

3. The Trade War, Economic Decoupling, and Future Chinese Strategy toward America

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MAKING SENSE OF THE U.S.-CHINA TRADE WAR IS DIFFICULT IN ITSELF. Trying to make sense of where it may lead in the context of a wider “decoupling” of the U.S. and Chinese economies is more difficult again. But understanding where both of these developments may take us in terms of China’s future grand strategy toward the United States is perhaps the hardest task of all.

Nonetheless, we have reached just such a juncture in U.S.-China relations—one that now requires us to ask ourselves these fundamental questions, given that the answers we formulate in response will also shape the future of this, the single most consequential relationship of the twenty-first century.

I wrote earlier this year in a short publication titled “The Avoidable War” that as of 2018, we had seen a major new inflection point in the postwar relationship between America and the People’s Republic of China. Phase one of the relationship covered the quarter century of strategic hostility from the founding of the People’s Republic until rapprochement under Richard Nixon and Henry Kissinger. Phase two covered the next 20 years of Sino-U.S. strategic collaboration against Moscow until the collapse of the Soviet Union in 1991. Phase three covered the next 20 years of economic collaboration and engagement, highlighted by China’s succession to the World Trade Organization in 2001 and its emergence as the new global factory, through the end of the global financial crisis.

Phase four has been marked by the rise of Xi Jinping and an economically self-confident China, one prepared to emerge from the shadows and exercise a more assertive regional and global foreign and security policy. It was also characterized by the reemergence of a renewed Chinese strategic partnership with the Russian Federation. And now, this fifth period of the relationship has seen the United States formally abandoning its 40-year-long policy of strategic engagement with Beijing, and instead its formal embrace of an undefined period of “strategic competition.”

In truth, this did not begin under the Donald Trump administration. During the second Barack Obama administration, the outline of a more robust American response could already be seen militarily in the U.S. “pivot to Asia” and then economically in the Trans-Pacific Partnership. If we are looking for official signposts to mark the end of one era and the beginning of the next, the release of the U.S. National Security Strategy in December 2017, followed by the new National Defense Strategy in January 2018, fulfills that purpose.

Since then, the U.S.-China relationship has entered into new and uncertain terrain where there are no longer any clear rules of the road. Both the conceptual framework of the past (strategic engagement) and the extensive institutional machinery of the relationship (the advanced bilateral apparatus growing out of the Strategic and Economic Dialogue) have been effectively abandoned. As of June 2019, nothing has effectively taken its place.

Apart from the bilateral trade negotiations led by the Chinese Vice Premier Lui He, on the one hand, and the uneasy American triumvirate of U.S. Trade Representative Robert Lighthizer, Treasury Secretary Steve Mnuchin, and Commerce Secretary Wilber Ross, very few other bilateral mechanisms have survived. This becomes particularly problematic when the single remaining track of the bilateral relationship (trade negotiations) ends up being suspended, as has been the case since the implosion of the eleventh round of negotiations in Washington in early May 2019.

We seem, therefore, to be thrown back to an almost nineteenth-century relationship in which the principal point of political contact between the two administrations has now reverted to embassies, ambassadors, and the occasional special envoy. Indeed, the relationship has become the most brittle it has been in the last 30 years, going back to the aftermath of Tiananmen in 1989.

We live in difficult and dangerous times when the absence of extensive political engagement and substantive political communication across the breadth of the relationship means that we now find ourselves depending on the ancient crafts of speechmaking and textual analysis and the crudities and ambiguities of diplomatic signaling. Given that this is such a consequential relationship, many of us find this strange indeed. Not just strange, but increasingly unstable and potentially dangerous as the politics of miscalculation and miscommunication become more pronounced.

My purpose today is to begin to examine the three questions raised at the outset of these remarks:

- where the U.S.-China trade war may go to next, including the prospects for some form of resolution;
- what the prospects are, with or without a trade deal, for a wider economic decoupling between China and the United States in the future; and
- where these developments may take us in the future as the Chinese leadership begins to reappraise China's long-term strategy toward the United States and its friends and allies around the world?

I do so because I still entertain the old-fashioned view that an analysis of what is actually going on is a necessary precondition for determining policy on what could or should be done about it.

The U.S.-China Trade War

This time last month, I was having breakfast with a Chinese friend in Chengdu, the prosperous provincial capital of Sichuan, and discussing the increasingly toxic U.S.-China relationship. The only newspaper available that morning was the less than world-renowned *Chengdu Commercial Daily*. But the headlines that day took my eye, particularly the bright box high on the front page, announcing publicly for the first time China's three new red lines in the ongoing U.S.-China trade war.

