



A U.S.-China Strategic Dialogue Report: Avoiding a Collision Course

**By Robert S. Wang
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The NCAFP held its annual U.S.-China Strategic Dialogue in New York on April 5, bringing together a group of respected Chinese and American scholars, experts and policy practitioners. Despite expectations of a bilateral trade agreement in the near future, the general view was that a broad range of differences over structural economic and trade issues, security interests and human rights values are likely to expand and deepen in the coming years, possibly leading to a scenario resembling the Cold War. American participants expressed particularly strong concerns about the “re-education camps” for over a million Muslims in Xinjiang that undermine the core values of the liberal international order. Chinese and American participants called for more dialogue and interactions to produce concrete changes in policies and behavior as well as greater cooperation on regional and global issues.

Overview of U.S.-China Relations

An American speaker started by noting increasing concerns that China and the United States are on a “collision course” toward a Cold War scenario especially as it appears that neither side is willing to change course at this time. Recent Chinese policies and actions are seen as threatening not only U.S. interests but also those of U.S. friends and allies in Asia as well as the core values of the U.S.-led liberal international order—concerns which were recently expressed by Vice President Pence in a speech at the Hudson Institute. Most Americans see an urgent need to push back more strongly against some specific policies but still hope to avoid disengagement.

While a trade agreement may be forthcoming, expectations are low that this agreement will resolve the fundamental structural issues posed by China’s expanding party and state control of the economy, including control over the private sector, and support and subsidies for “national champions.” Enforcement of any agreement on structural reform will be difficult with continued trade conflicts likely in the future. And given government involvement, U.S.-China technology competition has also become a security issue, as seen in recent cases involving ZTE and Huawei.

As for the security relationship, the speaker pointed out that China is now seen as aggressively seeking to erode the U.S. alliance structure in Asia with expanded military activities in the East and South China Seas, as well as with coercive actions against Taiwan that directly challenge U.S. commitments under the Taiwan Relations Act. It was also noted that the 2020 U.S. Department of Defense budget proposal focuses primarily on China's rising military capability and threat, and that the U.S. Navy has stepped up freedom of navigation operations in the area, including ship transits through the Taiwan Strait.

The speaker noted that most see human rights conditions in China as having severely deteriorated. Much attention has been focused on the rounding up of an estimated one million Uyghurs and other Muslim minorities into "re-education camps," which a senior U.S. official had publicly described as something "not seen since the 1930s," referring to Nazi concentration camps in Germany prior to WWII. The United States' 2018 China Human Rights Report also highlighted a long list of other issues, including the death of Nobel Prize Laureate Liu Xiaobo in detention, other criminal prosecution of dissidents and internet censorship. Finally, there is increasing concern that China is engaged in non-transparent influence operations abroad ("sharp power") beyond normal public diplomacy, adding an ideological aspect to the China threat.

Citing recent U.S. White House statements, a Chinese speaker observed that a new stage of "comprehensive competition" does appear to be emerging, perhaps earlier than expected. While arguing that China is not challenging the present international order, the speaker acknowledged that real differences do exist with respect to U.S. and Chinese policies around the world, including those related to technology competition and China's Belt and Road Initiative (BRI). With China catching up quickly, the "power gap" has decreased thus accelerating competition between the two countries. At the same time, rapidly increasing globalization and capital flows have generated serious domestic economic issues that present challenges to both governments and have aggravated relations.

The critical challenge, the speaker noted, is to bring China and the United States closer together to engage in "smart competition" but it is currently difficult to find or agree on a new rationale or basis for such engagement. The speaker suggested that the two countries could start by working together to develop not only bilateral but global trade rules and standards. In this way, China's "unique" model could be gradually integrated into an international order. Meanwhile, the speaker expressed concerns about China again becoming a political target in the upcoming U.S. elections and urged the two sides to avoid escalating disputes, e.g., over Taiwan and the South China Sea, which could lead to a major crisis. Instead, the two countries should work to expand cooperation on common interests as well as student and people-to-people exchanges.

