this point, it's worth noting that as of September 28, 2018, the People's Republic of China finally surpassed the Soviet Union as the longest-surviving communist state in history. Its many vulnerabilities may be apparent. But the prospect of systematic collapse appears remote and is certainly not a bankable proposition.

Fifth, is the United States convinced that the emerging Chinese model of authoritarian capitalism in itself represents a potent ideational challenge to democratic capitalism, whether it be of the conservative, liberal, or social democratic variant? The Soviet Union constructed client regimes around the world of a similar ideological nature to its own. Is there evidence that China is doing the same in third countries? Or is China more interested in a more limited version of supportive state relations, without any appeal to ideology, without armed intervention, but rather relying on extensive, continuing, and significant infrastructure investment and direct financial aid?

Sixth, will the United States be prepared to make a strategic counteroffer to the world to match the financial commitment reflected in China's combined multitrillion-dollar programs we see in the Belt and Road Initiative (BRI), concessional loans, and bilateral aid flows? Or will the United States continue to slash its own aid budgets and reduce the size of its foreign service? U.S. support last week for a new capital injection into the World Bank is a welcome development. But this amount pales into insignificance compared with the sheer dimensions of the BRI. Indeed, in the absence of this capital injection, the World Bank's global balance sheet would in time even be eclipsed by the lending capacity of the China-based Asian Infrastructure Investment Bank.

Seventh, beyond concessional finance and grant aid, there is the broader question of how the United States will compete over time with the magnitude of China's trade and investment volumes in both Asia and Europe. How will the cancellation of the Trans-Pacific Partnership with Asia and the Transatlantic Trade and Investment Partnership, its counterpart with Europe, affect the relative significance of the United States and China as a trade and investment partner with these regions, where China is already a bigger economic partner with most of these countries than the United States? In which case, how will the United States resist the effect of the centrifugal force of the Chinese economy in drawing these regions increasingly into China's economic and, in time, political orbit?

Eighth, for these and other reasons, how confident is the United States that its friends and allies around the world will fully embrace its new strategy of strategic competition with China? After President Trump's sustained public attacks on major U.S. allies Germany, the United Kingdom, Canada, and NATO in general, together with his imposition of import tariffs on Japan and India, is the United States confident that these countries will embrace this new strategy against China? Or will these countries continue to hedge their strategic bets in their relations with Washington and Beijing, waiting until it becomes clearer whether this strategic shift in U.S. policy toward China is permanent, whether it will be translated into real policy, and whether it will succeed? Then there is the question of other regions of the world. As noted above, Southeast Asia is now home to the "New Great Game" for strategic influence between China and the United States; as well as the Middle East, where China is now a bigger market for Gulf oil and gas than the United States.

Ninth, there is the related question of what constitutes the new American ideational appeal to the rest of the world to support this new U.S. strategy, as an alternative to a China-dominated region and world. The address by Vice President Pence last week was consciously and eloquently couched in terms of American interests and values. But it made no appeal to the international community's common interests and values, which historically have been shared with America, and which have historically been articulated though the American-led global rules-based order crafted after the last World War. Instead, the world has seen the U.S. administration walk away from a number of critical elements of the order constructed by its predecessors over seven decades (human rights, the multilateral trade regime, climate change, the International Criminal Court, UN multilateral aid agencies), all under the rubric of a nationalist call to arms under the rubric of "America First."

The world has seen the U.S. administration walk away from a number of critical elements of the order constructed by its predecessors over seven decades...all under the rubric of a nationalist call to arms..."America First."

Finally, there is the more immediate question of the impact of a major cleavage in U.S.-China relations on the global economy and climate change action. If U.S.-China trade collapses or even reduces significantly as a result of any radical approach to a decoupling of the two economies, given the importance of global supply chains, what will be the impact on U.S. growth in 2019 and beyond, and on global growth, and what are the prospects of it triggering a global recession? Similarly, in light of the just-released October 2018 report on global climate change by the Intergovernmental Panel on Climate Change pointing to potential planetary disaster because of inadequate action by the world's major emitters, what will happen if China reverts to its own more limited national measures at carbon mitigation? Particularly if the current global climate change regime becomes a major casualty of the implosion in the U.S.-China relationship.

These are 10 significant questions that U.S. and other policymakers should now be considering as they seek to put flesh on the bones of the administration's new era of strategic competition with China. In embracing such a new approach, the United States should do so with its eyes wide open. Because the truth is, we are now navigating relatively uncharted waters. Also because we do not want to see the triggering of unintended consequences, least of all unanticipated crises and conflict by accident. One hundred years on, the warnings of 1914 still ring loudly in all our ears.

Let me be clear. There is no way it is in China's remotest interests today to want either an economic war or a physical confrontation with the United States. That's because China knows it would in all probability lose both. China knows that it is still the weaker power. Nonetheless, history teaches us that nationalism can be a potent force often defying classical strategic logic, either from China's "Seven Military Classics," which collectively urge caution, or even Alfred Thayer Mahan or Carl Von Clausewitz.

Let me be equally clear that the questions I have posed today do not imply blame of the United States for the current state of the U.S.-China relationship. Indeed, I spoke on this a month ago in an address in Silicon Valley (the new coal face of the unfolding technology war between Washington and Beijing), where I said that it is not helpful to apportion blame, for the simple reason that the reasons for the changing nature of the relationship are largely structural: first, because China has now assumed such a global and regional critical mass in terms of its economic and military capacity that a rewrite of the U.S.-China relationship has become something of a structural inevitability. And second, that's before we add the radically different ideational traditions and future aspirations of what are now the two largest economies and militaries in the world.

There is no way it is in China's remotest interests today to want either an economic war or a physical confrontation with the United States. That's because China knows it would in all probability lose both. China knows that it is still the weaker power.

Let me be clear, too, that China's global and regional policy has also significantly changed over the last decade. As noted above, China has long since ceased to be a status quo power, be it in the South China Sea, Southeast Asia, Eurasia, Africa, Latin America, or the current structure of the international order. China indeed has been the dynamic factor. Whereas until relatively recently, the United States has been the constant factor. The central questions at stake today are to rationally determine what China's trajectory is, what are America's new objectives for its China policy, and what should be the content of America's future strategic response? In this context, playing the political blame game is not entirely helpful.

THE AVOIDABLE WAR?

Most of us gathered at this conference, who take the U.S.-China relationship seriously, struggle with the intellectual and policy complexity of the subject before us. It is not easy. It is hard. But the purpose of concerted intellectual effort is to produce the greatest clarity possible for policy development.

I fully recognize that in the charged political atmosphere in which we find ourselves, both in the United States and in China, it is a difficult environment in which to work. The protagonists of one view are variously described, usually under the breath, as either China appeasers or, less politely, panda huggers. Protagonists of a different view are described as warmongers. We need to be wary of the reemergence of a new McCarthyism, or the reconstitution of any new "Committee on the Present Danger," where any of us seeking to explain the complexity of China's rise are pronounced guilty of un-American activities

(or in my case, un-Australian activities) if we offer a complex response to what is otherwise rendered as a simple question—namely, "What to do about China's rise?" As I said before, this is a hard question. Not an easy one. And it does not easily lend itself to simplistic responses.

The bottom line is that there is now a contracting space, both in America and Australia, for open, considered public debate and discussion on the China question. Increasingly, I find both in Washington and Beijing the once unstated, but now increasingly stated question, "Whose side are you actually on?"

We need to be wary of the reemergence of a new McCarthyism…where any of us seeking to explain the complexity of China's rise are pronounced guilty of un-American activities (or…un-Australian activities) if we offer a complex response to what is otherwise rendered as a simple question—"What to do about China's rise?"

Of course, it's easy politics to simply join the cheer squad. It's much harder to think our way through as to what might constitute sound, enduring public policy, capable of realizing agreed objectives to preserve freedom, prosperity, and sustainability in the long term, while not producing unintended consequences on the way through—least of all, crisis, conflict, or war.

I have never pretended to be a bridge between China and the United States. That sort of approach is foolhardy. The most I've sought to do is to interpret one side's political values and strategic interests to the other, as accurately as I know how. In doing so, I have also sought to identify where intersecting sets of common interests and values may lie, if in fact we can still find them. But what to do about it is ultimately a matter for the parties, not for intermediaries.

There is a further problem with anyone attempting to be a bridge in this relationship—namely, that both China and the United States are both old enough, experienced enough, and indeed battle-scarred enough to ultimately sort this out between themselves. And bridges have a history of collapsing underneath the weight of excessive expectations on the part of both parties. Or when the pillars supporting the weight of the bridge begin to shift.

At this time, in the context of the great national China debate that is now unfolding, I am, however, always reminded of the sage advice of Henry Kissinger. When we established the Asia Society Policy Institute, and Dr. Kissinger became inaugural chair of its international Honorary Advisory Council, we asked him what our mission should be.