It was clear that we were now in a whole new world of pain in bringing an end to an increasingly debilitating trade war. China would not now be budging on America's insistence on retaining tariffs for a period following the deal's signing; nor would China be accepting the United States unilaterally reimposing tariffs in the future if the United States deemed China not to be in compliance, while denying China the right to take any retaliatory measures itself; nor would China tolerate President Trump's ever-increasing, administratively determined "purchase order" for American goods that China would be required to buy to bring down the bilateral trade deficit to a number of Trump's political choosing. The significance of all this was not so much the substance of China's objections, but that China chose to make them public, thereby making it impossible for Beijing to yield on them in the future. In China's eyes, if there is to be a deal, most, if not all, movement was now going to have to come from Trump.

Beijing then proceeded to unleash an avalanche of nationalist rhetoric against the United States of a type I had not seen in 30 years. America was now routinely described as a swaggering bully. The *People's Daily* reminded its readers that the People's Republic, less than 12 months after its founding, had fought the United States to a stalemate in Korea. Xi Jinping then went south to Jiangxi, from where the Communist Party had set out on the Long March in 1934 and lost 90 percent of its forces, before finally winning the war against the Nationalists 15 years later. Xi also happened to visit a rare earths facility in Jiangxi. While he was not so crass as to state publicly that America was ultimately dependent on Chinese rare earths for its needs across multiple industry sectors, the point was nonetheless made loud and clear that China had leverage, too. The message to the domestic body politic was also clear: that the world has thrown a lot at China over the last 5,000 years, but we Chinese have a long, long history of enduring pain, and we always prevail.

Meanwhile, on the policy front, China has calculated that a full-blown trade war, if it comes to that, will cost its economy around 1.4 percent in growth per year. A full range of fiscal, monetary, and infrastructure investment measures are already under way as part of a stimulus strategy to keep growth above the magical 6 percent threshold. Other measures are in the pipeline.

Adding fuel to the fire, President Trump on May 15 announced that the Chinese telecom giant Huawei would become a “listed entity” under U.S. law, effectively barring American firms from supplying Huawei with essential components for their products. China retaliated on May 31 by announcing its own “unreliable entities list,” which would include any international firm that took “discriminatory actions” against Chinese firms or actions hostile to China’s national security interests. Foreign firms, it seems, are about to be caught in the cross fire.

Given all of the above, what are the prospects for a resolution? The bottom line is that if the politics can still be managed, both sides still need a trade deal. If Trump wants to be reelected, he has to sustain U.S. economic growth through 2020 after what is already a very long growth cycle. To do that, he cannot allow negotiations to collapse, because market confidence would collapse along with them. The real economy could then go into recession in a year in which he can least afford it. As for Xi Jinping, there is a limit to how much China can continue to rely on economic stimulus to prop up growth. Chinese debt to gross domestic product now runs at approximately 248 percent (although this is largely domestic). China’s private sector also performed badly in 2018 for reasons quite separate from the trade war. Putting the trade war to bed, therefore, is important for China in restoring market confidence—although not at any political price.

The likelihood of a deal now hovers around 50-50—the ultimate contest between politics and economics. My prediction is that the Osaka G20 Summit will see a “reboot” of the negotiating process. And after Osaka, Trump is likely to yield on the first two of China’s new red lines. And Xi will increase the quantum of the proposed Chinese purchasing agreement from its previous offer, although not by as much as Trump has demanded. That way, enough face could be saved all around. Of course, raw politics may still derail the lot, including Trump’s rolling calculus of what he needs to sell to his political base and what deal he needs to wedge the Democrats, who are currently seeking to outflank him to the right on China. Time will tell.

Cold War, Containment, or Decoupling

But while there *may* be a solution to the immediate trade war, the technology war has barely begun. On that score, we should all fasten our seatbelts to face the risks of an even more fundamental economic decoupling of the world's two largest economies in the future. This raises, in turn, the even more fundamental question of what economic decoupling might actually look like—in the internet, telecommunications, fintech, and the whole new uncharted world of artificial intelligence (AI).

If we think that trying to comprehend the prospective decoupling of the British and European economies is hard enough, as an analytical exercise, it pales in comparison with the complexities that would arise from unraveling the financial, technological, and global supply chain ties that now bind the United States and China, the world's two largest economies, after 40 years of sustained economic engagement.