Other Chinese participants argued that Americans should not overstate the China threat. They noted that recent U.S. trade actions against China have been primarily a response to its own failure to address domestic economic problems. One said that they had not been aware of U.S. concerns about "structural issues" in our economic relationship until recently. They questioned why and how China was seen as seeking to erode the U.S. alliance structure, arguing that the Trump administration itself was responsible for damaging relations with its own allies. China's capacity is overstated, given the fact that China's GDP per capita is still quite low. China's policies

have always been primarily focused on maintaining domestic control and stability rather than challenging U.S. interests. While Chinese reactions to US tariffs were initially more nationalistic, the current trade war has generated some movement toward further economic reforms. China's main focus is still on the western Pacific where it hopes to improve relations with its neighbors as well as manage issues with the United States.

American participants underscored there is nonetheless widespread perception of a rising China threat. They pointed to the rapid growth of China's military power, despite its relatively low GDP per capita, which has generated calls for the U.S. military to respond. President Xi's various statements about establishing an Asian security mechanism and China's expanding global reach, including its naval base in Djibouti, suggested an intention and "grand strategy" to erode U.S. presence not only in Asia but around the world. They noted that U.S. concerns about China's non-market economy and unfair trade policies and practices are nothing new and have been repeatedly raised since China's application to join the World Trade Organization (WTO) decades ago. China's failure to meet its various commitments to the United States and the WTO over the years has strained and broken trust between our two countries. One agreed with the Chinese presenter that there is a need for "smart cooperation" to develop rules and standards of international engagement, for example related to China's BRI, so that both sides can leverage their respective strengths without sowing strategic mistrust.

Bilateral Economic Relations

Elaborating on the ongoing U.S.-China trade war, an American speaker observed that a trade deal now appears likely and only a matter of timing. However, it is probably going to be a modest deal that would only call on China to increase certain U.S. imports and provide greater access to China's financial and automobile sectors. It is not likely to address the general loss of confidence in WTO rules that do not provide a level playing field between the two countries. The speaker cited the inability of the WTO to restrain China's currency interventions after entry as well as Chinese practices such as forced technology transfer, cyber theft, investment restrictions, and government subsidies for its semiconductor industry. China has been allowed to retain and expand its state-control economic model that has promoted unbalanced trade relations.

At the same time, the speaker noted that China's growth model and economy remain fragile. China's policies have perpetuated an overly high domestic savings rate of approximately 45 percent which induces under-consumption. Moreover, the government's budget for healthcare benefits and social security are under-funded thus weakening overall domestic investment and demand. These policies have led to an over-reliance on export markets to maintain China's economic growth.

Another American speaker indicated that tensions in the economic relations between the two largest economies in the world inevitably exist, especially given their different models and strong interdependence. Meanwhile, shrinking U.S. economic capacity and income distribution problems—in contrast to China's continued growth—has generated more intense global competition, particularly over technology and intellectual property. Beyond these factors, China

and the United States are also political rivals, unlike the cases of Japan and Germany after WWII. Moving forward, the two countries must not seek to manage trade but should expand bilateral discussions and business interactions. The speaker proposed that China also be brought into multilateral forums such as the G-7 and OECD.

A Chinese speaker laid out China's own concerns regarding current trade disputes. The speaker argued that the United States had reneged on its WTO commitment by not yet granting China "market economy status," which was supposed to be done automatically by 2016. (A subsequent WTO ruling between the conference's conclusion and the release of this report is said to have determined that China had not met the requirements for automatic market economy status recognition.)

Discounting claims of "forced technology transfers," the speaker said that foreign firms compete with each other and transfer technology voluntarily to gain entry into the China market. China also invests heavily in research and development of its own technology. The speaker attributed the bilateral trade imbalance largely to the fact that China has little or "nothing to buy from the United States." Finally, they questioned U.S. criticism of China's BRI and global reach, saying that the United States had previously encouraged greater international engagement on China's part. In fact, the speaker indicated that China's economic policies had contributed significantly to maintaining global economic growth, especially during and after the global economic crisis in 2008. The speaker recommended that the United States reconsider joining the China-led Asian Infrastructure Investment Bank (AIIB) and that American companies participate in profit-making BRI projects.