In a classically Kissinger-ian haiku, Henry responded that we should seek to identify three things about the world today:

- First, what is really happening?
- Second, why is it happening?
- Third, and most importantly, what are we not seeing?

If asked at this stage of the debate what side I am on, my response would be: I'm on the side of "the avoidable war." I'm on the side of avoiding "the unnecessary war." I'm on the side of "isn't there a third way, beyond the demands of either capitulation or confrontation, to help navigate our way through the Thucydidean dilemma that we now confront?"

And in pursuit of that objective, I believe we in the policy community and the academy have a particular responsibility, at this critical stage of the process, to shed as much light as possible on what we are seeing, rather than simply applying additional heat. There is already way too much heat. And shining light also requires us to understand reality as perceived through the eyes of others, even if we chose then to reject it.

At times like these, jingoism is easy, whether in Beijing or Washington. By contrast, solid strategy and good policy are hard. I look forward to the contributions of others at this conference, those of good heart and strong mind, seeking to find a way through this most classical of modern security dilemmas.

5. The United States, China, and Southeast Asia: Can ASEAN Find a New Strategic Equilibrium?

AN ADDRESS TO THE FOREIGN POLICY COMMUNITY OF INDONESIA
JAKARTA, INDONESIA
NOVEMBER 8, 2018

A policeman walks past a row of flags representing various members of the Association of Southeast Asian Nations (ASEAN) grouping at the My Dinh National Convention Center. Hoang Dinh Nam. AFP. Getty Images. 2010.

THANK YOU TO AMBASSADOR DINO PATTI DJALAL and the Foreign Policy Community of Indonesia for your kind invitation to deliver this address in Jakarta today. I've been asked to speak on the important question of how the Association of Southeast Asian Nations (ASEAN) navigates its future in a Southeast Asia increasingly pulled in different directions by the contending security and economic force fields represented by Washington and Beijing—and in doing so, whether there is a new strategic equilibrium that can be reached in ASEAN's response.

AMERICA'S CHANGING STRATEGIC VIEW OF CHINA

U.S.-China relations have now entered into a new structural phase. Officially, the Americans describe this as a change from 40 years of "strategic engagement" to a new period of "strategic competition." The precise definition of strategic competition, as an operational rather than a declaratory strategy, has yet to fully emerge. But we would be foolish not to recognize that there has been a fundamental systemic shift in U.S. sentiment toward China.

Notwithstanding the results of the mid-term elections in the United States, the uncomfortable truth for China is that the Trump administration's China strategy has, by and large, received bipartisan support. Indeed, friends on Capitol Hill, both Republican and Democrat, reminded me recently that China is probably the only thing on which Republicans and Democrats agree these days.

The uncomfortable truth for China is that the Trump administration's China strategy has, by and large, received bipartisan support. Indeed, friends on Capitol Hill, both Republican and Democrat, reminded me recently that China is probably the only thing on which Republicans and Democrats agree these days.

China is now seen as not just a trade threat, as evidenced by the tariff measures adopted by the Trump administration to rectify what President Trump describes as the bleeding of American industrial jobs to China, but also as a much wider economic threat to the United States as well, as reflected by American reactions to China's declared intention to dominate global high-technology markets by 2030 under the aegis of its Made in China 2025 strategy announced back in 2015.

Then, of course, there are the continuing American concerns over intellectual property theft, forced technology transfer from American to Chinese firms, and what the Americans also generally describe as "unfair" Chinese trade and investment practices. Beyond the economy, China is now seen in Washington across most of the foreign, security, and intelligence policy establishment as a major, systemic security threat to American national security interests at home, as well as American foreign and security policy interests in the Asia-Pacific region, now reaching into the wider Indo-Pacific as well.

There is also a deep American concern about China's capacity, through its state-sponsored, aggressive high-technology strategy, to technologically leapfrog the current gap between Chinese and American military capabilities. This builds on well-entrenched American views about China's capabilities and

activities in cyberwarfare attacks against the United States, as well as the rapid development of Chinese artificial intelligence capabilities and its military applications through various forms of robotic warfare.

These concerns sit on top of more classical American concerns about China's naval expansion and modernization program, its land reclamation and militarization efforts in the South China Sea, and the unfolding array of Chinese naval bases across the Indian Ocean as far as Djibouti in the Red Sea. The increasing pace and intensity of military and naval exercises between China and the Russian Federation have also galvanized the American national security policy establishment. Just as America and its Western allies have been taken by the intensity of Chinese and Russian political and diplomatic collaboration in the UN Security Council—from the Ukraine through the Middle East to North Korea.

In the United States, it's not only the political and bureaucratic establishment that has now formed deeply entrenched views about China representing a new strategic threat to the United States. They have been joined, by and large, by most arms of the American business establishment, which have grown frustrated in their efforts to export to or invest in China or to bring their profits out of China. This has been added to by a growing phalanx of American think tanks, academics, and nongovernmental organizations that have long fallen out of love with the possibility that decades of Chinese engagement would result in an increasingly liberal China, both politically and economically.

There is a deep American concern about China's capacity, through its state-sponsored, aggressive high-technology strategy, to technologically leapfrog the current gap between Chinese and American military capabilities.

More fundamentally, the United States has concluded that America welcoming China into the international community of open economies with China's accession to the World Trade Organization (WTO) back in 2002 has been used and abused by China to maximize Chinese state power, rather than conforming its economic model to WTO norms through the processes of market liberalization over time. And rather than China becoming a more open economy, or a more liberal political system, the pace and direction of China's domestic market reforms has slowed significantly, just as the Chinese Communist Party leadership has now doubled down in a fresh determination to consolidate the continuing political power of the Party through the control mechanisms of its increasingly Leninist state.

For these reasons, deep in the American political psyche, there is a sense of profound "betrayal" by China—a view that China rather than becoming increasingly comfortable with the international community of democratic capitalist economies, has instead deceived the United States in the pursuit of a more traditional and indeed atavistic Chinese statecraft. And beyond all of the above, there is, of course, an underlying awakening American consciousness that Chinese aggregate power, measured both economically and militarily, now begins to rival that of the United States, both regionally and globally, therefore presenting a challenge to the American international preeminence that it has not had to deal with for more than 100 years.

CHINA'S REACTION

China, of course, sees these American claims through a radically different lens. China would argue that its principal preoccupations at this stage of its economic development are domestic. China would argue that

over the last five years, it has been preoccupied with cleaning up the Chinese Communist Party through the anticorruption campaign. And as for China "doubling down" on its Marxist-Leninist roots, China politely draws the international community's attention to the fact that it has never claimed to be anything other than a Marxist-Leninist state. It has never pretended that it would become a democracy—it says so in its constitution—and that to have concluded otherwise has been a figment of the American imagination.

China also insists that it has been preoccupied with maintaining its national territorial integrity. Hence its positions in Tibet, Xinjiang, and its policies toward Taiwan, as well as the reinforcement of its historical claims both in the East China Sea and the South China Sea. And China would also assert that this is nobody else's business apart from its own.

As for its economy, China points to its record after 40 years of "reform and opening" and the fact that it has brought 800 million Chinese people out of poverty, which it would legitimately regard as a historically significant achievement. It would also claim that the framing of China's economic system (what we in the West call an authoritarian-capitalist system) is a matter for China itself to determine—and nobody else.

Indeed, China claims that it has achieved the right balance between an authoritarian political culture, on the one hand, and significant levels of market-based economic reform, on the other. It would also argue that rather than being a threat to the global economy, were it not for China's economic achievements, global growth over the last 20 years would have been significantly stunted, not least economic growth in Asia. China would also argue that its principal preoccupation with its national mission to achieve middle-income status by 2021 and advanced economy status by 2049 represents the legitimate aspirations of any nation-state worth its salt and that it is understandably the single-largest focus of China's political leadership, rather than any wider regional or global ambition.

As for China's policy toward its neighbors, China wishes to establish the most benign relationships possible, relations that are maximally accommodating to China's core national interests. That's why China places particular priority on its 14 land borders and its desire to achieve a positive relationship with each of those states. China's recent efforts to deescalate tensions with both India and Japan, where it had significant conflicting territorial claims, should also be seen through this prism.

From the Chinese historical perspective, China has been the recipient of foreign invasions from the Northeast, from Japan, from Manchuria, from Mongolia, and from elsewhere across its vast northern border. It would also argue that China has a limited history of foreign territorial expansion, although this record sits a little uncomfortably with the near doubling of China's own territorial land mass during the Qing dynasty.

As for China's continental periphery, it would argue that the Belt and Road Initiative (BRI) presents a strategic opportunity to enhance infrastructure investment across the vast expanses of Central Asia, South Asia, the Middle East, West Africa, and Eastern Europe. It wishes to transform this continental artery into a major economic growth corridor for the future—both to provide fresh markets for its own domestic financial, construction, and energy enterprises, as well as to lift the economic growth prospects of this vast Eurasian region, thereby reducing what it also sees as the threat to its western regions from the threat of militant Islamism in the future.