The challenge is real—although the language we use to describe it is important, too. In international relations, words still matter. They don't just describe what is going on in the real world. They can also shape, and in some cases determine, what happens as well. That's because language influences behavior.

Cold War

There is, at present, a lot of loose talk, both in Beijing and Washington, about a “new Cold War,” a new doctrine of containment, as well as this notion of economic decoupling. I argue, for example, that the idea of a second Cold War between China and the United States violates basic definitional accuracy concerning the actual circumstances we now face. Unless, of course, the underlying political objective of those using this language is actually to bring such a Cold War about.

The last Cold War, between the United States and the Soviet Union, had four basic characteristics. First, both Moscow and Washington were committed to mutually assured destruction, a thousand times over, through the targeting of their massive nuclear arsenals at each other's command, control, and communication centers, as well as broader civilian populations. That does not accurately describe the nature of U.S. and Chinese nuclear weapons doctrine. And it leaves aside the fact that despite recent efforts to modernize its nuclear rocket forces, the Chinese arsenal is not even 10 percent the size of the American arsenal.

Second, the United States and the Soviet Union were engaged in a global ideological struggle to the death. Despite the fact that the Chinese and American ideological systems are deeply opposed, the reality is that beyond certain academic journals, it is hard to find much evidence in the real world of a struggle for hearts and minds between Chinese authoritarian capitalism and American liberal capitalism. To interpret the Belt and Road Initiative (BRI) as clear evidence of such a struggle represents considerable analytical overreach, at least at this stage of its evolution.

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Third, during the Cold War, the United States and the Soviet Union were engaged in multiple armed proxy wars across Asia, Africa, and Latin America. While China and the United States are currently involved in a global competition for political and economic influence, there is no evidence of any proxy wars between the two, either under way or in prospect.

Fourth, and most important of all, the Soviet Union and United States had negligible economic engagement with each other. By contrast, the trade, investment, and capital markets interconnections between the United States and China are comprehensive, mutually dependent, and of profound importance to both countries' future economic growth. In addition, China, unlike the Soviet Union, is fundamental to the future of the global economy as well.

In other words, Cold War analogies do not take us very far at all in understanding the current challenges of the U.S.-China relationship. It is perhaps understandable that commentators and analysts in both capitals struggle to identify appropriate historical analogies from the past to illustrate the relationship's current complexity, let alone its possible future trajectories. But as suggested earlier, deploying the language of a new Cold War right now has little utility, unless, of course, those using it seek to give effect to their own self-fulfilling prophecies.

Containment

This leads us to the question of containment. It should be recalled that when George Kennan developed the idea of containment, through a combination of his famous "Long Telegram" from Moscow in 1946 and his "X" article of 1947, he did so from Moscow, when the outline of the Cold War was already clear.

Second, the logic of containment was to prevent other states from falling into the Soviet strategic orbit, as had already occurred in Eastern Europe. A clear strategic line in the sand was being drawn between those states and Western Europe. Again, while some may seek to define China's BRI strategy as pointing in the same or a similar direction, at present, that would constitute a very long reach indeed.

Third, and perhaps most importantly, Kennan's underlying assumption was that by circumscribing the Soviet Union's global economic engagement, ultimately the Soviet domestic economy would implode under its own internal pressures, driven in large part by the oppressive burden of an ever-expanding Soviet military budget. In the case of China, it is difficult to see how these economic preconditions apply. China is already the largest economic partner of more than 125 countries around the world. Indeed, that horse has already bolted. Despite the non-convertibility of the Chinese currency, China has also already become a core component of the global financial system, not least by having the largest single international holding of U.S. Treasury notes.

And while it is true that China's economic growth has been turbocharged by exports over the last 40 years, just as it is true that technically these markets could largely be cut off, China's future economic model assumes a large-scale conversion from external demand to internal demand as Chinese domestic consumption takes off. China's hybrid economic model, despite its continuing rigidities, is nonetheless infinitely more market flexible than anything the Soviet Union ever came up with. Not to mention that Chinese military expenditure as a proportion of the country's total budget is modest by ancient Soviet or, for that matter, even modern Russian standards.

None of this is to assume that an economic containment strategy against China would be incapable of delivering significant damage to Chinese growth. It would. Just as it would deliver enormous damage to both the American and the global economies on the way through. Nonetheless, it would be heroic to assume now, as Kennan did in the case of the Soviet economy, that the Chinese economy could be brought to its knees. Shutting the door on China's economy with the rest of the world might have been possible until the end of 2001, when China joined the World Trade Organization. But that opportunity has long since passed us by.