Other Chinese participants pointed to China's recent progress in improving its investment environment for foreign companies. They noted the recent passage of the Foreign Investment Law, and cited Premier Li Keqiang's public comments about the need for "fair trade." While acknowledging the continued dominance of public ownership in the economy, they indicated that the government is creating a "more level playing field" for the private sector and foreign investments through greater "institutional openness." One added that the private sector actually constitutes a larger percentage of the overall Chinese economy. Nonetheless, government supervision is still necessary to address difficult issues, such as domestic corruption and pollution.

In response, American participants argued that the recently-passed Foreign Investment Law represented only modest and incremental changes. They pointed out that Chinese policies requiring certain parts and components of imported products to be made in China, as in the aviation sector, are not fair and account for much of the large bilateral trade imbalance. Although there are many products that can be imported from the United States, Chinese government procurement policy also tends to displace imports by favoring local production. One commented that it is alarming that China is only now talking about "institutional opening" and "fair trade" so many years after joining WTO.

Finally, American participants indicated that the United States is not overly concerned about China's expanding global reach but underscored the need for appropriate rules and standards. One agreed that the Obama administration made a major mistake in not supporting the AIIB when initially established. On the other hand, another noted that China has been known to use trade arbitrarily as a political tool to apply pressure against other countries, such as the recent cases of South Korea and Canada.

The View from Washington

An authoritative speaker observed that there has been a “sea change” in U.S.-China relations as a result of China's rise, its recent policies and expanding global reach. Washington is thus undertaking a comprehensive reevaluation of U.S. policies toward China. The United States continues to be willing to partner with all nations, and maintains that each should be free to make its own choices. The United States seeks to establish high international standards, rather than compete to outspend other countries. It wants to engage in constructive discussions with other countries but these talks must not be “just talk” and must be “results-oriented.” For example, the two countries recently reached an agreement to control and restrict China's export of fentanyl to the United States. While the United States may often be critical of and compete with China, this does not mean it is seeking to contain or exclude cooperation with China.

At the same time, the speaker noted that China is seen as not having fulfilled many of its bilateral and international commitments on a range of trade and security issues. The United States does not seek “decoupling,” but there is increasing pressure from Congress on the need to respond, for example, to China's repressive actions against its Muslim minorities in Xinjiang. Moreover, although incoming Chinese students and scholars are still seen as beneficial, the United States is increasingly concerned about Chinese policies that stifle academic freedom as well as issues of IPR theft and intelligence activities. The United States will need to take action against practices that violate U.S. laws, but rejects the assertion that law enforcement is part of a containment policy. In the recent case of Huawei's Meng Wanzhou, for example, it was not simply a matter of her role in evading U.S. Iran sanctions but also that she committed bank and wire fraud in the process.

Chinese participants focused their comments on how recent U.S. restrictive policies have affected the visa process with respect to China. Several cited specific examples of how legitimate scholars and students have unfairly been denied visas to travel to the United States, hence disrupting people-to-people exchanges and discouraging many Chinese from traveling to the United States. They noted how such policies may reflect a broader movement toward confrontation and containment. One recommended that the United States send an official delegation to attend the late April BRI forum in China.

In response, the speaker said that there is no policy of systematic visa denial, although the speaker acknowledged that there has been greater scrutiny in the process related to intelligence considerations. The U.S. effort is to ensure that scholarly exchanges are not used as tools for intelligence collection or espionage. This has regrettably lengthened processing times and often created confusion and miscommunication. Other American participants offered counter-examples of how the Chinese government has long restricted visas for certain groups of Americans as well as unduly limiting legitimate activities of Americans working or traveling in China.

The speaker indicated there were no plans to send a U.S. delegation to the BRI forum in China. He and other American participants also described China's policies in Xinjiang as "horrifying" and likely to backfire and create more terrorists in the process. The speaker emphasized, however, that the United States does not have a containment policy; a real containment policy would be much more drastic, resembling the Cold War-era policies against the Soviet Union.

