



## **An NCAFP Meeting with the Shanghai Institutes for International Studies (SIIS)**

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### **Introduction**

The NCAFP met with scholars from the Shanghai Institutes for International Studies (SIIS) on March 1, 2019 to discuss the prospects for stabilizing deteriorating US-China relations amidst the trade war. The meeting took place shortly after the collapse of the Hanoi Summit and the extension of the deadline for a trade deal, and the discussion focused on the current state of both economic and security relations and how the domestic debate within each country affects the view of the other.

### **Trade War or Tech War?**

An American participant pointed out that China is no longer a trade driven economy, and that it has not been that way since the 2008 financial crisis. It is important to recognize that Chinese consumers are driving growth in China—consumption accounts for roughly  $\frac{3}{4}$  of China's growth—and China is driving the global economy. The participant also interpreted the US trade deficit as a sign of strength, as the US is the only country in the world with the privilege of producing the world's risk-free currency.

While the Trump administration has been putting its focus on the optics of trade issues between the US and China, the American participant argued that the real conflict is about technology. China needs to import technology, particularly chip technology, in order to achieve 'Made in China 2025' goals. And instead of developing its technology organically, which takes longer, China is pursuing joint venture models with businesses in the US and Europe to extract intellectual property. These businesses are unhappy with this model because the sharing of IP is not reciprocal. While the short-term trade risks tend to be overestimated, particularly in the press, the longer-term risks in the technology field are underestimated. One way to help mitigate these risks is to return to some type of mechanism that would be similar to the US-China Strategic and Economic Dialogue (S&ED) established during the Obama administration, where the US and China acknowledged and tried to manage their differences. The American participant argued that this would be more productive than the current 'tariff diplomacy' approach.

A Chinese participant agreed that short-term trade issues are not the real issues in US-China relations. China is worried about the longer-term trend that the US will use every means necessary to compete with China in the technology field. For example, China sees the US and its European allies as working to prevent China's global acquisition of technology. The Chinese participant also agreed for the need to return to an S&ED-like diplomatic mechanism to help manage the bilateral relationship. However, this does not seem likely under the Trump administration. If the relationship continues to worsen, particularly regarding technology competition, this will negatively impact the security relationship. While it was recognized that the issue was not about China acquiring technology in general but about the way China is doing it, another Chinese participant pointed out that after having focused so much on the rules of international trade, China is not very familiar with how to carry out these types of interactions with foreign counterparts when it comes to technology.

Another American participant recommended an 'S&ED 2.0' where the US and China would start with a trade discussion before expanding to a broader discussion of the economic relationship and even eventually moving beyond that. This would require more than a three-month negotiation "where someone wins while the other loses." However, another American participant pointed out that one of the biggest complaints about S&ED was that it became a "large talk-shop" of complaints where not a lot got done. Therefore, the bigger question should be how to make the S&ED or a similar dialogue more effective.

It can be argued that the US and China have entered a dangerous stage of bilateral relations because the differences are no longer about a single issue but instead about a whole set of complex issues. Both American and Chinese participants agreed that the technology issue is a mix of both economic and security-related issues, making it even more difficult to address. As an example, one American participant brought up China's state-owned enterprises (SOE's). When acquiring assets, Western companies prefer a purely economic transaction between two private companies. However, when these SOE's are involved, the company is no longer completely private and security issues arise.

### **The China Debate: US Domestic Views & Implications**

In addition to trade and technology, there was much discussion of the domestic debates within both the US and China. According to one American participant, there is a consensus among think tanks, government, Congress and the business community in the US that China under Xi Jinping is misbehaving in many fields: it is seen as having a more aggressive foreign policy, pursuing mercantilist policies, being repressive on human rights and seeking to influence US society both legitimately and illegitimately. The debate among American policymakers and scholars includes some who believe that the US was naïve and duped by China, and that any chance for having positive relations is slipping away. On the other hand, there are others who believe engagement was not a mistake, although perhaps the US was not tough enough on China. Regardless, the US is now in a strategic competition with China and going forward needs to have a firm, realist policy when it comes to engaging with China.

Another American participant argued that the real domestic debate was about how to raise wages and rebuild the workforce for a 21<sup>st</sup> century economy when a sizeable portion of the US population would prefer to bring back more jobs in the mining, manufacturing and agriculture sectors. Some Americans see China, instead of advanced technology, as being responsible for stealing their manufacturing jobs. The bottom line is that the majority of the US population is primarily focused on how US-China relations directly affects them as individuals.