Finally, it is worth recalling on the containment question that it took more than 40 years for the Soviet economy to implode in 1991. In China's case, 2060 seems a very long way off indeed.

Decoupling

This brings us to, finally, to decoupling. This in fact seems to have become the preferred term du jour in many parts of official Washington and Beijing. But once again, it is important to be careful about the language we employ and what exactly is meant by it.

When we think, for example, about the concept of “decoupling,” it can be seen as a conscious strategy on the part of either China or the United States. Or it could be simply the unintended consequence of a series of actions by either party, which, in turn, set off a chain of events, whose cumulative effect over time is to create two competing sets of standards, systems, and patterns of engagement across the global economy, each with significant, critical economic mass.

Decoupling has already occurred between China and the United States with regard to the internet. This has been a direct consequence of the two countries' political systems. But whether it is internet content, search engines, or the broader regulatory regime, the bottom line is that we are already heading in the direction of two radically different digital worlds—one anchored in America, the other behind one form or another of the Chinese firewall. Third countries, particularly BRI countries, may find themselves in an increasingly uncertain no-man's-land in between.

We see the same development already unfolding in digital payment systems around the world. China's Alipay, WeChat Pay, and UnionPay systems have been rolled out not just across China but throughout much of the world. At the same time, traditional American credit card payment systems are not universally accepted in China. China has deployed many nontariff barriers to limit their penetration. The war is on, therefore, as to who will control the global digital payment system of the future. This is critical because we are talking about the financial engine room of digital commerce and the wider global digital economy.

The decoupling of the two countries' telecommunications systems is also well under way. This is justified by both countries on national security grounds. American telecoms have negligible access to the

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Chinese domestic market, although American mobile devices have some market penetration. Huawei has now become a listed entity under U.S. law. Other Chinese telecom providers also face the prospect of far-reaching American restrictions. Furthermore, the battle for Huawei is under way across third-country markets, both in the developed and the developing world. Huawei already dominates 5G technology in much of developing Asia, Africa, and Latin America. The United States is seeking to prevent further encroachment by Huawei in Western markets, including its closest military allies.

Once decoupling in the telecom, broadband, and digital economy sectors is complete, we are left to speculate as to the consequences for the future of existing Chinese and American global supply chains. China's new "unreliable entities list," created in retaliation against America's listing of Huawei and potentially other Chinese companies, will result in corporations around the world having to navigate this increasingly complex minefield as they revise their future global supply chains to avoid the animus of these two giants of the twenty-first-century global economy. This, rather than technological innovation, could well become the cause of the next great global disruption.

Given the complexity of these supply chains already, and the multiple technological components that make up a single product, it is not difficult to envisage a return to more inefficient forms of vertical integration within single firms, or the rearrangement of future supply chains within either of these emerging, self-contained geopolitical spheres of influence. Thus, we begin to see the beginning of the end of globalization itself, the structural efficiencies it has delivered to the global economy through better resource allocation, as well as the increased global living standards and poverty reduction that have come about as a result.

Finally, of course, there is the decoupling already under way in AI. China is acutely conscious of its strengths and potential in this critical domain. It understands its unparalleled access to big data and the machine learning possibilities that come from it. China's leadership is acutely aware of the vast array of military, economic, and social applications that flow from whoever conquers first and most effectively the commanding heights of this new technological frontier. America, too, is conscious of the dilemma it faces in retaining its technological edge in high technology in general and in AI in particular, given the emerging China challenge, mindful of the limitations it faces in its own access to big data in light of the privacy and other legal constraints that exist in Western liberal democracies. For these reasons, we can already see the opening up of a binary AI world in which, once again, countries will ultimately be making a choice.

The question arising from all of the above is not where economic decoupling starts, but where it is likely to stop? And if it cannot be easily stopped, where does this decoupling, justified on national security grounds but facilitated by the growing political appeal of classical forms of protectionism and economic nationalism, actually lead us? If we are beginning to see a more fundamental unraveling of the economic globalization project that has been under way in earnest since the end of the last Cold War, then where does that take us? Are we wittingly, or unwittingly, creating the economic conditions for a real, rather than an imagined second Cold War of the type discussed earlier? And if indeed this becomes the case over the decade to come, what happens in foreign policy and national security policy? Do we end up creating the conditions for a more comprehensive political and strategic decoupling between China and the United States, thereby creating the conditions for a more generalized second Cold War? Or worse?