As for China's Maritime Silk Road, extending across archipelagic Southeast Asia, through the Indian Ocean, and into the Red Sea, China sees this in a similar light. China is also interested in seeing this vast

landmass become a new market for its goods and services. It sees this, using China's own phrase as a "win-win" opportunity for the countries of the region, though this has been complicated by recent controversies concerning various projects, most spectacularly in Sri Lanka and the transfer of ownership of a Chinese port development to Chinese hands under a 99-year lease after Sri Lanka was unable to repay its loans to China.

China also sees the BRI as a legitimate expression of its geopolitical interests in creating a wider, benign continental periphery to the Chinese nation-state. To achieve this, China wishes to become the indispensable economic partner and power to the vast array of countries that make up this wider region.

On China's maritime periphery, its leadership sees adversaries and threats at every turn. It sees a vast array of U.S. military alliances stretching from South Korea through Japan, the Philippines, and Australia. China challenges the political legitimacy of these alliances and asserts that they reflect the resuscitation of outdated Cold War sentiment when the Cold War already ended a quarter of a century ago. China's diplomacy in the wider region is dedicated toward weakening and/or removing these alliances altogether, if and when that proves to be politically possible. China also sees these alliances as anchoring U.S. strategic power in East Asia and the West Pacific.

On this score, China feels threatened by the forward deployment of U.S. military forces across the wider region, from South Korea and Japan in the north to Singapore and Darwin in the south, together with America's own forward deployments in Guam. China believes it is threatened by the forward-leaning posture of U.S naval and air forces across its immediate maritime periphery, most particularly through the regularity and intensity of surveillance flights by U.S. reconnaissance aircraft along its eastern coast. And central to China's concerns on its maritime periphery is what it perceives to be continued American strategic efforts to frustrate what China sees as its legitimate political aspirations to bring about political reunification with Taiwan.

A central organizing principle for China's own military, naval, and air expansion and modernization is to make it increasingly difficult for the United States to come to Taiwan's military assistance in the event of a security crisis across the Taiwan Strait. In other words, China seeks to alter the balance of forces across the Taiwan Strait in such a manner as would cause the United States to think twice about deploying American military assets in support of Taiwan in any future military contingency. Indeed, China sees this is a necessary objective if China is to secure political reunification with what it continues to regard as its renegade province—ideally without ever firing a shot. It's for these reasons that China would argue that the continued expansion of its military capabilities are necessary in order to confront the American threat not just to China's interests in relation to Taiwan, but also to defend the territorial integrity of the Chinese mainland in any wider Taiwan contingency.

Furthermore, on its maritime periphery, China continues to deploy significant naval, military, and air assets in support of its territorial claims in the East and South China Seas. This is unlikely to reduce over time. China believes it achieved considerable success on these questions during the life of the Barack Obama administration. And having reclaimed and then militarized a number of islands in the South China Sea, China will now prosecute to the maximum a diplomacy, both through bilateral and multilateral negotiations with the affected ASEAN states, to bring about incremental recognition of China's territorial claims over time.

China will therefore continue to seek to confront any American or allied challenge to assert its freedom of navigation rights through the South China Sea. In terms of future military contingencies, the South China Sea remains the most volatile of all military contingencies that China faces with the United States into the future. It is where Chinese and American vessels and aircraft rub up against each other. In the East China Sea, the friction point is between China and Japan. Across the Taiwan Strait, it's between China and Taiwan, whereas in the South China Sea, it is with America directly. That's why this remains the most dangerous theater of all—not only in terms of the growing statistical probability of military incidents, but also in terms of the potential for subsequent political and military escalation into crisis, conflict, or even a limited conventional war.

Finally, China would argue that in terms of the institutions of the global order, whether it's the United Nations, the Bretton Woods Institutions, or the G20, the time has come for China to exercise a greater voice—not only the direction of these institutions in the future, but also in terms of their staffing, design, and operational behavior. This has been reflected in a number of recent authoritative statements by the Chinese leadership.

Of course, beyond these traditional institutions of the current American-led, global rules-based order, China has also sought to create new institutions of its own. These have included both the BRI, but also the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank. Other such institutions are likely to follow. Because of the Trump administration's general disinterest in the institutions of the global multilateral order, it is important to note that China's new activist policies across these institutions of global governance have encountered much less direct response from the United States than other instruments of China's growing international power. Other members of the international community, however, have experienced firsthand the growing dynamics of this move toward a more activist Chinese multilateral.

China would argue that given its relative economic size as of 2018, and its prospective size over the decade that lies ahead, it is only fair and reasonable that China begins to exercise greater direct influence over the institutions of global governance. The core question that this presents the international community, however, is more complex than this simple proposition. A greater voice for China within the framework, institutions, habits, and norms of the *existing* global architecture is one thing. But China is beginning to change the architecture itself, and to create *new* institutions outside that architecture, particularly institutions that exhibit different behavioral characteristics, has generated considerable debate around Asia and the around the world.

These nonetheless represent the core dimensions of China's worldview under Xi Jinping. It is also the ideational framework through which China would respond to the claims now being made against it by the United States as the United States begins to adjust its strategic course in response to China's continued rise.

CHINA'S CHALLENGES

It would be wrong, however, to assume that all this represents plain sailing from China's perspective. Indeed, when China views both its domestic and international environment from the perspective of its Politburo, it sees difficulties, threats, and challenges in most places that it looks.

China, for example, confronts a softening economy at home. It also, in light of President Trump's new China strategy, and Vice President Pence's recent call to arms against China, faces a growing range of challenges abroad as well. There is a danger that we tend to regard China as an unstoppable economic juggernaut, driven by the ever-onward march of an all-seeing, all-knowing political monolith. The reality is more complex than that.

China faces a range of major domestic economic challenges. These include the slowing of the market reform agenda first announced in 2013. As a result, the Chinese private sector, the principal generator of China's recent economic and employment growth, has felt increasingly squeezed out by Chinese state-owned enterprises. Furthermore, China's recent deleveraging campaign—to reduce the macro-economic and macro-financial threat represented by its 280 percent debt-to-GDP ratio—has also constrained the activities of China's otherwise buoyant private sector. The anti-corruption campaign, which has now run for five years, has caused both Chinese private enterprises, and the official class responsible for regulating them, to adopt a much more cautious approach to the approval of new projects. Furthermore, there has been a hardening of the role of the Party in the overall regulation of China's private sector. And all this was before the impact of Donald Trump's trade war against China.

The cumulative effect of all these variables has been a significant downward spiral in Chinese business and investor confidence in the course of 2018. That is why, for example, we have seen increasingly urgent calls in recent weeks, both by President Xi Jinping himself and his Vice Premier responsible for the economy, Liu He, for a resuscitation of private sector activity in the Chinese economy. The extent to which Chinese private entrepreneurs respond to these calls remains to be seen. But the calls themselves reflect a degree of central political anxiety about the real state of the Chinese domestic economy as private sector activity begins to significantly slow.

There is a danger that we tend to regard China as an unstoppable economic juggernaut, driven by the ever-onward march of an all-seeing, all-knowing political monolith. The reality is more complex than that.

This brings into stark relief the likely future trajectory of the U.S.-China trade war. As noted above, this has already been one of the contributing factors to a dampening of Chinese domestic business confidence. Remember the mathematics tends to speak for itself: the United States is a $20 trillion economy that sells $130 billion of goods and services to China each year. By contrast, China is a $12 trillion economy that sells $500 billion of goods and services to the United States each year. A trade war, if it extends across all exports and is not levied at a marginal rate but at a full 25 percent tariff rate, will harm China more than the United States—at least in the near term.

In the longer term, of course, a 25 percent tariff across all Chinese exports to the United States would however have a significant inflationary effect on the American economy, directly affecting President Trump's own blue-collar constituency, who depend on affordable Chinese imported consumer goods to maintain their own standard of living. It is doubtful, therefore, that President Trump will want to see the further deterioration in the trade war through 2019 and 2020 for fear of what the wash-through impact would be on U.S. consumer prices, inflation, and the further tightening of U.S. monetary policy.

For these reasons, barring the interference of other external political factors, including the impact of the U.S. midterm elections, as well as any further weakening of the Trump presidency as a result of the Robert Mueller investigations on Russia, there should be a reasonable convergence of mutual American and Chinese interests to bring about a negotiated settlement to the immediate trade war when the two leaders meet at the G20 Summit in Buenos Aires later this month.