The North Korean Nuclear Issue

The American speaker began by posing a list of questions, suggesting that North Korea seems unlikely to be willing to give up its present nuclear capability. In fact, the speaker noted that this capability has already been incorporated into the country's constitution. It appears that Kim Jong Un's strategy is to acclimate the world to the fact of a nuclear-armed North Korea and shift the focus more narrowly to sustaining a freeze on provocative behavior. If so, how likely is this to produce a "well-behaved" North Korea and lead to the country's economic opening and reform? The speaker raised the possibility that North Korea may shift instead to cyber weapons, making use of Chinese servers and systems. The speaker also speculated whether South Korea, under a more conservative government in the future, and Japan might follow suit and develop their own nuclear capabilities. In any case, the speaker underscored the importance of China's role and U.S.-China cooperation in addressing this critical issue.

A Chinese speaker observed that some progress had recently been made on this issue. North Korea had suspended testing and the launching of nuclear-capable missiles and had destroyed some of its nuclear facilities. The United States had suspended certain military exercises on the Korean Peninsula and conducted two summit meetings with North Korea. He argued that the second summit in Hanoi failed, however, because the Trump administration had missed an opportunity by not responding to the offers made by North Korea. It appears that the United States is still insisting on the destruction of all nuclear facilities as a precondition for the lifting of sanctions and normalization. He noted that North Korea had shifted national priorities during its recent Central Committee meeting to focus more on economic as opposed to nuclear weapons development. Kim Jong Un had the personal experience of living abroad and will eventually seek reform and opening to spur the country's economic growth. Another Chinese participant indicated that China believes Kim Jong Un does seek a strategic transformation of U.S.-DPRK relations but that Trump may have been concerned about taking what might be seen as "a bad deal."

An American participant pointed out that Kim had already “pocketed a win” by being able to appear as a reasonable leader on the world stage but now wants to retain North Korea’s nuclear capability as well. Others noted that North Korea is still not in compliance with UN resolutions and should not be rewarded simply for suspending some “bad behavior.” U.S. credibility would suffer if it were now to accept North Korea as a *de facto* nuclear weapons state. They questioned whether North Korea is really concerned about being attacked, since it already has sufficient deterrence of its own as well as a security guarantee that could be provided by China. They asked if China is now willing to accept North Korea as a nuclear power. The U.S. Congress has been very concerned about China’s failure to fully implement UN sanctions and its role in facilitating North Korean activities with respect to its cyber capability, drug exports and maritime trade. The American speaker emphasized that China cannot be a middleman but must insist on full compliance on the part of North Korea. He predicted that bargaining step by step will not work because it will never get North Korea to full denuclearization. He warned that while a temporary freeze has immediate political benefits, a North Korea with nuclear weapons will always be a “profound threat” to regional stability.

In response, the Chinese speaker reiterated that North Korea was disappointed in not getting more in return from the United States. China has limited influence with North Korea and has taken steps to stop Chinese companies from violating sanctions, but cannot control everything. China does not want North Korea to have a nuclear capability but some do not think this would be such a serious threat given China’s overwhelming power. In fact, some even support North Korea having nuclear weapons because they are seen as directed against the United States. One said that whether South Korea and Japan will develop their nuclear capabilities will depend on the United States. Indeed, the main threat for China is that the United States will use this as an excuse to further strengthen its military alliance and missile defense system in the region which will pose serious nuclear security and safety risks for China.

An American participant observed that U.S. and Chinese views and interests diverge quite a bit when it comes to North Korea. It appears that the continued survival of the North Korean state is more important and useful to China than its denuclearization. This participant predicted that North Korea will decide to denuclearize only when it is necessary for the survival of the Kim regime. This will eventually bring us back to a policy of maximum pressure. In this connection, the American speaker pointed out that Kim reverted to his “charm offensive” in late 2017 when he saw that China began to enforce UN sanctions more vigorously as this trend would weaken his ability to retain power. The speaker concluded that it is very important that the two countries stand firm and insist on North Korea abiding by international law. Failure to do so would result in regional chaos with dire consequences for both China and the United States as well as the international order.