In summary, it seems as if the dynamics of economic globalization are slowly being turned on their head before our very eyes. For the last 30 years, the logic of economic globalization has been to transcend national politics and protectionism and to bring the world closer together. Yet now, with economic globalization reaching its apogee by the start of the global financial crisis almost a decade ago, it has now generated its own internal contradictions, powered by the politics of populism, protectionism, and classical geopolitical rivalry, to generate a different and more fragmented world altogether.

For these reasons, both the United States and China, together with other members of the international community, need to think very carefully about where these new and unsettling trajectories may now take us all—both for their own interests, and the world's.

Implications for Chinese Strategy toward the United States

Having recently spent several weeks in Beijing in May and June of this year, it seems that these recent developments in the U.S.-China trade and economic relationship have caused our Chinese friends to undertake a fundamental rethink of the long-term direction of their own strategy toward the United States. This occurs within the context of a wider review of China's long-standing assumptions underpinning its overall worldview of the sort of international order Beijing is likely to face in the decades ahead. Indeed, Beijing is beginning to conclude that the world of the last 20 years may no longer be the world it faces in the future, thereby requiring a possible change of strategic course on China's part as well.

China's Continuing Strategic Objectives

It is therefore important to remind ourselves of what China's enduring strategic objectives are. To recap a recent address that I delivered at the United States Military Academy at West Point, I argue that there are seven core elements of the Chinese Communist Party's worldview. Indeed, these are perhaps best understood as seven concentric circles of interest, moving from the domestic to the international, although in the Party's mind, all are clearly linked. Together they make up what I describe as the Chinese national equivalent of Maslow's hierarchy of needs.

At the core of these interests lies the absolute centrality of keeping the Communist Party in power. As a Marxist-Leninist party that secured power through violent revolution, this should never be forgotten. This is followed by:

- maintaining national unity, including Tibet, Xinjiang, Taiwan, and Hong Kong, all of which are central in the Party's eyes to its continuing national political legitimacy;
- ensuring economic growth on order to raise living standards to advanced economy levels while maintaining environmental sustainability;
- cultivating benign and ultimately compliant relationships with China's 14 bordering states;
- securing China's continental periphery by projecting its economic and geostrategic influence across the Eurasian continent;
- projecting its maritime power across East Asia, the western Pacific, and the Indian Ocean and avoiding armed conflict with the United States while seeking to decouple, over time, America's network of Asian alliances;

- optimizing good relations with the developing world—across Asia, Africa, and Latin America—thereby enhancing China’s position in developing country markets while also consolidating Chinese interests in the institutions of global governance where G77 support is often critical; and
- reforming the existing institutions of global governance over time, gradually aligning the practices, personnel, and culture of these institutions in a manner more closely aligned with Chinese interests and values, while also creating new international institutions where China is at the core.

China’s Analysis of Its Changing Strategic Environment

In seeking to understand how China forms its national strategy, we need to have a clear understanding of how China views its international operating environment. The reason this is important is that while the seven sets of objectives just described may be relatively constant, the political and policy environment in which China operates, both at home and abroad, is subject to constant change.

That is why China deploys its own formal, analytical processes to try to define the “objective” nature of the short- and long-term historical developments and trends with which the Party must contend. The disciplinary framework that the Chinese bring to bear on this task is heavily shaped by the Marxist-Leninist theoretical frameworks of their inheritance, combined with certain classical Soviet methodologies for understanding the changing nature of state power. These include the analytical disciplines of historical materialism and dialectical materialism, as well as Soviet concepts of “comprehensive national power” and the “correlation of forces.” Furthermore, it is important to understand that our Chinese friends regard these processes as “scientific” and the conclusions wrought through them as being “objectively correct.” These conclusions are not reached lightly. They are the product of focused intellectual effort. And once reached, they tend to remain in place for a long time, rather than shifting with a single U.S. presidential election, the rise and fall of governments around the region or the world, let alone the highs and lows of the long-term economic or business cycle. In other words, China seeks to take a deeper analytical view of the underlying drivers of regional and global change, before locking in to its conclusions about what China is facing, and what Chinese policy should be in anticipation or in response.

For nearly 20 years—indeed, since 2002—the key Chinese conclusion about the domestic and international environment it faces has been that China continues to experience a period of unprecedented “strategic opportunity.” It is important to understand what Chinese political leaders and policy analysts mean by this term.

