



## **Managing Competition: A U.S.-China Strategic Dialogue Report**

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**By Raymond F. Burghardt\***

On March 26, 2018 the NCAFP held its annual U.S.-China Strategic Dialogue in New York, bringing together respected Chinese and American scholars, experts and policy practitioners. The discussion took place at a time of rising tension in Sino-U.S. relations, brought on by fear of a looming trade war and by Trump administration policy statements defining China as a rising power which seeks to shape a world antithetical to American interests.

American participants stressed the long-standing frustrations behind the current administration's positions. Chinese scholars and experts worried that a trade war could escalate into generalized bilateral hostility. They also expressed concern that upcoming Congressional and executive branch action could once again make Taiwan a source of bilateral friction. Chinese and American participants generally welcomed movement toward a Korean North-South and a U.S.-DPRK summit although scholars from both sides of the Pacific were skeptical that those historic meetings would bring lasting peace to the Korean Peninsula.

### **Overview of U.S.-China Relations**

Americans and Chinese agreed that during its first year in office the Trump administration moved cautiously in dealing with China. Following the Mar-a-Lago Summit in April 2017 there was even a brief honeymoon period. But in the two months before this New York dialogue the atmosphere had changed for the worse. The Trump administration's National Security Strategy (NSS) statement directly focused on China, charging that Beijing "seeks to replace the U.S. in the Indo-Pacific region and reorder the region in its favor." American participants saw the administration's trade policy offensive against China as directly related to the widespread American perception that Sino-U.S. relations should now be seen as a geopolitical rivalry.

Chinese participants saw U.S.-China relations as entering a new era in which Washington has decided to be tougher on China after concluding that engagement policy has failed. Great power competition has now replaced counter-terrorism as the central theme of American foreign policy. They feared that a general deterioration of relations during a trade war could result in new tensions over Taiwan and the South China Sea or begin a regional arms race.

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Several Chinese cautioned however that much of the rhetoric used by both Xi Jinping and Donald Trump is intended for domestic audiences and each side should be careful to distinguish between “empty words” and real actions. One Chinese commented on the “huge gap” between the words of Chinese leaders and their real strategic policy. Another Chinese participant observed that in the past few years China has acted on the world stage with over-confidence, thereby overstretching its power regionally and globally. The U.S. has then overreacted to this Chinese behavior, demonizing China as a threat to the U.S. and its allies. In reality, this Chinese expert said, Beijing and Washington need stable relations to deal with serious domestic challenges. For Xi Jinping, his priority goal of modernization has not changed and the next step is economic reform.

Americans noted that Xi Jinping has named economic policy makers with strong reform credentials, especially Central Bank chief Yi Gang, Vice Premier Liu He, and Vice President Wang Qishan. This is a good sign. But until now promises of reform have not materialized. After the Mar-a-Lago summit, the U.S. allowed time to see how much progress could be made during 100 days of bilateral economic dialogue. Washington was disappointed by the follow through. The “Made in China 2025” policy was, as one American put it, “a declaration of being a parasitic economic power,” accompanied by revival of state-owned enterprises (SOEs) and continued forced technology transfer and theft from foreign companies.

Americans emphasized that the Trump administration’s policies should be seen as the culmination of long-standing concerns about our bilateral relations, roughly dating back to 2009. Washington sees these concerns as resulting from changes in China’s direction, including a strengthening of party control over all aspects of society and a more ambitious strategy to expand economic and geostrategic power. The change in attitude in Washington should be seen as fundamental, not simply a cyclical phenomenon.

### **A View From Washington**

A knowledgeable American participant outlined several dimensions of U.S. policy shifts toward China. He began by noting the “assault on pluralism” in China; the establishment of the Communist Party as the sole voice of authority has affected how the U.S. and other countries view China. The language of the NSS and of the National Defense Authorization Act—calling China a “revisionist” and “authoritarian” power—acknowledges a reality Americans have observed over the past few years.

This participant stated that the U.S. remains committed to a constructive, results-oriented relationship with China. “Containment” is not the U.S. policy. It is a term only used in Beijing and has been applied by Beijing to every U.S. administration, even those that most prioritized engagement. During the Trump administration, leader-to-leader dialogue has been quite active and made progress in dealing with North Korea. But in many areas, the U.S. did not believe that engagement had yielded results, e.g. in China’s attitude toward THAAD deployment in South Korea; trade and investment; cyber and law enforcement issues. This administration has therefore shed any attachment to engagement for engagement’s sake. Engagement must serve American interests in ways that Americans outside the foreign policy establishment can understand.