Policy Recommendations

Looking back at the history of U.S.-China relations, the American speaker said that current tensions are the result of a series of unfulfilled promises and expectations. The speaker emphasized that there must now be actual changes in behavior if the two countries are to avoid collision. First, the two sides need to come to a trade reform agreement that requires China to undertake basic structural changes to further open up its economy and adhere to market-oriented trade policies and practices. Second, the two countries should also manage their technology competition in a way that addresses in particular the protection of intellectual property rights. Third, with respect to security competition, the speaker pointed to China's militarization of the South China Sea as a major issue that needs to be resolved. China needs to move its military outposts out of the Spratly's. Finally, the speaker underscored how China's recent actions in Xinjiang with respect to Uyghurs and other Muslim minorities have had a major impact on American perception of China and greatly strained bilateral relations.

With respect to the United States, the American speaker recommended that the U.S. government refrain from using language that portrays China as an enemy or the Chinese people as a threat. The speaker argued that the competition between the two sides is not ideological. What the United States seeks is a more balanced relationship. The speaker proposed that the U.S. government expand cooperation by sending a delegation to the late April BRI forum in Beijing. The absence of dialogue today makes it more difficult to address key issues and could be dangerous. At the next summit meeting between the leaders of the two countries, the United States should seek to derive a "constructive and results-oriented" statement that clearly explains U.S. policy toward China. At the same time, the United States should undertake domestic reforms to deal with its own economic and political issues and improve competitiveness as well as re-engage and take the lead to improve international institutions and expand global cooperation.

The Chinese speaker started by expressing concerns that China's policies are often not well understood by Americans. China has already risen but still operates under very different and unique conditions. The speaker thus emphasized the need for the two sides to try to avoid a downward spiral and crisis by continuing to work on common interests and encouraging people-to-people interactions. China should learn from Deng Xiaoping who understood the importance of U.S.-China relations and use the upcoming trade deal as a historic opportunity to further open up and deepen economic reform. The speaker believed that President Xi understands this and wants to push the process forward, but should also pay more attention to the U.S. Congress and media. The leaders and officials of the two sides should strengthen personal relationships and engage with each other to resolve current issues. For example, the two sides should start bilateral arms control talks to address security issues. Regarding Xinjiang, the speaker proposed that the Chinese government issue a policy statement to improve transparency. Within China itself, the speaker indicated that the Chinese Communist Party should improve its governance and work on its public relations.

American participants generally agreed that there should be more dialogue and interaction, but stressed that this should go beyond talk to produce positive results. Mistrust is driven mainly by behavior, not words. They agreed that China should communicate more actively and positively with the U.S. Congress and media, including Xi himself meeting with the foreign press. One proposed starting a series of Asia-Pacific stability talks that would address key issues involving the U.S. alliance structure, Taiwan, South China Sea, and the U.S. Indo-Pacific Strategy, among other issues, in order to develop rules of the game in the region. One described the current issue in Xinjiang as a “most severe problem” and said that simply publishing a white paper that provides an official version of the situation is not useful. On BRI, another underscored that China “needs to get it right” in terms of its policies and standards.

Chinese participants agreed that while competition is increasing, the two sides must not view each other as enemies. The two sides should not view each other through the lenses of ideology or confrontation. Under the current framework, China does not have many opportunities to have a real conversation with the U.S. side. One proposed that the two sides resume military-to-military Joint Staff talks that have been suspended in order to better address security issues. On the question of BRI, another indicated that there is insufficient data at this time due to a lack of inter-agency information sharing so that it is difficult to produce a reasonable assessment of this initiative. Finally, one posed the question of whether China and the United States should not consider working toward a Fourth Communique at this time. American participants responded that they did not think this was a good idea at this time.

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FORUM ON ASIA-PACIFIC SECURITY (FAPS)
PRESENTS**

A U.S.-CHINA STRATEGIC DIALOGUE

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