As for the other outstanding tensions in the U.S.-China economic relationship, concerning intellectual property, forced technology transfer, and Chinese state industry policy promoting Chinese high-technology dominance in the future, it is more difficult to see how a comprehensive deal could readily be struck. A more likely outcome for Buenos Aires, therefore, would be a short-term deal on significantly reducing the trade deficit in exchange for America removing the punitive tariffs it has already imposed, combined with a time-limited process, perhaps across six to twelve months, dealing with some but not all of the structural reforms the United States is demanding for the broader trade and investment relationship.

In the longer term…a 25 percent tariff across all Chinese exports to the United States would…have a significant inflationary effect on the [U.S.] economy, directly affecting President Trump's own blue-collar constituency, who depend on affordable Chinese imported…goods to maintain their own standard of living.

However, it is difficult to see how such an outcome would necessarily produce any fundamental respite to the general deterioration in the U.S.-China relationship at a strategic level that I referred to at the outset of my remarks. Both Chinese and American strategic thinkers are increasingly as one in their conclusion that we are now facing a deep structural shift in the overall terms of the bilateral relationship for the long-term future, and that this structural shift is driven by a deep cleavage in the two countries' fundamental political, economic, and national security interests and values.

If this broad macrostrategic trend indeed proves to be the case, it also has fundamental implications for the rest of us who seek to carve out our national futures in dealing with these two giant economies and militaries that weigh so heavily on the strategic environment of our wider region.

IMPLICATIONS FOR ASEAN

So where does all this leave the countries of Southeast Asia? The difficulty for ASEAN is that Southeast Asia has now become the "New Great Game" for strategic influence between the world's two major great powers. It looms as the principal terrain in which the political, economic, and diplomatic battle is being fought for the next quarter century for strategic dominance. Southeast Asia lies in the swing position, both geographically and politically, between China on the northeast of the Asian landmass and India in the southwest. For ASEAN, this means, unfortunately, that you are now destined to indeed live in interesting times—as China seeks a more benign southern flank more willing to accommodate Chinese strategic interests, and as America seeks to preserve the sea-lanes of archipelagic South Asia for freedom of international navigation, as well as its own independent freedom of strategic maneuver.

I have been a lifelong supporter, and enthusiastically so, of the achievements of ASEAN. ASEAN has transformed a region that half a century ago was deeply divided on strategic and ideological grounds into one that has achieved a remarkable degree of political, economic, and strategic unity. Furthermore, this has been accommodated across Southeast Asia despite the disparate domestic political systems represented by ASEAN's 10 member states. ASEAN, therefore, largely through its own efforts, has turned a region of deep strategic instability into a region of long-term strategic stability, which has, in turn, facilitated decades of growing economic prosperity.

The grave danger that ASEAN faces, of course, is that the increasingly binary nature of the U.S.-China relationship in East Asia and the West Pacific begins to divide ASEAN into pro-American and pro-Chinese camps. This is not in ASEAN's interests. Nor is it, in my view, in the wider region's strategic interests, nor its economic interests. A divided region breeds instability. Whereas a reasonable equilibrium between the region, on the one hand, and its dealings with the great powers on the other, provides ASEAN and its member states with maximum freedom of policy choice, rather than being captured or constrained by the overwhelming interests of one external power or another.

The practical question, therefore, that arises, is what can be done? This, of course is a matter for the ASEANs themselves. There's already been much deep strategic thinking being done on this question, both here in Jakarta and elsewhere across Southeast Asia. Dealing with large external powers is not new to Southeast Asia's history. We've seen it in ancient times. We've seen it during the Cold War. And, of course, now we see it with both the United States and China.

ASEAN's consistent strategic response to external challenges in the past has been anchored in two core principles: first, safeguarding its internal unity, and second, the consistent assertion of its doctrine of ASEAN centrality. These have shaped not only the conduct of the intra-regional affairs of Southeast Asia itself, but also ASEAN's engagement with wider East Asia as well. We've seen this reflected with the institutional evolution of the various ASEAN-Plus arrangements, the ASEAN Regional Forum, and, of course, the East Asia Summit.

The difficulty for ASEAN is that Southeast Asia has now become the "New Great Game" for strategic influence between the world's two major great powers. It looms as the principal terrain in which the political, economic, and diplomatic battle is being fought for the next quarter century for strategic dominance.

I argue the time has come for ASEAN, consistent with these dual traditions of internal consensus and external centrality, to become considerably bolder in its aspirations than in the past. Indeed, there is a danger that ASEAN has become too consensual, too passive, and too inert for its own good. The truth is that standing still is to go backward. In fact, the future vitality of ASEAN depends on its ability to actively navigate its institutional future amid a rapidly changing external strategic environment. Unless ASEAN sets the terms for its own engagement with the wider region, those terms will be increasingly set for it by the great powers.

First, ASEAN must maximize its efforts to develop and maintain common positions in dealing with the external powers. In China's case, that includes the South China Sea in general, and the negotiation

of the Code of Conduct in particular. In America's case, it may mean ASEAN's posture on future basing options for particular elements of the U.S. fleet within the Southeast Asian region. Whatever the nature of the challenge, on major matters of regional policy concern, ASEAN must make greater recourse to the "10 minus X" formula if consensus is routinely denied by a small minority of states, or even just one smaller country. The politics of the "lowest common denominator," when taken to the extreme, can render the entire institution dysfunctional.

Second, ASEAN now needs to look boldly to the rest of the wider region, rather than focus exclusively on the formidable challenges that lie within. In doing so, ASEAN needs increasingly to look both east and west—to both the Pacific and the Indian Ocean. Indeed, the time has come for ASEAN to evolve its own strategic concept of an Indo-Pacific future. Of course, this has been part of ASEAN's traditional thinking as well. But rapidly changing strategic realities require that this work now be intensified. ASEAN's geographic location suggests that this should be the case anyway. Half the member states of ASEAN face the Indian Ocean, just as more than half also face the Pacific. ASEAN also sits astride the sea transportation corridor between Northeast Asia, South Asia, the Middle East, Africa, and Europe. Then, of course, there is the question of India, a member state of the East Asia Summit (EAS), which for some time now has prosecuted a policy of "looking east" or "acting east." And, whether we like it or not, both China and the United States have deep interests in their futures in both oceans as well. So unless ASEAN evolves its own strategic concept of the future shape of a wider Indo-Pacific region, then ASEAN will simply be left with contending strategic conceptions of their wider region from both the United States and China.

The future vitality of ASEAN depends on its ability to actively navigate its institutional future amid a rapidly changing external strategic environment. Unless ASEAN sets the terms for its own engagement with the wider region, those terms will be increasingly set for it by the great powers.

Third, this raises the question of what the content of such an ASEAN strategic concept of the Indo-Pacific might be. Ten years ago, I launched the concept of an Asia-Pacific Community, representing the evolution over time of the EAS, with all the member states sitting around one table evolving over time the habits, culture, and practices of security policy and economic collaboration across the wider region.

Last year, as President of the Asia Society Policy Institute, I chaired an international commission that sought to develop this concept further, made up of former foreign ministers Marty Natalegawa of Indonesia, Kim Sung-hwan of South Korea, Yoriko Kawaguchi of Japan, and Igor Ivanov of Russia; former national security advisers Shivshankar Menon of India and Tom Donilon of the United States; and Wang Jisi, a member of the foreign policy advisory group of the Chinese foreign ministry. This was done in a paper entitled "Preserving the Long Peace in Asia: The Institutional Building Blocks of Long-Term Regional Security."

I believe the ideas alive in that commission report could be adapted to ASEAN's own internal deliberations, and perhaps Indonesia's as well, on ASEAN's vision for the future of the Indo-Pacific region. The proposals contained in the commission's report are practical, focused on building different forms of security policy collaboration over time, from counter-disaster management, through military

transparency, through to other forms of confidence and security-building measures as well. Such a concept is not designed to replace the existing hard security arrangements within the region, but instead to reduce the brittleness of those arrangements and to create, over time, a greater sense of common security across the wider region. Such a concept, I believe, meshes with ASEAN's intrinsic DNA.

Most critically, it also builds on an already existing ASEAN institution, the EAS, which was established under the Kuala Lumpur Declaration and 13 years ago already agreed on a mandate for a pan-regional institution that embraces both security *and* economic cooperation: in other words, nothing needs to be added to the existing mandate of the EAS. Furthermore, the commission's report delivers recommendations for a long-term Asia-Pacific Community, or even an Indo-Pacific Community, which also builds on the Bali Principles enunciated by EAS leaders in 2011. And it wraps in the institutional role of the ASEAN Defense Ministers Meeting-Plus, which already brings together the 18 defense ministers annually from across the region.

ASEAN can no longer afford to rely exclusively on its pan-regional convening power. It must also begin to elaborate its vision for the wider region beyond Southeast Asia if it is to credibly sustain its long-standing doctrine of ASEAN centrality.