U.S. policy has therefore shifted to become more competitive. China's signals and actions during the Trump administration's first year erased any doubts about the need for this rethink of U.S. policy toward China. The administration saw Beijing as increasingly unwilling to abide by rules that the U.S. considers essential: maritime challenges, export-driven mercantilist trade policy, and employment of technology for authoritarian ends. Washington's response should not be seen as a counter to China's strategy but rather as an affirmative strategy to defend U.S. interests. For example, One Belt One Road (OBOR) and Made in China 2025 may not be successful master plans but regardless of their success or failure, the massive resources behind them will have effects on U.S. national security and, in the case of Made in China 2025, create market distortions.

The speaker concluded by emphasizing that successful implementation of the administration's policy requires close coordination with like-minded allies and partners. The administration has been struck by the extent of international concern about the negative effects of China's industrial policy, its influence campaigns in other countries, and the political conditionality attached to investment of OBOR resources. China seems to be choosing this moment to launch an overt attack on our system.

In response to questions, the speaker emphasized that the Trump administration does not see engagement as a failure, but does believe that engagement for its own sake needs to be reconceived. And a competitive policy is not necessarily a confrontational one. President Trump has made clear, the speaker stated, that he will use available tools to enforce fairness and reciprocity, with allies as well as with China. The administration has concluded that the U.S. probably has overinvested in engagement with China relative to other relationships in Asia, including India. U.S. attention and resources need to be diversified toward our other major partners.

### **Economic Relations**

There was consensus among participants that the looming Sino-American trade war is taking place against the background of a generally healthy global economy. Both the American and Chinese economies are growing well.

The participants had an extended discussion on the comparative resilience of the U.S. and China, the ability of each country to bear the potential pain of a trade war. The Chinese perspective was that their country definitely has the courage to retaliate against U.S. actions and probably has a greater capability than the United States to bear the costs of economic sanctions. Chinese noted that in the U.S. political system, disgruntled farmers and workers can apply pressure through Congress. But in China it is more difficult for popular unhappiness to be applied to policy makers. Some Chinese predicted that Beijing will not retreat or compromise. One noted that Premier Li Keqiang has offered to open some sectors, but doubted these would include education or financial services. Chinese speakers feared that escalation of the trade conflict will make it more difficult for the two countries to cooperate on non-economic issues.

Both American and Chinese commentators noted that so far there have been trade skirmishes, including U.S. tariffs applied on a small number of goods, while there still are glimmers of hope for efforts to prevent a comprehensive trade war. Americans also acknowledged that proposed tariffs on Chinese goods would not revive U.S. industries. And despite all the heated trade and investment disputes, in 2017 the two countries sealed \$500 billion in bilateral deals.

But overall the mood was pessimistic. U.S. business' list of market access problems has steadily grown for years. One long-time American participant in the Chinese economy observed that the increased role of the Communist Party in controlling pillars of the economy and the injection of a party role into private enterprise have created a troubling and uncertain situation for American businesses operating in the country. They see the predatory use of Chinese power to benefit Chinese companies at the expense of foreign companies.

A Chinese participant commented Chinese see the threats and imposition of tariffs as well as the blocking of Chinese investments in the U.S., especially in high-tech industries, as unilateral American actions. The Chinese are very disappointed in President Trump. The perception in China is that the U.S. is using the trade issue to block China's development of technology. Meanwhile actions such as the Taiwan Travel Act, encouraging high-level reciprocal U.S. and Taiwan visits, is seen as a parallel action of bullying or blackmail of China.

### **Korea**

Neither American nor Chinese participants looked toward the upcoming summits with much optimism. There was even a lengthy discussion about how to deal with the consequences of a failed Trump-Kim meeting.

Chinese speakers said their leaders had been worried for the past several months about the possibility of war, so the post-Olympics cooling off at least removes that immediate danger. One Chinese speaker commented that although denuclearization remains Beijing's final goal, it would view a U.S.-DPRK war as even more dangerous than a nuclear-armed North Korea. He went on to state that China cannot tolerate North Korea continuing to develop nuclear weapons at the same speed as last year. A freeze of the DPRK's nuclear capability would not be the ideal outcome, but China could tolerate that situation. If the other parties continue sanctions after the summits, this speaker said, China would also continue them.

An American participant said he was not enthusiastic about a U.S.-DPRK summit. The key question is what will it be about? If the end state we seek is denuclearization of the DPRK, Pyongyang will only agree if they see a risk to regime survival.

### **Military-to-Military Relations**

An experienced American analyst observed that the Sino-American military relationship has waxed and waned for decades depending on the overall bilateral relationship. In the past few years it has been on a very positive and non-controversial track. But U.S. enthusiasm for military-to-military ties currently seems to be waning. Washington has unilaterally cancelled some bilateral programs. The Pentagon has become more candid in describing the relationship as filled with both cooperation and competition, while carefully noting that competition does not mean confrontation. We seem to be entering a new era of military relations, with some uncertainty about how they will develop. However, the Pentagon does seem to see exchanges on maritime management, the Defense Cooperation Talks, and the new Joint Staff Dialogue Mechanism as being of continued value.