It also appears that China is dealing with its own set of domestic challenges. One Chinese participant quoted directly from the recent Asia Society Center on US-China Relations' Task Force report, titled *Course Correction: Toward an Effective and Sustainable China Policy*<sup>1</sup>: "The foundations of goodwill that took decades to build are rapidly breaking down." The two sides no longer see goodwill from the other, and this is a challenge. According to this Chinese participant, engagement should be a comprehensive policy that includes cooperation, as well as deterrence and pressure, and it appears that the US is primarily focused on deterrence and pressure. China is also concerned about how the US sees its role in the world. The US has gone from being an institutional hegemon to withdrawing from the international system. American participants assured the Chinese participants that the US can compete with China but acknowledged that the current 'America First' approach is leaving the field open for China to replace the US.

### **Belt and Road Initiative**

China's Belt and Road Initiative (BRI) was one example of US anxieties about being excluded competitively as a result of China's development projects around the world. Chinese participants responded by acknowledging that China also has a challenge with selling its own policy changes both domestically and abroad. China is proud to become a global power and thinks it can offer public goods to its neighbors and other developing countries. However, it did not think about the implications of such policies and how that affects the rest of the developed world.

According to one Chinese participant, the BRI was originally a project by the Chinese government designed to develop inner and western China. As a result of this development, China sought to first connect these areas with the rest of China and then expand to include a 'New Silk Road' promoting land and maritime connectivity across Central, South and Southeast Asia. This participant argued that the problem with BRI is that China cannot separate its "national language"—meant to build domestic confidence in the BRI's projects—from its "international language" of how BRI is perceived by the rest of the world.

An American participant responded that the problem with BRI is the lack of transparency. What are the objectives? How is China winning hearts and minds in Central, South and Southeast Asia with potential debt traps? The American participant recognized that China has a unique challenge of being both a land and naval power and that BRI is both developing and securing western parts of China.

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<sup>1</sup>Asia Society Policy Institute. "Course Correction: Toward an Effective and Sustainable China Policy." February 2019. [https://asiasociety.org/sites/default/files/inline-files/CourseCorrection\\_FINAL\\_2.7.19\\_1.pdf](https://asiasociety.org/sites/default/files/inline-files/CourseCorrection_FINAL_2.7.19_1.pdf)

## **Security Issues**

The discussion touched briefly on the North Korea nuclear issue and the collapse of the Hanoi summit. The Chinese participants had expected some kind of agreement or statement and were worried by the different explanations for why the summit failed as well as about the future prospects for denuclearization.

American participants shared the same worries as their Chinese counterparts; however, some expressed relief that President Trump did not accept a bad deal, and believed that no deal was better than a bad one. Both North Korea and the US say they want to continue to talk, and one American participant hoped that future discussions will include more working-level experts, like Special Representative Stephen Biegun. There is also a good case to return to four-party talks to include the ROK and China and eventually make way to resume Six-Party Talks to include Japan and Russia.

On Taiwan, Chinese participants were concerned about the prospects of Tsai Ing-wen giving a speech to the US Congress. American participants reassured them that there are enough people inside and outside of Congress who recognize that is not a good idea for both the US and for Taiwan. It would be provocative, and Tsai has already indicated that she would not accept the opportunity.

One American participant argued that the real issue is the continued standoff between the Mainland and Taiwan, and that it is unclear how cross-Strait issues can be addressed without a serious dialogue between the Mainland and the DPP. Tsai cannot accept the 1992 Consensus, and since the 1992 Consensus was established with the KMT, perhaps there is an opportunity to come up with a new formula with the DPP. Another American participant cautioned the Chinese side to avoid miscalculating a potential KMT return to power in 2020. Even if the KMT returns to power, this would not mean political negotiations with Taiwan will be easier. A lot has changed since Ma Ying-jeou left office, and while many KMT politicians want good relations with the Mainland, they are in a much tighter position today and unlikely to accept a one-country, two-systems formula for managing cross-Strait relations.

A Chinese participant responded that the Mainland will not try to talk directly with the DPP or Tsai in the future, not only because she does not recognize the 1992 Consensus but also because she has very low support within Taiwan. The Mainland does not think Tsai is maintaining the status quo because her base favors Taiwan independence and not the 1992 Consensus. Beijing also understands the challenges that the KMT is facing and does not think that future political negotiations will be easier if a KMT candidate wins the 2020 elections.

## **Conclusion**

US-China relations need to be carefully managed, whether it is focused on economic or security issues. There was agreement on both sides in this meeting for the need to return to a dialogue mechanism as well as the need to understand the domestic debate that is taking place in each country. Groups like the NCAFP and SIIS, through Track II meetings such as this one, can provide policy recommendations to our respective governments on how to manage our differences through comprehensive engagement.