Importantly, however, it takes the EAS to the next phase of its institutional development. Unless this is done, there is a danger that the EAS, now 13 years after its inauguration, will wither away through lack of a substantive institutional function, other than meeting from time to time.

ASEAN can no longer afford to rely exclusively on its pan-regional convening power. It must also begin to elaborate its vision for the wider region beyond Southeast Asia if it is to credibly sustain its long-standing doctrine of ASEAN centrality. Just as it must now build more robust institutions of pan-regional security, economic, and political collaboration for the future, and do so now within the wider strategic remit of the Indo-Pacific region as well.

CONCLUSION

All this, however, is contingent on countries like Indonesia playing an even greater role in the future development of ASEAN's institutional machinery. It is also contingent on countries like Australia working constructively with Indonesia on the future institutional architecture of the wider region. Such constructive relationships can be impeded by irresponsible policy positions being adopted by Australia, itself a G20 country with a responsibility therefore to have considered positions on the full range of global policy issues. This includes not only the issues of our own region. But also those of other regions, including the Middle East.

As a responsible middle power globally, and a significant power within our own region, we must always prosecute a principled foreign policy. Successive Australian governments have done this over many decades. Our foreign policy settings must always be anchored in our enduring national values and our enduring national interests. This applies not just to the policy we adopt on the major challenges facing our own region. But also on the major challenges facing the wider international community. We have recently served as a nonpermanent member of the UN Security Council. Furthermore, Australia has also recently been elected to the UN Human Rights Council.

Therefore, what Australia has to say on critical international policy questions is not only important as an articulation of how we see our own view. Our views are also, to the surprise of many in Australian domestic politics, taken seriously in the wider world as well. That also includes questions concerning the future of the Middle East and the Middle East peace process.

The Middle East peace process has long dealt with the so-called final status issues arising from the two-state solution, anchored in the underlying principle of a permanent Israeli state and permanent Palestinian state both lying in secure international boundaries. The final status questions yet to be finally agreed concern the adoption of 1967 boundaries plus appropriate land swaps between both sides; the future of the right of the return of Palestinian refugees; the future of Jerusalem as the capital of Palestinian and Israeli states; as well as the future custodianship of the holy sites.

The Trump administration's decision to effectively abandon the two-state solution and to unilaterally move the U.S. embassy from Tel Aviv to Jerusalem does fundamental violence to the Middle East peace process. This may be the preferred position of Benjamin Netanyahu's far right-wing government in Israel. But it does not necessarily represent the broader position of the Israeli parliament and people. There is a grave danger that the further alienation of the Palestinian people from a long-term homeland of their own in a permanent Palestinian state will result in further radicalization and, over time, the launching of a third intifada. That is why successive Australian governments have long supported the two-state solution, and why we have supported the Australian embassy in Tel Aviv and refused to embrace pressure from Prime Minister Netanyahu to move our embassy to Jerusalem.

If and when the United States returns more fully to the regional table, there is...a danger that regional adjustments and accommodations to Chinese realities will have already taken place. The region will not be "snap-frozen" in time...while the United States, through its domestic political processes, refines its future global role.

It is regrettable that Prime Minister Scott Morrison has chosen to depart from the long-standing Australian bipartisan consensus. It appears that he has done so to appease the interests of elements of the far-right Israeli lobby in Australia for domestic political purposes. This is not the responsible course of action of a respected global middle power as seen through the councils of the world. Indeed, it is sacrificing Australia's international political credibility for petty local partisan advantage. As a former prime minister and foreign minister of Australia, I would call on Prime Minister Morrison to abandon this foolhardy position. There should be no "process" for him to reach the decision that all his predecessors have reached over many decades, including Prime Minister John Howard. It's time to put this unfortunate saga behind us.

The future of our immediate region will be determined more acutely by the future posture of China and the United States toward Southeast Asia as well. China's strategy toward the region is relatively clear: namely, to become the ASEAN states' indispensable economic partner through the combined deployment of trade, foreign direct investment, the long-term role of its capital markets, and direct economic aid and, through them, to enhance China's political and foreign policy leverage across the region over time.

By contrast, U.S. strategy toward ASEAN today is far less clear. The Pentagon's policy of strategic engagement in Southeast Asia, and with most of the militaries of the region, stands out as the exception. The State Department, by contrast, is reeling from budget cuts and the resulting diminution of its diplomatic footprint. And USAID is being cut to pieces. Most crucially, there is no American alternative to China's Belt and Road Initiative and the rollout of major infrastructure initiatives across the region. This represents a fundamental gap in U.S. strategy for which there is nothing in the policy pipeline. In fact, the only alternatives offered to the developing countries of Southeast Asia on infrastructure investment are the investment vehicles offered by Japan and to some extent India, although these do not approach the sheer scale of the BRI.

If and when the United States returns more fully to the regional table, there is also a danger that regional adjustments and accommodations to Chinese realities will have already taken place. The region will not be "snap-frozen" in time for several more years while the United States, through its domestic political processes, refines its future global role. In some respects, the cold, hard reality is that the caravan continues to move on. How precisely the United States reengages Southeast Asia in two or six years' time remains an open question. Whereas in the meantime, regional powers are likely to continue to hedge against.

None of the challenges I have described in this subject for ASEAN are easy. They are all difficult. But most of the systemic challenges in international relations are by definition difficult. Particularly when we are at a time of fundamental geostrategic disruption, driven in large part by the changing structural relationship between these two giants of the 21st century: China and the United States.

I nonetheless believe there is a way in which ASEAN can help navigate the common peace and common prosperity of our wider region, and doing so within the principles and practice of the existing global rules-based order. But this will not be achieved by ASEAN standing still. In fact, being static is likely to prove to be the most debilitating position for ASEAN to adopt for the future. Because then you become increasingly the "price taker" of the terms of regional engagement set by others outside the immediate region. Rather than setting your own strategic course and shaping the conditions through which other powers engage you.

Through Indonesia's own efforts as ASEAN's largest power and its only member of the G20, and through your active membership of ASEAN, Indonesia can indeed provide a positive contribution to the Indo-Pacific region of the future.

6. U.S.-China Relations In 2019

AN ADDRESS TO THE ASIA SOCIETY
NEW YORK CITY
DECEMBER 5, 2018

China's President Xi Jinping and US President Donald Trump at the Great Hall of the People in Beijing. Nicolas Asfouri. AFP. Getty Images. 2017.

TODAY IN WASHINGTON, D.C., the United States, and the world marks the passing of President Bush Sr. President George H. W. Bush was a truly remarkable president. For those of us engaged in the business of the world—the first Gulf War, the end of the Cold War, and the reboot of the U.S.-China relationship in the early 1990s after the implosions of 1989—President Bush Sr. was a truly remarkable American, and a truly remarkable American president. And we honor him this day.

Over the last 12 months, much of Asia has been turned on its head through the new dynamics we have witnessed in U.S.-China relations and on North Korea. It was only 12 months ago that the United States and North Korea appeared to be on the verge of armed conflict as "Rocket Man" was threatened by President Trump with "fire and fury" over the North's continued nuclear weapons program. Twelve months later, President Trump and Kim Jong-un appear to be the best of friends following their historic summit in Singapore, and despite the fact that there seems to have been negligible substantive progress on denuclearization, the thaw in inter-Korean relations has been unprecedented.

Twelve months ago, President Trump had just returned from his state visit plus to Beijing, where it seemed Trump's anti-Chinese rhetoric of the 2016 campaign had finally been put to bed. But 12 months later, China and the United States are now in the middle of a still unresolved trade war, while the administration has declared that America's 40-year-long era of strategic engagement with China is now over and a new period of strategic competition has begun.

Twelve months ago, the American, European, and Chinese economies and markets were roaring. Whereas 12 months later, they are beginning to slow, albeit for different reasons, causing concerns about the sustainability of long-term growth, employment, and income levels.

If a week is a long time in politics, in international politics and economics, a year is an eternity. And China remains a dominant driver in all three of these major unfolding changes. During the course of this year, we have all been wrestling with three big questions: How is China changing under Xi Jinping? How is America changing under Donald Trump? And to what extent have the traditional moorings of the U.S.-China relationship of the last 40 years now been severed, in which case what, if anything, can now anchor the relationship into the future?

During the course of this year, we have all been wrestling with three big questions: How is China changing under Xi Jinping? How is America changing under Donald Trump? And to what extent have the traditional moorings of the U.S.-China relationship of the last 40 years now been severed, in which case what, if anything, can now anchor the relationship into the future?

In other words, are we now, as Graham Allison warns us, "destined for war"—either cold, medium, or hot? Or is a new strategic equilibrium now possible between the two countries, based on a new common strategic narrative for the relationship that can be shared and observed in both capitals. The truth is, these are genuinely hard questions. They force us to think clearly about one another through the fog of perception and misperception. They force us to think clearly about our values, our interests, and our identity. And they force us to think through carefully what is essential, what is nonessential, where there should be compromise, and what should remain contestable.