A Chinese speaker said his government initially did not have high expectations for military relations with the Trump administration, due to tough talk on Taiwan and the South China Sea. The anxiety was relieved by General Joseph Dunford's visit to Beijing last August, where he was received by Xi Jinping, followed by the visit of Pacific Fleet Commander Admiral Scott Swift and his invitation to China to participate in the RIMPAC exercise. From China's perspective, however, these positive developments were accompanied by negative factors: the increased frequency and scale of Freedom of Navigation Operations (FONOPs), an arms sale to Taiwan, and Congressional resolutions that raise the prospect of higher-level Taiwan-U.S. military exchanges and possible port calls in Kaohsiung by U.S. Navy ships.

Another experienced American observed that we should distinguish between mil-to-mil relations and the dynamic of U.S.-China military relations. Military relations are quite positive, with confidence-building measures and sea and air agreements reducing the number of incidents. But the bilateral military dynamic has deteriorated. Both sides do things the other doesn't like. For the U.S., that includes China's activity in the East and South China Seas; for China, it's FONOPS, THAAD and more generally, U.S. efforts to improve its presence in the region. More fundamentally, the U.S. is concerned about greater Chinese willingness to accept risk and turbulence in the military sphere. One example was the reports of disputes with Vietnam over oil drilling in the South China Sea. The U.S. knows that its military must be able to fight anywhere at any time, while Chinese can focus on a narrow range of challenges.

American participants said the Pentagon has watched carefully the rapid development of China's military capabilities. The U.S. also is well aware of the PLA's goal to acquire by 2020 the capability to take Taiwan by force and has observed large-scale PLA exercises to train for that goal. While the U.S. understands that acquiring a capability does not equate to an intention to act, Washington will continue to honor its commitment under the Taiwan Relations Act (TRA) to remain capable of defending against any challenges to peace in the Western Pacific.

In a further discussion on Taiwan, an American speaker stated that U.S. policy toward Taiwan would remain unchanged during the Trump administration. This participant expressed surprise that Beijing would expect U.S. policy to change and that the U.S. would treat Taiwan differently now that Tsai Ing-wen is in power. The U.S. has made clear to Beijing for some time, this speaker continued, that efforts to intimidate Taiwan and its people are counter to Beijing's own goals. Since Beijing seems committed to continue this approach, at least in the near term, the U.S. needs to emphasize that it will not be complicit in Beijing's efforts to intimidate the Taiwan people.

In other discussions on Taiwan, Chinese speakers said that Beijing is frustrated that the U.S. Congress does not understand the difference between the policies of Tsai Ing-wen and Ma Ying-jeou. Americans commented that Congress' belief that Beijing has been unreasonable in its treatment of the Tsai administration is the general view in Washington, shared by the Congress, the executive branch and most scholars.

## **Conclusions and Recommendations**

Participants generally agreed that U.S.-China relations are more likely to deteriorate than to strengthen over the coming months, as both leaders continue to address domestic issues in a manner antithetical to the other's national interests. The Trump administration is responding to pressures from the American business community to address unfair trade practices which include China's IPR theft and barriers to market access. The Xi administration continues to tighten party control over all aspects of Chinese life, including market forces and business decisions that will be affected by its economic reform plans. Nationalism plays a large role in political legitimacy for both sides. In short, both sides seem to have accepted that competition is a more dominant dynamic in bilateral relations than cooperation. The key question is how to prevent competition from escalating into confrontation, particularly in areas—such as Taiwan policy—where the two sides have opposing views of the best-case scenario.

Both sides need to separate rhetoric from reality and match intentions with actions. It is particularly difficult to do so at a time when posture is so much in play, as with announced but not implemented unilateral trade actions, or with regard to critical and complex multilateral negotiations such as the upcoming summits on the North Korean nuclear issue. While personalities and propaganda can influence foreign policy decisions, it is equally if not more important for both sides to consider the underlying economic and political trends that produce these decisions and to prevent miscalculation by critically examining assumptions about the other's intentions.

Competitions can be friendly if both sides agree on the ground rules and accept the other side's legitimacy to win some of the games, in relative terms if not absolute terms. But such friendly competition requires leaders who can absorb some losses without losing legitimacy. It remains to be seen if Presidents Trump and Xi have the political confidence and inclination to adopt 'win some, lose some' attitudes. If not, U.S.-China relations could escalate from competition to confrontation. One bright spot in the darkening trade relationship is that both sides recognize that they have much to lose in a full-blown trade war. This should be a powerful incentive for a negotiated solution.

**THE NATIONAL COMMITTEE ON AMERICAN FOREIGN POLICY'S  
FORUM ON ASIA-PACIFIC SECURITY (FAPS)  
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**A U.S.-CHINA STRATEGIC DIALOGUE**

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