Specifically, it means that China is able to pursue its domestic economic development agenda in a stable and peaceful environment without any real risk of major war. Second, it means that the forces driving economic globalization will continue, and that these will continue to accommodate, support, and enhance China’s modernization agenda. Third, it sees the United States in a period of relative international decline, and while the United States will remain for some decades the world’s only economic and military superpower, a more multipolar global order is seen as slowly emerging, one in which China’s relative influence will continue to increase. Fourth, these processes of relative American decline have been accelerated by America’s preoccupation with the rolling military engagement in the Middle East across multiple wars; the

damage done to American economic power and prestige by the global financial crisis; and the increasing travails of what is seen as a dysfunctional American, and now broader Western, democratic system.

Changing Chinese Strategy under Xi Jinping and the Domestic Political Reaction to It

Until the rise of Xi Jinping, China's strategy in response to this analysis was a gradualist one, best encapsulated in Deng Xiaoping's famous maxim of "hide your strength, bide your time, never take the lead," (and only take selective initiatives when you can). As I've written before, this gradualist approach changed in 2014 under Xi Jinping following the Party's Foreign Affairs Work Conference of late that year, when China embarked on a more activist strategy around the region and the world. This new strategy took many forms in China's international policy settings. It was also amplified by a more activist political and economic strategy on the home front.

Xi Jinping has become deeply mindful of the Chinese people's basic expectations for clean air, clean water, clean soil, and clean food, as well as national and international action on climate change.

For example, to secure the Party's future, Xi Jinping embarked on an unprecedented anticorruption campaign. To secure his own political position, he also engineered the purge of all his active political opponents. He then abolished term limits for the position of presidency in order to pave the way for the possibility of continuing in office beyond 2022. He also outlined a new ideational vision for the Party and the country in three parts, all with an eye toward consolidating the Party's legitimacy in the eyes of the people:

- for China to build a "moderately prosperous society" by the time of the Party's centenary in 2021;
- for China to become a "modernized, fully developed, rich and powerful" nation by the 100th anniversary of the People's Republic in 2049; as well as
- an intermediate objective, now set for 2035, whereby China would become fully "modernized," a date that appears to coincide with the Party's estimation of when it will have surpassed the United States as the world's largest economy according to market exchange rates, and a date when Xi Jinping could still conceivably be in office.

On the question of national unity, Xi Jinping has presided over a large-scale crackdown in Xinjiang, an increasingly assertive policy toward Taiwan, as well as a hard-line approach to Hong Kong, although recent developments there may suggest the limits of such an approach. On the economy, Xi Jinping has insisted on a much bigger and bolder role for the Party, as opposed to leaving economic management in the hands of the technocrats of the state apparatus, as occurred under his predecessors. He has also sought to do so in a manner that is now compatible with the principles of sustainable development, or, to deploy the Chinese terminology, the principles of "eco-civilization." In this sense, Xi Jinping has become deeply mindful of the Chinese people's basic expectations for clean air, clean water, clean soil, and clean food, as well as national and international action on climate change. Furthermore, on the economy, Xi Jinping has embraced a China 2025 strategy aimed at overcoming China's historical weaknesses in innovation

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As for China's neighboring states, Xi has pursued a complex strategy of both confrontation and accommodation, driven in part by the overall temperature and trajectory of the U.S.-China relationship. For example, Xi prosecuted a sharp set of border engagements with both Japan and India during his first term,

only to extend the olive branch to both Tokyo and Delhi after the election of Donald Trump in 2016. In the meantime, Xi has invested much political energy in the deep reform of the China-Russia relationship, maximizing the two countries' common economic, security, and foreign policy interests, thereby turning Beijing's extensive northern border with Moscow into a zone of positive economic opportunity, rather than one of continuing strategic anxiety.

On China's maritime strategy, Xi Jinping has pursued a more assertive strategy in both the East China Sea and the South China Sea. His island reclamation program has been extensive. As has been China's subsequent militarization. Similarly, China's maritime tactics against U.S. and other regional naval assets has been increasingly sharp. The number of near incidents at sea involving U.S. naval vessels has also increased. China's naval modernization has become the fulcrum of Xi Jinping's doctrine on the professionalization of the People's Liberation Army—so that it can “fight and win wars,” not just put on impressive parades.

On China's continental periphery, the Belt and Road Initiative across Eurasia speaks for itself. A strategic accommodation has been reached with Russia over Central Asia. China now has a growing strategic presence in the Gulf, the Red Sea, and East Africa and across the Indian Ocean. Just as China's diplomacy toward Eastern and Western Europe, as well as Brussels itself, has become ever more active as China seeks to turn Europe into a major economic and ultimately strategic ally.