I do not intend to try to answer all these questions today because they require further thought, although I am deeply conscious of the fact that they must be analyzed and answered soon. That's because we are now in potentially dangerous terrain—some sort of "no man's land" between one set of strategic assumptions about each other that have stood for several decades, and a brave new world where everything may be up for grabs.

Over the last 12 months, we have, however, made a start in a series of addresses aimed at analyzing core aspects of the collective challenge we are facing. In March, I spoke at West Point on the question of what does Xi Jinping want, while in June at the Lee Kuan Yew School in Singapore, I began to analyze the Marxist origins of Xi's emerging worldview. In September, I spoke on America's response to Xi Jinping through a new declaratory doctrine of strategic competition and posed a series of questions for U.S. policymakers as they seek to operationalize that strategy. I also spoke in Silicon Valley on what strategic competition might look like if allied to a high-technology war between the two countries. And most recently in Jakarta, I sought to analyze what this emerging strategic cleavage between Washington and Beijing means for Southeast Asia, which has become the "New Great Game" for strategic influence as ASEAN itself continues to hedge against a rising China and what is perceived to be an indifferent, uncertain, and potentially unreliable America. We need also to analyze other regions within a similar frame, including Africa, Eurasia, the Middle East, South Asia, and Latin America. There are commonalities but differences across them all that we need to understand.

In my remarks today, part of the same series, I want to look at the state of the relationship at year's end in the aftermath of the Buenos Aires Summit; the impact of the continuing trade war on China's unfolding domestic economic policy debate and where that may lead in the future; as well as what the prospects are for the overall U.S.-China relationship for the year ahead. I'm always challenged by Henry Kissinger, who enjoins us in strategic analysis to understand first and foremost what we are seeing, and to ask ourselves also what we are not seeing. All before going onto the critical question of policy: "what then is to be done?"

THE BUENOS AIRES SUMMIT

What Presidents Trump and Xi Jinping did in Buenos Aires was buy time. Three months' worth, in fact. Which is good when measured against the alternative, which is a full-blown trade and broader economic war between the two countries starting next month. Which, in turn, had the potential to trigger a further collapse in global market sentiment, particularly coming on the back of other negative trends emerging in both the U.S. and Chinese domestic economies. But even from those of us who have been arguing publicly that, on balance, a deal of some sort between the Chinese and the Americans was more probable than not: one swallow doth not a summer make. Much can still unravel. Both Trump and Xi have indeed bought valuable, though limited, time for themselves and the world. But for a number of different reasons.

To begin with, there are five complex baskets of policy disagreements to work through. First, the current annual $370 billion bilateral trade deficit needs to be reduced. Then there are the possible cuts to tariff rates themselves. The Chinese average tariff rate currently stands at about 9.8 percent compared with an American average tariff rate at 3.4 percent. Then there are those industry sectors that are most politically sensitive in each economy, led by agriculture: Republican-voting farmers in the United States, matched by

China's historical paranoia over national grain self-sufficiency. Then there are the three hardy perennials: intellectual property protection, forced technology transfer (an American term), and the use of the full resources of the Chinese state to support China's stated national industrial strategy (Made in China 2025) to dominate global advanced technology markets and product standards by 2030. These three are the really ugly ones. Setting a deadline of March 1, 2019, to resolve these five problems is smart. Particularly if it's driven hard by the prospect of a further working-level summit with Trump and Xi later in March, although I note that a number of trade professionals have argued that 90 days is so ambitious that it's unrealistic and sets both sides up for failure.

This 90-day pause also serves Trump and Xi in other ways. By March, Trump will have a fuller idea of the lay of his domestic economic and political landscape. He will then know the extent of any significant softening in the economy already induced by monetary policy tightening by the Federal Reserve Board, and the extent to which the American economy could then sustain further tariffs should the efforts of Chinese and American officials have come to naught. On the political front, the Mueller investigation should also have reported by March. If the results of the investigation are seriously bad for Trump, then we should be alert to the possibility of Trump having a renewed interest post-Mueller in doubling down against China—if, in fact, he is found then to have been compromised in his dealings with Russia. That certainly would be an "X factor" that our Chinese friends are worried about.

March, however, also presents Xi and his chief economic adviser Liu He with opportunities of their own. On the international front, March might enable Xi to take a bold trade message to Davos in January, should he decide to go. China has sought to mobilize global sentiment in support of its efforts to uphold the global economic and environmental order. A major Chinese announcement on trade liberalization across the board, not just on a bilateral basis with the United States, could indeed take the world by storm. It would also send a stark signal to the world on the 40th anniversary of the Chinese economy's "reform and opening up." And that indeed could represent a serious new challenge to American global leadership.

Furthermore, a serious commitment to trade liberalization from Beijing, accompanied by the underlying message of competitive neutrality between foreign firms and domestic firms, as well as between private firms and state-owned enterprises, would reinforce Liu's valiant efforts in recent months to reprosecute the full implementation of China's stalled "phase two" economic reform program first announced in 2013. This is something that China desperately needs for its own economic interests.

This takes us to the core question of the organic relationship between any concessions that China might offer U.S. trade and economic negotiators bilaterally, and those things that Chinese economic reformers understand need to be done in any case domestically, if indeed the economy is to be able to have strong, sustainable growth into the future.

CHINA'S CHANGING DOMESTIC ECONOMIC NARRATIVE

Those who follow the Chinese economy closely understand the significance of the economic reform blueprint first released by Xi Jinping's administration in November of 2013. This came earlier in his period in office. After a fierce internal debate in its preparation, agreement was finally reached on its central organizing principle, that "the market play the decisive role in resource allocation." The decision

incorporated 60 different reform measures covering 10 broad categories of trade, cross-border investment, state-owned enterprise (SOE) reform, competition policy, financial system reform, fiscal policy, innovation policy, labor, environment, and land reform. This was a conscious effort by China's economic leadership at the time to transform China's historical economic growth model over the previous 35 years to what became then universally known as "the new model."

The old model, as we are all familiar, was based on two pillars: labor-intensive, low-cost manufacturing for export, reinforced by high levels of public investment in national economic infrastructure. The new model was based on three pillars: high levels of domestic consumption; private sector-driven innovation following the completion of the SOE-driven infrastructure build, and a sustainable development revolution.

Implementation began in 2014–15, but the Party's confidence in the market was dealt a body blow by the implosion of Chinese equity markets and broader financial markets in August 2015. From that time on, as we at the Asia Society Policy Institute have tracked through our "China Economic Dashboard," the pace of implementation of the reform program slowed drastically, and in most areas ground to a complete halt. Harsh capital controls were also imposed on China's capital account, making it much more difficult for private firms to expand their operations abroad. At the same time, because of legitimate fears about the size of China's debt-to-GDP ratio, driven in large part by an out-of-control shadow banking sector, as well as ballooning local government debt, the central government began a national deleveraging campaign, which over the last several years has also resulted in credit being withdrawn indiscriminately from otherwise profitable private firms. At the same time, Chinese SOEs were given a new lease on life where the national deleveraging campaign has had less effect on SOEs than their private sector counterparts.

Furthermore, there has been the rolling impact of China's anticorruption campaign that has fundamentally slowed government decision-making processes as officials sought to protect themselves from political exposure, which meant that the private sector-driven development projects also began to slow significantly. To this was added Xi Jinping's emphasis on the central role of the Party and the primacy of ideology, resulting in an enhanced role for Party secretaries operating within private firms. And, on top of all the above, there has been considerable confusion as to the precise implications of China's so-called mixed ownership model—whether it was an invitation for private firms to absorb poorly performing public trading enterprises, or whether in fact it was creating a fresh opportunity for SOEs to "nationalize" well-performing private firms.

All these factors had been unfolding across the Chinese economy over several years prior to the beginning of the U.S.-China trade dispute in the first half of 2018. The net effect of all of the above has been a growing number of anecdotal reports pointing to the significant slowing of Chinese economic growth during 2018 with private sector firms, concerned about an increasingly adverse policy environment, refraining to invest in further expansion of their enterprises, either at home or abroad. By the time the annual leadership retreat occurred at Beidaihe in August of this year, reports had begun to come in from across the country that China was facing a serious domestic crisis of private sector business confidence with potentially profound implications for future growth.

FROM ADVERSITY SPRINGS OPPORTUNITY: COMPETITION POLICY REFORM

It was at about this time that those who have long understood the continuing imperatives of China's market economic reform agenda saw an opportunity emerging out of adversity—namely, to bring about the next wave of competition policy reform within the Chinese economy by opening China to more foreign competition, thereby lifting long-term productivity growth. It will be recalled that competition policy reform had long been a key component of the original 2013 national economic blueprint, but it had been allowed to slide.

The need for a more effective competition policy was particularly felt within China's poorly performing financial services sector. In any efficient market economy, the effective allocation of capital across competing corporate needs, based on the business case advanced by would-be borrowers, and the associated risk taken on by lenders, is fundamental to sustainable economic growth. By contrast, China's financial services industry has developed inefficiently, despite the growing number of domestic private players within it, because capital allocation decisions are driven less by market considerations than by political or administrative necessity.

The reformers see the future lying not just in bringing China's grossly indebted second-tier banks and SOEs back within reasonable borrowing limits....They equally recognize the structural importance of introducing market disciplines for capital allocation decisions for the future.

China's economic reformers are fully seized of the dimensions of this problem in the heart of the Chinese financial system. The reformers see the future lying not just in bringing China's grossly indebted second-tier banks and SOEs back within reasonable borrowing limits from their previous borrowing and lending habits. They equally recognize the structural importance of introducing market disciplines for capital allocation decisions for the future. In other words, it's not just the matter of cleaning up decisions from the past. It's also about creating a functioning market framework for the future so that scarce financial capital is allocated rationally, and corporate debt burdens do not simply blow out once again.

Chinese reformers also see the greater introduction of wholly owned foreign financial institutions into the Chinese domestic market as a new way of grafting these market disciplines onto the Chinese system. This differs qualitatively from previous Chinese approaches to allow limited foreign financial institutional participation within China—where foreign presence has largely been limited to minority stakes in second-tier banks with the limited policy objective of Chinese banking officials "learning" how Westerners do these things, before eventually asking said Westerners to leave. The alternative approach is to fundamentally shake up the Chinese system from the top down, by introducing large-scale foreign competitors across the breadth of the financial services industry in order to force Chinese firms to be more efficient.

This year, for example, we have seen a number of foreign investment limitations eased for entry into China's $45 trillion financial services sector. These have included the following:

- Foreign investment limits on securities companies and mutual funds were raised to 51 percent in April and set on a three-year path to allow full foreign control. Indeed, last Friday, UBS became the first foreign securities firm to be approved for majority ownership, with applications from JPMorgan and Nomura in process.
- Foreign insurance firms are now to be allowed a controlling 51 percent ownership of domestic insurers as of May of this year. And German insurer Allianz was approved to be the first wholly owned foreign insurance company on November 25. French firm AXA has quickly followed, purchasing the outstanding share of its previous joint venture on November 26.
- Foreign ownership limits on banks and other debt managers were also removed in August. Previously, foreign firms were limited to 20 percent as a single entity, or 25 percent as a group. To date, however, no foreign firms have applied to use the new regulations.

ADDITIONAL SUPPORT FOR THE PRIVATE SECTOR

Financial services reform driven by increased foreign participation is one thing. Wider reforms to promote China's somewhat beleaguered private sector have also been forthcoming. On November 19, the State Administration of Taxation issued a policy note outlining 26 concrete measures centered on reducing the tax burden for private firms.[6] According to the State Administration of Taxation, these were not yet fully utilized. Nonetheless, in the most recent quarter, there were over 143 billion RMB ($21 billion USD) in tax deductions for Chinese small and medium-sized enterprises, a 41 percent increase from the third quarter of 2017.

Beyond these various reform measures, there have also been recent announcements from the central government aimed at improving credit availability to Chinese firms. The Party secretary of the People's Bank of China on November 7 outlined the new so-called 1-2-5 policy.

- This was a directive for at least one-third of new corporate loans from large banks to be extended to private firms
- At least two-thirds of new loans from small and medium-sized banks
- Over the next three years, for at least 50 percent of all new corporate credit across the banking system to be extended to the private sector

FIRST STEPS TOWARD A NEW CHINESE POLITICAL ECONOMY?

To repeat: the key to the success of this newly emerging political economy in China is the extent to which China's economic reformers are able to develop a domestic political narrative within the Party and the country that explains any "external concessions" to the U.S. administration as necessary internal reforms to undergird China's long-term economic growth prospects.

This is a tough challenge given that over the last several years at least, Xi Jinping's political center of gravity has lain elsewhere. Namely, his predilection for a stronger Party, stronger politics, and a more nationalist

[6] See Li Xia, "China to Ease Tax Burdens for Private Enterprises," Xinhua News Agency, November 19, 2018, http://www.xinhuanet.com/english/2018-11/19/c_137617997.htm.

posture. Nonetheless, it seems that Xi Jinping has now had a large encounter with economic reality—Chinese style. Namely, that the Chinese private sector really matters. Furthermore, if this economic policy correction continues, basically from left to right, then this may turn out to be a seminal period of reform indeed.

There are grand precedents in recent Chinese history for such economic policy corrections to occur. Barely three years after Tiananmen, Deng Xiaoping undertook his famous southern expedition, where he told China to redouble its efforts in economic reform and opening to the world. And China did. Five years later, Jiang Zemin, in the midst of the Asian financial crisis, said to China's emerging entrepreneurial class to "go out into the world." And they did. Five years after that, Zhu Rongji in 2002 secured China's admission into the World Trade Organization, heralding the next phase of China's economic reform program, including China's emergence as the global export superpower it has since become.

It may well be that we are witnessing a policy redirection of a similar order of significance with what is unfolding now. Certainly a careful reading is warranted of Xi Jinping's speech of September 27 on the economy;[7] Vice Premier Liu He's of October 19 on the private sector,[8] and perhaps most significantly of all, Liu He's comprehensive statement on China's future economic direction outlined in his address to the Hamburg economic forum in late November on the eve of the G20 summit.[9]

The key to the success of this newly emerging political economy in China is the extent to which China's economic reformers are able to develop a domestic political narrative...that explains any "external concessions" to the U.S. administration as necessary internal reforms to undergird China's long-term economic growth prospects.

Of course, many things can go wrong with all of this. Policy momentum may stall. Chinese bureaucrats may simply hedge their bets and sit on their hands. Even worse, they may simply resort to the vast array of nontariff barriers at their disposal to undermine the letter and the spirit of reforms to China's overall trade and investment policy environment on the ground. And beyond all that, China's private sector, still facing significant restrictions on the capital account, may not respond positively to what the Party and the government are now telling them to do, on the grounds that there is too much policy and regulatory unpredictability for them to have sufficient confidence to invest in the future.

That's why it will be critical to see China's emerging data on private fixed capital investment to see whether Chinese firms have bought the Chinese leadership's new policy message, thereby unlocking a further period of reform, opening, and sustainable economic growth.

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[7] Xi Jinping, "Three Talks about the Private Economy in a Month: Xi Jinping's Speech Revealed What?," China Communist Party News Network, October 26, 2018, http://cpc.people.com.cn/xuexi/n1/2018/1026/c385474-30364832.html.
[8] Liu He, "Chinese Vice Premier Vows Unwavering Support for Private Sector," Xinhua News Agency, October 19, 2018, http://www.xinhuanet.com/english/2018-10/19/c_137544504.htm.
[9] Liu He, "The Hamburg Summit: China Meets Europe" (Keynote Address, Hamburg Summit, Hamburg, Germany, November 27, 2018), https://hamburg-summit.com/images/summit/2018/Speeches/13_2018-11-27_HS2018_Keynote-speech-Liu-He.pdf.

PROSPECTS FOR 2019

Against this general economic background, what then are the prospects for the U.S.-China relationship for 2019? By March, it's probable that there will be an agreement between China and the United States on the quantum of bilateral trade deficit reduction and the import decisions that China will make to bring that about over time. As for tariff reform by March, that is possible, although the degree of technical difficulty remains significant. If it's a tariff line by tariff line approach, given the multiplicity of tariffs that currently apply to the overall trading relationship, this may well blow out way beyond March. If, however, Chinese economic reformers take a more dramatic approach by committing to zero tariffs over time, and challenging the Americans to do likewise, that would be precisely the sort of measure that could be announced relatively rapidly. It would, however, run totally against the grain of half a century of training of Chinese trade bureaucrats to give away nothing if at all possible—let alone be seen to "give away everything" in one fell swoop.

The reform of so-called forced technology transfer, within the contractual arrangements between Chinese and American enterprises, should be relatively straight forward. This, however, is different from how contractual arrangements may be interpreted on the ground, even in the absence of any specific technology transfer provisions. Intellectual property (IP) protection is deeply problematic. Not only are there traditional forms of commercial espionage, there is now cyber espionage as well. Previous agreements reached under the Obama administration could be reconstituted. But the critical problem remains jurisdictional enforcement of breaches if and when discovered. One possible mechanism for building confidence is for all relevant contracts between Chinese and foreign firms to be made subject to international commercial arbitration regimes located in either Singapore or Switzerland. These could be designed in a manner to specifically deal with IP protection. The recourse to international commercial arbitration is now relatively common around the world. If China objected, it might also be possible to develop China's own domestic international commercial arbitration system. But for foreigners to have confidence in this system would require China to appoint qualified foreigners to its panel of arbitrators. Other countries already do this. China could do the same. But in the absence of an independent Chinese legal system, even in the commercial law, this would seem logically to be the only way through this continuing thorn in the side of the relationship.