As for the global rules-based order, Xi Jinping's China has been more active in the institutions of the United Nations and the Bretton Woods institutions. As well as investing in new institutions beyond the postwar order, including the Asian Infrastructure Investment Bank, the New Development Bank, and, once again, the BRI.

Most international commentators are aware that these initiatives by Xi Jinping's administration have attracted criticism abroad. What they are less familiar with is that there has been some criticism at home as well.

The anticorruption campaign has been criticized for being politicized and for its selective targeting of political opponents. The China 2025 strategy, particularly its explicit state targets for Chinese domination of all major high-tech sectors into the future, has also attracted significant internal criticism for having

elicited a hard-line American and European response. There has also been criticism of the BRI for being too ambitious, too expensive, and too wasteful—as well as for generating negative reaction against China in many target countries. Similarly, there has been criticism of the strategic wisdom of island reclamation in the South China Sea, evidenced by the success of the Philippines’ legal case against China in the Permanent Court of Arbitration and wider political reactions across Southeast Asia, and of providing physical and photographic evidence to the American and international body politic that China now, by definition, was no longer a status quo state. On top of this, has been criticism of Xi Jinping’s decision to repeal term limits for the office of president, suddenly crystallizing in international political opinion the view that Xi Jinping will be not only China’s next Deng Xiaoping, but possibly China’s next Mao Zedong—in other words, leader for life.

The common theme in the various critiques of Xi Jinping internally has been strategic and political overreach, in conscious contravention of the long-standing wisdom of successive generations of Chinese political leaders following Deng Xiaoping’s long-standing doctrine of restraint. Instead, according to Xi Jinping’s internal critics, China has been out there “loud and proud” and, as a consequence, for the first time since 1978, generating significant structural opposition abroad to the realization of China’s long-term political strategy.

One further vulnerability on Xi Jinping’s part has been China’s soft economic performance in recent years. A number of factors have contributed to this. First, there was China’s homegrown financial crisis of 2015, which saw the collapse of Chinese equities markets and a run on various Chinese financial institutions until the state intervened.

Second, after the crisis of 2015, Xi effectively put on hold the new economic blueprint for China adopted by the administration back in 2013. That blueprint sought to move away from China’s old economic model of labor intensive, low-cost manufacturing for export, strong state-owned enterprises turbocharged by high levels of state infrastructure investment, to a new model based on domestic consumption, service industries, and a dynamic Chinese private sector, with new industries based on technological innovation and a declining state economic sector.

Third, following 2015, the Chinese private sector began to lose confidence in China’s overall economic policy settings, concluding that state-owned enterprises were now being preferred over the private sector in the allocation of credit and that the Party had begun to exert greater and greater levels of control over what private firms did and how much they could grow, resulting in declining levels of private sector confidence. This translated, in turn, into declining levels of private sector investment, growth, and employment.

These factors, taken together with the direct impact of the U.S.-China trade war during 2018–2019, as well as its more general impact on Chinese domestic economic confidence, began to place Xi Jinping under considerable economic pressure.

These, then, are the wider political circumstances in which Xi Jinping has had to respond to the recent politics and economics of the trade war during the critical developments of May 2019. In other words, the trade war is not simply an economic phenomenon for the Chinese leadership. It occurs in a context of Chinese politics as well, where some within the leadership have begun to question the wisdom of the leader’s perceived overreach across multiple policy fronts.

China's Current Strategic Reappraisal

Beyond the immediate politics and economics of the trade war and the possibility of a broader economic decoupling between China and the United States, the deeper question remains of a more far-reaching Chinese reappraisal of whether Beijing's overall strategic operating environment has now fundamentally changed for the worse.

As noted in the previous sections, Chinese strategic planners have long been disciplined in the business of separating the tactical from the strategic, the short term from the long term, and the trivial from the important. China's strategic culture disinclines it to respond to a single headline, or even several years of headlines in Western newspapers. Instead, Chinese planners' own analytical processes cause them to go back to basics to reach deep conclusions on the central question of whether China is still in fact in the same "period of strategic opportunity" that it concluded it has been in since it joined the World Trade Organization in 2001, or whether this has now fundamentally changed, requiring China, too, to set a new strategic course.

My observation from my recent time in Beijing is that all the assumptions of the last 20 years are now under formal review. At this stage, it remains uncertain as to what precisely this review process will conclude, although it seems as if China may now be on course to indeed change its overall strategic guidance to its various agencies of state, given the new complexity and unpredictability of global politics and economics as seen from Zhongnanhai. Indeed, the earliest indications from Beijing are that China sees its external environment as fundamentally changing on a number of critical fronts, and in a generally more hostile direction. Regional armed conflict is no longer seen as a remote possibility, given possible trajectories on the Korean Peninsula if and when Trumpian diplomacy with Pyongyang breaks down. China is also

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now anticipating a more vigorous U.S. response to its actions in the South China Sea, just as renewed U.S. arms sales to Taiwan are seen as potentially fomenting a future crisis across the Taiwan Straits. On the economy, globalization is now seen as being in retreat. And a more nationalist and protectionist West may well turn against China, in which case Europe, Japan, and, to some extent, India become the key. American hostility to China is now seen as structural, as a new Thucydidean dynamic takes hold of all sides of

Washington politics. Corporate America is no longer seen as a structural ally in supporting the stability of the U.S.-China relationship. And a newly energized human rights constituency is seen in Beijing as having more widespread political support, animated by recent developments in Xinjiang, Taiwan, and Hong Kong. It is of some consolation to Beijing that America's global brand is seen as becoming increasingly and perhaps irreparably damaged under Trump.

All of this would tend to point to a much more mixed strategic outlook compared with the "period of strategic opportunity" that has governed Chinese strategic thinking for the last 20 years. This, in turn, would require of China a more self-reliant, less internationally dependent national strategy for the future to safeguard China's interests in a much less stable world. Or it might result in China taking the truly bold step of throwing open the doors of its economy to the rest of the world, excluding the United States. Early

Chinese engagement with the Trans-Pacific Partnership would be a signal of the latter approach. The jury is still out, however, on what conclusions will be reached. And it will be for some time. After all, detailed dialectical analysis takes time.

The importance of all this for the rest of us in the international community is that if China does conclude that its international operating environment has turned in a fundamentally hostile direction, it will adjust its strategies and policies accordingly. That is why this period of review is so critical. If, for example, Chinese policy were suddenly to become more aggressively nationalist, or more stridently protectionist, or more binary in its international political engagement, the rest of the world would soon know it, feel it, and experience it.

In the meantime, however, China is likely to continue its current pattern of international engagement. The review process will take time. The Chinese ship of state rarely turns dramatically. It is a more gradual and deliberative process. But once conclusions are reached, and a new direction is identified, then turn it does. We have seen it before at certain critical junctures of its modern history.

American hostility to China is now seen as structural, as a new Thucydidean dynamic takes hold of all sides of Washington politics.

Conclusion

What China does in the future is important for us all. But watching China respond to these dynamics in isolation is a bit like the sound of one hand clapping. The other hand at play in all this is, of course, the United States. An open question remains as to which way the United States will now go in the prosecution of its own wider, long-term strategy toward China in this new age of strategic competition.

The core questions in Washington are what will happen to the rest of the U.S.-China economic relationship, not to mention the foreign policy, security policy, and human rights relationship, if President Trump does manage to secure a trade deal with Xi Jinping? Will economic decoupling continue to unfold, haphazardly or otherwise? If so, will it be limited to key technology sectors, or will it be broader than that? And will we see a much more vigorous response by the United States in relation to Taiwan, the South China Sea, the BRI, Xinjiang, and other core points of Chinese international political and policy sensitivity?

Second, what will happen in these other policy domains if we do *not* secure a trade deal?

Third, if President Trump is not reelected, what will be the points of commonality and difference between his administration's China policy and that of the next Democratic president, whoever she or he might be?

These three sets of questions all turn on a more fundamental uncertainty about what kind of global power President Trump wants America to be in the future, and what sort of global power the Democrats want America to be in the future. This fundamental question is important given the new social, economic, and political forces at work within the wider U.S. domestic body politic that are in the process of reshaping both Republican and Democratic Party politics, including their traditional approaches to foreign and security policy.

Finally, there is also the question of third countries as they seek to anticipate where China will ultimately land on the question of its long-term strategy toward the United States, its allies, the region, and the world—and where, for that matter, America will land in its own deliberations. For the Europeans, the Japanese, the Indians, the Southeast Asians, and the Australians, these profound dynamics at play right now in the future of the U.S.-China relationship are creating real uncertainties as they carve out our own contingency plans for the future. Already in parts of Europe, Japan, India, and Southeast Asia, there are early signs of some form of strategic hedging about the future. Indeed, it would be surprising if it were otherwise.

We live in difficult and dangerous times. For countries like Australia, this will require a razor-sharp lens on Beijing, Washington, and other critical global capitals to understand where these deep changes in global and regional geopolitics may now take us all.