On China's use of state subsidies in support of its national plan for domestic and international high-technology market domination, it is difficult to identify any readily available solution. The uncomfortable reality is that all countries use varying levels of government support for their indigenous technology industries. Even if we were to mandate a maximum proportion of state support for a given firm (either by way of state research and development support or other related tax breaks), the problem would invariably arise as to how all of this is measured. I am not therefore confident of a negotiated outcome in this area. America may simply need to outcompete "China at its own game" in terms of a radical increase in public investment in research and development across the full spectrum of information technology and biotechnology sectors. The major public universities would, I'm sure, welcome this with open arms.

As indicated above, we should also not rule out the possibility in 2019 of China pitching any tariff reforms that it is prepared to implement to resolve the U.S.-China trade war to the wider international community as well. We should not rule out the possibility, for example, that if China were to undertake something dramatic—like a commitment to zero tariffs over time—that such a commitment would not

just be made on the basis of reciprocal actions by the United States, but by all WTO member states. Indeed, this would represent an almost irresistible geopolitical opportunity for China to champion global free trade and to arrest the global trend toward protectionism that currently threatens the wider global economy. Furthermore, we should not rule out the possibility that China approaches the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11) member states to negotiate possible accession to the TPP. This would comprehensively outflank the United States within the Asia-Pacific region. It would also turn out to be supremely ironic that a TPP originally designed by the Obama administration as part of its pivot to Asia ended up including China but not the United States. China, when it sees a political and market opening, can be remarkably fleet of foot. The technical negotiations would, of course, be formidable. But there is already evidence of a softening in traditional Japanese reservations toward possible Chinese accession as evidenced during Prime Minister Shinzo Abe's recent visit to Beijing.

On the wider foreign policy and security policy front, 2019 is likely to see China increasingly pull its head in. There is already evidence of a normalization in relations with Tokyo. The Japanese coastguard has published data already indicating a radical reduction in the frequency of Chinese incursions into the Senkaku/Diaoyudao area in the East China Sea. China is also seeking to deescalate tensions with the ASEANs over the South China Sea through an intensification of its negotiation of a "code of conduct"—although maritime incidents with the United States have continued to be sharp, and may well get sharper if the United States implements a more vigorous campaign of freedom of navigation operations in the coming year. China has also sought to deescalate tensions with India following the bilateral summit with Prime Minister Narendra Modi in Wuhan in April 2018. That is likely to continue through the Indian national elections due in 2019. China may also begin to moderate its posture toward Taiwan during 2019 given the remarkably poor results of the Democratic Progressive Party in the most recent Taiwanese local government elections. This, of course, would change radically if the United States proceeds, as is likely, with a further significant arms sale to Taiwan.

China is likely to use the period ahead to consolidate and expand its role within the existing institutions of international governance, rather than the continued construction of new institutions ...that lie outside the UN and the Bretton Woods system.

Across Eurasia, the Belt and Road Initiative (BRI) continues to be implemented. But for those observing China closely, the BRI now attracts considerably less political fanfare within China, at least over the last several months. It's still too early to tell. But already there is a debate underway in Beijing about revising certain BRI modalities. The Sri Lankan case looms large in the minds of the Chinese official class. So, too, does the long-term affordability of this multitrillion-dollar project. We may therefore be seeing less Chinese triumphalism over the BRI in 2019 than we've seen the last couple of years.

Common to all these adjustments in the year ahead is a general tactical approach that until such time as China is able to finally bed down the fundamentals of its trade, investment, and economic relationship with the United States, it is wise for China to reduce tensions between Beijing and other countries and regions of the world.

As for China's engagement in the wider international system during the course of 2019, China is likely to continue to be the newfound champion of the WTO. It is also likely to sustain its posture on global climate change action that it agreed to under the Paris Accord. In other words, China is likely to use the period ahead to consolidate and expand its role within the existing institutions of international governance, rather than the continued construction of new institutions of international governance that lie outside the UN and the Bretton Woods system.

Of course the BRI and the Asian Infrastructure Investment Bank will continue, but there may well be a parallel reduction in the global profile attached with China's more recent institutional innovations. Among some of the more sober minds in the Chinese foreign policy establishment, it's better to focus instead on the existing machinery of the global rules-based system, particularly when the United States is demonstrating systematic contempt for those very same institutions.

It is historically unprecedented to be in the midst of a debate about whether the world's largest economy and oldest continuing democracy can happily coexist with the world's second-largest economy and oldest continuing civilization, given that the latter has never exhibited…any attraction to liberal democratic norms. But grapple with the debate we must.

Taken together, these are nonetheless likely to represent tactical rather than strategic shifts in China's overall posture toward the United States, third countries, and the wider international system. China is likely to use 2019–20 to form a deep judgment about what happens to the future of U.S. politics. Will Trump be derailed by Robert Mueller? What will China policy be like if Trump is weakened by Mueller? Would Mike Pence be even more hard line than Trump on China? And would a Democratic Party candidate, if successful in 2020, adopt an equally hard-line strategy toward Beijing, and if so, how would it differ from the Republicans?

On these big strategic questions, the Chinese system moves deliberately slowly. It seeks to analyze carefully the operating environment in which Chinese strategy and tactics are deployed. And while China's leadership has already concluded that there is indeed a deep shift in American attitudes to China, they are still uncertain as to what precise shape and form this will take in the future. Tactically, therefore, China is likely to seek to buy time to reach these conclusions. And in the meantime, to deescalate tensions wherever possible, both with Washington and other capitals, while China seeks to reach a more fundamental judgment about America's future strategic direction and political resolve.

This is consistent with China's predilection for the long term, rather than the short. At present, China sees Trump as being a problem for the next two years for China, possibly not longer, before being replaced by another political leader with different priorities. Whereas China equally assumes that Xi Jinping will be leading China not just for another two years, but probably another ten. Or even more.

CONCLUSION

As I said at the outset, we are dealing with profoundly complex questions. Indeed, it is historically unprecedented to be in the midst of a debate about whether the world's largest economy and oldest continuing democracy, can happily coexist with the world's second-largest economy and oldest continuing civilization, given that the latter has never exhibited in its history any attraction to liberal democratic norms. But grapple with the debate we must. And resolve it we must as well, one way or the other.

This is despite the fact that we must do so in the midst of an increasingly polarized debate in both countries about the other. Americans believe China is stealing their future. They are angry. They have finally woken up and are fighting back. The Chinese, whether they are on the right or the left of their own debate, believe that the Americans are now deliberately containing China because Americans cannot cope with the idea of ever being number two. Particularly if number one happens to be Asian.

The debate is therefore a highly charged one. Which is why we need to be careful about the manner in which it is conducted in both our countries. In America, as in other countries, I am concerned about the rise of "neo-McCarthyism" in a debate that conflates concerns about the actions of the Chinese Party and state on the one hand, with the actions and attitudes of Chinese Americans on the other.

The recent report on foreign interference in the United States and a number of other countries is a case in point. Foreign interference, from whichever country, is an entirely legitimate subject for debate. After all, that's why democracies have laws, courts, law enforcement agencies, intelligence services, and other institutions preserving the careful set of checks and balances guarding our civil liberties as well as protecting us against internal and external threats to our security. That's why the best solution to questions of foreign interference lies in a policy of full transparency on the part of any institutions receiving foreign funding. It's when things are done in secret that we should be particularly concerned.

But that's also why it's critical to constrain the terms of the debate so that the patriotism of Chinese Americans is not brought into question. I'm concerned that in the current febrile political environment, this could occur. I presume that's why the recent report on foreign interference in this country has attracted dissenting submissions from among its authors, namely, Susan Shirk.[10]

Having read Susan's dissent, I support her reflection. I have also noted Bill Bishop's observation about the title of the report and its conflation of the Chinese Communist Party with the simple word "Chinese," capable, as Bill says of sparking anti-Chinese sentiment in general.

So as we advance this hard debate on this country's future with China, let us learn from the events of the last Cold War, Joe McCarthy, and his committee on un-American activities. This debate requires full candor—not a show trial. We are all better than that.

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[10] Larry Diamond and Orville Schell, *Chinese Influence & American Interests: Promoting Constructive Vigilance* (Stanford, CA: Hoover Institute Press, 2018), https://www.hoover.org/sites/default/files/research/docs/chineseinfluence_americaninterests_fullreport_web.pdf.

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COVER IMAGE: U.S. President Donald Trump takes part in a welcoming ceremony with China's President Xi Jinping on November 9, 2017 in Beijing, China. (Photo by Thomas Peter-Pool/Getty Images)